

October 7th, 2024  
Research update

# SMC Research

## Small and Mid Cap Research



Platz 1

Europe  
Industrials



Platz 1 & 2

German  
Software & IT

**Mehrfacher Gewinner**  
renommierter  
Analyst Awards

# Daldrup & Söhne AG

“Positive operating performance  
in all divisions”

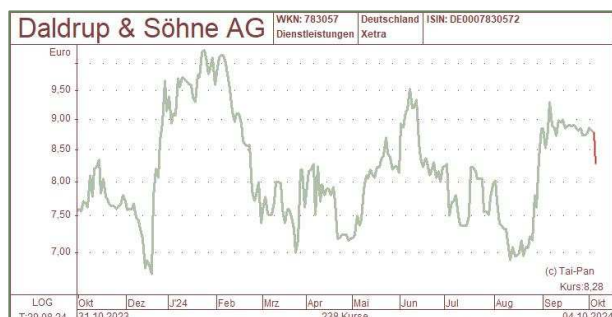
**Rating:** Buy (unchanged) | **Price:** 8.28 € | **Price target:** 11.20 € (unchanged)

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Please take notice of the disclaimer at the end of the document!

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# Current development



## Basic data

<b>Based in:</b>	Gruenwald
<b>Sector:</b>	Drilling services
<b>Headcount:</b>	149
<b>Accounting:</b>	HGB
<b>ISIN:</b>	DE0007830572
<b>Ticker:</b>	4DS:GR
<b>Price:</b>	8.28 Euro
<b>Market segment:</b>	Scale
<b>Number of shares:</b>	5.99 m
<b>Market Cap:</b>	49.6 m Euro
<b>Enterprise Value:</b>	54.5 m Euro
<b>Free Float:</b>	41.6 %
<b>Price Hoch/Tief (12 M):</b>	10.50 / 6.60 Euro
<b>Øturnover (12 M Xetra):</b>	19,000 Euro

## Total output increases by 21 percent

In August, Daldrup & Söhne (D&S) had already provided initial key figures on its excellent performance in the first six months and raised its forecast for the year as a result. Now, the company published a detailed half-year report. In the period from January to June, the D&S was able to increase its total output (TO) by 21 percent to EUR 29.1 m, with management referring to a “positive operating performance in all business areas”. Revenue increased disproportionately, rising by as much as 65 percent to EUR 25.4 m, which is not only due to an increase in business volume, but also to a higher proportion of projects that are invoiced directly using the day-rate method (instead of later with a cumulative final invoice for the services provided). On the other hand, at EUR 3.5 m, the increase in inventories was lower than in the previous year (EUR 8.7 m).

## Strong margin improvement

At 11 percent to EUR 12.0 m, the increase in the cost of materials was significantly lower than the growth in total output, meaning that the cost/TO ratio was reduced from 45.0 to 41.4 percent within a year. There was a similar development in personnel expenses (+11

FY ends: 31.12.	2021	2022	2023	2024e	2025e	2026e
Total output (m Euro)	44.9	36.9	48.4	50.0	52.0	54.5
EBIT (m Euro)	1.6	1.8	2.6	4.0	4.5	4.7
Net profit	0.8	0.9	0.9	2.5	3.2	3.2
EpS	0.13	0.14	0.15	0.42	0.53	0.54
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Total output growth	-5.5%	-17.8%	31.3%	3.3%	4.0%	4.8%
Profit growth	-	12.2%	4.5%	182.0%	26.9%	1.1%
PSR	0.64	1.30	1.01	1.04	0.99	0.94
PER	65.3	58.2	55.7	19.8	15.6	15.4
PCR	-	30.0	11.3	11.4	9.2	8.4
EV / EBIT	34.4	29.5	21.0	13.7	12.2	11.5
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

percent to EUR 5.9 m) with a reduction in the ratio from 22.2 to 20.4 percent. These figures reflect the efficiency improvements that D&S has achieved in recent years through extensive structural measures. This was not yet visible in other operating expenses in the first half of the year, which increased by 39 percent to EUR 7.5 m, meaning that their share of total operating performance rose from 22.3 to 25.7 percent compared to the previous year. In particular, this reflected significantly higher costs for overburden and waste disposal as well as for the transport of drilling rigs, to which D&S responded by reorganising its purchasing. Overall, however, efficiency improvements in other areas and the growth in total output enabled EBITDA to increase by 43 percent to EUR 3.8 m, which means that the margin improved from 11.0 to 13.0 percent compared to the previous year.

