

## Daldrup & Söhne

Alternative energy

14 October 2021

### Business as usual during pandemic

Daldrup & Söhne (Daldrup) reported business as usual in H121 despite the COVID-19 pandemic. Management maintained its FY21 guidance of a total output of around €43m and an underlying EBIT margin of 2–4%. The long-term growth prospects for Daldrup are very positive because geothermal energy offers a great alternative to fossil fuels for governments' policies on reducing carbon emissions. Geothermal electricity and heat are generated in an almost CO<sub>2</sub>-neutral manner.

### Positive market conditions in drilling in H121

Daldrup reported a good set of results in H121 with hardly any impact from the pandemic. Market conditions were positive and all three main rigs were in full operation. Total output remained stable compared to last year and EBIT increased 11% y-o-y, driven by the effects of cost savings. The EBIT margin showed an improvement of 30bp to 2.7%. Daldrup's financial position remains sound with the equity ratio increasing to 49.1% from 47.3% at year-end FY20. Net debt increased to €6.3m from €4.7m at the end of FY20, in part due to Daldrup's investment in new drilling rigs to further improve the overall efficiency of its equipment.

### Geothermal drilling helps shift to renewable energy

Governments, municipalities, utilities and larger companies are increasingly focusing on renewable energy to reduce emissions from climate-damaging greenhouse gases and Daldrup is set to benefit from this trend as geothermal electricity and heat are generated in an almost CO<sub>2</sub>-neutral manner. Daldrup's order backlog increased to €28m from €24.3m at end April 2021 and this reflects capacity utilisation well into 2022. Daldrup's order pipeline (possible order backlogs in the coming quarters) is still well filled at €83m, although this is lower than the €94.6m at end April mainly due to a large project moving from the pipeline to the order backlog. Daldrup maintained its FY21 guidance of a total output of around €43m and underlying EBIT margin of 2–4%.

### Valuation: Discount to peer group

Since our last update in mid-June 2021, the Daldrup share price has remained in the €3.80–4.50 range. Based on consensus estimates, the company is valued at an FY21e EV/EBITDA of 9.1x, which represents a discount of 13% to its peers. This compares to a small premium at the time of our last update in June 2021. The absence of major news might have caused the switch to a discount again, although market conditions remain positive for the company.

#### Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)
12/19	24.8	(10.0)	(2.04)	0.00	N/A	N/A
12/20	26.2	1.9	(0.87)	0.00	12.7	N/A
12/21e	53.5	1.2	0.30	0.00	28.1	14.7
12/22e	35.8	2.0	0.19	0.00	16.1	23.3

Source: Daldrup & Söhne, Refinitiv

Price €4.4  
Market cap €26m

#### Share price graph



#### Share details

Code	4DS
Listing	Deutsche Börse Scale
Shares in issue	6.0m
Net debt at 30 June 2021	€6.3m

#### Business description

Daldrup & Söhne is a provider of drilling and environmental services. The company has four divisions: Geothermics (72% of revenues), Raw Materials & Exploration (14%), Water Supply (12%) and Environmental, Development & Services (2%).

#### Bull

- Emission reduction and renewable targets provide a positive macro environment.
- Strong balance sheet.
- Healthy order pipeline.

#### Bear

- Volatility in project sales.
- Projects can be subject to delays.
- Low margins currently.

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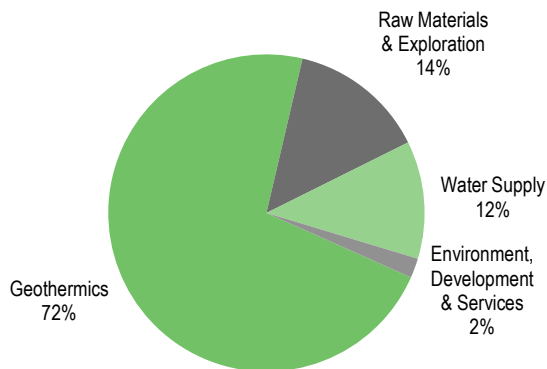
## Largest drilling specialist in Europe

Daldrup provides drilling and environmental services in the DACH countries and the Benelux. It is the largest drilling company in Europe and according to the company the market in Europe is characterised by a few qualified competitors. It offers a wide range of drilling equipment for different depths: 27 drilling rigs for a depth of up to 400m, eight rigs for depths of 400–2,000m, four rigs for drilling depths of 2,000–4,000m and one Bentec 350-t-AC for deep boreholes up to 6,000m.

