

June 1st, 2023
Research update

SMC Research

Small and Mid Cap Research



Platz 1
Europe
Industrials
(2018)



Platz 2
German
Software & IT
(2018)



Platz 1
German
Software & IT
(2017)

Mehrfacher Gewinner
der renommierten
Refinitiv Analyst Awards

3U Holding AG

Good start to the year
and ambitious goals

Rating: Buy (unchanged) | **Price:** 2.84 € | **Price target:** 3.30 € (prev.: 3.00 € (ex-div.))

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Current development



Basic data

Based in:	Marburg
Sector:	Investments
Headcount:	126
Accounting:	IFRS
ISIN:	DE0005167902
Ticker:	UUU:GR
Price:	2.84 Euro
Market segment:	Prime Standard
Number of shares:	36.7 m
Market Cap:	104.2 m Euro
Enterprise Value:	55.7 m Euro
Free Float:	74.0 %
Price high/low (12M):	5.86 / 2.08 Euro
Ø turnover (Xetra,12M):	348,500 Euro / day

Record dividend paid

As expected, the Annual General Meeting on 15 May approved the proposal for a record dividend of EUR 3.20 per share, which was paid on 18 May. Since then, the share has been quoted ex-dividend, which, as can be seen in the adjacent chart, has caused a significant downward shift in the price.

SHAC sales target of EUR 100 m

The Management Board also used the Annual General Meeting to explain the further plans and prospects. The company has particular expectations for the SHAC segment and is aiming to triple its sales to around EUR 100 m over the next three to four years. An important contribution to this is to be made by expanding the range of products in the field of heat generation, and here in particular the new, patent-pending concept of an innovative heating system, which will be marketed under the name ThermCube. The industrial pre-assembly of the heat pump and the associated hydraulics and electrics is intended to reduce the installation time on site by up to 80 percent and also enable installation by non-professionals. Acquisitions are also an important component of Selfio's growth plans. In this regard, 3U said at the AGM that

FY ends: 31.12.	2020	2021	2022	2023e	2024e	2025e
Sales (m Euro)	61.1	55.9	62.7	59.1	63.4	74.6
EBIT (m Euro)	5.9	6.8	161.1	2.6	1.2	5.3
Net Profit	3.3	2.9	159.0	3.0	1.5	2.9
EPS	0.09	0.08	4.33	0.08	0.04	0.08
Dividend per share	0.05	0.05	3.20	0.10	0.10	0.09
Sales growth	18.7%	-8.4%	12.0%	-5.6%	7.1%	17.8%
Profit growth	-20.2%	-10.7%	5350.4%	-98.1%	-48.7%	87.9%
PSR	1.71	1.86	1.66	1.76	1.65	1.40
PER	31.9	35.7	0.7	34.6	67.4	35.9
PCR	21.8	-	6.3	15.1	19.2	12.0
EV / EBIT	9.4	8.2	0.3	21.9	44.8	10.5
Dividend yield	1.6%	1.6%	112.7%	3.5%	3.4%	3.3%

it is already in promising talks with attractive target companies and mentions the expansion of its regional presence as a possible focus.

Generation capacity could be quadrupled

3U is pursuing no less ambitious plans for the Renewable Energies segment, where the focus of growth is on repowering existing wind farms and completing wind farm projects that have been dormant for several years. If these projects are successfully realised, the segment's generation capacity could nearly quadruple from the current 53 MW to up to 200 MW in the next four to six years.

Moderate revenue growth in Q1

In the run-up to the AGM, 3U already presented its report on the first quarter in which it stated moderate sales growth of 2.5 percent to EUR 13.3 m (continued operations, excluding weclapp in the previous year). The Renewable Energies segment showed the strongest momentum, with sales up by 5 percent to EUR 2.5 m despite weaker wind availability compared to the previous year. This was made possible by the higher prices, although an even better result was prevented by the outage of a turbine for several weeks. The SHAC segment grew by almost 3 percent (to EUR 7.8 m), which means that 3U was able to successfully decouple itself from the negative development of German online trade. The company explains this, among other things, with the strong demand in the area of heat generation. Moreover, it also refers to the prices that are partly falling again, which is why the sales figures even understate the dynamics of the volume growth. In contrast, the revenue of the ITC segment remained stable at EUR 3.1 m, because the volume growth in Voice Business and the increasing contribution of the activities in Data Centre & Managed Services were offset by the decline in Voice Retail as well as by the network fees reduced as planned by the network agency. Since the latter effect only reduced a transitory item, the actual dynamics of the segment are more correctly reflected by the development of the gross profit, which improved by 5 percent to EUR 1.8 m.

