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Research update

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Small and Mid Cap Research
Platz 1 Europe Industrials
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Mehrfacher Gewinner renommierter Analyst Awards

Daldrup & Söhne AG

Strong figures and good prospects

Rating: Buy (unchanged) | **Price:** 11.45 € | **Price target:** 15.30 € (prev.: 14.60 €)

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Current development

Basic data

Based in:	Oberhaching
Sector:	Drilling services
Headcount:	152
Accounting:	HGB
ISIN:	DE0007830572
Ticker:	4DS:GR
Price:	11.45 Euro
Market segment:	Scale
Number of shares:	5.99 m
Market Cap:	68.6 m Euro
Enterprise Value:	63.9 m Euro
Free Float:	41.6 %
Price high/low (12 M):	12.30 / 6.80 Euro
Øturnover (12 M Xetra):	22,000 Euro

Dynamic revenue development

Daldrup & Söhne (D&S) was able to translate the good order situation in the last financial year into a significant increase in total output – 12.8 percent to EUR 54.6 m. This exceeded both the original target of around EUR 47 m and the guidance raised to around EUR 50 m in August. Revenue developed in a similarly dynamic manner, increasing by 10.2 percent to EUR 54.1 m. The growth drivers were the Resources/Exploration segment with a 23 percent increase in revenue to EUR 25.1 m and Environment, Development and Services (EDS) with an increase of 173 percent to EUR 4.5 m. The smallest segment, Water extraction, also recorded a small increase (+8 percent to EUR 1.0 m), while revenue from the Geothermal segment, which had been the largest in the previous period, remained at a high level at EUR 23.5 m, but was down on the previous year (-10 percent). Major orders continued to play an important role in 2024, including from K+S, from Schweizer Salinen AG in the context of salt extraction and from Ruhrkohle AG for post-mining care projects (monitoring wells and mine gas relief wells). In the Geothermal segment, the largest completed projects also included two doublet wells for heat generation for

FY ends: 31.12.	2022	2023	2024	2025e	2026e	2027e
Total output (m Euro)	36.9	48.4	54.6	52.0	58.5	62.0
EBIT (m Euro)	1.8	2.6	7.0	5.3	7.5	8.1
Net profit	0.8	0.9	2.5	4.4	6.3	6.6
EpS	0.14	0.15	0.42	0.74	1.05	1.10
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Total output growth	-17.8%	31.3%	12.8%	-4.7%	12.5%	6.0%
Profit growth	-5.8%	7.0%	179.5%	78.3%	42.0%	4.4%
PSR	1.80	1.40	1.27	1.35	1.21	1.14
PER	82.5	77.1	27.6	15.5	10.9	10.4
PCR	41.5	15.7	5.7	10.2	8.1	7.3
EV / EBIT	34.6	24.5	9.1	12.0	8.5	7.9
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Stadtwerke Neuruppin and MTU Aero Engines. In addition, D&S provides near-surface drilling services, mainly probe fields for geothermal heat pumps in new commercial buildings.

Group figures	2023	2024	*Change*
Revenue	49.1	54.1	*+10.2%*
Total output	48.4	54.6	*+12.8%*
EBITDA	4.9	8.5	*+72.6%*
EBITDA margin	*10.2%*	*15.6%*	*+5.4 pp.*
EBIT	2.6	6.9	*+168.3%*
EBIT margin	*5.3%*	*12.7%*	*+7.4 pp.*
Net profit	0.9	2.5	*+179.5%*

In m Euro and percent, source: Company

EBITDA picks up strongly

Fortunately, the significant growth in total output was accompanied by a disproportionately low increase in the largest cost item, the cost of materials. It increased by just 8.6 percent to EUR 23.1 m, reflecting a combination of improved efficiency and a more relaxed procurement situation. The improvement in material efficiency is actually underestimated by the reported development in the cost of materials, because at the same time some significant project-related items (expenses for disposal services, rental expenses for equipment, fuel costs) were reclassified from other operating expenses to the cost of materials. This in turn contributed significantly to the fact that other operating expenses fell by as much as 26.5 percent to EUR 9.7 m. At EUR 32.8 m, the total of other operating expenses and cost of materials was 4.8 percent below the previous year's figure. Together with an increase in personnel expenses (+8.7 percent to EUR 11.2 m) that was disproportionately low in relation to total output, this led to a strong increase in EBITDA of 73 percent to EUR 8.5 m. This improved the operating margin (in relation to total output) from 10.2 to 15.6 percent within a year.

