

# 7C Solarparken AG

Germany / Cleantech  
 Primary Exchange: Frankfurt  
 Bloomberg: HRPK GF  
 ISIN: DE000A11QW68

Next growth phase

**RATING**  
**PRICE TARGET** **BUY**  
 Return Potential 30.4%  
 Risk Rating medium

## 100 MW THRESHOLD IN SIGHT

**7C Solarparken has announced ambitious growth targets in its new 2015-17 business plan. The company wants to increase cash flow per share to €0.50 by 2017 through increasing the solar portfolio from 71 to 105 MWp, optimising plants, and rationalising legal structures. Net debt/EBITDA is to fall below 6.0x, and the dividend (or dividend equivalent) is to amount to €0.10 per share. We reiterate our Buy rating and increase the price target to €3.00 (previously: €2.60)**

**Excellent track record** After the new management took over in May 2014 it quickly developed and executed its 2014-16 business plan. Its targets (cost savings, increasing asset efficiency, selective growth) have already been largely fulfilled. Measures to achieve cost savings of €1.9m have been implemented and will show their full effect in 2015 and 2016. Asset efficiency has been increased by improving the total performance ratio of the plants by 0.75%. The acquisition of three new solar plants in H1 2015 will result in additional EBITDA of €0.6m. Management has delivered on its promises and has now announced a new strategic plan for the years 2015-2017.

**New business plan promises strong growth** Management has named the 2015-17 business plan "Capital Appreciation through Consolidation". Its main target is to increase cash flow per share to €0.50 and is based on four pillars:

- increasing the solar portfolio from 71 to 105 MWp,
- optimising the plants of the recently acquired 13.7 MW Miskina portfolio both technically and financially,
- rationalising legal structures by eliminating or re-grouping sub-holdings to save costs,
- rotating assets (sale and purchase of solar assets).

By 2017E, clean EBITDA is to increase to €27.0m, net debt/EBITDA is to fall below 6.0x and the dividend (or dividend equivalent) is to amount to €0.10 per share. Given management's excellent track record we are very confident that the new business plan will be successfully executed. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2012	2013	2014	2015E	2016E	2017E
Revenue (€m)	8.55	10.24	14.55	24.36	29.90	31.46
Y-o-y growth	n.a.	19.8%	42.2%	67.4%	22.7%	5.2%
EBITDA (€m)	6.79	9.59	16.74	19.03	24.35	26.95
EBITDA margin	79.5%	93.7%	115.0%	78.1%	81.4%	85.7%
Net income (€m)	0.28	0.40	7.38	2.05	4.36	6.99
EPS (diluted) (€)	0.00	0.02	0.28	0.06	0.11	0.16
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	4.25	1.62	5.04	0.60	11.32	12.68
Net gearing	374.9%	312.5%	345.3%	282.2%	239.0%	206.2%
Net debt (€m)	45.73	70.27	132.14	151.78	146.58	143.73

### RISKS

Risks include but are not limited to unfavourable changes in the regulatory environment, operational risks, interest increases, and financing risks.

### COMPANY PROFILE

7C Solarparken AG is an owner and operator of photovoltaic plants (71 MW) in Germany, Italy, France, and Belgium. The company is based in Bayreuth, Germany.

### MARKET DATA

As of 04 Nov 2015

Closing Price	€ 2.30
Shares outstanding	35.28m
Market Capitalisation	€ 81.14m
52-week Range	€ 1.33 / 2.51
Avg. Volume (12 Months)	7,000

Multiples	2014	2015E	2016E
P/E	11.0	39.6	18.6
EV/Sales	14.4	8.6	7.0
EV/EBIT	12.5	11.0	8.6
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 22.94m
Current Assets	€ 28.65m
Intangible Assets	€ 0.57m
Total Assets	€ 211.32m
Current Liabilities	€ 28.46m
Shareholders' Equity	€ 41.39m

### SHAREHOLDERS

Librae Holding Limited	12.2%
Rodolphe de Spoelberch	10.4%
Distri Beheer 21 CVBA	7.6%
Other	27.9%
Free Float	41.9%



**Expansion of the solar portfolio** 7C plans to increase the current 71.4 MW portfolio by 33.6 MW to 105 MW in three steps. The first step has already been initiated and looks set to be concluded this year: the acquisition of the 13.7 MW Miskina portfolio. In 2016, 7C plans to add 9 MW and in 2017 10.9 MW.

