

ABO Wind AG

Deutschland / Cleantech
 Börse Hamburg
 Bloomberg: AB9 GR
 ISIN: DE0005760029

Update

RATING

PRICE TARGET

Return Potential
 Risk Rating

BUY

€ 54.00

58.8%
 High

PREPARATIONS FOR STRONGER GROWTH

ABO Wind AG has raised more than €16m through a capital increase. The strengthening of the balance sheet creates the basis for building large wind parks and solar systems independently. In October, for the same purpose, the company announced that it would issue a bond with a volume of €30m with the option of increasing it to €50m from the first quarter of 2021. ABO Wind is thus planning to significantly accelerate its growth. Given a project pipeline of more than 12,000 MW, we see huge opportunities for this. After the RWE/Nordex project pipeline deal (2.7 GW European projects mainly in the wind sector for around €400m), project pipelines are currently experiencing a significant valuation upgrade. Given the EU's goal of achieving climate neutrality by 2050 and reducing greenhouse gas emissions by 2030 by 55% compared to 1990 levels, we continue to see high growth potential for wind and solar. We assume that increasing e-mobility and the widespread establishment of green hydrogen as an energy source will significantly increase electricity demand. At the same time, Germany will phase out nuclear (by the end of 2022) and coal-fired power production (by 2038). In our view, this is a golden age for developers of green power projects such as ABO Wind, which are currently at the "sweet spot" of the value chain. They have two valuable advantages at their disposal: 1) a large number of projects under development and 2) much sought-after project development expertise ranging from the selection of sites to turnkey construction. Today, this skill set includes the complex interplay of very different skills in order to successfully bring what are typically multi-year and obstacle-strewn approval procedures to a conclusion. We have raised our medium-term forecasts significantly. An updated DCF model yields a new price target of €54.00 (previously: €30.50) We confirm our Buy recommendation.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	146.79	150.26	126.27	163.25	190.33	228.39
Y-o-y growth	20.0%	2.4%	-16.0%	29.3%	16.6%	20.0%
EBIT (€m)	24.96	22.22	19.64	21.30	26.60	30.93
EBIT margin	17.0%	14.8%	15.6%	13.0%	14.0%	13.5%
Net income (€m)	17.01	12.74	11.40	13.17	16.48	19.42
EPS (diluted) (€)	2.22	1.67	1.48	1.55	1.79	2.11
DPS (€)	0.40	0.42	0.42	0.42	0.45	0.46
FCF (€m)	29.98	-30.29	-24.42	0.95	6.77	0.34
Net gearing	7.8%	48.5%	63.0%	30.5%	28.0%	29.6%
Liquid assets (€m)	32.34	4.52	9.65	39.04	42.72	41.09

RISKS

Main risks are project development, currency, interest rate, and regulatory risks.

COMPANY PROFILE

ABO Wind is a project developer for renewable energies and has developed green power projects with a total capacity of more than 3,500 MW since its establishment in 1996. The company also offers the management of wind farms, solar and biogas plants. ABO Wind has ca. 700 employees. Its headquarters are in Wiesbaden, Germany.

MARKET DATA

As of 25 Nov 2020

Closing Price	€ 34.00
Shares outstanding	9.22m
Market Capitalisation	€ 313.51m
52-week Range	€ 13.80 / 34.40
Avg. Volume (12 Months)	2,809

Multiples	2019	2020E	2021E
P/E	27.5	23.8	19.0
EV/Sales	2.8	2.2	1.9
EV/EBIT	18.0	16.6	13.3
Div. Yield	1.2%	1.2%	1.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 16.40m
Current Assets	€ 246.36m
Intangible Assets	€ 1.18m
Total Assets	€ 256.43m
Current Liabilities	€ 65.69m
Shareholders' Equity	€ 116.62m

SHAREHOLDERS

Familie Ahn	26.0%
Familie Bockholt	26.0%
Mainova	10.0%
Free Float	38.0%

**Capital increase to facilitate independent construction of large wind and solar parks**

ABO Wind has placed 550.000 shares at selected institutional investors. At a price per share of €29.50 gross proceeds are €16.2m. We expect the capital raise to increase equity to around €140m by the end of the year. At the end of H1, the equity ratio was 45%, and the company intends to keep it above 40%. In the future, ABO Wind wants to build large wind and solar parks, some of which have more than 100 MW capacity, as a turnkey general contractor. This move will allow ABO Wind to secure the installation margin for itself and economies of scale will also reduce the material cost ratio. The construction of such large projects, however, requires a strong balance sheet. Construction costs for a 100 MW wind farm are likely to be over €100m and therefore place high demands on working capital.

