

H2 Core AG

Germany / Cleantech
 Börse Hamburg
 Bloomberg: M5S GR
 ISIN: DE000A0H1GY2

H1/24 report

RATING

PRICE TARGET

Return Potential

Risk Rating

BUY

€ 2.20

47.7%

High

BUSINESS IS STARTING UP MUCH MORE SLOWLY THAN EXPECTED

H2 Core has published half-year figures that fell short of our expectations. The company has significantly reduced guidance for the current year. The reason for the lower guidance is both shifts on the supplier side and weak demand. Although H2 Core has a very well-filled sales pipeline, there are still delays in receiving firm orders. Overall, the ramp-up of the green hydrogen market is progressing much more slowly than originally expected. We have adjusted our forecasts to reflect this development. An updated DCF model yields a new price target of €2.20 (previously: €4.10). We confirm our Buy recommendation.

Guidance significantly reduced In August, H2 Core was still forecasting sales of between €12.8m and €13.8m and EBIT of €-0.6m to €0.0m. Contrary to expectations, however, demand has not picked up in recent weeks. Instead, many customers have postponed notified orders into next year, and H2 Core's management has more than halved sales guidance for the current year to between €5m and €6m. EBT is now projected to be €-3m.

Strong sales growth but decline in total operating performance Sales increased by 48% y/y to €3.1m in the first half of the year but fell 22% short of our forecast (see figure 1 overleaf). However, total output fell 36% y/y to €1.3m (see figure 2 overleaf). The reason for this is an extensive reduction in inventories, as many systems that were (largely) completed in 2023 were not delivered until 2024. The increase in the cost of materials by 52% y/y to €1.3m is due to a less favourable product mix on the one hand and the ramp-up of series production of the Flex120 electrolyser on the other. Initial production of the Flex 120 series led to a significant increase in production and design optimisation costs. We are assuming that production will run much more efficiently in future following the experience gained during the construction of the first Flex 120 electrolysers, which will significantly reduce the cost of materials ratio.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2021	2022	2023	2024E	2025E	2026E
Revenue (€m)	0.7	2.1	4.9	5.5	12.0	24.0
Y-o-y growth	n.a.	209.0%	131.2%	11.9%	118.2%	100.0%
EBIT (€m)	0.0	0.1	0.3	-2.3	-0.5	1.0
EBIT margin	3.7%	6.1%	6.7%	-42.7%	-4.3%	4.4%
Net income (€m)	0.0	0.1	0.1	-3.0	-0.8	0.6
EPS (diluted) (€)	0.00	0.00	0.00	-0.28	-0.07	0.05
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.0	-0.1	-5.8	-1.8	0.2	0.6
Net gearing	1740.0%	104.3%	31.6%	76.7%	91.7%	61.2%
Liquid assets (€m)	0.0	0.0	0.1	0.3	0.4	1.1

RISKS

The main risks are: Financing, internationalisation, supply chain, and regulation.

COMPANY PROFILE

H2 Core Systems manufactures hydrogen-based energy systems and markets them worldwide. The company has ca. 40 employees and is situated in Heide in northern Germany.

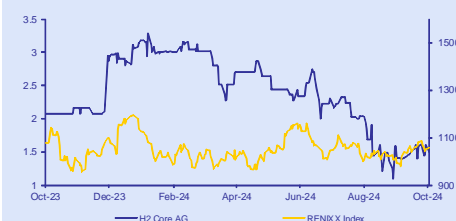
MARKET DATA

As of 07 Oct 2024

Closing Price	€ 1.49
Shares outstanding	11.83m
Market Capitalisation	€ 17.62m
52-week Range	€ 1.10 / 3.28
Avg. Volume (12 Months)	1,670

Multiples	2023	2024E	2025E
P/E	139.7	n.a.	n.a.
EV/Sales	2.3	2.1	1.0
EV/EBIT	34.9	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2024

Liquid Assets	€ 0.08m
Current Assets	€ 17.86m
Intangible Assets	€ 0.03m
Total Assets	€ 18.86m
Current Liabilities	€ 9.52m
Shareholders' Equity	€ 3.70m

SHAREHOLDERS

Technology Center Holding GmbH	38.6%
Enapter AG	24.8%
World Wide Green Holding GmbH	14.8%
Blugreen Company Ltd	10.5%
Sonstige & Free Float	11.3%