Group figures	6M 23	6M 24	Change
Revenue	15.4	25.4	+64.8%
Total output	24.1	29.1	+20.6%
EBITDA	2.7	3.8	+42.8%
EBITDA margin	11.0%	13.0%	+2.0pp.
EBIT	1.4	3.0	+106.8%
EBIT margin	5.9%	10.2%	+4.3pp.
Net profit	0.7	2.0	+178.0%

*In m Euro and percent, source: Company*

### Net profit increases by 178 percent

An even stronger increase, namely by 107 percent to EUR 3.0 m, was recorded for the EBIT, which additionally benefited from the fact that expired depreciation on large drilling rigs led to a 32 percent decrease in scheduled depreciation to EUR 0.8 m. At 10.2 percent (previous year: 5.9 percent), D&S consequently reported a double-digit EBIT margin for the first time. This strong improvement in operating earnings resulted in a 178 percent increase in net profit to EUR 2.0 m, although the financial result was slightly lower than in the previous year (from EUR -0.6 m to EUR -0.7 m) due to a further write-down on outstanding receivables from the sale of the power plant division in 2019/20 and a higher interest burden, and tax ex-

penses were higher as well (from EUR -0.1 m to EUR -0.3 m).

### Free cash flow slightly negative

Cash flow from operating activities was clearly positive again in the first six months at EUR 1.4 m, although below the previous year's strong figure (EUR 4.4 m), this is due in particular to a higher negative effect from the build-up of inventories. At the same time, payments for investments fell from EUR -3.0 m to EUR -1.8 m, meaning that the free cash flow in the first half of the year was slightly negative at EUR -0.3 m, after a surplus of EUR 1.4 m in the reference period in 2023. There were also, on balance, slight net outflows for financing (EUR -0.4 m), as the inflows from minimal net borrowing were more than offset by interest payments, so that liquidity was reduced to EUR 2.7 m and the current account balance is now EUR -5.8 m.

### Equity ratio rises to 52.2 percent

The balance sheet total increased from EUR 41.5 m to EUR 44.5 m in the first half of the year, which on the assets side was primarily due to an increase in property, plant and equipment as a result of further investments and to the build-up of inventories. As a result of the profit for the period, the percentage increase in equity was even stronger at 10.5 percent to EUR 23.2 m, so that the equity ratio rose from 50.7 percent to a very comfortable 52.2 percent in the first six months. By contrast, liabilities to banks at the end of June were at the same level as at the beginning of the year at EUR 7.7 m, while the total amount of liabilities actually fell with a significant increase in provisions. The asset items in the balance sheet still include outstanding receivables from the sale of the power plant business totalling EUR 3.1 m, which depend on the further performance of the sold power plants, as well as EUR 3.5 m for power plant components that D&S received after the divestiture, and which have not yet been sold.

### Raised forecast confirmed

Although the order backlog of EUR 31.0 m at the end of August was below the previous year's high level

(EUR 38.0 m), it is still sufficient to utilise capacity well into 2025 in terms of figures. On this basis and against the background of the strong performance in the first six months, the management had already raised its forecast for the full year with the publication of the preliminary figures. After previously aiming at a total output of around EUR 47 m, the target figure is now around EUR 50 m, and the EBIT margin is expected to improve from 5.1 percent in the previous year to between 7 and 9 percent – the previous forecast range was between 5 and 7 percent. The new figures were confirmed once again with the publication of the half-year report.

### Better general conditions

The current year could mark the start of a dynamic growth phase, as the probability-weighted volume of orders under negotiation has once again risen sharply within a year (from EUR 245 m to EUR 302 m) and is now at a very high level. Various projects in which D&S is selectively involved are already at the tender stage. The management therefore sees good opportunities for winning large orders in the coming quarters. The main drivers behind the positive development are the planned transition of heating policies towards a significantly greater use of renewable energies and the increasing improvement in the general conditions for the utilisation of geothermal energy in Germany. The company is already experiencing a boost from the federal subsidisation of efficient heating networks and the mandatory heat planning in the municipal sector, which have triggered a veritable run on drilling capacities. In North Rhine-Westphalia, the Geothermal Energy Masterplan is also helpful in this respect, as part of which, among other things, the NRW Bank offers cover for the exploration risk of the first borehole. The German government has also held out the prospect of such a regulation for the whole of Germany. In addition, a Geothermal Energy Acceleration Act was presented, which stipulates an “overriding public interest” for geothermal energy and, among other things, is intended to significantly accelerate the approval of new projects. In addition, the company also sees great potential for heat supply projects in Switzerland, Austria and the Netherlands, while post-mining care, accelerated raw materials exploration and

the search for nuclear repositories are also important demand drivers.