Placement of a bond announced, starting from Q1/21 In October, ABO Wind announced that it plans to place a corporate bond with a volume of up to €30m with the option of increasing it to up to €50m from the 1st quarter of 2021. The subordinated bond is expected to have a term of nine years and an annual interest rate of 3.5%. The issue is to take place by way of a public offer in Germany and Luxembourg on the basis of a securities prospectus. The proceeds from the placement are primarily intended to finance the development and construction of new international wind farms and solar parks.

ABO Wind successful in innovation tender In the September 2020 tender, ABO Wind received awards for all six submitted projects with a total output of 20 MW. In addition to three ground-mounted solar parks, three combination projects from photovoltaics and battery storage were also awarded, which are to be commissioned in 2021 and 2022. Power storage is a growing business area for ABO Wind. In addition to the German projects, ABO Wind is planning battery storage systems on the island of Ireland. Battery storage technology is an important future market for ABO Wind. The greater the share of volatile wind and solar power in total power production, the more important it is to reconcile power supply and demand. Battery storage is one way of doing this.

RWE/Nordex pipeline deal indicates valuation upside to ABO Wind's project pipeline

In November, RWE successfully completed the acquisition of Nordex' European onshore wind and solar development platform. This comprises a development pipeline of 2.7 GW in France (1.9 GW), Spain, Sweden and Poland. 15% of the pipeline projects (ca. 400 MW) are close to the final investment decision (FID) or at a late development stage; approx. 230 MW have secured Contracts for Difference (CfDs) or other feed-in tariffs. The two companies agreed on the sale at the end of July. The purchase price was around €400m. Although we do not believe that the deal parameters are directly applicable for ABO Wind's project pipeline valuation, we note that project pipelines are currently in high demand, which drives prices up. Given ABO Wind's continuously increasing project pipeline, we have adjusted our DCF model to reflect the higher value.

Excellent medium-term prospects for wind and solar

The European Green Deal presented by the EU Commission in 2019 aims at a climate neutral EU by 2050. The interim target is a 55% CO₂ reduction by 2030 compared to the 1990 level (previously: more than 40%). Both the 2030 and the 2050 targets are only reachable with significant additional wind and solar capacity. In a recent study (Towards a climate-neutral Germany, October 2020) the Think Tank Agora Energiewende proposes a rapid expansion of renewable energies in Germany by 2030 to reach the Green Deal target. The study sees onshore wind growing to 80 GW (end 2019: 54 GW) and PV to 150 GW (end 2019: 49 GW).

Furthermore, Germany will phase out nuclear power (9 GW) by 2022 and coal power (45 GW) by 2038 at the latest. Interim targets are a reduction to 30 GW coal by 2022 and to 17 GW by 2030. The loss of fossil base-load power will increase the pressure to install more green power plants and will probably drive up power prices, which will increase the attractiveness of operating green power assets.



International green hydrogen production ramp-up strategies need very large amounts of green power. According to the Hydrogen Council study “Path to Hydrogen Competitiveness”, 18 governments, whose economies represent 70% of the world's gross domestic product, have developed detailed strategies for the development of hydrogen-based energy solutions. The International Energy Agency (IEA) has calculated that renewable power of ca. 3,600 TWh would be required annually to replace current fossil-based hydrogen production with water electrolysis. This is more than the EU's annual total power production. In July 2020 the EU Commission presented its plan “A Hydrogen Strategy for a Climate-Neutral Europe”, which envisages the installation of 6 GW of green hydrogen electrolyzers by 2024 and 40 GW by 2030. In June the German federal government adopted its national hydrogen strategy. It predicts domestic hydrogen demand of 90-110 TWh by 2030 (currently: approx. 55 TWh).