Business figures	Q1 21	Q1 22	Change
Sales	12.95	13.27	+2.5%
ITC	3.11	3.12	+0.2%
Renewable Energies	2.42	2.55	+5.4%
SHAC	7.55	7.75	+2.7%
EBITDA	3.63	1.86	-48.7%
ITC	0.85	0.93	+9.1%
Renewable Energies	2.02	1.90	-5.6%
SHAC	-0.17	-0.13	-
<i>EBITDA margin</i>	<i>28.0%</i>	<i>14.0%</i>	
ITC	27.2%	29.7%	
Renewable Energies	83.5%	74.7%	
SHAC	-2.3%	-1.7%	
EBIT	2.79	1.01	-63.8%
ITC	0.73	0.82	+11.3%
Renewable Energies	1.53	1.39	-8.8%
SHAC	-0.35	-0.31	-
<i>EBIT margin</i>	<i>21.6%</i>	<i>7.6%</i>	
Pre-tax result	2.72	1.78	-34.6%
<i>Pre-tax margin</i>	<i>21.0%</i>	<i>13.4%</i>	
Net profit	1.55	1.41	-9.5%
<i>Net margin</i>	<i>12.0%</i>	<i>10.6%</i>	
Free cash flow	1.81	-4.14	-

m Euro and percent, source: Company

Group EBITDA down by half

3U was able to translate the growth in gross profit in the ITC segment into an improvement in segment EBITDA of 9 percent to EUR 0.9 m, bringing the margin here to 29.7 percent. Another improvement in results, albeit at a different level, was achieved in the SHAC division, whose EBITDA loss was reduced from EUR -0.2 to -0.1 m. In contrast, the earnings contribution of the Renewable Energies segment fell by 6 percent to EUR 1.9 m due to the repair costs of a wind turbine. After consolidation and taking into account the holding costs, EBITDA of EUR 1.9 m was generated in the first quarter, almost 50 percent less than a year earlier. The difference is explained by the high contribution of the InnoHubs project in the

previous year (EUR 5.5 m), which was not matched by corresponding income in the reporting period.

High positive interest result

After depreciation, which increased only moderately to just under EUR 0.9 m, an EBIT of EUR 1.0 m remained, 64 percent below the previous year. At the level of pre-tax result, however, the decrease was limited to 35 percent because 3U generated high interest income on the very high liquidity (EUR 189.7 m at the turn of the year), which led to a financial result of EUR +0.8 m (previous year: EUR -0.1 m). Moreover, since income taxes and minority interests (which had been pushed up in the previous year by the joint venture partner's share in the InnoHubs project) also fell disproportionately, the net profit for the first quarter of EUR 1.4 m was only marginally below the level of the previous year (EUR 1.6 m).

Short-term lending

Since the InnoHubs real estate project had a significant impact on the cash flow statement in the previous year, its sale also resulted in significant changes here. Thus, the investment cash flow improved from EUR -5.9 m to EUR +0.3 m, while the financing cash flow, which was still shaped by borrowing for the real estate project at the beginning of 2022 (EUR +7.5 m), has now decreased to EUR +0.2 m. On the other hand, there was a significant cash outflow of EUR -4.4 m (previous year: EUR +7.7 m) in operating cash flow, the main cause of which, however, was not of an operational nature: 3U has granted short-term loans to several employees and board members to help them pay income taxes on the stock options exercised. These loans have contributed decisively to the increase in current other assets by EUR 3.6 m and are all already due in the second quarter.

Very high net liquidity and equity ratio

As a result, liquidity fell slightly from EUR 189.7 m to EUR 185.8 m in the first three months, but this still represented 76 percent of the almost unchanged balance sheet total of EUR 244.8 m. Thanks to the quarterly profit, equity increased slightly to EUR 213.8 m, equivalent to an equity ratio of 87.4 percent.

