



Independent Research

Unabhängige Finanzmarktanalyse GmbH

Investment Research

AGO AG Energie + Anlagen



Market segment: Entry Standard
Sector: Renewable Energies

Update Q3 2007

12/10/2007

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AGO AG ENERGIE + ANLAGEN ⁴⁾

Buy

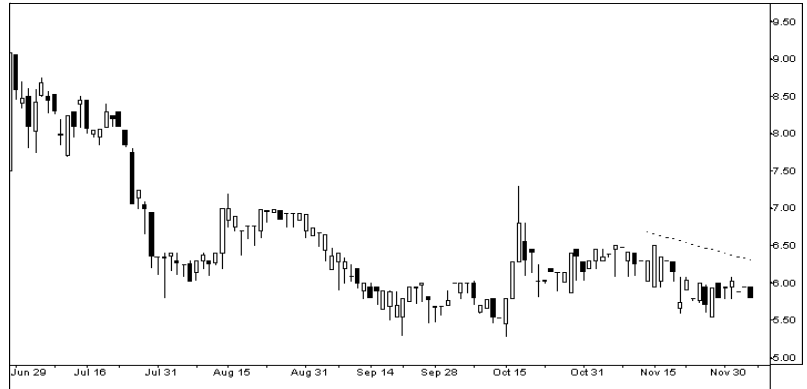
Before: Fair Value EUR8.94 per share

Event:

Update Q3 2007

Recommendation:

Buy



IR	3	2	3
Rating	Growth	Investor Relation	Consistency

Authors: Sven Diermeier (analyst)

- ⇒ **In 9M 2007, AGO harvested sales of EUR32.009m and profit after taxes of EURO.093m. The equity ratio was 27.0% as at September 30, 2007**
- ⇒ **AGO expands into Italy, where promotion of electricity generated from biomass is more attractive than in Germany. AGO is going to open up the Italian market with the help of a cooperation partner. In Germany, AGO ought to benefit from the EEWärmeG, which was adopted by the federal cabinet on December 5**
- ⇒ **We reaffirm our forecasts for 2007 as adjusted on November 21, 2007. However, we have revised our forecasts for 2008 and 2009 based on new information**
- ⇒ **We have evaluated the AGO share with the help of a three-phase DCF model, which leads to a price target of EUR7.40 (before: 7.80). Our recommendation is Buy**

AGO AG Energie + Anlagen		Renewable Energies		Performance (in %)					
Country	GE	Fiscal year	Dec. 31	Rel. 1 Month	-11.3				
Shares (m)	4.000	www.ago.ag		Rel. 3 Months	-14.1				
∅ Trading Volume	5,705	Last dividend (EUR)	-	Rel. 6 Months	-				
ISIN	DE000A0LR415	Payable day	-	Rel. 12 Months	-				
Curr. Price (Xetra)	5.80 EUR	Market cap. (EURm)	23.6	Beta	1.25				
	12/06/07 4:29 PM	Currency	EUR	Volatility (60 days)	51.3				
52W High	9.34	Date	06/28/07	Entry Standard Index	3.680%				
52W Low	5.30	Date	10/15/07						
Shareholders:	Caverion GmbH (59.3%); Management (5.1%), Free float (35.7%)								
Investments:	Biomasseheizwerke HoSoTherm GmbH (74.50%); Biomasseheizwerke Alperstedt GmbH (87.25%); Bioenergie + Wärme Ohrdruf GmbH (50.00%); AGO energia SpA (55.00%)								
FY	Sales	EBIT	EBT	EAT	EPS	PER	EV/Sales 07e:	2.7	
2006*	41.0	1.2	1.0	0.9	0.32	-	EV/EBIT 07e:	37.7	
2007e	42.6	1.1	0.8	0.5	0.14	40.6	Dividend yield 07e:	0.0%	
2008e	45.7	3.3	2.8	1.7	0.44	13.3	CAGR Sales 07e-09e:	13.2%	
2009e	54.6	5.1	4.3	2.7	0.67	8.6	CAGR EAT 07e-09e:	137.1%	
Figures in EUR m except EpS, hist. PERs based on averaged share prices								AS:	IFRS
* HGB									

