

SFC Energy AG

Germany / Energy
 Primary exchange: Frankfurt
 Bloomberg: F3C GR
 ISIN: DE0007568578

Profit warning

RATING
REDUCE

PRICE TARGET
€2.20

Return Potential -11.3%
 Risk Rating High

LARGE DEFENCE PROJECT DELAY CAUSES PROFIT WARNING

SFC has issued a profit warning as a large German defence project will not be realised in 2016 as planned. SFC is now guiding towards 2016 revenues of €40-42m (previously: €48-50m) with correspondingly negative implications for profitability and liquidity. We have reduced our forecasts. An updated DCF model yields a new price target of €2.20 (previously: €4.70). We downgrade the stock from Buy to Reduce.

Delay in large German defence project Minor technical issues have resulted in the delay of the order into next year. Although SFC is confident it can quickly remedy the problems, process and subsequent testing will probably take a few months.

Oil & gas business remains weak The low oil price has reduced SFC's clients' investment budgets. Demand for SFC's Oil & Gas segment products remains weak.

Guidance adjusted SFC has lowered its sales guidance to €40-42m (previously: €48-50m). This has correspondingly negative implications for profitability and liquidity.

Forecasts reduced We have lowered our 2016E revenue forecast to €41.6m from €48.3m. We expected revenues of €45m from the defence project. The absence of this high margin project from the 2016 numbers causes us to reduce our group gross margin forecast from 35% to 32%. Our EBIT estimate is now €-5.4m (previously: €-1.8m) and the net loss forecast amounts to €-6.1m (previously: €-2.4m).

Further financing round expected At the end of H1, the cash position (excluding cash with limitation on disposal) was €1.4m. In Q3, SFC received proceeds of €1.5m from a capital increase raising the pro forma... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	32.41	53.63	47.31	41.62	49.95	57.34
Y-o-y growth	3.7%	65.5%	-11.8%	-12.0%	20.0%	14.8%
EBIT (€m)	-8.84	-4.27	-10.64	-5.40	-2.22	0.17
EBIT margin	-27.3%	-8.0%	-22.5%	-13.0%	-4.4%	0.3%
Net income (€m)	-8.91	-4.83	-10.67	-6.10	-3.16	-0.55
EPS (diluted) (€)	-1.16	-0.60	-1.24	-0.65	-0.35	-0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.98	-4.19	-3.21	-5.09	-3.51	-1.42
Net gearing	-10.3%	-4.9%	3.0%	34.2%	86.5%	74.6%
Liquid assets (€m)	7.43	6.41	3.71	5.61	1.89	1.75

RISKS

The main risks are financing, internationalisation, unfavourable EUR/CAD exchange rate changes, technological innovations, and increasing competition.

COMPANY PROFILE

SFC Energy AG is a leading provider of integrated power solutions for mobile and stationary off-grid applications. The company is a pioneer in developing and commercialising fuel cells which provide reliable, efficient, and clean power for its energy solutions. Main markets are oil & gas, security & industry, and leisure. SFC is headquartered near Munich in Germany.

MARKET DATA

As of 05 Oct 2016

Closing Price	€ 2.48
Shares outstanding	9.05m
Market Capitalisation	€ 22.43m
52-week Range	€ 2.40 / 5.16
Avg. Volume (12 Months)	3,593

Multiples	2015	2016E	2017E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.5	0.6	0.5
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 1.74m
Current Assets	€ 19.27m
Intangible Assets	€ 12.56m
Total Assets	€ 33.88m
Current Liabilities	€ 12.13m
Shareholders' Equity	€ 13.89m

SHAREHOLDERS

HPE	24.5%
DWS	9.2%
Havensight	8.9%
Other	17.6%
Free Float	39.8%



...cash position to €2.9m. In H1, free cash flow amounted to €-3.9m, and we expect negative free cash flow of €1.2m in H2. For 2017, we expect negative free cash flow of €3.5m. We have therefore pencilled in a €4m debt financing round in Q4/16.

Rating downgraded to Reduce – price target lowered to €2.20 An updated DCF model which incorporates our lowered estimates and increased WACC of 14.2% (previously: 11.1%) yields a new price target of €2.20 (previously: €4.70). We downgrade the stock to Reduce (previously: Buy).

