

ParTec AG

Germany / Technology
 Frankfurt
 Bloomberg: JY0 GR
 ISIN: DE000A3E5A34

Update

RATING
BUY

PRICE TARGET
€ 170.00

Return Potential 113.8%
 Risk Rating High

BIG YEAR AHEAD

H1 results exceeded our estimates, with sales 15% above FBe at €10.7m, as revenues from Mare Nostrum V and Jupiter materialized earlier than anticipated (FBe: €9.3m). Stronger sales and a much stronger gross margin than modelled, led to positive EBIT of €3.6m (FBe: €-7.6m). A tax refund on the receivables written down in 2023 brought ParTec's net income to €5.7m. We expect 2024 to be tail-loaded, with H2 accounting for 86% of total sales. At its AGM on 6 August, ParTec announced a change in its strategy to focus on constructing and operating large AI machines. ParTec plans to act both as an EPC contractor, selling AI machines to private public partnerships, and as an AI Machine operator, constructing AI Machines and selling the computing hours. The company has since signed a memorandum of understanding with the Helmholtz-Zentrum Dresden-Rossendorf for the construction of a large AI supercomputer named ELBJUWEL, to be built and operated by ParTec. We expect a firm contract by the end of the year. We think there is ample demand for large AI machines, which means ELBJUWEL should be the first of a series of large AI machines. The reduction in short-term revenue estimates (2024E-2025E) driven by this strategic shift is compensated by widening gross profit and EBITDA margins from 2026E onwards. We remain buy-rated with an unchanged €170 price target.

Strategic shift towards AI Machines At its AGM, held on 6 August 2024, ParTec announced, as we describe in greater detail overleaf, that it is changing its structure to focus on the construction and operation of large AI Machines. Previously, ParTec's goal was to tender for 1-2 large vendor projects per year, while constructing small AI Machines to sell to industry. Based on discussions with parties such as the Helmholtz-Zentrum Dresden Rossendorf (HZDR), with which ParTec signed a memorandum of understanding (MOU) on 22 October 2024, the company realized that there is extensive demand for large AI Machines. These large supercomputers will be similar in scale to the ... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2022	2023	2024E	2025E	2026E	2027E
Revenue (€m)	36.1	95.7	76.1	424.2	627.8	753.4
Y-o-y growth	n.a.	165.1%	-20.4%	457.2%	48.0%	20.0%
EBIT (€m)	17.3	-13.3	95.2	64.5	97.0	167.3
EBIT margin	47.9%	-13.9%	125.1%	15.2%	15.5%	22.2%
Net income (€m)	11.2	-17.4	77.5	42.7	61.3	114.2
EPS (diluted) (€)	1.40	-2.18	9.69	3.88	5.58	10.38
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	8.1	19.1	-22.0	-433.1	131.1	200.4
Net gearing	36.2%	135.9%	23.0%	57.6%	18.1%	-23.2%
Liquid assets (€m)	0.2	15.3	13.0	26.9	196.9	233.3

RISKS

Risks include but are not limited to, a strong dependence on key persons that helped shape the company and ongoing and future patent litigation.

COMPANY PROFILE

ParTec AG is a global leader in the development and manufacture of modular supercomputers and the high performance computing software that accompanies it. The company went public in July of 2023 with a direct listing on the Frankfurt stock exchange and had 72 employees as of 30 June 2024.

MARKET DATA

As of 21 Nov 2024

Closing Price	€ 79.50
Shares outstanding	8.00m
Market Capitalisation	€ 636.00m
52-week Range	€ 6.95 / 180.00
Avg. Volume (12 Months)	684

Multiples	2023	2024E	2025E
P/E	n.a.	11.5	20.9
EV/Sales	11.5	14.4	2.6
EV/EBIT	n.a.	11.5	17.0
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2024

Liquid Assets	€ 15.31m
Current Assets	€ 78.39m
Intangible Assets	€ 2.91m
Total Assets	€ 81.99m
Current Liabilities	€ 69.74m
Shareholders' Equity	€ 1.93m

SHAREHOLDERS

BF Tec Holding GmbH	60.5%
HSC Beteiligungs GmbH	15.6%
R. Falter	5.0%
Prof. Dr. Tichy	5.0%
Free Float	13.9%

... previously planned Vendor projects, with the main differences being the floating point (FP) precision for which they are optimized, and the customers they are sold to. Vendor projects are primarily funded with grants, subsidies and public money. These projects involve tender offers, large amounts of paperwork, potential payment delays and little to no negotiating power for the parties bidding for the contracts. The planned large AI machines such as the ELBJUWEL, which is to be constructed for the HZDR, are instead funded by public private partnerships (PPP). Here, ParTec is able to negotiate more favourable terms, with up-front licensing payments and the ability for ParTec to tailor the project to the needs of the customer.