CAPEX is estimated to be €77.1m (€2.9m/MW) with an equity share of €21.4m or 27.8%. 7C expects additional EBITDA of €7.6m from realising the growth plan.

We believe that reaching the 100 MW threshold is important as beyond this threshold 7C will be an attractive takeover target for larger renewable energy operators or yieldcos. Alternatively, regional utilities which want to expand their share of renewable power produced may view 7C as a good investment opportunity.

As a 100 MW portfolio is currently roughly valued at €100m, 7C would also pass the €100m market capitalisation hurdle which is a minimum requirement for many investors. A >100 MW portfolio is thus a very good platform for further value creation.

**Optimisation of 13.7 MW Miskina portfolio** Two plants of the portfolio have a low performance ratio. 7C plans to increase the performance of these plants by exchanging malfunctioning inverters and by optimising the panel cleaning schedule of one plant. Furthermore, operation & maintenance (O&M) will be insourced to ensure higher availability. 7C estimates the full cost of these measures at €1m and expects additional EBITDA of €0.2m p.a.

In addition, 7C will refinance the financial debt of the portfolio which will reduce interest expenses by ca. €1.0m.

**Rationalising legal structures** 7C has some inactive sub-holdings in the old Colexon. Eliminating or re-grouping these sub-holdings will reduce costs and is a step towards profitability of the AG, which is a prerequisite for paying dividends. Furthermore, deferred tax assets of €6.5m have not been recognised. If the AG returns to profit, the recognition of these deferred tax assets may reduce future tax liabilities.

**Rotating assets** Solar assets of <1 MW are often attractive for smaller investors which have a relatively low IRR requirement. By structuring transactions of fully optimised <1 MW solar assets, 7C wants to benefit from the IRR difference between smaller investors and other players. The company plans to secure a gain of €0.2m per year by rotating assets.

**Financial objectives until 2017** For 2015E, 7C is guiding towards clean EBITDA of €18.2m - €18.8m. Based mainly on the consolidation of the Miskina portfolio and the planned portfolio expansion 7C's 2017E clean EBITDA objective is €27.0m (+€8.2m, CAGR: 20%). According to 7C, the gross debt position will increase from €145.0m (excluding Miskina) to €164.3m at the end of 2017E. The net debt position should remain below €150m. Net debt/EBITDA looks set to fall to 5.5x in 2017E (FBe: 5.3x) from 6.7x in 2015E. The company expects an average interest rate of 3.5%. Cash flow per share is to increase from €0.37-0.39 in 2015E to €0.50 in 2017E.

**Small capital increase successfully concluded in October** 7C placed 697,674 shares at €2.15 resulting in additional liquid funds of €1.5m which will be used for the acquisition of further solar assets.

**Model adjusted to expansion plan** We have updated our estimates and DCF model to reflect the 2015-17 growth plan. The current number of shares amounts to 35,277,717 and our diluted share count, which includes the capital increase of 5.2m shares to finance the acquisition of the Miskina portfolio, further planned capital increases (1.1m shares) and complete conversion of remaining bond options into shares (1.1m shares), amounts to 42.7m.

We have increased our EBITDA forecast for 2017E to €27.0m and have taken higher interest payments due to additional debt financing into consideration (see figure 1 overleaf).



**Buy rating reiterated at higher price target** We confirm our Buy rating and increase the price target to €3.00 (previously: €2.60).

**Figure 1: Revisions to forecasts**

All figures in €m	2015E			2016E			2017E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	24.36	24.36	0.0%	29.18	29.90	2.5%	28.92	31.46	8.8%
EBITDA	19.03	19.03	0.0%	23.86	24.35	2.0%	23.88	26.95	12.9%
<i>margin</i>	78.1%	78.1%		81.8%	81.4%		82.6%	85.7%	
Net income	1.93	2.05	6.3%	4.73	4.36	-7.8%	6.19	6.99	12.9%
<i>margin</i>	7.9%	8.4%		16.2%	14.6%		21.4%	22.2%	
EPS (diluted)	0.06	0.06	-3.3%	0.12	0.11	-10.4%	0.15	0.16	8.1%