Daldrup's projects are characterised by relatively long development and decision periods and, once financed, tend to proceed according to plan. Investment decisions by government customers are informed by long-term considerations and are often part of services of general interest.

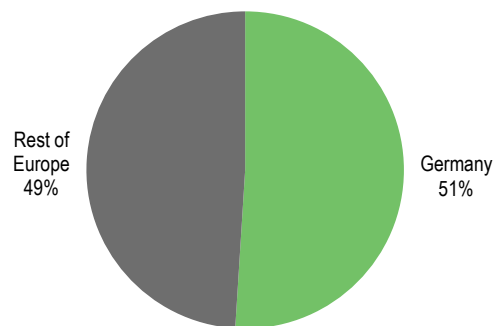
Geographically, Daldrup's focus is on the DACH countries and Benelux, but the company is also exploring opportunities in Italy. In FY20, 51% of revenues came from Germany, with the remaining 49% largely from the Netherlands and Switzerland. The spread of activities is shown in Exhibit 1, with geothermic the largest with 72% of revenues.

**Exhibit 1: Revenue by activity, FY20**



Source: Daldrup & Söhne

**Exhibit 2: Revenue by geography, FY20**



Source: Daldrup & Söhne

## Review of H121 results

Daldrup reported a good set of results in H121 and management commented that business has been as usual, despite the pandemic. Underlying demand in the geothermal energy market has remained healthy and the company was involved in large drilling orders in Germany, the Netherlands and Switzerland. The other three activities were also well utilised with orders.

The main three drilling rigs were in full operation. The first one for a project for Ruhr University Bochum to complete a 5,700m well, where drilling started in Q221 and is expected to be finished in November 2021. The second project is a large order from Aardwarmte Combinatie Luttelgeest in the Netherlands for three geothermal boreholes with drilling lengths of up to 2,440m, which started in March 2020 and is expected to be finished in November/December this year. The third project is drilling a fifth well for Nagra, the co-operative for the disposal of radioactive waste in Switzerland (from October 2021 until mid/end March 2022).

Revenues were 34% lower compared to last year as several larger projects were not finalised in the first half so the billing for these projects will fall in the second half. Work in progress was therefore much higher in the first half compared to last year, resulting in a stable total output figure (an aggregation of actual sales and work in progress). Some raw material prices were higher (ie tubes and metal) which resulted in slightly higher raw material costs. Despite the lower average number

of staff, personnel costs increased 7% due to higher salaries, as the shortage of staff has put upward pressure on salaries.

As the effects of cost savings were clearly visible in the decline in other opex, EBIT increased by 11% to €0.6m. EBIT margin was up 30bp to 2.7%, in the middle of the guidance range of 2–4% for the full year. Net profit increased from €0.1m to €0.4m.

<b>Exhibit 3: Daldrup H121 results</b>				
€m	H120	H121	% change	
Revenue	11.9	7.9	-34%	
Increase in work in progress	11.3	15.0	33%	
Total output	23.2	22.9	-1%	
EBITDA	1.7	1.8	5%	
EBITDA margin, on total output	7.3%	7.8%		
Depreciation	(1.2)	(1.2)	2%	
EBIT	0.5	0.6	11%	
EBIT margin, on total output	2.4%	2.7%		
Profit before tax	0.3	0.5	62%	
Net profit	0.1	0.4	282%	
EPS (€)	0.00	0.05	N/A	

Source: Daldrup & Söhne

In H121, Daldrup's equity ratio improved again to 49.1%, up from 47.3% at the end of FY20. Net debt increased to €6.3m from €4.7m at the end of FY20, in part due to the company's €0.6m investment in its core business for new drilling rigs.