In the meantime, both positions will have reduced considerably because 3U, as mentioned at the beginning, paid out the record dividend of EUR 117 m on 18 May.

Forecast confirmed

For the current year, 3U is still aiming for revenue growth of between EUR 55 m and EUR 60 m for continued operations, which corresponds to organic growth of between 9 and 19 percent compared to 2022. On this basis, EBITDA is expected to be in the range of EUR 6.0 to 8.0 m and net income between EUR 2.5 and 3.5 m. The fact that the group's profit will be below the – continued – comparative figure from 2022 is due to the absence of income from the property development business, which contributed EUR 6.4 m to the result last year through the sale of the InnoHubs project.

Estimates unchanged

Compared to 3U's target of increasing sales in the SHAC segment to around EUR 100 m in the medium term, our estimate in this respect seems very cautious, as it is only EUR 52 m for 2026. However, it should be borne in mind that our estimates do not include any inorganic effects. And in organic terms, the growth rates of 20 to 10 percent we have assumed certainly fit into the pattern of the past years. Should the business with the new ThermCube product fulfil the expectations, the development could certainly gain significant momentum, but we would like to wait for the first market response. Our estimates also do not yet take into account the repowering potential outside Langendorf and the growth opportunities that could arise from the realisation of the four wind farm projects. In this respect, we see our estimate as a conservative forward projection of the organic development of the current portfolio, which we believe should represent a baseline scenario of future performance. This is all the more so as this estimate does not include any value contribution from the parent company's activities, which have repeatedly contributed significantly to the Group's profit in the past. However, we consider it more appropriate not to take such potentials into account speculatively, but to include them in the model only when the degree of concretisation is suffi-

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	59.1	63.4	74.6	84.6	90.5	97.8	105.9	114.9
Sales growth		7.1%	17.8%	13.4%	7.0%	8.0%	8.3%	8.5%
EBIT margin	4.3%	2.0%	7.1%	12.1%	12.5%	13.2%	13.8%	15.6%
EBIT	2.6	1.2	5.3	10.3	11.3	12.9	14.6	17.9
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	0.8	0.4	1.6	3.1	3.4	3.9	4.4	5.4
NOPAT	1.8	0.9	3.7	7.2	7.9	9.0	10.3	12.5
+ Depreciation & Amortisation	3.1	3.2	5.2	5.2	5.3	5.4	5.5	4.5
+ Increase long-term accruals	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating Cash Flows	5.2	4.3	9.2	12.7	13.5	14.7	16.0	17.3
- Increase Net Working Capital	-0.5	-0.6	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0
- Investments in fixed assets	-2.0	-41.5	-11.1	-1.3	-1.4	-1.5	-1.6	-1.7
Free Cash Flows	2.7	-37.7	-2.6	10.7	11.4	12.3	13.5	14.6

SMC estimation model

cient. Until then, we see them as additional upside potential.

Steady sales growth and increasing profitability

Specifically, as before, we expect consolidated sales of EUR 59.1 m, EBITDA of EUR 6.6 m, EBIT of EUR 2.6 m and net profit of EUR 3.0 m for 2023. The assumptions for the following years have also remained unchanged. With an average – organic – revenue growth of 10 percent (CAGR), the target revenue of our estimates is EUR 115 m, while for the EBIT margin we assume an increase from 4.3 percent in the current year to 15.6 percent in 2030. The table above shows the overall model business development resulting from our assumptions for the years 2023 to 2030; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex.

Frame parameters unchanged

We have also left the basic data of the model unchanged. The cost of equity is calculated according to CAPM on the basis of a safe interest rate of 2.5 percent, a market risk premium of 5.8 percent and a beta

factor of 1.1 and amounts to 8.9 percent. The assumed interest rate on borrowed capital is 5.0 percent, which, in conjunction with a debt ratio on the target capital structure of 30 percent and a tax rate for the tax shield of 30.0 percent, results in a total cost of capital (WACC) of 7.3 percent. The basic parameters for determining the terminal value, which continues to be based on EBIT at the end of the detailed forecast period less a safety margin of 25 percent and on a “perpetual” cash flow growth rate of 1.0 percent, have also remained unchanged.