**Figure 1: Reported figures versus forecasts**

All figures in €m	H1-24A	H1-24E	Delta	H1-23A	Delta
Sales	3.13	4.00	-22%	2.11	48%
EBIT	-1.97	-1.50	-	-0.28	-
margin	-62.9%	-37.5%		-13.3%	
Net income	-2.51	-1.60	-	-0.34	-
margin	-80.2%	-40.0%		-16.1%	

Source: First Berlin Equity Research, H2 Core AG

The significantly higher cost of materials meant that gross profit, which totalled €1.2m in H1/23 (gross profit margin on total operating performance: 57.5%), was slightly negative in the current period (see figure 2). The increase in headcount to 40 employees caused personnel costs to rise by 39% y/y to just under €1m, while other operating expenses increased by 17% to €0.8m, in particular due to the costs associated with the stock market listing. This led to a significant increase in the operating loss from €-0.3m to €-2.0m.

Financial expenses rose to €123k and stemmed from interest expenses for shareholder loans and bank credit lines. The negative valuation result (€-425k) is due to devaluations of the Enapter shares held in the securities account. This led to a financial result of €-537k after €-55k in H1/23. Overall, this resulted in a significantly increased net loss of €-2.5m versus €-0.3m in the previous period.

Figure 2: Income statement, selected items

in €m	H1-24A	H1-23A	Delta
Sales	3.13	2.11	48%
Total output	1.32	2.07	-36%
Gross profit	-0.02	1.19	n.m.
Margin	-1.3%	57.5%	-
EBITDA	-1.82	-0.22	n.m.
Margin	-58.1%	-10.4%	-
EBIT	-1.97	-0.28	n.m.
Margin	-63.1%	-13.2%	-
EBT	-2.51	-0.33	n.m.
Margin	-80.3%	-15.7%	-
Net result	-2.47	-0.34	n.m.
Margin	-78.9%	-16.1%	-

Source: First Berlin Equity Research, H2 Core AG

Balance sheet shows potential for improvement H2 Core's inventories totalled €16.2m at the end of H1 (see figure 3 overleaf). Although this is 10% less than at the beginning of the year, it is still 2.75 times the turnover of the last 12 months. 96% of inventories by value are unfinished goods and goods in stock. At the same time, trade payables totalled a high €10.2m at the end of June 2024 and mainly relate to Enapter AG. Of these liabilities, €5.1m (end of 2023: €7.2m) are recognised as non-current, as H2 Core expects that the assets behind the liabilities will not be delivered for over a year (reporting date 30 June 2024). It is therefore obvious that the high inventories and the high trade payables are mutually dependent. H2 Core has taken stock modules from Enapter into stock, but does not have to pay for them until the products are delivered.

Working capital totalled €6.8m at the end of June 2024. Despite the 15% decrease since the beginning of the year, the level of funds tied up remains high. The working capital ratio was



115% after 163% at the end of 2023. There is considerable potential for more efficient working capital management here.

Net debt increased by 16% to €4.1m. By contrast, equity has fallen by 42% to €3.7m since the beginning of the year. The equity ratio fell from 30.5% to 19.6% and is therefore at a relatively low level. Overall, the balance sheet total shrank by 10% to €18.9m, mainly due to the reduction in inventories.

Figure 3: Balance sheet, selected items

in €m	H1-24A	2023A	Delta
Intangible goods & Goodwill	0.03	0.04	-3%
Property, plant & equipment	0.44	0.48	-8%
Rights-of-use assets	0.42	0.48	-11%
Non-current assets, total	0.99	1.04	-5%
Inventories	16.22	18.04	-10%
Receivables	0.99	0.71	39%
Cash and cash equivalents	0.08	0.06	34%
Current assets, total	17.86	19.94	-10%
Equity	3.70	6.41	-42%
<i>Equity ratio</i>	19.6%	30.5%	-10.9 PP
Financial debt (long-term)	0.00	0.40	n.m.
Financial debt (short-term)	3.71	2.69	38%
Leasing liabilities (long-term)	0.33	0.38	-12%
Leasing liabilities (short-term)	0.09	0.09	0%
Net debt	4.05	3.50	16%
<i>Net Gearing</i>	109%	55%	-
Payables	10.23	9.76	5%
Downpayments received	0.14	0.99	-85%
Working capital	6.83	8.01	-15%
<i>Working capital ratio</i>	115%	163%	-48 PP
Balance sheet total	18.86	20.99	-10%

Source: First Berlin Equity Research, H2 Core AG

Cash outflow from operating activities of €1m Despite the net loss of €-2.5m, cash outflow from operating activities totalled only €1.0m. The decrease in inventories of €1.8m was a major contributing factor (see figure 4 overleaf). Cash flow from investing activities was positive (€+0.3m) and was characterised by proceeds from the sale of Enapter shares, which contributed €347k to the positive result. Investments in property, plant and equipment totalled €64k. Cash flow from financing activities consisted of costs for the issue (€-237k) and the raising of shareholder loans (€+930k). Net cash inflow totalled €19k.