### Model slightly revised

We had already revised our model on a larger scale with the publication of the preliminary half-year figures and, in the course of this, raised the estimates for total output in 2024 (from EUR 46.5 m to EUR 50.0 m) and the period thereafter, so that our projection envisages a further average increase in total output of 4.3 percent p.a. (CAGR24/31) to EUR 67 m by 2031. We are still adhering to this projection. However, we have moderately adjusted our estimates for other income statement items in response to the detailed half-year report. As a result, we expect the cost of materials and other operating income to be slightly lower in the current year, and personnel expenses and other operating expenses to be higher than previously estimated. This results in a new EBITDA estimate of EUR 5.4 m for 2024 (previously: EUR 5.7 m). However, as we have also reduced depreciation and amortisation, our estimated EBIT is still EUR 4.0 m, which equates to a margin of 8.0 percent. Despite further adjustments to individual items, the EBIT projection for the period thereafter is almost congruent with the previous estimates. We continue to expect the target EBIT margin at the end of the detailed forecast period at 12.0 percent. The table on the next page shows the development of the key cash flow figures in the detailed forecast period up to 2031 based on our model update. Further details on the estimated development of the balance sheet, income statement and cash flow can also be found in the Annex.

### Basic parameters unchanged

We continue to calculate the terminal value with a fifteen percent discount to the target margin of 2031 and a “perpetual” cash flow growth of 1 percent p.a. The discount rate (WACC) also remains unchanged at 6.6 percent. For this, we have assumed a cost of equity according to CAPM of 10.0 percent (with: safe interest rate of 2.5 percent, market risk premium of 5.8 percent and beta factor of 1.3), as well as a target capital structure of 55 percent debt, an interest rate on borrowed capital of 5.5 percent and a tax rate for the tax shield of 30 percent.

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Total output	50.0	52.0	54.5	57.5	60.5	63.0	65.0	67.0
Total output growth	3.3%	4.0%	4.8%	5.5%	5.2%	4.1%	3.2%	3.1%
EBIT margin	8.0%	8.6%	8.7%	9.3%	10.1%	10.8%	11.2%	12.0%
<b>EBIT</b>	<b>4.0</b>	<b>4.5</b>	<b>4.7</b>	<b>5.4</b>	<b>6.1</b>	<b>6.8</b>	<b>7.3</b>	<b>8.1</b>
Tax rate	15.0%	15.0%	15.0%	20.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	0.6	0.7	0.7	1.1	1.8	2.0	2.2	2.4
<b>NOPAT</b>	<b>3.4</b>	<b>3.8</b>	<b>4.0</b>	<b>4.3</b>	<b>4.3</b>	<b>4.7</b>	<b>5.1</b>	<b>5.6</b>
+ Depreciation & Amortisation	1.4	1.6	1.8	1.9	1.9	2.0	2.2	2.2
+ Increase long-term accruals	1.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross operating cash flow</b>	<b>6.5</b>	<b>5.9</b>	<b>6.3</b>	<b>6.7</b>	<b>6.7</b>	<b>7.3</b>	<b>7.8</b>	<b>8.3</b>
- Increase Net Working Capital	-2.2	-0.7	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4
- Investments in fixed assets	-2.9	-5.5	-2.1	-2.3	-2.5	-2.7	-2.8	-2.9
<b>Free cash flow</b>	<b>1.5</b>	<b>-0.4</b>	<b>3.7</b>	<b>4.0</b>	<b>3.8</b>	<b>4.2</b>	<b>4.7</b>	<b>5.1</b>

*SMC estimation model*

### Price target: EUR 11.20

With the model adjustments, the fair value we have determined is now EUR 67.4 m or EUR 11.26 per share (a sensitivity analysis for the price target determination can be found in the Annex). The difference to our previous valuation result is marginal, which is

why our price target remains at EUR 11.20. We continue to rate the forecast risk on a scale of 1 (very low) to 6 (very high) as slightly above average at four points due to the project nature of the business.