Source: First Berlin Equity Research



## DCF MODEL

DCF valuation model											
All figures in EUR '000											
	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	24,360	29,896	31,463	31,372	31,281	31,190	31,099	31,009	30,919	30,830	30,740
NOPLAT	7,601	10,577	12,548	11,736	11,150	10,762	10,431	10,055	9,656	9,289	8,930
+ depreciation & amortisation	11,067	13,286	13,626	13,919	13,906	13,982	14,011	14,060	14,162	14,183	14,214
Net operating cash flow	18,668	23,863	26,174	25,655	25,056	24,744	24,443	24,115	23,818	23,471	23,144
- total investments (CAPEX and WC)	-12,522	-6,328	-7,941	-973	-953	-950	-947	-945	-942	-939	-936
Capital expenditures	-12,589	-6,000	-7,000	-941	-938	-936	-933	-930	-928	-925	-922
Working capital	67	-328	-941	-32	-15	-15	-14	-14	-14	-14	-14
Free cash flows (FCF)	6,147	17,535	18,233	24,682	24,103	23,794	23,495	23,171	22,876	22,532	22,208
PV of FCF's	6,112	16,787	16,808	21,909	20,602	19,582	18,619	17,681	16,809	15,941	15,129

DCF valuation model												
All figures in EUR '000												
	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Net sales	30,651	30,012	21,711	18,084	16,975	15,461	13,469	9,342	7,745	6,324	5,464	3,582
NOPLAT	8,509	7,734	3,320	1,503	1,706	1,181	715	-1,138	-2,143	-1,710	-1,025	-998
+ depreciation & amortisation	14,287	14,374	13,004	12,029	10,931	9,765	8,569	7,125	6,771	5,136	3,900	2,966
Net operating cash flow	22,796	22,107	16,324	13,532	12,637	10,945	9,284	5,987	4,628	3,426	2,875	1,967
- total investments (CAPEX and WC)	-934	-902	-472	-467	-491	-435	-361	-180	-195	-155	-143	-57
Capital expenditures	-920	-900	-651	-543	-509	-464	-404	-280	-232	-190	-164	-107
Working capital	-14	-1	179	76	18	29	43	101	38	34	20	50
Free cash flows (FCF)	21,863	21,206	15,851	13,065	12,146	10,510	8,923	5,807	4,434	3,271	2,732	1,910
PV of FCF's	14,342	13,395	9,641	7,652	6,850	5,707	4,665	2,924	2,149	1,527	1,228	827

All figures in thousands		WACC	
PV of FCFs in explicit period (2015E-2037E)	256,862	Cost of equity	7.0%
PV of FCFs in terminal period	0	Pre-tax cost of debt	4.0%
Enterprise value (EV)	256,862	Tax rate	30.0%
+ Net cash / - net debt	-128,493	After-tax cost of debt	2.8%
+ Investments / minority interests	109	Share of equity capital	25.0%
		Share of debt capital	75.0%
Fair value €k	128,478	Fair value per share in €	3.00



## INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>Revenues</b>	<b>8,545</b>	<b>10,236</b>	<b>14,552</b>	<b>24,360</b>	<b>29,896</b>	<b>31,463</b>
Cost of goods sold	1,539	2,355	3,736	3,410	3,737	3,020
<b>Gross profit</b>	<b>7,006</b>	<b>7,881</b>	<b>10,816</b>	<b>20,950</b>	<b>26,159</b>	<b>28,443</b>
Personnel costs	136	145	542	1,150	900	936
Depreciation and amortisation	3,856	5,045	6,595	11,067	13,286	13,626
Other operating income	0	1,857	6,464	731	538	944
Other operating expenses	250	0	0	1,500	1,450	1,500
<b>Operating income (EBIT)</b>	<b>2,934</b>	<b>4,548</b>	<b>10,143</b>	<b>7,963</b>	<b>11,061</b>	<b>13,324</b>
Net financial result	-2,536	-4,123	-2,635	-5,550	-6,217	-5,557
Non-operating expenses	-85	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>313</b>	<b>425</b>	<b>7,508</b>	<b>2,413</b>	<b>4,844</b>	<b>7,767</b>
Income taxes	0	34	72	362	484	777
Minority interests (+/-)	-29	7	-52	0	0	0
<b>Net income / loss</b>	<b>284</b>	<b>398</b>	<b>7,385</b>	<b>2,051</b>	<b>4,360</b>	<b>6,990</b>
<b>Diluted EPS (in €)</b>	<b>0.00</b>	<b>0.02</b>	<b>0.28</b>	<b>0.06</b>	<b>0.11</b>	<b>0.16</b>
<b>EBITDA</b>	<b>6,790</b>	<b>9,593</b>	<b>16,738</b>	<b>19,030</b>	<b>24,347</b>	<b>26,950</b>
<b>Ratios</b>						
Gross margin	82.0%	77.0%	74.3%	86.0%	87.5%	90.4%
EBIT margin on revenues	34.3%	44.4%	69.7%	32.7%	37.0%	42.3%
EBITDA margin on revenues	79.5%	93.7%	115.0%	78.1%	81.4%	85.7%
Net margin on revenues	3.3%	3.9%	50.7%	8.4%	14.6%	22.2%
Tax rate	0.0%	8.1%	1.0%	15.0%	10.0%	10.0%
<b>Expenses as % of revenues</b>						
Personnel costs	1.6%	1.4%	3.7%	4.7%	3.0%	3.0%
Depreciation and amortisation	45.1%	49.3%	45.3%	45.4%	44.4%	43.3%
Other operating expenses	2.9%	0.0%	0.0%	6.2%	4.9%	4.8%
<b>Y-Y Growth</b>						
Revenues	n.a.	19.8%	42.2%	67.4%	22.7%	5.2%
Operating income	n.a.	55.0%	123.0%	-21.5%	38.9%	20.5%
Net income/ loss	n.a.	40.1%	1756.3%	-72.2%	112.5%	60.3%



## BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>Assets</b>						
<b>Current assets, total</b>	<b>7,613</b>	<b>11,011</b>	<b>23,830</b>	<b>23,275</b>	<b>25,137</b>	<b>24,492</b>
Cash and cash equivalents	7,004	9,413	20,438	19,683	21,189	20,240
Short-term investments	0	0	0	0	0	0
Receivables	571	688	1,265	1,468	1,802	2,155
Inventories	38	209	237	234	256	207
Other current assets	0	701	1,588	1,588	1,588	1,588
<b>Non-current assets, total</b>	<b>65,023</b>	<b>96,206</b>	<b>183,963</b>	<b>219,185</b>	<b>221,198</b>	<b>225,772</b>
Property, plant & equipment	62,548	92,859	175,673	210,895	212,908	217,482
Goodwill & other intangibles	0	575	546	546	546	546
Other assets	2,475	2,772	7,744	7,744	7,744	7,744
<b>Total assets</b>	<b>72,636</b>	<b>107,217</b>	<b>207,793</b>	<b>242,459</b>	<b>246,335</b>	<b>250,264</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>7,245</b>	<b>8,604</b>	<b>17,124</b>	<b>10,077</b>	<b>9,105</b>	<b>5,469</b>
Short-term debt	593	7,259	14,314	7,000	6,000	3,000
Accounts payable	911	695	2,162	2,429	2,457	1,821
Current provisions	0	21	0	0	0	0
Other current liabilities	5,741	630	648	648	648	648
<b>Long-term liabilities, total</b>	<b>53,195</b>	<b>76,126</b>	<b>152,304</b>	<b>178,504</b>	<b>175,804</b>	<b>175,004</b>
Long-term debt	52,138	72,421	138,266	164,466	161,766	160,966
Deferred revenue	0	0	0	0	0	0
Other liabilities	1,057	3,705	14,038	14,038	14,038	14,038
<b>Shareholders' equity</b>	<b>12,196</b>	<b>22,487</b>	<b>38,271</b>	<b>53,784</b>	<b>61,332</b>	<b>69,697</b>
Share capital	6,099	8,675	34,038	40,483	42,173	42,723
Capital reserve	3,451	10,616	252	7,268	8,766	9,591
Other reserves	0	-17	-53	-53	-53	-53
Loss carryforward / retained earnings	1,264	2,711	4,034	6,085	10,445	17,436
Minority interests	0	41	94	94	94	94
<b>Total consolidated equity and debt</b>	<b>72,636</b>	<b>107,217</b>	<b>207,793</b>	<b>242,459</b>	<b>246,335</b>	<b>250,264</b>
<b>Ratios</b>						
Current ratio (x)	1.05	1.28	1.39	2.31	2.76	4.48
Quick ratio (x)	1.05	1.26	1.38	2.29	2.73	4.44
Book value per share (€)	n.m.	n.m.	1.44	1.52	1.51	1.63
Net debt	45,727	70,267	132,142	151,783	146,577	143,726
Net gearing	375%	312%	345%	282%	239%	206%
Net debt/EBITDA	6.7	7.3	7.9	8.0	6.0	5.3
Return on equity (ROE)	2.3%	1.8%	19.3%	3.8%	7.1%	10.0%
Days of sales outstanding (DSO)	24.4	24.5	31.7	22.0	22.0	25.0
Days of inventory turnover	9.0	32.4	23.2	25.0	25.0	25.0
Days in payables (DIP)	216.1	107.7	211.2	260.0	240.0	220.0



## CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>EBIT</b>	<b>2,934</b>	<b>3,837</b>	<b>12,168</b>	<b>7,963</b>	<b>11,061</b>	<b>13,324</b>
Depreciation and amortisation	3,856	5,038	6,595	11,067	13,286	13,626
<b>EBITDA</b>	<b>6,790</b>	<b>8,875</b>	<b>18,763</b>	<b>19,030</b>	<b>24,347</b>	<b>26,950</b>
Changes in working capital	0	-1,271	470	67	-328	-941
Other adjustments	-2,536	-3,826	-12,483	-5,912	-6,701	-6,334
<b>Operating cash flow</b>	<b>4,254</b>	<b>3,778</b>	<b>6,751</b>	<b>13,186</b>	<b>17,318</b>	<b>19,676</b>
CAPEX	0	-1,816	-1,708	-12,589	-6,000	-7,000
Investments in intangibles	0	-340	0	0	0	0
<b>Free cash flow</b>	<b>4,254</b>	<b>1,622</b>	<b>5,042</b>	<b>597</b>	<b>11,318</b>	<b>12,676</b>
<b>Debt financing, net</b>	<b>0</b>	<b>-7,768</b>	<b>-4,459</b>	<b>-16,314</b>	<b>-13,000</b>	<b>-15,000</b>
<b>Equity financing, net</b>	<b>0</b>	<b>9,742</b>	<b>701</b>	<b>13,461</b>	<b>3,188</b>	<b>1,375</b>
Other changes in cash	0	-1,186	9,739	1,500	0	0
<b>Net cash flows</b>	<b>4,254</b>	<b>2,410</b>	<b>11,025</b>	<b>-755</b>	<b>1,506</b>	<b>-949</b>
Cash, start of the year	0	7,004	9,413	20,438	19,683	21,189
<b>Cash, end of the year</b>	<b>4,254</b>	<b>9,414</b>	<b>20,438</b>	<b>19,683</b>	<b>21,189</b>	<b>20,240</b>
<b>EBITDA/share (in €)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.63</b>	<b>0.54</b>	<b>0.60</b>	<b>0.63</b>
<b>Operating cash flow/share (in €)</b>	<b>./.</b>	<b>./.</b>	<b>0.25</b>	<b>0.39</b>	<b>0.43</b>	<b>0.46</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	-11.2%	78.7%	95.3%	31.3%	13.6%
Free cash flow	n.a.	-61.9%	210.8%	-88.2%	1795.0%	12.0%
EBITDA/share	n.a.	n.m.	n.m.	-14.3%	11.6%	5.0%

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	4 November 2010	€2.23	Buy	€5.40
2...7	↓	↓	↓	↓
8	12 May 2015	€1.84	Add	€2.10
9	29 May 2015	€1.73	Add	€2.20
10	3 September 2015	€2.02	Buy	€2.60
11	Today	€2.30	Buy	€3.00

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First Berlin's investment rating system is five tiered and includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

**STRONG BUY:** Expected return greater than 50% and a high level of confidence in management's financial guidance

**BUY:** Expected return greater than 25%

**ADD:** Expected return between 0% and 25%

**REDUCE:** Expected negative return between 0% and -15%

**SELL:** Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 16 May 2008, First Berlin's investment rating system was three tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: **BUY:** expected return greater than 15%; **HOLD:** expected return between 0% and 15%; and **SELL:** expected negative return.

**ADDITIONAL DISCLOSURES**

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