**Figure 4: Cash flow statement, selected items**

in €m	H1-24A	H1-23A
Operating cash flow	-0.96	0.02
CAPEX	-0.06	-0.01
Free cash flow	-1.02	0.01
Cash flow investing	0.28	-0.01
Cash flow financing	0.69	0.00
Net cash flow	0.02	0.01

Source: First Berlin Equity Research, H2 Core AG

Production expanded to include the construction of medium-sized electrolyzers H2 Core has expanded production to include a production line for medium-sized industrial plants. Currently, H2 Core manufactures hydrogen plants at four parallel construction sites for smaller systems (≤ 12 kW) and two construction sites for medium-sized systems (from 120 kW). The production of the medium-sized systems is based on H2 Core's takeover of the assembly of the first 50 AEM Flex 120 systems from Enapter. The corresponding production started in April 2024 and the first four systems have now been delivered. A test stand area enables extensive testing of the completed systems, including corresponding documentation, before delivery to the customer. In the medium term (FBe: from 2026), H2 Core is also planning to install the first large-scale systems in the multi-megawatt range.

Forecasts adjusted The sales and profit warning and the much slower than expected increase in demand for systems for the production of green hydrogen have prompted us to significantly lower our forecasts. In summary, we have pushed back the growth phase in our forecast model by one year. The final investment decisions made by many companies in recent months make us confident that the current market weakness is merely a delay in the market ramp-up and not a structural market change. For example, RWE has awarded 100 MW electrolyser contracts to both Linde and Sunfire. The Hamburg Green Hydrogen Hub consortium has ordered a 100 MW electrolyser from Siemens Energy, and the northern German utility EWE has commissioned Siemens Energy to supply a 280 MW electrolyser plant. Our forecasts for 2024E are within the company's guidance (see figure 5).

Figure 5: Revisions to guidance and FB forecasts

in €m	Guidance new	Guidance old	FBe new	FBe old
Sales	5 to 6	12,8 to 13,8	5.5	13.8
EBIT	n.a.	-0,6 to 0,0	-2.3	-0.5
EBT	-3	n.a.	-3.0	-0.7

Source: First Berlin Equity Research, H2 Core AG

Figure 6 overleaf provides an overview of changes to our forecasts for the coming years. We have significantly reduced our sales estimates. In addition, we now assume that H2 Core will not reach break-even until 2026 (previously: 2025) and assume an EBIT margin of 4.4% for 2026.

**Figure 6: Revisions to forecasts**

All figures in €m	2024E			2025E			2026E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	13.81	5.50	-60%	27.10	12.00	-56%	45.56	24.00	-47%
EBIT	-0.55	-2.35	-	0.69	-0.52	-	2.08	1.04	-50%
margin	-4.0%	-42.7%	-	2.5%	-4.3%	-	4.6%	4.4%	-
Net income	-0.48	-3.02	-	0.23	-0.85	-	1.04	0.57	-45%
margin	-3.5%	-54.9%	-	0.8%	-7.1%	-	2.3%	2.4%	-
EPS (diluted)	-0.04	-0.28	-	0.02	-0.07	-	0.09	0.05	-45%

Source: First Berlin Equity Research

Buy rating confirmed with significantly lowered price target An updated DCF model based on our significantly lowered estimates yields a new price target of €2.20 (previously: €4.10). After the sharp share price decline in recent months, there is upside of more than 40% to our new price target. Therefore, despite the profit warning and the postponement of the growth phase by around one year, we confirm our Buy recommendation.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E	2031 E
Net sales	5,500	12,000	24,000	36,000	45,005	54,159	63,398	72,559
NOPLAT	-2,378	-552	801	1,796	2,302	2,900	3,523	4,169
+ depreciation & amortisation	122	107	115	338	496	585	670	754
Net operating cash flow	-2,255	-444	916	2,134	2,797	3,485	4,193	4,923
- total investments (CAPEX and WC)	1,063	902	-40	-481	-3,821	-3,912	-3,996	-4,028
Capital expenditures	-171	-612	-2,184	-1,836	-1,381	-1,454	-1,538	-1,616
Working capital	1,234	1,514	2,144	1,355	-2,441	-2,458	-2,458	-2,413
Free cash flows (FCF)	-1,192	457	875	1,653	-1,024	-427	197	895
PV of FCF's	-1,165	405	701	1,197	-671	-253	106	435