¹⁾²⁾³⁾⁴⁾ Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

Company profile

Full service provider in the energy plant sector

Based in Kulmbach, AGO AG Energie + Anlagen ("AGO") develops, constructs and operates renewable energy plants. The company's target group includes industrial and municipal customers. In most cases, AGO acts as a contracting partner. The company's expertise ranges from customised facility construction based on cogeneration units to complex biomass cogeneration plants with power-heat coupling.

One of the key selling points of AGO, which is independent from any specific manufacturers, is the company's ability to act as a full service provider. AGO is able to offer all services ranging from project development to operation and maintenance of the energy supply facilities, which helps the customers to save noteworthy amounts of time and costs. The service portfolio provided by AGO is divided into three divisions: Project Development and Implementation, Operation, and Service & Consulting. The Operation division, which is still young, has the highest growth potential.

Operational development in Q3 2007

Q3 sees negative gross profit

AGO released its results for Q3 2007 on November 19. Since its going public, the company's reports comply with IFRS. Since the company's account for last year was based on HGB (Commercial Code) standards, and no quarterly business reports were published, there are no reference figures. In the reporting quarter (July through September 2007), AGO harvested sales to the amount of EUR10.862m, while the gross profit amounted to EUR-0.586m (gross profit margin: -5.4%). The gross profit was burdened by a short-term increase in prices of assembly and transportation capacities and the fact that suppliers which AGO had planned to use with certain projects were, for various reasons, not available anymore when AGO was awarded the respective orders. After adjusting for this negative effect, which amounted to roughly EUR1m, the gross profit margin more or less matched H1 2007 levels (+6.7%). EBIT ranged at the break-even point (EUR-0.007m). Here, AGO profited from other operating income to the amount of EUR1.192m. EBT reached EUR-0.052m, and net income amounted to EURO.005m.

In 9M 2007, net profit reaches EURO.061m

In 9M 2007, AGO turned over EUR32.009m. Production costs amounted to EUR31.180 so that the gross profit reached EURO.829m (gross profit margin: 2.6%). EBIT totalled EURO.517m, which corresponds to an EBIT margin of 1.6%. With a financial result of EUR-0.237m, EBT reached EURO.280m, and net income (after minority interests) amounted to EURO.061m.

Equity ratio was 27.0% on September 30, 2007

The balance sheet total rose slightly from EUR41.451m (June 30, 2007) to EUR43.946m (September 30, 2007). The equity ratio was 27.0% (September 30, 2007) after 27.6% (June 30, 2007).

Foreign expansion - AGO enters Italian market

AGO holds 55% stake in Italian subsidiary

Market to be opened up with cooperation partner

Conditions for promotion are more favourable in Italy than in Germany

On November 21, AGO announced that it formed AGO energia in Torino. Through this move, AGO expands into Italy. AGO will hold a 55% stake in AGO energia, while the remaining 45% is held by the investors Roberto Sacco and Paolo Gioia. The Italian subsidiary will be led by managing director by Roberto Sacco.

The objectives of the new company is the construction and operation of biomass cogeneration plants in Italy. The company concentrates on the market for trigeneration. AGO's target group includes companies from the food industry, in particular. AGO is going to provide its expertise for the production of absorption refrigerators and biomass heat (and power) plants. Sales are carried out within the framework of a cooperation with Pro Ambiente srl. Plaus. According to AGO, Pro Ambiente plans biomass heat (and power) plants and has established a broad sales structure in Italy over many years. AGO intends to realise one energy project of an investment volume of between EUR6m and 10m per year and expects to generate annual sales of EUR3m to 4m per project.