Figure 1: Revisions to forecasts

All figures in €m	2016E			2017E			2018E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	48.25	41.62	-13.7%	57.90	49.95	-13.7%	66.46	57.34	-13.7%
EBIT	-1.83	-5.40	-	0.12	-2.22	-	2.06	0.17	-91.6%
<i>margin</i>	-3.8%	-13.0%	-	0.2%	-4.4%	-	3.1%	0.3%	-
Net income	-2.36	-6.10	-	-0.33	-3.16	-	1.52	-0.55	-
<i>margin</i>	-4.9%	-14.7%	-	-0.6%	-6.3%	-	2.3%	-1.0%	-
EPS (diluted)	-0.23	-0.65	-	-0.04	-0.35	-	0.16	-0.06	-

Source: First Berlin Equity Research



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	41,624	49,949	57,341	65,197	73,495	82,134	90,989	99,914
NOPLAT	-5,400	-2,218	172	2,174	3,606	4,446	5,237	5,972
+ depreciation & amortisation	1,825	710	436	469	509	555	605	660
Net operating cash flow	-3,575	-1,508	608	2,643	4,115	5,001	5,842	6,632
- total investments (CAPEX and WC)	-811	-1,068	-1,306	-1,959	-2,338	-2,494	-2,629	-2,737
Capital expenditures	-541	-649	-688	-782	-875	-971	-1,067	-1,163
Working capital	-269	-419	-617	-1,176	-1,463	-1,523	-1,562	-1,574
Free cash flows (FCF)	-4,385	-2,576	-697	684	1,777	2,507	3,213	3,895
PV of FCF's	-4,241	-2,182	-517	445	1,011	1,250	1,404	1,490

All figures in thousands	
PV of FCFs in explicit period (2016E-2030E)	9,214
PV of FCFs in terminal period	12,588
Enterprise value (EV)	21,802
+ Net cash / - net debt	-1,899
+ Investments / minority interests	0
Shareholder value	19,902

Fair value per share in EUR	2.20
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WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	15.8%	10.2%	4.56	4.69	4.83	5.00	5.19	5.42	5.68
Pre-tax cost of debt	7.0%	11.2%	3.70	3.79	3.89	4.00	4.12	4.26	4.42
Tax rate	30.0%	12.2%	3.03	3.09	3.16	3.23	3.31	3.40	3.50
After-tax cost of debt	4.9%	13.2%	2.50	2.54	2.58	2.63	2.68	2.74	2.81
Share of equity capital	85.0%	14.2%	2.06	2.09	2.12	2.15	2.19	2.23	2.27
Share of debt capital	15.0%	15.2%	1.70	1.72	1.74	1.76	1.79	1.82	1.85
		16.2%	1.40	1.41	1.43	1.44	1.46	1.48	1.50
Fair value per share in EUR	2.20	17.2%	1.14	1.15	1.17	1.18	1.19	1.20	1.22