New price target: EUR 3.30

Based on these assumptions, the model yields a fair value of equity of EUR 243.7 m or EUR 3.29 per share, from which we derive the new price target of EUR 3.30 (previously: EUR 3.00 ex-dividend; a sensitivity analysis for determining the price target can be found in the Annex). The slight rise results from the increase in non-operating assets that we made on the basis of the Q1 financial statements. Finally, the assessment of the forecast risk of our estimates remains unchanged, and we continue to rate it as slightly above average, as reflected in the award of four points (on a scale of 1 (low) to 6 (high)).

Conclusion

With the resolution and payment of the record dividend, 3U has drawn a line under the very successful year 2022. At the same time, the management used the Annual General Meeting to explain its future plans and the potential of the current portfolio.

The company has particularly high expectations for the new ThermCube concept, an industrially prefabricated system consisting of a heat pump and the necessary hydraulic and electrical installation. Industrial assembly and production save a large part of the assembly time that would otherwise be required on site, thus addressing two of the central obstacles of the politically pushed transition of the German heat generation sector, namely the high costs and the heavy strain on the scarce capacities of craftsmen. In addition, 3U presented its plans for the expansion of power generation capacities and reported advanced acquisition talks.

The successful implementation of all these plans would enable 3U to grow significantly faster than we assume. Nevertheless, we have not changed our estimates, which reflect the organic development of the current portfolio, because the projects' level of concretisation is still too low for explicit consideration in our model. It includes therefore only the repowering project in Langendorf, which is already planned and in the approval process, but not yet any further repowering projects, wind farm projects or acquisitions.

On this conservative basis, we see the fair value at EUR 3.30 per share (our ex-dividend price target was previously EUR 3.00) and confirm our previous "Buy" rating.

Annex I: SWOT analysis

Strengths

- The 3U Group has been profitable since 2016, and revenue has grown organically every year since 2017.
- With the weclapp sale, a major engagement was concluded with a very high profit far above market expectations.
- This was a continuation of the long series of successfully completed investments.
- Last year was closed with a very high profit of EUR 159 m.
- With the conclusion of attractive PPAs, the Renewable Energies segment is also very soundly positioned for the future.
- After the weclapp sale, 3U has an excellent balance sheet with very high net liquidity.

Opportunities

- Selfio should continue to benefit from the trend towards e-commerce, and the ITC activities are also targeting an attractive market.
- Growth is also to be accelerated through acquisitions, for which a very large capital cushion is now available, despite the high payout.
- With the new ThermCube product, 3U has an innovative solution for some key obstacles of the desired transition of the heat generation sector and could benefit significantly from it.
- The repowering of the wind farms promises further earnings potential.
- After the end of the Brandenburg moratorium on wind turbines, 3U's project portfolio could – at least in part – be successfully developed further after all.

Weaknesses

- Margins in the e-commerce segment are very low, and despite the progress made, the SHAC segment's EBIT is still negative.
- The share of repeat purchases is still very low at Selfio due to the business model.
- Adverse weather conditions can reduce earnings in the Renewable Energies segment, whose importance for the group figures has increased following the sale of weclapp.
- Except for one wind farm, all projects to expand capacity in the Renewable Energies segment are still in an early planning phase.
- The telephony business, still the largest part of the ITC segment, is weak in growth.

Threats

- Efforts to improve Selfio's profitability could fail given the intense price competition in e-commerce.
- The weak performance of online trade and the SHAC market could further dampen Selfio's momentum.
- Expectations for the ThermCube business may be missed.
- The planned strong growth in Managed Services could fall short of expectations.
- The levy on above-average electricity revenue could continue for a longer period.
- Experience shows that the planned acquisition course entails risks such as the misjudgement of a target or integration problems.
- The high pressure to reinvest could further increase the risks of acquisitions.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current assets	34.1	32.1	69.5	74.6	69.8	64.9	60.2	55.4	51.7
1. Intangible assets	2.3	2.1	1.8	1.7	1.5	1.4	1.3	1.2	1.1
2. Tangible assets	31.0	29.2	66.9	72.1	67.4	62.7	58.1	53.4	49.8
II. Total current assets	209.5	98.3	104.4	99.9	105.5	109.1	112.6	116.1	119.1
LIABILITIES									
I. Equity	211.2	98.7	96.7	96.1	99.0	100.0	101.3	102.8	105.3
II. Accruals	2.0	2.3	2.5	2.8	3.1	3.3	3.6	3.9	4.2
III. Liabilities									
1. Long-term liabilities	18.5	17.3	58.5	59.1	56.4	53.5	50.3	46.8	42.9
2. Short-term liabilities	11.9	12.1	16.1	16.5	16.8	17.2	17.6	18.0	18.5
TOTAL	243.6	130.4	173.9	174.5	175.3	174.0	172.8	171.4	170.8