All figures in thousands	
PV of FCFs in explicit period (2024E-2037E)	4,931
PV of FCFs in terminal period	23,526
Enterprise value (EV)	28,456
+ Net cash / - net debt	-2,336
+ Investments / minority interests	0
Shareholder value	26,120
Diluted number of shares	11,825
Fair value per share in EUR	2.21

Terminal growth:	3.0%
Terminal EBIT margin:	10.0%

WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
7.5%	Cost of equity	4.42	4.70	5.03	5.44	5.95	6.61	7.49	
8.5%	Pre-tax cost of debt	3.34	3.51	3.70	3.94	4.21	4.55	4.98	
9.5%	Tax rate	2.56	2.66	2.79	2.93	3.09	3.28	3.51	
10.5%	After-tax cost of debt	1.97	2.04	2.12	2.21	2.31	2.43	2.56	
11.5%	Share of equity capital	1.53	1.57	1.62	1.68	1.75	1.82	1.90	
12.5%	Share of debt capital	1.18	1.21	1.24	1.28	1.32	1.37	1.42	
13.5%	Price target	0.90	0.92	0.94	0.97	1.00	1.03	1.06	

* for layout purposes the model shows numbers only to 2031, but runs until 2037



INCOME STATEMENT

All figures in EUR '000	2021A	2022A	2023A	2024E	2025E	2026E
Revenues	688	2,125	4,914	5,500	12,000	24,000
Changes in inventory	0	1,093	886	0	0	0
Own work	0	123	185	0	0	0
Total output	688	3,341	5,985	5,500	12,000	24,000
Cost of goods sold	498	1,794	2,803	4,400	8,400	16,320
Gross profit	190	1,547	3,183	1,100	3,600	7,680
Personnel costs	124	859	1,564	2,008	2,400	3,840
Other operating income	166	100	0	110	240	480
Other operating expenses	204	612	1,247	1,310	1,800	3,120
EBITDA	28	176	371	-2,108	-360	1,200
Depreciation and amortisation	3	46	42	240	159	155
Operating income (EBIT)	25	129	329	-2,348	-519	1,045
Net financial result	-5	-34	-152	-644	-296	-232
Pre-tax income (EBT)	20	96	177	-2,991	-815	813
Income taxes	9	28	51	30	33	244
Minority interests	0	0	0	0	0	0
Net income / loss	11	68	126	-3,021	-848	569
Diluted EPS (in €)	0.00	0.00	0.00	-0.28	-0.07	0.05

Ratios

Gross margin on total output	27.6%	46.3%	53.2%	20.0%	30.0%	32.0%
EBITDA margin on revenues	4.1%	8.3%	7.6%	-38.3%	-3.0%	5.0%
EBIT margin on revenues	3.7%	6.1%	6.7%	-42.7%	-4.3%	4.4%
Net margin on revenues	1.6%	3.2%	2.6%	-54.9%	-7.1%	2.4%
Tax rate	43.3%	29.2%	28.8%	-1.0%	-4.0%	30.0%

Expenses as % of revenues

Personnel costs	18.0%	40.4%	31.8%	36.5%	20.0%	16.0%
Depreciation and amortisation	0.4%	2.2%	0.9%	4.4%	1.3%	0.6%
Other operating expenses	29.7%	28.8%	25.4%	23.8%	15.0%	13.0%