* for layout purposes the model shows numbers only to 2023, but runs until 2030



INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
Revenues	31,260	32,413	53,631	47,310	41,624	49,949	57,341
Cost of goods sold	18,497	21,773	37,970	34,083	28,304	32,716	37,559
Gross profit	12,763	10,640	15,661	13,227	13,320	17,232	19,783
S&M	5,862	8,233	10,540	12,499	9,820	10,200	10,321
G&A	3,555	3,860	4,872	5,806	5,000	5,220	5,275
R&D	4,257	6,149	4,530	5,546	3,900	4,030	4,014
Other operating income	749	1,041	170	142	125	150	172
Other operating expenses	362	2,275	159	161	125	150	172
Operating income (EBIT)	-524	-8,836	-4,269	-10,645	-5,400	-2,218	172
Net financial result	80	-128	-298	-315	-765	-970	-749
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-4,567	-10,959	-6,165	-3,188	-577
Income taxes	-19	-52	259	-290	-62	-32	-23
Minority interests	0	0	0	0	0	0	0
Net income / loss	-426	-8,912	-4,826	-10,669	-6,104	-3,156	-554
Diluted EPS (in €)	-0.06	-1.16	-0.60	-1.24	-0.65	-0.35	-0.06
EBITDA	730	-4,474	-1,177	-4,651	-3,575	-1,508	608
Ratios							
Gross margin	40.8%	32.8%	29.2%	28.0%	32.0%	34.5%	34.5%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-22.5%	-13.0%	-4.4%	0.3%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	-9.8%	-8.6%	-3.0%	1.1%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-22.6%	-14.7%	-6.3%	-1.0%
Tax rate	4.3%	0.6%	-5.7%	2.6%	1.0%	1.0%	4.0%
Expenses as % of revenues							
S&M	18.8%	25.4%	19.7%	26.4%	23.6%	20.4%	18.0%
G&A	11.4%	11.9%	9.1%	12.3%	12.0%	10.5%	9.2%
R&D	13.6%	19.0%	8.4%	11.7%	9.4%	8.1%	7.0%
Other operating expenses	1.2%	7.0%	0.3%	0.3%	0.3%	0.3%	0.3%
Y-Y Growth							
Revenues	n.a.	3.7%	65.5%	-11.8%	-12.0%	20.0%	14.8%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
Assets							
Current assets, total	33,598	25,934	27,542	21,154	22,029	19,305	20,747
Cash and cash equivalents	22,911	7,428	6,407	3,712	5,609	1,895	1,750
Short-term investments	0	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	7,490	7,184	8,621	10,211
Inventories	5,815	7,713	7,653	8,782	8,065	7,619	7,615
Other current assets	1,118	1,426	711	742	742	742	742
Non-current assets, total	14,020	21,715	19,714	14,736	13,451	13,391	13,643
Property, plant & equipment	2,400	2,296	1,601	1,390	1,222	1,328	1,463
Goodwill & other intangibles	11,000	19,054	17,813	12,768	11,651	11,485	11,601
Other assets	619	365	300	578	578	578	578
Total assets	47,617	47,650	47,256	35,889	35,480	32,696	34,390
Shareholders' equity & debt							
Current liabilities, total	7,662	12,669	13,371	13,041	17,235	16,978	15,576
Short-term debt	372	2,139	2,013	2,014	7,500	6,671	4,300
Accounts payable	3,033	5,087	6,872	7,263	5,971	6,543	7,512
Current provisions	999	802	686	667	667	667	667
Other current liabilities	3,258	4,641	3,800	3,097	3,097	3,097	3,097
Long-term liabilities, total	3,562	5,918	6,296	6,291	6,291	6,920	8,920
Long-term debt	0	2,282	3,045	2,203	2,203	2,832	4,832
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	3,562	3,636	3,251	4,088	4,088	4,088	4,088
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	36,394	29,063	27,589	16,558	11,954	8,798	9,894
Share capital	7,503	8,020	8,611	8,611	9,047	9,047	9,318
Capital reserve	67,879	69,570	71,955	72,017	73,081	73,081	74,460
Other reserves	0	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0	0
Loss carryforward / retained earnings	-38,951	-47,863	-52,689	-63,358	-69,462	-72,618	-73,172
Total consolidated equity and debt	47,617	47,650	47,256	35,889	35,480	32,696	34,390
Ratios							
Current ratio (x)	4.39	2.05	2.06	1.62	1.28	1.14	1.33
Quick ratio (x)	3.63	1.44	1.49	0.95	0.81	0.69	0.84
Net cash	22,539	3,007	1,349	-505	-4,094	-7,608	-7,381
Net gearing	-61.9%	-10.3%	-4.9%	3.0%	34.2%	86.5%	0.0%
Book value per share (€)	4.85	3.79	3.44	1.92	1.36	0.97	1.06
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-64.4%	-51.1%	-35.9%	-5.6%
Days of sales outstanding (DSO)	43.2	104.3	86.9	57.8	63.0	63.0	65.0
Days of inventory turnover	114.7	129.3	73.6	94.0	104.0	85.0	74.0
Days in payables (DIP)	59.9	85.3	66.1	77.8	77.0	73.0	73.0



CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
EBIT	-524	-8,836	-4,269	-10,645	-5,400	-2,218	172
Depreciation and amortisation	1,255	4,362	3,093	5,994	1,825	710	436
EBITDA	730	-4,474	-1,177	-4,651	-3,575	-1,508	608
Changes in working capital	85	-2,188	-2,015	3,216	-269	-419	-617
Other adjustments	443	-649	-361	-429	-704	-938	-726
Operating cash flow	1,258	-7,311	-3,553	-1,864	-4,548	-2,865	-735
CAPEX	-561	-345	-181	-294	-250	-350	-401
Investments in intangibles	-318	-327	-452	-1,055	-291	-300	-287
Free cash flow	380	-7,984	-4,186	-3,213	-5,089	-3,515	-1,423
Debt financing, net	-388	-1,469	826	699	5,486	-200	-371
Equity financing, net	0	0	3,263	0	1,500	0	1,650
Other changes in cash	191	-6,029	-923	-332	0	0	0
Net cash flows	183	-15,482	-1,020	-2,845	1,897	-3,715	-144
Cash, start of the year	0	22,911	7,143	6,407	3,712	5,609	1,895
Cash, end of the year	183	7,428	6,123	3,562	5,609	1,895	1,750
EBITDA/share (in €)	0.10	-0.58	-0.15	-0.54	-0.41	-0.17	0.07
Y-Y Growth							
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 June 2014	€4.84	Buy	€7.40
2...14	↓	↓	↓	↓
15	17 May 2016	€3.80	Buy	€5.10
16	5 August 2016	€3.70	Buy	€4.80
17	17 August 2016	€3.65	Buy	€4.70
18	Today	€2.48	Reduce	€2.20

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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- 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: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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