Medium-term estimates increased With a strengthened capital base, ABO Wind is likely to simultaneously implement and build more projects that are currently still in development. Since project development takes time, we do not expect a short-term effect, but we do expect significantly higher sales and earnings contributions from 2023E. We have reduced our long-term gross margin assumption from 30% to 28% to take the future trend towards a higher proportion of turnkey projects into account. The construction of green power systems generates high sales, but the gross margin is significantly lower than with project rights sales.

Buy recommendation confirmed at significantly higher price target An updated DCF model that takes into account the higher medium-term forecasts results in a new price target of €54.00 (previously: €30.50). ABO Wind has now reached a size (market capitalisation over €300m, number of employees >700) and has such a well-diversified project pipeline that we have reduced our cost of equity estimate from 12.2% to 10.1%. We have trimmed the cost of debt estimate from 5.5% to 4.0%. The still very expansive monetary policy, the -0.6% interest rate for 10-year German government bonds and the interest rate of 3.5% targeted for the €30m bond justify this reduction. We have maintained our estimate for the equity/debt structure of 50/50, even though this is more conservative than the company's recently communicated target of an equity ratio of at least 40%. Overall, the model adjustments result in a WACC of 6.5% (previously: 8.0%). We confirm our Buy recommendation.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	163,252	190,325	228,390	262,649	298,942	336,717	375,287	413,839
NOPLAT	15,655	19,538	22,604	26,809	30,397	33,993	37,637	41,152
+ depreciation & amortisation	1,679	1,841	2,015	2,332	2,728	3,162	3,630	4,125
Net operating cash flow	17,334	21,379	24,619	29,141	33,125	37,156	41,267	45,277
- total investments (CAPEX and WC)	-16,385	-14,612	-24,283	-19,364	-25,780	-27,256	-28,342	-28,950
Capital expenditures	-2,775	-3,140	-3,426	-3,940	-4,457	-4,990	-5,527	-6,057
Working capital	-13,610	-11,472	-20,858	-15,424	-21,323	-22,266	-22,815	-22,893
Free cash flows (FCF)	949	6,767	336	9,777	7,345	9,900	12,925	16,327
PV of FCF's	943	6,320	295	8,059	5,686	7,200	8,830	10,479

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	152,566
PV of FCFs in terminal period	383,448
Enterprise value (EV)	536,015
+ Net cash / - net debt (pro forma)	-38,081
+ Investments / minority interests	37
Shareholder value	497,971
Number of shares (diluted)	9,221
Fair value per share in EUR	54.00

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.1%	4.5%	85.49	92.31	101.45	114.32	133.78	166.67	234.19
Pre-tax cost of debt	4.0%	5.0%	72.73	77.37	83.36	91.38	102.68	119.76	148.63
Tax rate	30.0%	5.5%	62.67	65.91	69.97	75.21	82.22	92.09	107.03
After-tax cost of debt	2.8%	6.0%	54.57	56.87	59.69	63.22	67.78	73.88	82.47
Share of equity capital	50.0%	6.5%	47.91	49.57	51.56	54.00	57.06	61.01	66.29
Share of debt capital	50.0%	7.0%	42.37	43.58	45.00	46.72	48.82	51.45	54.84
		7.5%	37.70	38.58	39.61	40.82	42.29	44.08	46.32
Fair value per share in EUR	54.00	8.0%	33.71	34.36	35.10	35.97	37.00	38.24	39.75