EBIT margin significantly above forecast

Following the end of depreciation for two large drilling rigs in November 2023 and mid-2024, depreciation and amortisation fell further from EUR 2.4 m to EUR 1.6 m. In addition, special write-downs of EUR 2.4 m were made on current assets. These are value adjustments on power plant components that are still held by a subsidiary with a view to sale following the discontinuation of this business area in 2020. The carrying amount was corrected to EUR 1.25 m, as one interested party had offered this amount. The company is in talks with other interested parties who have indicated a higher amount. If a transaction is concluded, higher proceeds are expected accordingly. Despite these impairment losses, EBIT increased by 168 percent to EUR 6.9 m thanks to the strong improvement in EBITDA, thus increasing the EBIT margin from 5.3 to 12.7 percent. Here, too, the company significantly exceeded both the original forecast (5 to 7 percent) and the one raised in August (7 to 9 percent).

Profit increases by 180 percent

The financial result was also negatively impacted by special write-downs totalling EUR 3.7 m, most of which (EUR 3.2 m) related to subordinated receivables from the Geysir Europe Group, which was sold as part of the separation from the power plant division. As the buyer has not yet been able to put the sold Taufkirchen power plant into operation, repayments from these receivables have become much less likely. Together with interest expenses, these value adjustments led to a financial result of EUR -4.2 m (previous year: EUR -1.7 m). Taking into account slightly higher tax expenses (EUR -0.3 m, previous year: EUR -0.1 m), this results in a consolidated net profit for the year of EUR 2.5 m, which is 180 percent higher than the previous year's figure.

Cash flow very strong

However, none of the write-downs were cash-effective. The strong development of EBITDA is therefore also reflected in a massive improvement in operating cash flow, which increased by 251 percent to EUR 12.1 m, far exceeding our expectations. At the same time, payments from investment activities fell from EUR -3.0 m to EUR -2.5 m despite the purchase of additional drilling equipment. As a result, D&S generated a free cash flow of EUR +9.7 m last year, compared to EUR +0.5 m in the previous period. This was used, among other things, to repay all current account liabilities (EUR 5.9 m), but the reported liquidity still increased from EUR 3.6 m to EUR 6.4 m within a year.

Balance sheet adjusted and very sound

Liabilities to banks fell therefore from EUR 7.7 m to just EUR 1.6 m last year, which is one of the reasons why total debt fell from EUR 20.5 m to EUR 10.7 m. At the same time, equity increased from EUR 21.0 m to EUR 23.5 m due to the annual profit, so that the equity ratio improved from an already high level (50.6 percent) to a very good figure of 68.8 percent (previous year: 50.6 percent). And the balance sheet risks were significantly reduced with the special write-downs. From the former power plant activities, there is now only a purchase price receivable of EUR 1.6 m and a residual loan of EUR 0.4 m from Geox GmbH, for which payments in these amounts are very likely to be received. In addition, as mentioned, the power plant components are only recognised with EUR 1.25 m, which could be realised in the current year.

Declining order backlog, enormous potential

The only blemish on the figures is the order backlog at the end of March, which at EUR 31.0 m was significantly below the previous year's figure of EUR 38.5 m. In this context, the company speaks of "noticeable uncertainty and reluctance to invest on the part of public and private clients" in the second half of 2024 and in the first months of 2025, which was primarily due to the unclear political and economic outlook in Germany. Budget restrictions in the Climate and Transformation Fund in particular, and the associated delays in approval notices for funding, had a slowing effect and caused delays. At the same time, however, the order potential for the company has increased further: The volume of orders in the negotiation stage weighted by the probability of occurrence ("relevant market volume") increased by 54 percent to EUR 405 m at the end of March. Subsequently, in mid-May, the company was able to announce a major order from Stadtwerke Prenzlau GmbH with a volume of EUR 5.2 m, for which an existing well is to be upgraded and recommissioned and a further well drilled.