## Conclusion

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Daldrup & Söhne is feeling a strong tailwind from the market and was able to improve total output by 21 percent to EUR 29.1 m and EBIT by 107 percent to EUR 3.0 m in the first half of 2024. At 10.2 percent, the company reported a double-digit EBIT margin for the first time. Even if the development of the first six months cannot be projected for the year as a whole due to the usual fluctuations in the project business, the management raised its forecast for the year in August. Since then, total output of around EUR 50 m (previously: EUR 47 m) and an EBIT margin of 7 to 9 percent (previously: 5 to 7 percent) are expected.

This positive trend could continue in the coming years. A good indicator of this is the probability-weighted volume of orders in the negotiation stage, which has risen further from EUR 245 m to EUR 302 m within a year and is therefore at a very high level. In the geothermal energy sector in particular, demand is growing strongly, fuelled by the transition in the

heating market and the increasing improvement in the general conditions. But post-mining care, raw materials exploration and the search for nuclear waste repositories also offer attractive business potential.

We expect D&S to achieve further increases in total output and a positive margin trend in the coming years. Our estimates, which we have revised only slightly following the publication of the half-year report, are based on a conservative average increase in total output of 4.3 percent p.a. until 2031. They do not take into account any major capacity expansions.

This results in an unchanged target price of EUR 11.20 per share, which signals an attractive upside potential of more than 30 percent. On this basis, we confirm our “Buy” rating.

# Annex I: SWOT analysis

## Strengths

- Very experienced management team and staff with great expertise.
- The company has a strong market position in the drilling business in its core markets. A large equipment park enables a wide range of services.
- Longstanding track-record in the successful implementation of drilling projects, especially at depths of up to 6 thousand metres.
- D&S is strongly positioned in the field of geothermal energy, which is one of the most promising renewable energies, especially for the heating market.
- With an equity ratio of 52 percent, the company has a very solid balance sheet structure.

## Opportunities

- The good order situation ensures capacity utilisation until mid-2025. A recent sharp increase in potential orders in the negotiation status also indicates further growth for the time thereafter.
- D&S has already significantly improved the margin in the current year, but still has potential for further increases.
- The envisaged accelerated expansion of renewable energies in the heating market is likely to further stimulate investments in geothermal energy.
- The search for a final repository for radioactive waste offers great order potential for D&S, especially in Germany.
- In the future, D&S could participate in promising medium-sized geothermal heating plants.

## Weaknesses

- Margins in the drilling business have been relatively low in the past. As recently as last year, the EBIT margin was only 5.3 percent.
- The project business is volatile; individual drilling projects can have a strong impact on the figures for a financial year.
- D&S has yet to prove that the efficiency gains currently achieved in the management of large drilling projects are sustainable.
- The growth in total output is limited by the existing drilling capacities, which are already heavily utilised. Replacement or supplementary investments in large drilling rigs (for very deep wells) are associated with a high investment volume.

## Threats

- The current market upturn in geothermal energy is closely linked to the funding conditions. The general conditions could deteriorate again, for example in the event of a change of government in Germany.
- Government attempts to improve geothermal development could fail due, for example, to bureaucratic hurdles (approval processes).
- Fixed-price contracts in the drilling business carry the risk of losses if there are delays for which the company is responsible.
- The acquisition of qualified personnel is becoming increasingly difficult.
- Possible depreciation of residual items from the sold power plant business (as at the end of June: around. EUR 6.6 m).

## Annex II: Balance sheet and P&L estimation

### Balance sheet estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
<b>ASSETS</b>									
I. Total non-current	10.4	11.5	15.5	15.7	16.1	16.7	17.4	17.9	18.6
1. Intangible assets	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
2. Tangible assets	6.2	7.7	11.6	11.8	12.2	12.8	13.5	14.1	14.7
II. Total current assets	30.9	34.1	34.5	40.1	45.9	49.5	53.5	58.0	62.8
<b>LIABILITIES</b>									
I. Equity	21.0	23.5	26.7	29.9	33.2	34.6	36.3	38.1	40.2
II. Accruals	2.8	4.5	5.0	5.5	6.0	6.5	7.0	7.5	8.0
III. Liabilities									
1. Long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Short-term liabilities	17.8	18.0	18.5	20.7	23.0	25.3	27.8	30.6	33.5
<b>TOTAL</b>	<b>41.5</b>	<b>46.0</b>	<b>50.2</b>	<b>56.1</b>	<b>62.2</b>	<b>66.4</b>	<b>71.2</b>	<b>76.2</b>	<b>81.7</b>