* for layout purposes the model shows numbers only to 2027, but runs until 2034



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	146,786	150,264	126,273	163,252	190,325	228,390
Changes in inventory	29,468	-619	22,752	28,569	32,926	39,511
Own work	0	256	233	0	0	0
Total output	176,254	149,901	149,258	191,821	223,251	267,901
Cost of goods sold	99,298	70,684	66,582	102,849	125,615	159,873
Gross profit	47,488	79,580	59,691	60,403	64,711	68,517
Personnel costs	32,039	36,305	41,361	43,400	45,310	48,045
Other operating income	3,750	2,973	3,451	2,775	3,045	3,654
Other operating expenses	10,926	13,465	17,143	17,000	18,144	21,469
EBITDA	37,741	32,420	27,623	31,348	37,228	42,169
Depreciation and amortisation	1,449	1,438	1,542	1,679	1,841	2,015
Depreciation of current assets	11,328	8,766	6,437	8,368	8,787	9,226
Operating income (EBIT)	24,964	22,216	19,644	21,301	26,601	30,928
Net financial result	-1,489	-918	-1,570	-2,481	-3,060	-3,181
Pre-tax income (EBT)	23,475	21,298	18,074	18,820	23,540	27,747
Income taxes	6,455	8,537	6,668	5,646	7,062	8,324
Minority interests	-9	-17	-4	0	0	0
Net income / loss	17,011	12,745	11,402	13,174	16,478	19,423
Diluted EPS (in €)	2.22	1.67	1.48	1.55	1.79	2.11
Ratios						
Gross margin on total output	26.9%	53.1%	40.0%	31.5%	29.0%	25.6%
Gross margin on revenues	32.4%	53.0%	47.3%	37.0%	34.0%	30.0%
EBITDA margin on revenues	25.7%	21.6%	21.9%	19.2%	19.6%	18.5%
EBIT margin on revenues	17.0%	14.8%	15.6%	13.0%	14.0%	13.5%
EBT margin on revenues	16.0%	14.2%	14.3%	11.5%	12.4%	12.1%
Net margin on revenues	11.6%	8.5%	9.0%	8.1%	8.7%	8.5%
Tax rate	27.5%	40.1%	36.9%	30.0%	30.0%	30.0%
Expenses as % of revenues						
Personnel costs	21.8%	24.2%	32.8%	26.6%	23.8%	21.0%
Depreciation and amortisation	1.0%	1.0%	1.2%	1.0%	1.0%	0.9%
Depreciation of current assets	7.7%	5.8%	5.1%	5.1%	4.6%	4.0%
Other operating expenses	7.4%	9.0%	13.6%	10.4%	9.5%	9.4%
Y-Y Growth						
Revenues	20.0%	2.4%	-16.0%	29.3%	16.6%	20.0%
Operating income	4.5%	-11.0%	-11.6%	8.4%	24.9%	16.3%
Net income/ loss	3.0%	-25.1%	-10.5%	15.5%	25.1%	17.9%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	163,462	184,057	232,427	276,315	293,970	316,951
Cash and cash equivalents	32,335	4,517	9,648	39,035	42,724	41,092
Short-term investments	12,500	18,747	17,665	17,665	17,665	17,665
Receivables	24,387	20,231	20,678	22,363	26,072	31,286
Inventories	48,822	71,451	80,171	92,987	103,245	122,642
Other current assets	43,700	67,694	102,749	102,749	102,749	102,749
Non-current assets, total	10,487	9,985	10,132	11,229	12,528	13,939
Property, plant & equipment	4,627	4,553	5,208	5,976	7,016	8,213
Goodwill & other intangibles	293	894	1,298	1,627	1,886	2,100
Financial assets	5,567	4,538	3,626	3,626	3,626	3,626
Other assets	0	33	0	0	0	0
Total assets	173,949	194,042	242,559	287,544	306,499	330,890
Shareholders' equity & debt						
Current liabilities, total	42,615	43,848	69,146	62,453	72,715	82,842
Short-term debt	1,125	844	19,362	11,447	18,636	24,917
Accounts payable	9,914	10,983	10,380	11,271	13,766	17,520
Current provisions	23,881	21,014	24,572	24,572	24,572	24,572
Other current liabilities	7,695	11,007	14,832	15,163	15,740	15,833
Long-term liabilities, total	51,780	61,219	69,837	84,768	81,132	80,215
Long-term debt	37,410	46,837	55,487	70,418	66,782	65,865
Deferred revenue	0	0	0	0	0	0
Other liabilities	14,370	14,382	14,350	14,350	14,350	14,350
Minority interests	42	39	37	37	37	37
Shareholders' equity	79,512	88,937	103,539	140,286	152,614	167,796
Share capital	7,646	7,646	8,071	9,221	9,221	9,221
Capital reserve	13,542	13,542	19,495	45,490	45,490	45,490
Other reserves	0	0	0	0	0	0
Loss carryforward / retained earnings	58,553	68,016	76,213	85,815	98,144	113,325
Total consolidated equity and debt	173,949	194,042	242,559	287,544	306,499	330,890
Ratios						
Current ratio (x)	3.84	4.20	3.36	4.42	4.04	3.83
Quick ratio (x)	2.69	2.57	2.20	2.94	2.62	2.35
Net debt	6,200	43,164	65,201	42,830	42,695	49,690
Net gearing	7.8%	48.5%	63.0%	30.5%	28.0%	29.6%
Book value per share (in €)	10.40	11.63	13.42	16.50	16.55	18.20
Equity ratio	45.7%	45.9%	42.7%	48.8%	49.8%	50.7%
Return on equity (ROE)	21.4%	14.3%	11.0%	9.4%	10.8%	11.6%
Return on Assets (ROA)	10.8%	7.5%	5.5%	5.5%	6.5%	6.9%
Return on Investment (ROI)	9.8%	6.6%	4.7%	4.6%	5.4%	5.9%
Return on average capital employed (ROCE)	26.1%	20.6%	13.4%	12.3%	14.3%	15.2%
Days of sales outstanding (DSO)	60.6	49.1	59.8	50.0	50.0	50.0
Days inventory outstanding	179.5	369.0	439.5	330.0	300.0	280.0
Days in payables (DIP)	36.4	56.7	56.9	40.0	40.0	40.0