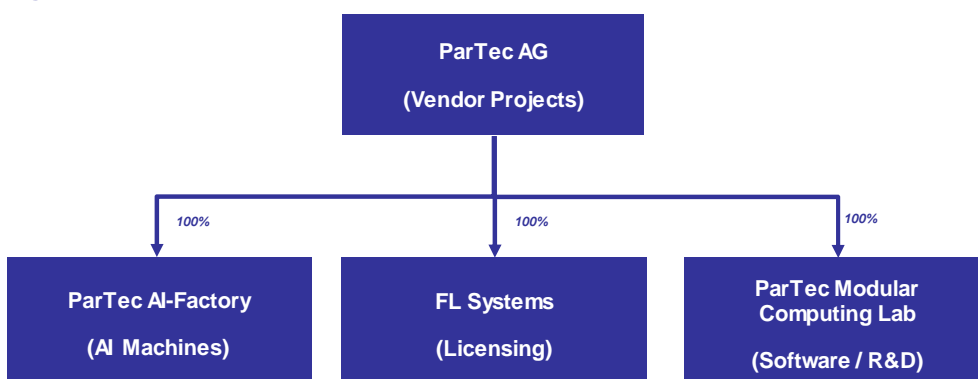
ELBJUWEL supercomputer ParTec and the HZDR signed an MOU on 22 October regarding the joint construction and operation of an AI-focused supercomputer named ELBJUWEL. Once constructed, ParTec will sell access to AI supercomputing in the form of “GPU-hours”. We expect the HZDR to receive a fixed percentage of the available GPU-hours in return for an equity contribution at the project level. This new business segment of selling Infrastructure as a Service (IaaS) will be comparable to cloud supercomputing providers such as Microsoft Azure or Amazon Web Services. Due to the interplay between ParTec’s ParaStation Modulo software and the patented dynamic modular system architecture (dMSA), ParTec is able to provide GPU-hours at a price substantially below that offered by Azure, while maintaining very attractive EBITDA margins over 80%. Additionally, the data involved in calculations using GPU-hours purchased from ParTec remain on site at the HZDR, instead of being stored in Microsoft’s servers. We estimate that ELBJUWEL should be operational in H2/26, building the basis of ParTec’s IaaS segment.

We assume that ownership of ELBJUWEL will split 51/49 between ParTec and HZDR respectively. To finance the ca. €440m in CapEx required to construct the machine, we model a roughly 60/40 split between equity and debt. We assume that ParTec will raise ca. €250m in new equity, possibly in tandem with an upgrade from the Scale segment of the market to Prime Standard.

Change in company structure After indicating a strategic shift away from vendor projects, ParTec’s management made two key announcements at the AGM on 6 August 2024:

1. The company announced plans to create two new subsidiaries to draw clear distinctions between the business segments. ParTec AI-Factory (AI Machines) and ParTec Modular Computing Lab (Software/R&D) (see figure 1 below) were registered on 30 September 2024 and are both 100% owned by ParTec AG;
2. The company announced that Hugo Falter, previously Chief Operating Officer and co-CEO, will be stepping down from his management roles and will be joining the supervisory board.

Figure 1: ParTec’s new corporate structure



Source: ParTec AG, First Berlin Equity Research



Patent infringement lawsuit filed against NVIDIA On 28 October 2024, ParTec filed a patent infringement lawsuit against NVIDIA at the Unified Patent Court (UPC) in Munich. This is ParTec's second patent infringement suit, following the lawsuit filed against Microsoft Corporation on 10 June 2024. The lawsuit seeks an injunction requiring NVIDIA to refrain from distributing essential products of its GPU product portfolio in patent-protected countries in Europe. In addition, ParTec seeks information regarding the sales activities carried out to date and damages caused. So far, ParTec has been using NVIDIA's GPU's in the construction of its supercomputers. Because ParTec's supercomputer solutions are hardware-agnostic, the company does not rely on delivery of NVIDIA GPU's to construct AI machines. ParTec can instead use any of the other currently available GPU's to construct its supercomputers.