### P&L estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	49.1	47.5	50.0	52.9	55.9	58.8	61.3	63.2	65.2
Total output	48.4	50.0	52.0	54.5	57.5	60.5	63.0	65.0	67.0
Gross profit	27.1	30.2	31.1	32.5	34.4	36.5	38.3	39.8	41.4
EBITDA	4.9	5.4	6.0	6.5	7.2	8.0	8.8	9.5	10.2
EBIT	2.6	4.0	4.5	4.7	5.4	6.1	6.8	7.3	8.1
EBT	0.9	3.0	3.8	3.8	4.2	4.9	5.4	5.8	6.4
EAT (before minorities)	0.9	2.5	3.2	3.2	3.3	3.4	3.8	4.0	4.5
EAT	0.9	2.5	3.2	3.2	3.3	3.4	3.8	4.0	4.5
EPS	0.15	0.42	0.53	0.54	0.55	0.56	0.63	0.67	0.75



## Annex III: Cash flows estimation and key figures

### Cash flows estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	4.4	4.4	5.4	5.9	6.5	6.8	7.4	8.1	8.6
CF from investments	-3.0	-2.9	-5.5	-2.1	-2.3	-2.5	-2.7	-2.8	-2.9
CF financing	-0.9	-1.3	-1.0	0.6	0.5	-1.6	-1.6	-1.8	-1.9
Liquidity beginning of year	3.1	3.6	3.7	2.7	7.1	11.8	14.5	17.6	21.0
Liquidity end of year	3.6	3.7	2.7	7.1	11.8	14.5	17.6	21.0	24.8

### Key figures

percent	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Total output growth	31.3%	3.3%	4.0%	4.8%	5.5%	5.2%	4.1%	3.2%	3.1%
Sales growth	28.6%	-3.3%	5.1%	5.9%	5.6%	5.3%	4.2%	3.2%	3.1%
Gross margin	56.0%	60.5%	59.8%	59.7%	59.9%	60.3%	60.8%	61.3%	61.8%
EBITDA margin	10.2%	10.8%	11.6%	12.0%	12.5%	13.3%	14.0%	14.6%	15.3%
EBIT margin	5.4%	8.0%	8.6%	8.7%	9.3%	10.1%	10.8%	11.2%	12.0%
EBT margin	1.9%	6.0%	7.3%	7.0%	7.3%	8.0%	8.6%	8.9%	9.6%
Net margin (after minorities)	1.8%	5.0%	6.1%	5.9%	5.8%	5.6%	6.0%	6.2%	6.7%

## Annex IV: Sensitivity analysis

	Perpetual cash flow growth				
WACC	2.0%	1.5%	1.0%	0.5%	0.0%
5.6%	17.13	15.39	14.02	12.92	12.01
6.1%	14.89	13.57	12.50	11.63	10.90
6.6%	13.13	12.10	<b>11.26</b>	10.55	9.95
7.1%	11.72	10.90	10.22	9.63	9.14
7.6%	10.55	9.89	9.33	8.85	8.43

# Disclaimer

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## *Charts*

The charts were made with Tai-Pan ([www.lp-software.de](http://www.lp-software.de)).

## Disclaimer

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## *II) Preparation and updating*

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 05.10.2024 at 8:15 am and published on 07.10.2024 at 8:15 am.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more

	than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:

<http://www.smc-research.com/impressum/modellerlaeuterungen>

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: <http://www.smc-research.com/publikationsuebersicht>

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Target price	Conflict of interests
29.08.2024	Buy	11.20 Euro	1), 3), 4), 10)
06.06.2024	Buy	10.50 Euro	1), 3), 10)
06.10.2023	Buy	11.40 Euro	1), 3), 4)
07.06.2023	Buy	11.80 Euro	1), 3), 4)
14.05.2023	Hold	11.00 Euro	1), 3), 4)
07.10.2022	Buy	8.00 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one update, one comment.

The publishing dates for the financial analyses are not yet fixed at the present moment.

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