Market environment brightening

Further orders – even in significantly larger volumes – could follow, as the market environment is currently brightening. This applies in particular to Germany, where the political conditions are stabilising. Municipal heat planning is now well advanced, so that the first cities and municipalities could finalise it in the first half of the year, according to D&S estimates, and then put geothermal projects out to tender. The utilisation of the special infrastructure fund amounting to EUR 500 billion promises further impetus in the future, which will create demand for (exploratory) drilling in many sectors, for example as part of the renewal or expansion of bridges and tunnels. Numerous additional measures are also likely to be implemented in the energy sector. One key area here is the further decarbonisation of the heating and cooling supply, of which only 18 percent is currently based on renewable energies. Geothermal energy could make an important contribution here. This is reflected in the plans of the new federal government, which intends to further optimise the general conditions that have already been improved in recent years. In particular, the focus is on insurance to cover exploration risks, a law to speed up approval procedures for geothermal plants and an expansion of federal funding for efficient heating networks (BEW). D&S considers these initiatives to be important components for further market dynamization. The process is supported by the EU's Green Industrial Deal of February this year, which also promises to improve funding on the basis of a EUR 100 billion package.

Targets just below previous year

Although the order backlog is lower, it already ensures capacity utilisation at D&S until the first quarter of 2026 in terms of figures. Accordingly, the management expects a high level of total output for 2025, although at around EUR 52 m it could nevertheless be slightly below the previous year's level. The same applies to the EBIT margin, which is expected to be between 9 and 12 percent of total output. Upon enquiry, CEO Tönies described this outlook as cautious

m Euro	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031	12 2032
Total output	52.0	58.5	62.0	64.5	66.5	68.5	70.5	72.5
Total output growth	-4.7%	12.5%	6.0%	4.0%	3.1%	3.0%	2.9%	2.8%
EBIT margin	10.2%	12.9%	13.0%	12.9%	12.9%	12.7%	12.7%	12.6%
EBIT	**5.3**	**7.5**	**8.1**	**8.3**	**8.6**	**8.7**	**8.9**	**9.1**
Tax rate	10.0%	10.0%	10.0%	25.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	0.5	0.8	0.8	2.1	2.6	2.6	2.7	2.7
NOPAT	**4.8**	**6.8**	**7.2**	**6.2**	**6.0**	**6.1**	**6.3**	**6.4**
+ Depreciation & Amortisation	2.0	2.1	2.3	2.4	2.5	2.6	2.6	2.7
+ Increase long-term accruals	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	6.9	9.0	9.6	8.8	8.6	8.7	9.0	9.2
- Increase Net Working Capital	-0.3	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
- Investments in fixed assets	-3.6	-3.4	-3.0	-2.8	-2.8	-2.9	-3.0	-3.1
Free cash flow	**3.1**	**5.0**	**6.2**	**5.6**	**5.4**	**5.4**	**5.6**	**5.7**

SMC estimation model

and pointed out the project nature of the drilling business.