H1 results above our estimates Sales for H1/24, which split ~50/50 between Mare Nostrum V and Jupiter, came in 15% above our estimates at €10.7m (FBe: €9.3m). While this represents an 80% decrease with respect to H1/23 (€54.4m), this reduction is in line with our expectations. The majority of ParTec's revenue is generated in its vendor segment, in which payments are made based on the achievement of milestones. As most of the milestones are set for the second half of the year, we expect H2/24 will be much stronger, bringing full year revenues to €76.1m. EBIT at €3.5m came in above our estimates (FBe: €-7.5m), primarily because cost of goods sold was much lower than modelled at €0.3m (FBe: €7.4m). Net income of €5.7m was above our estimate, as €-3.1m in income taxes and €8.4m in other taxes delivered a €5.4m positive net contribution to the bottom line. The €8.4m in 'other taxes' are comprised of refunds on corporate taxes and VAT paid on the €27.7m trade receivables, which were written-down in 2023.

Figure 2: Comparison First Berlin estimates vs H1 results

All figures in €m	H1/24A	H1/24E	Delta	2023A
Sales	10.7	9.3	14.5%	105.2
EBIT	3.5	-7.6	n.a.	-13.31
margin	32.4%	-81.9%	-	-12.7%
Net income	5.7	-10.2	n.a.	-17.45
margin	53.2%	-109.5%	-	-16.6%
EPS (diluted)	0.71	-1.28	n.a.	n.m.

Source: First Berlin Equity Research estimates

Forecasts revised For 2024E we expect delays in revenues related to the Jupiter supercomputer. This is the reason for the reduction in our 2024E sales forecast (see figure 3 overleaf). Due to the €94m effect of consolidating the value of the "ParaStation Modulo" software into the newly created subsidiary "ParTec Modular Computing Lab", our 2024E EBITDA margin forecast is 126%. Adjusted for this one-off effect, we expect 2024E AEBITDA to come in at €2m. We expect the shift away from Vendor projects to similarly sized AI Machines to result in a reduction in near-term revenues. We have reduced our vendor segment forecasts to reflect this strategic shift. Besides ELBJUWEL, which as mentioned above, we assume will be 51% owned by ParTec, we expect a contract to be signed in the near future, for the construction of a second large AI machine. We expect this machine will be sold entirely to a PPP. Because there is little revenue visibility until a contract, an MOU or an LOI is signed, we assume construction will begin in H2/25. As we have reduced vendor project sales for 2024E and all subsequent years, and revenues from the second AI supercomputer project are split over 2025E and 2026E, 2025E revenues are now lower than previously modelled. If, as we expect, the contract for the construction of ELBJUWEL is signed by end 2024, the supercomputer should be operational by H2/26. Operating the ELBJUWEL with the HZDR will lay the foundation for ParTec's IaaS segment, which has an EBITDA margin in excess of 80%.



This explains our modelled 11 percentage point EBITDA margin increase for 2026E. The reduction in short-term revenues is compensated by a long-term widening of both the gross profit and EBITDA margin.

Figure 3: Changes to our forecasts 2024E-2026E

All figures in €m	2024E			2025E			2026E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	202	76	-62%	527	424	-20%	589	628	7%
EBITDA	22	96	336%	97	74	-23%	120	195	63%
margin	11%	126%	-	18%	18%	-	20%	31%	+11 pp
Adjusted EBITDA*	22	2	-93%	97	74	-23%	120	195	63%
margin	11%	2%	-9 pp	18%	18%	-	20%	31%	+11 pp
Net income	15	78	429%	73	43	-42%	92	61	-33%
margin	7%	102%	n.m.	14%	10%	-4 pp	16%	10%	-6 pp

*AEITDA is adjusted for the one-off €94m consolidation of ParaStation Modulo

Source: First Berlin Equity Research estimates

ELBJUWEL to improve liquidity position We also expect the signing of the ELBJUWEL contract to trigger a series of upfront payments, totalling a low single digit €m sum. These upfront payments should improve ParTec's liquidity position, which at H1/24 amounted to €0.3m, excluding credit lines from the major shareholders. These credit lines amount to approximately €8m.



VALUATION MODEL

We remain Buy-rated on ParTec with an unchanged price target of €170 We believe that the strategic shift towards constructing and selling, or constructing and operating large selling AI Machines is promising for three main reasons: (1) ParTec currently has no real competition in the AI Machine segment; (2) Selling GPU-hours through the IaaS segment will give ParTec recurring revenues; and (3) the shift in product mix is expected to increase ParTec's long-term gross profit margin to above 45% (previously: 30%). Our Buy recommendation and €170 price target are both unchanged.