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	24,964	22,216	19,644	21,301	26,601	30,928
Depreciation and amortisation	1,449	1,438	1,542	1,679	1,841	2,015
EBITDA	26,413	23,654	21,186	22,980	28,441	32,943
Changes in working capital	2,817	-39,067	-37,895	-13,610	-11,472	-20,858
Other adjustments	2,216	-12,697	-5,086	-5,646	-7,062	-8,324
Operating cash flow	31,446	-28,110	-21,795	3,724	9,907	3,762
Investments in PP&E	-1,257	-1,393	-1,965	-2,122	-2,474	-2,741
Investments in intangibles	-213	-782	-661	-653	-666	-685
Free cash flow	29,976	-30,285	-24,421	949	6,767	336
Acquisitions & disposals, net	169	179	91	0	0	0
Other investments	4	-1,246	282	0	0	0
Investment cash flow	-1,297	-3,242	-2,253	-2,775	-3,140	-3,426
Debt financing, net	4,130	9,120	34,323	7,016	3,553	5,364
Equity financing, net	0	0	0	27,145	0	0
Dividends paid	-3,823	-3,058	-3,211	-3,241	-3,572	-4,149
Other financing	-1,816	-2,389	-1,948	-2,481	-3,060	-3,181
Financing cash flow	-1,508	3,672	29,164	28,439	-3,079	-1,967
FOREX & other effects	-103	-138	15	0	0	0
Net cash flows	28,538	-27,818	5,131	29,387	3,688	-1,631
Cash, start of the year	3,797	32,335	4,517	9,648	39,035	42,724
Cash, end of the year	32,335	4,517	9,648	39,035	42,724	41,092
EBITDA/share (in €)	4.94	4.24	3.58	3.69	4.04	4.57
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	166.0%	-62.0%
Free cash flow	n.m.	n.m.	n.m.	n.m.	613.4%	-95.0%
Financial Cashflow	n.m.	n.m.	694.2%	-2.5%	n.m.	n.m.
EBITDA/share	9.6%	-14.1%	-15.6%	3.0%	9.5%	13.3%

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	12 April 2017	€7.80	BUY	€14.00
2...12	↓	↓	↓	↓
13	13 June 2019	€14.10	BUY	€22.00
14	5 August 2019	€14.40	BUY	€22.00
15	9 October 2019	€15.30	BUY	€22.50
16	3 February 2020	€18.20	BUY	€27.00
17	27 April 2020	€17.40	BUY	€27.00
18	22 June 2020	€20.80	BUY	€30.00
19	19 August 2020	€23.40	BUY	€30.50
20	Today	€34.00	BUY	€54.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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