Breathing space before a surge

We had previously assumed that the company would be able to achieve a total output of EUR 55 m and an EBIT margin of 12.6 percent this year. In response to the lower order backlog and the company's forecast, however, we are now making our estimate somewhat more cautious and expect only EUR 52 m or 10.2 percent. Nevertheless, we believe that this is just a pause for breath before a major surge, which can already be seen in the sharp rise in the relevant market volume. For the next two years, we therefore anticipate an increase in total output of 12.5 and 6.0 percent and an improvement in the EBIT margin to 12.9 and 13.0 percent respectively. To support growth, we assume further investments in drilling rigs, especially for medium-depth wells. According to current planning, D&S will probably not purchase a very expensive rig for deep drilling – with an investment volume in the low double-digit million range. Instead, a strategic partnership with another European drilling company is being sought here. This cooperation is also likely to further support growth in the medium term, meaning that we expect average growth in total output of 4.9 percent (CAGR 25/32) by the end of the detailed forecast period. As the intensity of competition could increase due to the high attractiveness of the market, we have modelled a slight margin degression to a target level of 12.6 percent in the second half of the detailed forecast period as a precautionary measure. The table above shows the development of the key cash flow figures in the detailed forecast period up to 2032 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 2032 and a “perpetual” cash flow growth of 1 percent p.a. The discount rate (WACC) also remains unchanged at 6.5 percent. For this, we have assumed a cost of equity according to CAPM of 9.8 percent (with: safe interest rate of 2.5 percent, market risk premium of 5.6 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.

New price target: EUR 15.30

After the model adjustments, the fair value we determined is now EUR 91.5 m or EUR 15.27 per share, from which we derive EUR 15.30 as the new price target (a sensitivity analysis for determining the price target can be found in the Annex). The increase compared to our last estimate (EUR 14.60) is due to the significant debt reduction in 2024 and the roll-over of the model to the new base year 2025, which more than compensated for the dampening effect of somewhat more cautious estimates for 2025. 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

Daldrup und Söhne closed the year 2024 with excellent figures. The increase in total output of around 13 percent to EUR 54.6 m was translated into a 73 percent increase in EBITDA to EUR 8.5 m and a 180 percent increase in net profit to EUR 2.5 m. The cash flow development was also particularly impressive, with free cash flow multiplying from EUR 0.5 m to EUR 9.7 m.

The only decline was in order backlog, which totalled EUR 31.0 m at the end of March, down on the previous year's figure of EUR 38.5 m. The reason for this are delays in the awarding of contracts in the second half of 2024 and the first months of 2025, which in turn reflect the difficult political and economic situation in Germany.

However, the potential for D&S remains very high and has even grown further within a year. In the twelve months up to the end of March, the volume of orders in the negotiation stage, weighted by the probability of occurrence, increased by 54 percent to EUR 405 m. As the market situation is currently brightening, not least due to the inauguration of the new German government and the creation of the EUR 500 billion special fund for infrastructure projects, we expect a further boost for D&S's business in the future.

For the current year, however, the company is initially only planning a total output of around EUR 52 m and an EBIT margin of 9 to 12 percent, which means a slight decline.

We consider this to be cautiously calculated and easily achievable, and we believe that further growth is likely to follow. From this, we have derived an increased target price of EUR 15.30 (previously: EUR 14.60).

The positive growth prospects and the attractive share price potential form the basis for the confirmation of 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 69 percent, the company has a very solid balance sheet structure.

Weaknesses

- Incoming orders have recently been on the decline, and total output and margins could be down on the previous year in 2025, according to the forecast.
- 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.

Opportunities

- The good order situation ensures capacity utilisation until the first quarter of 2026. A high level of potential orders in the negotiation status also indicates a very high growth potential for the period thereafter.
- Tight capacities in the drilling market and strong demand are a good basis for sustainably high margins.
- Geothermal energy could play an important role in municipal heating planning, which would involve high investments.
- 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.

Threats

- The roll-out of the infrastructure spending package in Germany could be delayed and be slow overall due to bureaucratic hurdles.
- A significant upturn in incoming orders could fail to materialise.
- 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.
- There are still small residual balance sheet risks from the sold power plant business in the form of outstanding receivables totalling EUR 2.0 m and components held for sale with a value of EUR 1.25 m.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2024 act.	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e
ASSETS									
I. Total non-current	9.5	11.1	12.3	13.1	13.4	13.7	14.1	14.5	14.9
1. Intangible assets	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
2. Tangible assets	8.6	10.2	11.5	12.2	12.5	12.8	13.2	13.6	14.0
II. Total current assets	24.4	31.2	39.1	48.2	56.6	61.4	66.3	71.4	76.6
LIABILITIES									
I. Equity	23.5	28.0	34.3	40.8	46.4	48.4	50.5	52.7	54.8
II. Accruals	2.2	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9
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	8.5	12.3	15.1	18.3	21.3	24.4	27.5	30.7	34.0
TOTAL	**34.2**	**42.5**	**51.7**	**61.5**	**70.3**	**75.3**	**80.7**	**86.1**	**91.7**