P&L estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	62.7	59.1	63.4	74.6	84.6	90.5	97.8	105.9	114.9
Gross profit	30.9	22.2	22.6	30.1	36.5	39.2	42.5	46.3	50.7
EBITDA	165.6	6.6	5.3	11.4	16.4	17.5	19.1	21.0	23.2
EBIT	161.1	2.6	1.2	5.3	10.3	11.3	12.9	14.6	17.9
EBT	161.0	4.5	2.4	4.4	9.2	10.5	12.2	14.2	17.7
EAT (before minorities)	159.4	3.2	1.7	3.1	6.4	7.3	8.6	9.9	12.4
EAT	159.0	3.0	1.5	2.9	6.3	7.2	8.4	9.8	12.2
EPS	4.33	0.08	0.04	0.08	0.17	0.20	0.23	0.27	0.33

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
CF operating	16.5	6.9	5.4	8.7	12.0	13.0	14.2	15.7	17.0
CF from investments	147.8	-2.0	-41.5	-11.1	-1.3	-1.4	-1.5	-1.6	-1.7
CF financing	12.6	-116.8	41.3	-3.0	-6.3	-9.2	-10.5	-12.0	-13.7
Liquidity beginning of year	12.7	189.7	77.8	83.1	77.6	82.2	84.5	86.8	88.9
Liquidity end of year	189.7	77.8	83.1	77.6	82.2	84.5	86.8	88.9	90.5

Key figures

Percent	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	12.0%	-5.6%	7.1%	17.8%	13.4%	7.0%	8.0%	8.3%	8.5%
Gross margin	49.4%	37.5%	35.7%	40.3%	43.2%	43.3%	43.5%	43.8%	44.1%
EBITDA margin	264.3%	11.1%	8.3%	15.2%	19.4%	19.4%	19.6%	19.9%	20.2%
EBIT margin	257.1%	4.3%	2.0%	7.1%	12.1%	12.5%	13.2%	13.8%	15.6%
EBT margin	256.9%	7.6%	3.8%	5.8%	10.8%	11.6%	12.5%	13.4%	15.4%
Net margin (after minorities)	253.8%	5.1%	2.4%	3.9%	7.4%	7.9%	8.6%	9.3%	10.6%

Annex IV: Sensitivity analysis

WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
6.3%	4.69	4.30	3.98	3.72	3.51
6.8%	4.16	3.86	3.61	3.40	3.22
7.3%	3.73	3.49	3.29	3.12	2.97
7.8%	3.38	3.19	3.02	2.87	2.75
8.3%	3.09	2.93	2.79	2.67	2.56

Disclaimer

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Charts

The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 01.06.2023 at 7:48 and published on 01.06.2023 at 8:20.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 per-cent. We assess the estimation risk as below average (1 to 2 points).
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The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:

<http://www.smc-research.com/impressum/modellerlaeuterungen>

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: <http://www.smc-research.com/publikationsuebersicht>

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Price target	Conflict of interests
02.05.2023	Buy	6.20 Euro / 3.00* Euro	1), 3)
15.03.2023	Buy	5.70 Euro	1), 3)
02.03.2023	Buy	5.50 Euro	1), 3), 4)
15.11.2022	Buy	5.60 Euro	1), 3), 4)
12.09.2022	Buy	5.50 Euro	1), 3), 4)
18.08.2022	Buy	3.60 Euro	1), 3), 4)
16.05.2022	Buy	3.70 Euro	1), 3)
13.04.2022	Buy	3.70 Euro	1), 3), 4)
17.11.2021	Hold	4.40 Euro	1), 3), 4)
31.08.2021	Buy	3.80 Euro	1), 3), 4)

*ex dividend

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report, one update and two comments.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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