We are not surprised by AGO's announcement to expand into Italy, as the company has been sounding out the European foreign market for some time. We welcome the foreign expansion, especially into Italy. Government promotion of electricity generated from biomass is more attractive in Italy than it is in Germany, which is true of both the amounts granted and the conditions for promotion. In the future, up to 29.50 euro cents will be paid per kWh of electricity from biomass in Italy. In addition, Italian regulations do not include any restrictions concerning what kinds of biomass will be promoted. Therefore, the raw material basis is much broader in Italy than in Germany.

Our forecasts

Operation division will gain increasing influence on business development

Forecasts for 2008 and 2009 adjusted

In our opinion, the new Operation division will have a crucial influence on the company's operational development in the future. By entering the plant operation business, AGO expands its value added. We expect this to have two effects on the company's sales and profit development in the coming years. The operational development ought to stabilise. Thanks to the intended realisation and operation of three to four new projects (thereof one in Italy) per year, AGO will probably achieve a continuous increase in sales. Since the share in total sales accounted for by the higher-margin Operation division will increase more and more in the future, we expect profitability to increase on group level.

Since its going public, AGO has acquired orders for the construction and operation of two biomass heat (and power) plants in Gierstädt and Ohrdruf. Since the first sales from operation of the planned projects will be generated first after a start-up period of 12 to 15 months, we regard the fiscal years 2007 and 2008 as years of transition. We reaffirm our forecasts for the fiscal year, which were adjusted on November 21 (EPS 2007e: EURO.14). However, we have revised our forecasts for 2008e and 2009e on the profit side (cf. table on page 5) - especially due to changed assumptions for the financial results - with respect to the company's expansion into the Italian market, new information provided in the course of the November 22 conference call, and the SEQ conference taking place on December 4.

AGO AG Energie + Anlagen							
Forecast of selected key data of the consolidated income statement							
Unit : EURm		2007e	2007e *	2008e	2008e	2009e	2009e
Financial year : Dec. 31		before	new	before	new	before	new
Accounting Standard : IFRS							
Sales		42.60	42.60	45.70	45.70	54.59	54.59
year-over-year growth		-	-	7.3%	7.3%	19.5%	19.5%
EBIT		1.09	1.09	3.19	3.32	4.82	5.10
EBIT margin (in %)		2.6%	2.6%	7.0%	7.3%	8.8%	9.3%
EBT		1.29	0.78	3.75	2.80	5.62	4.31
EBT margin (in %)		3.0%	1.8%	8.2%	6.1%	10.3%	7.9%
Net income		0.84	0.48	2.44	1.75	3.65	2.69
Return on sales (in %)		2.0%	1.1%	5.3%	3.8%	6.7%	4.9%
Number of shares (m)		3.350	3.350	4.000	4.000	4.000	4.000
Earnings per share (in EUR)		0.25	0.14	0.61	0.44	0.91	0.67

Source: Independent Research; * adjusted on 11/21/07

Valuation

Valuation based on three-phase DCF model

We have only used the Discounted Cash Flow (DCF) model in our valuation of AGO. Given the limited comparability to publicly quoted companies, we feel that a peer group analysis would make no sense. In the course of our DCF model we have applied a three-phase valuation. Phase I accounts for our detailed forecasts for the profit and loss account until 2009e. For Phase II (2010e through 2016e) we predict a slowdown in sales growth and a slight decline of the EBIT margin. For Phase III (after 2016e) we presume that free cash flow (FCF) will not increase anymore.

WACC: 9.16% (before: 8.92%)

In order to determine the WACC, we presumed a risk-free interest rate of 4.50%. The risk premium is 8.00% for the company's capital and 3.50% for the outside capital. Furthermore, we estimate the Beta at 1.25. With respect to the long-term balance-sheet structure we assume a relation of 40% equity and 60% debt. Due to our changed forecasts, we have lowered our tax shield to 30.0% (before: 35.0%). These premises lead to a WACC of 9.16% (before: 8.92%). Based on the assumptions mentioned above, the company's capital has a market value of EUR29.8m. With 4.0m outstanding shares, this corresponds to a fair value of EUR7.44 (before: 7.85) per share.