Figure 4: DCF model

DCF valuation model								
All figures in EUR '000	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net sales	76,135	424,222	627,849	753,418	858,947	961,151	1,060,505	1,156,475
NOPLAT	81,529	51,695	78,691	127,449	198,414	242,546	283,140	321,102
+ depreciation & amortisation	342	9,779	97,617	97,854	76,624	61,917	50,589	40,905
Net operating cash flow	81,871	61,475	176,308	225,303	275,038	304,463	333,728	362,007
- total investments (CAPEX and WC)	-6,435	-486,198	-28,423	-11,642	-11,271	-11,114	-10,322	-9,469
Capital expenditures	-5,300	-440,000	-1,078	0	0	0	0	0
Working capital	-1,135	-46,198	-27,346	-11,642	-11,271	-11,114	-10,322	-9,469
Free cash flows (FCF)	75,436	-424,724	147,885	213,661	263,767	293,349	323,406	352,537
PV of FCF's	74,408	-367,900	112,494	142,730	154,681	151,073	146,262	140,014

All figures in thousands

PV of FCFs in explicit period (2024E-2037E)	1,305,611
PV of FCFs in terminal period	773,100
Enterprise value (EV)	2,078,712
+ Pro forma net cash / - net debt	-206,938
+ Investments / minority interests	0
Shareholder value	1,871,774
Diluted number of shares	11,000
Fair value per share in EUR	170.16

Terminal growth:	3.0%
Terminal EBIT margin:	39.8%

WACC	13.9%
Cost of equity	15.8%
Pre-tax cost of debt	8.0%
Tax rate	23.0%
After-tax cost of debt	6.2%
Share of equity capital	80.0%
Share of debt capital	20.0%
Price target	170.00

WACC	Terminal growth rate						
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
10.9%	249.19	256.44	264.56	273.71	284.10	296.00	309.77
11.9%	213.52	218.75	224.55	231.00	238.22	246.36	255.60
12.9%	184.56	188.42	192.66	197.32	202.49	208.23	214.66
13.9%	160.67	163.57	166.72	170.00	173.94	178.09	182.69
14.9%	140.67	142.88	145.26	147.85	150.66	153.73	157.10
15.9%	123.74	125.44	127.27	129.24	131.37	133.68	136.19
16.9%	109.26	110.58	112.00	113.52	115.16	116.92	118.82

* for layout purposes the model shows numbers only to 2031, but runs until 2038



INCOME STATEMENT

All figures in EUR '000	2022A	2023A	2024E	2025E	2026E
Revenues	36,093	95,685	76,135	424,222	627,849
Changes in inventories	3,474	9,511	0	0	0
Cost of goods sold	16,192	76,257	58,624	301,198	370,431
Gross profit	23,374	28,939	17,511	123,024	257,418
Personnel costs	3,111	5,269	8,755	19,090	25,114
Other operating income	145	1,306	94,407	4,242	6,278
Other operating expenses	2,822	37,998	7,613	33,938	43,949
EBITDA	17,586	-13,021	95,549	74,239	194,633
Depreciation and amortisation	288	292	342	9,779	97,617
Operating income (EBIT)	17,298	-13,313	95,207	64,460	97,016
Net financial result	-372	-3,341	-4,022	-8,963	-17,343
Pre-tax income (EBT)	16,927	-16,654	91,185	55,497	79,673
Income taxes	5,728	793	13,678	12,764	18,325
Minority interests	0	0	0	0	0
Net income / loss	11,198	-17,447	77,507	42,733	61,349
Diluted EPS (in €)	1.40	-2.18	9.69	3.88	5.58

Ratios

Gross margin	55.1%	20.3%	23.0%	29.0%	41.0%
EBITDA margin on revenues	48.7%	-13.6%	125.5%	17.5%	31.0%
EBIT margin on revenues	47.9%	-13.9%	125.1%	15.2%	15.5%
Net margin on revenues	31.0%	-18.2%	101.8%	10.1%	9.8%
Tax rate	33.8%	-4.8%	15.0%	23.0%	23.0%

Expenses as % of revenues

Personnel costs	8.6%	5.5%	11.5%	4.5%	4.0%
Depreciation and amortisation	0.8%	0.3%	0.4%	2.3%	15.5%
Other operating expenses	7.8%	39.7%	10.0%	8.0%	7.0%