Financial assets represent around 24% of the balance sheet and these largely relate to subordinated loans. As part of the sale of Geysir in early 2020 (see our [update note](#) published in June 2020), a large proportion of the long-term debt granted via D&S Geothermie remained on Daldrup's balance sheet as subordinated loans, with Daldrup responsible for the risk of default. In the first half of 2021, financial assets declined further from €11.8m at end FY20 to €9.7m, as Daldrup received €2m from an investor as part of a partial sale of loan receivables.

## Geothermal drilling supports emissions reduction

According to Daldrup, demand for exploration drilling and drilling for geothermal power and heat projects from municipal clients and private investors in the DACH region is currently very good. Further geothermal projects are planned in the Molasse Basin around Munich, in Munich itself, in the North German Plain and in the Netherlands. The company also sees opportunities in Italy, in particular in Tuscany and Emilia Romagna, which could offer a lucrative market for geothermal energy in the medium term.

Daldrup's order backlog stood at €28m at the end of August, up from €24.3m in April 2021. In June 2021, Daldrup announced a new order from a regional Swiss consortium for drilling a well to a depth of about 3,000m to develop a geothermal aquifer in the Rhone valley. The thermal water will be used to generate electricity and heat. The project has a value of mid-single-digit million euros and according to Daldrup is expected to start in October 2021. This order is the main reason for the increase in the order backlog which according to Daldrup offers capacity utilisation well into 2022.

After the positive developments in the first half, the company maintains its full year guidance: a total output in FY21 of around €43m (versus €47.5m in 2020) and an EBIT margin from the operating business of 2–4% (versus 4% in FY20).

The order pipeline is still well filled at €83m and the decline from €94.6m at the end of April is explained by the move of the above-mentioned Swiss order from the pipeline to the order backlog. The pipeline is defined as potential order volume based on the likelihood of orders being placed following bids submitted or intensive discussions with customers.

Governments, municipalities, utilities and larger companies are increasingly focusing on renewable energy to reduce emissions from climate-damaging greenhouse gases, which offers great growth opportunities for Daldrup as geothermal electricity and heat are generated in an almost CO<sub>2</sub>-neutral manner. Geothermal energy can be an essential addition to wind and solar capacities in the mix of renewable energies.

Other attractive markets are the provision of high-quality drilling services such as exploratory drilling for safe final storage sites, water extraction and dealing with the burdens of mining.

Daldrup aims to improve the EBIT margin to at least 5% over the next few years (previous aim was 4–5%). Drivers for this will be the benefits from planned improvements in the group's structure, project planning and control, management systems and the supply of material.

Due to the size of projects in drilling, Daldrup's results development can be volatile. To mitigate this effect, the company is looking to invest in medium-sized geothermal power projects with stable cash flows. Daldrup aims to participate in this kind of project via a minority stake.

## Valuation: Discount to peers

Since mid-June 2021, the Daldrup share price has moved in the €3.80–4.50 range without any major news. Based on consensus estimates, Daldrup is valued at a FY21e EV/EBITDA of 9.1x, which reflects a discount of 13% to the selected peer group. In our June 2021 update note, Daldrup was valued at a premium of 9% to peers, with perhaps the absence of major news causing the switch to a discount again, although market conditions remain positive for the company.

### Exhibit 5: Peer group comparison

	EV/sales (x)		EV/EBITDA (x)	
	2021e	2022e	2021e	2022e
Northern Drilling	11.7	3.2	41.0	7.0
Nabors Industries	1.7	1.5	7.1	5.6
Transocean	3.4	3.6	10.5	12.2
Odfjell	1.9	1.7	6.6	5.2
Energiekontor	5.3	4.2	14.2	10.7
Good Energy Group	0.7	0.6	7.3	6.6
Ormat Technologies	8.2	6.7	13.3	11.2
<b>Median</b>	3.4	3.2	10.5	7.0
<b>Daldrup &amp; Söhne</b>	0.6	0.8	9.1	7.4
<b>Premium/(discount)</b>	-83%	-74%	-13%	6%

Source: Refinitiv. Note: Priced at close on 14 October 2021.

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