Fair value: EUR7.44 (before: 7.85) per share

DCF model AGO AG Energie + Anlagen										
EURm	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Sales	42.6	45.7	54.6	62.8	69.7	76.0	81.3	85.3	87.9	89.2
year-over-year growth	0.0%	7.3%	19.5%	15.0%	11.0%	9.0%	7.0%	5.0%	3.0%	1.5%
EBIT margin	2.6%	7.3%	9.3%	9.1%	8.9%	8.7%	8.5%	8.3%	8.1%	8.0%
EBIT	1.1	3.3	5.1	5.7	6.2	6.6	6.9	7.1	7.1	7.1
- Income taxes	-0.3	-1.0	-1.5	-1.7	-1.9	-2.0	-2.1	-2.1	-2.1	-2.1
+ Depreciation	1.0	1.5	2.0	2.0	2.1	2.3	2.4	2.6	2.6	2.7
+/- Change in long term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating gross cash flow	1.8	3.8	5.6	6.0	6.5	6.9	7.3	7.5	7.6	7.7
-/+ Change in net working capital	-0.9	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.0
-/+ Net capital expenditure	-2.5	-2.6	-2.6	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Free cash flow	-1.5	0.3	2.0	2.7	3.1	3.5	3.9	4.2	4.3	4.4
Present values	-1.5	0.3	1.6	2.0	2.1	2.2	2.2	2.2	2.0	1.9
Sum of present values	15.1									
Terminal value	20.8									
Value of operating business	36.0									
+ Surplus liquid funds	5.3									
- Financial debt	-11.5									
Fair value of equity	29.8									
Number of shares (m)	4.000									
Fair value per share (in EUR)	7.44									

in % of total value : 58%

Model parameter / entity DCF model:					
Target capital structure ->	Equity :	40%	Debt :	60%	
Risk-free rate of return :	4.50%	Beta :	1.25	Risk premium debt :	3.50%
		Risk premium :	8.0%	Tax-shield :	30.0%
		Cost of equity :	14.5%	Cost of debt :	5.60%
Growth rate of FCF :	0.0%	WACC :	9.16%	Date :	12/07/07

Source: Independent Research

Sensitivity analysis (in EUR)					
		Discount rate			
		8.7%	9.2%	9.7%	10.2%
Growth	0.0%	8.26	7.44	6.84	6.30
	0.5%	8.50	7.77	7.12	6.54
	1.0%	8.93	8.14	7.44	6.81
	1.5%	9.43	8.56	7.79	7.12

Source: Independent Research

Conclusion

Sales growth and profitability enhancement expected

In our opinion, the strategy of concentrating more on the operation business will make it easier for the company to generate sales growth and enhance profitability. Today, AGO already is operator of the biomass heat (and power) plants of Kölldeda and Alperstedt. From a strategic point of view, we feel that the company's expansion into the Italian market is a reasonable move. Promotion of electricity generated from biomass is more attractive in Italy than in Germany. Furthermore, the company thus reduces its dependency on a single market (Germany). Since AGO cooperates with a business partner, the opening up of the market will be much easier than if the company would be on its own, in our view.

¹⁾²⁾³⁾⁴⁾ Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

German EEWärmeG stimulates business

The 14-point climate protection and energy programme adopted by the German federal cabinet on December 5, 2007 will probably have a positive effect on AGO's business development. This ought to result primarily from the EEWärmeG, as AGO predominately concentrates not on the electricity sector but on the heat sector. The EEWärmeG Act is meant to promote the heating of buildings by means of renewable energies. In the heat sector, renewable energies currently account for 6%; this share is to be raised to 14% by 2020. The EEWärmeG Act provides that new buildings must be heated under usage of renewable energies in the future.