P&L estimation

m Euro	2024 act.	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e
Sales	54.1	51.0	56.8	60.3	62.7	64.7	66.6	68.6	70.6
Total output	54.6	52.0	58.5	62.0	64.5	66.5	68.5	70.5	72.5
Gross profit	31.5	28.3	32.4	34.6	36.3	37.8	39.3	40.4	41.5
EBITDA	11.0	7.4	9.7	10.3	10.8	11.1	11.3	11.6	11.8
EBIT	7.0	5.3	7.5	8.1	8.3	8.6	8.7	8.9	9.1
EBT	2.8	5.0	7.0	7.3	7.5	7.6	7.6	7.7	7.7
EAT (before minorities)	2.5	4.4	6.3	6.6	5.6	5.3	5.3	5.4	5.4
EAT	2.5	4.4	6.3	6.6	5.6	5.3	5.3	5.4	5.4
EPS	0.42	0.74	1.05	1.10	0.93	0.89	0.89	0.90	0.90

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2024 act.	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e
CF operating	12.1	6.7	8.5	9.4	8.8	8.8	9.0	9.3	9.6
CF from investments	-2.5	-3.6	-3.4	-3.0	-2.8	-2.8	-2.9	-3.0	-3.1
CF financing	-1.0	2.7	1.4	1.7	1.3	-2.3	-2.2	-2.3	-2.5
Liquidity beginning of year	3.5	6.4	12.2	18.8	26.8	34.2	37.9	41.8	45.8
Liquidity end of year	6.4	12.2	18.8	26.8	34.2	37.9	41.8	45.8	49.9

Key figures

percent	2024 act.	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e
Total output growth	12.8%	-4.7%	12.5%	6.0%	4.0%	3.1%	3.0%	2.9%	2.8%
Sales growth	10.2%	-5.8%	11.5%	6.0%	4.1%	3.1%	3.0%	2.9%	2.9%
Gross margin	57.7%	54.4%	55.4%	55.9%	56.3%	56.8%	57.3%	57.3%	57.3%
EBITDA margin	20.2%	14.1%	16.5%	16.7%	16.7%	16.7%	16.5%	16.4%	16.3%
EBIT margin	12.8%	10.2%	12.9%	13.0%	12.9%	12.9%	12.7%	12.7%	12.6%
EBT margin	5.2%	9.5%	12.0%	11.8%	11.6%	11.5%	11.1%	10.9%	10.7%
Net margin (after minorities)	4.6%	8.5%	10.8%	10.6%	8.7%	8.0%	7.7%	7.6%	7.4%

Annex IV: Sensitivity analysis

	Perpetual cash flow growth				
WACC	2.0%	1.5%	1.0%	0.5%	0.0%
5.5%	22.26	20.18	18.57	17.27	16.21
6.0%	19.56	18.00	16.76	15.73	14.88
6.5%	17.46	16.26	**15.27**	14.45	13.75
7.0%	15.78	14.83	14.03	13.36	12.79
7.5%	14.40	13.63	12.99	12.43	11.95

Disclaimer

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Charts

The charts were made with Tai-Pan (www.lp-software.de).

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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 06.06.2025 at 7:05 am and published on 06.06.2025 at 8:15 am.

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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
25.03.2025	Buy	14.60 Euro	1), 3), 10)
07.10.2024	Buy	11.20 Euro	1), 3), 10)
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)

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.

Exclusion of liability

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