Y-Y Growth

Revenues	n.a.	209.0%	131.2%	11.9%	118.2%	100.0%
Operating income	n.a.	412.4%	154.2%	n.m.	n.m.	n.m.
Net income/ loss	n.a.	502.1%	85.9%	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2021A	2022A	2023A	2024E	2025E	2026E
Assets						
Current assets, total	3,294	8,843	19,942	19,390	18,476	17,995
Cash and cash equivalents	0	3	60	251	413	1,056
Short-term investments	0	0	982	982	982	982
Receivables	19	372	711	1,130	1,973	3,288
Inventories	3,011	8,207	18,039	16,877	14,959	12,519
Other current assets	263	260	150	150	150	150
Non-current assets, total	180	330	1,044	1,093	1,597	3,666
Property, plant & equipment	180	299	483	527	1,022	3,069
Goodwill & other intangibles	0	32	35	39	49	70
Rights-of-use assets	0	0	476	476	476	476
Other assets	0	0	51	51	51	51
Total assets	3,474	9,173	20,986	20,482	20,073	21,661
Shareholders' equity & debt						
Current liabilities, total	3,443	7,595	6,741	8,544	8,982	10,001
Short-term debt	543	832	2,688	4,000	4,000	4,000
Accounts payable	1,701	6,537	2,523	3,014	3,452	4,471
Downpayments received	0	0	985	985	985	985
Current provisions	0	26	127	127	127	127
Other current liabilities	1,199	200	1,310	1,310	1,310	1,310
Long-term liabilities, total	0	400	7,839	7,839	7,839	7,839
Long-term debt	0	400	0	0	0	0
Leasing liabilities	0	0	377	377	377	377
Deferred revenue	0	0	0	0	0	0
Other liabilities	0	0	7,463	7,463	7,463	7,463
Minority interests	0	0	0	0	0	0
Shareholders' equity	31	1,178	6,406	4,099	3,252	3,821
Share capital	32	36	11,501	11,825	11,825	11,825
Capital reserve	0	1,142	-5,023	-4,633	-4,633	-4,633
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	0	0	-72	-3,093	-3,941	-3,372
Total consolidated equity and debt	3,474	9,173	20,986	20,482	20,073	21,661
Ratios						
Current ratio (x)	0.96	1.16	2.96	2.27	2.06	1.80
Quick ratio (x)	0.08	0.08	0.28	0.29	0.39	0.55
Net debt	543	1,229	2,023	3,144	2,982	2,339
Net gearing	1740.0%	104.3%	31.6%	76.7%	91.7%	61.2%
Equity ratio	0.9%	12.8%	30.5%	20.0%	16.2%	17.6%
Book value per share (in €)	n.m.	n.m.	n.m.	0.38	0.27	0.32
Return on equity (ROE)	36.1%	5.8%	2.0%	-73.7%	-26.1%	14.9%
Days of sales outstanding (DSO)	10	64	53	75	60	50
Days inventory outstanding	2,209	1,670	2,349	1,400	650	280
Days in payables (DIP)	1,248	1,330	329	250	150	100



CASH FLOW STATEMENT

All figures in EUR '000	2021A	2022A	2023A	2024E	2025E	2026E
EBIT	25	129	329	-2,348	-519	1,045
Depreciation and amortisation	3	46	42	122	107	115
EBITDA	28	176	371	-2,225	-412	1,160
Changes in working capital	0	0	-5,003	1,234	1,514	2,144
Other adjustments	-28	-62	-838	-674	-329	-476
Operating cash flow	0	114	-5,470	-1,665	773	2,827
Investments in PP&E	0	-165	-328	-165	-600	-2,160
Investments in intangibles	0	0	-6	-6	-12	-24
Free cash flow	0	-51	-5,803	-1,836	161	643
Acquisitions & disposals, net	0	0	0	0	0	0
Other investments	0	0	0	0	0	0
Investment cash flow	0	-165	-333	-171	-612	-2,184
Debt financing, net	0	54	600	1,312	0	0
Equity financing, net	0	0	4,552	715	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	0	48	0	0	0
Financing cash flow	0	54	5,200	2,027	0	0
FOREX & other effects	0	0	0	0	0	0
Net cash flows	0	3	-603	191	161	643
Cash, start of the year	0	0	3	60	251	413
Cash, end of the year	0	3	-600	251	413	1,056
EBITDA/share (in €)	n.m.	n.m.	n.m.	-0.20	-0.03	0.10
Y-Y Growth						
Operating cash flow	n.a.	n.a.	n.m.	n.m.	n.m.	265.5%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	298.4%
EBITDA/share	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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	22 February 2024	€3.04	Buy	€4.10
2...1	↓	↓	↓	↓
2	22 February 2024	€3.04	Buy	€4.10
3	20 June 2024	€2.70	Buy	€4.10
4	22 August 2024	€1.60	Buy	€4.10
5	Today	€1.49	Buy	€2.20

INVESTMENT HORIZON

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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/>

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