Business model becomes more capital-intensive

The stronger concentration on the plant operation sector makes the company's business model more capital-intensive. Thus, AGO has to make sure that there is always enough capital for the realisation of this strategy. Further capital increases in order to finance the planned growth therefore cannot be ruled out. We do not expect AGO to pay any dividends in the medium term. For the time being, the cash flows will be required for financing of the business expansion.

Risks connected with raw material supply and promotion policy

We see a risk in the possible shortage in the supply of wood chips, the raw material used by AGO as fuel for its biomass heat (and power) plants. A shortage in supply would lead to an increase in prices. As a result, the relative price advantage of wood chips over fossil energy sources might decline or be lost completely. In addition, renewable energies cannot yet compete with the finite primary energy sources without any government promotion. Therefore, AGO is dependent on promotion policy. Furthermore, new financially strong competitors might enter the market, which would increase competition and affect AGO's sales and profit development.

AGO share has been under high pressure recently

Recently, the AGO share has been under considerable pressure. The subscription price of EUR7.00 was at the upper end of the bookbuilding range of EUR6.00-7.00. The initial quotation (June 28, 2007) was EUR7.50. The share reached its previous peak at EUR9.34 on the same day, then declined to EUR5.30 (October 15, 2007), and went on to settle down at around EUR6.00. In our opinion, the price setback is not due to AGO's operational development but rather to the general market sentiment, which has deteriorated owing to concerns about the economic situation triggered by the US subprime crisis, and profit warnings issued by several companies from the bioenergy/biogas sector. For example, the two biogas companies Schmack Biogas and Envitec Biogas have issued profit warnings in the past months. This has burdened the AGO share as well, even though AGO's business model is markedly different from those of these two companies.

Recommendation: Buy; price target: EUR7.40 (before: 7.80)

We have evaluated the AGO share with the help of a DCF model. We have calculated a WACC of 9.16% (before: 8.92%) and a fair value of EUR7.44 (before: 7.85) per share, from which we have derived a price target of EUR7.40 (before: 7.80) for the AGO share. Thus, the share has an upside price potential of approximately 28%. Therefore, we hold on to our Buy recommendation.

AGO AG Energie + Anlagen							
Income Statement							
Unit : Financial year : Accounting Standard :	EURm Dec. 31	2004 HGB	2005 HGB	2006 HGB	2007e IFRS	2008e IFRS	2009e IFRS
Sales		27.53	48.02	41.02	42.60	45.70	54.59
year-over-year growth		-	74.5%	-14.6%	3.9%	7.3%	19.5%
Cost of sales		25.88	44.01	37.94	40.90	41.35	48.26
in % of sales		94.0%	91.6%	92.5%	96.0%	90.5%	88.4%
Gross profit		1.65	4.01	3.08	1.70	4.35	6.33
gross margin (in %)		6.0%	8.4%	7.5%	4.0%	9.5%	11.6%
Research and development costs		0.00	0.04	0.05	0.07	0.05	0.06
in % of sales		0.0%	0.1%	0.1%	0.2%	0.1%	0.1%
Selling costs		1.36	1.35	1.59	1.74	1.67	1.88
in % of sales		4.9%	2.8%	3.9%	4.1%	3.6%	3.4%
General administrative costs		0.53	0.42	0.56	0.58	0.59	0.63
in % of sales		1.9%	0.9%	1.4%	1.4%	1.3%	1.2%
Other operating expenses		0.08	0.83	0.60	0.13	0.09	0.09
in % of sales		0.3%	1.7%	1.5%	0.3%	0.2%	0.2%
Other operating income		0.52	0.32	0.91	1.91	1.37	1.43
in % of sales		1.9%	0.7%	2.2%	4.5%	3.0%	2.6%
EBIT		0.20	1.68	1.20	1.09	3.32	5.10
EBIT margin (in %)		0.7%	3.5%	2.9%	2.6%	7.3%	9.3%
Other finance income		0.00	0.03	0.13	0.41	0.43	0.45
in % of sales		0.0%	0.1%	0.3%	1.0%	0.9%	0.8%
Other financial expense		0.12	0.12	0.30	0.71	0.94	1.23
in % of sales		0.4%	0.3%	0.7%	1.7%	2.1%	2.3%
Financial result		-0.12	-0.09	-0.17	-0.30	-0.52	-0.79
in % of sales		-0.4%	-0.2%	-0.4%	-0.7%	-1.1%	-1.4%
EBT		0.08	1.59	1.03	0.78	2.80	4.31
EBT margin (in %)		0.3%	3.3%	2.5%	1.8%	6.1%	7.9%
Taxes		0.04	0.88	0.17	0.29	0.98	1.51
tax rate (in %)		52.0%	55.5%	16.7%	36.4%	35.0%	34.9%
EAT		0.04	0.71	0.86	0.50	1.82	2.80
EAT margin (in %)		0.1%	1.5%	2.1%	1.2%	4.0%	5.1%
Minority interests		0.00	0.00	0.00	0.02	0.07	0.11
Net income		0.04	0.71	0.86	0.48	1.75	2.69
Return on sales (in %)		0.1%	1.5%	2.1%	1.1%	3.8%	4.9%
Number of shares (m)		-	-	2.700	3.350	4.000	4.000
Earnings per share (in EUR)		-	-	0.32	0.14	0.44	0.67