Y-Y Growth

Revenues	n.a.	165.1%	-20.4%	457.2%	48.0%
Operating income	n.a.	n.m.	n.m.	-32.3%	50.5%
Net income/ loss	n.a.	n.m.	n.m.	-44.9%	43.6%



BALANCE SHEET

All figures in EUR '000	2022A	2023A	2024E	2025E	2026E
Assets					
Current assets, total	71,624	74,431	70,950	149,410	350,123
Cash and cash equivalents	158	15,308	13,042	22,404	192,443
Receivables	62,680	23,882	20,859	58,113	77,406
Inventories	6,348	15,859	17,667	49,512	60,893
Other current assets	2,438	19,381	19,381	19,381	19,381
Non-current assets, total	3,374	3,614	102,572	540,978	452,571
Property, plant & equipment	42	104	5,365	444,292	356,556
Goodwill & other intangibles	3,293	3,038	96,735	88,028	79,226
Other assets	39	472	472	8,657	16,790
Total assets	74,999	78,044	173,522	690,388	802,694
Shareholders' equity & debt					
Current liabilities, total	29,346	31,716	42,986	76,948	273,214
Short-term debt	2,252	6,380	20,000	31,062	224,000
Accounts payable	20,351	24,835	22,486	45,386	48,714
Shareholder loans	6,743	500	500	500	500
Long-term liabilities, total	25,712	50,075	56,775	258,445	113,137
Long-term debt	5,131	3,838	10,000	202,938	48,938
Other liabilities	20,581	46,237	46,775	55,508	64,200
Minority interests	0	0	0	0	0
Shareholders' equity	19,941	-3,746	73,761	354,994	416,343
Share capital	8,000	8,000	8,000	11,000	11,000
Capital reserve	800	800	800	236,300	236,300
Loss carryforward / retained earnings	11,141	-12,546	64,961	107,694	169,043
Total consolidated equity and debt	74,999	78,044	173,522	690,388	802,694
Ratios					
Current ratio (x)	2.44	2.35	1.65	1.94	1.28
Quick ratio (x)	2.22	1.85	1.24	1.30	1.06
Net debt	7,225	-5,090	16,958	211,596	80,495
Net gearing	36.2%	135.9%	23.0%	59.6%	19.3%
Equity ratio	26.6%	-4.8%	42.5%	51.4%	51.9%
Book value per share (in €)	2.49	n.m.	9.22	32.27	37.85
Return on equity (ROE)	56.2%	n.m.	105.1%	12.0%	14.7%
Days of sales outstanding (DSO)	633.9	91.1	100.0	50.0	45.0
Days inventory outstanding	143.1	75.9	110.0	60.0	60.0
Days payables outstanding (DPO)	458.7	118.9	140.0	55.0	48.0



CASH FLOW STATEMENT

All figures in EUR '000	2022A	2023A	2024E	2025E	2026E
EBIT	17,298	-13,313	95,207	64,460	97,016
Depreciation and amortisation	288	292	342	9,779	97,617
EBITDA	17,586	-13,021	95,549	74,239	194,633
Changes in working capital	-25,594	34,838	-1,135	-46,198	-27,346
Other adjustments	16,122	-2,630	-111,162	-21,179	-35,109
Operating cash flow	8,114	19,187	-16,748	6,862	132,178
Investments in PP&E	-30	-98	-5,300	-440,000	-1,078
Free cash flow	8,084	19,089	-22,048	-433,138	131,101
Other investments	0	-131	0	0	0
Investment cash flow	-30	-229	-5,300	-440,000	-1,078
Debt financing, net	1,821	3,607	19,782	204,000	38,938
Equity financing, net	0	0	0	243,000	0
Dividends paid	-10,000	-6,240	0	0	0
Other financing	0	-382	0	0	0
Financing cash flow	-8,179	-3,015	19,782	447,000	38,938
Net cash flows	-95	15,943	-2,266	13,862	170,038
Cash, start of the year	-2,150	-2,096	15,308	13,042	26,904
Cash, end of the year	-2,245	13,847	13,042	26,904	196,943
EBITDA/share (in €)	2.20	-1.63	11.94	6.75	17.69
Y-Y Growth					
Operating cash flow	n.a.	136.5%	n.m.	n.m.	1826.2%
Free cash flow	n.a.	136.1%	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	-43.5%	162.2%

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INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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	26 March 2024	€119.00	Buy	€220.00
...	↓	↓	↓	↓
2	11 July 2024	€64.50	Buy	€170.00
3	Today	€79.50	Buy	€170.00

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.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

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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