Source: Independent Research; AGO AG Energie + Anlagen

Disclaimer

Recommendation shares - Single Issuer -:

Buy:	According to our assessment, the stock should register an absolute profit of at least 15% within a 6-month period.
Accumulate:	According to our assessment, the stock should register an absolute profit between 0% and 15% within a 6-month period.
Reduce:	According to our assessment, the stock should register an absolute loss between 0% and 15% within a 6-month period.
Sell:	According to our assessment, the stock should register an absolute loss of at least 15% within a 6-month period.

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Key sources of information

Key sources of information used in the preparation of this document are publications in foreign and domestic media such as information services (e.g. Reuters, VWD, Bloomberg, DPA-AFX etc.), the financial press (e.g. Börsen-Zeitung, Handelsblatt, FAZ, FTD, Wall Street Journal, Financial Times etc.), specialised journals, published statistics, rating agencies and publications of the issuers analysed.

¹⁾²⁾³⁾⁴⁾ **Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document**

Summary of the evaluation principles used:

Analyses of shares:

In valuing companies standard and accepted valuation methods (amongst others the Discounted Cash Flow Method (DCF Method), Peer Group Analysis) are applied. Under the DCF Method the capitalised value of the issuers is calculated which shows the sum of the discounted company results, i.e. the current value of the issuer's future net distributions. The capitalised value is therefore determined with reference to the anticipated future company results and the capitalisation yield applied. Under the Peer Group Analysis Method issuers quoted on the Stock Exchange are valued with reference to the comparison of ratio indices (e.g. price earnings ratio, price to book ratio, enterprise value / sales, enterprise value / EBITDA, enterprise value / EBIT). The comparability of the ratio indices is determined above all by business activity and commercial prospects.

Technical analyses:

Technical analyses are based on historic share price and sales developments which are analysed by mathematical-statistical tools (chart techniques, indicator technology, the Elliott wave theory, sentiment observations as well as relative strength approaches) and on forecasts of future developments.

Sensitivity of the evaluation parameters:

The figures taken from the statement of income, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks. These may change at any time without prior notice.

Regardless of the evaluation method applied, there exists a very real risk that the price target may not be reached in the anticipated period of time. These risks include unforeseen changes in competitive pressure or in the demand for the issuer's products. Such fluctuations in demand may arise as a result of changes of a technological nature, the overall level of economic activity or in some cases as a result of changes in moral standards. Changes in tax law, in currency exchange rates and, in certain industries, in regulations are further factors which can influence evaluations. This discussion of evaluation methods and risk factors makes no claim to be exhaustive.

Timing conditions of planned updates:

Analyses of shares:

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As of: - 12/10/2007 -

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