

SFC Energy AG

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

Loan & option bond
 placed

RATING
PRICE TARGET **REDUCE**
€2.30
 Return Potential -13.6%
 Risk Rating High

FINANCING EASES STRETCHED LIQUIDITY SITUATION

On 18 October, SFC Energy raised €2m by placing a loan and an option bond with a private investor and lender in Singapore. This eases the stretched liquidity situation of the company and is a clear and encouraging sign that SFC is capable of raising funds in a difficult situation. An updated DCF model yields a new price target of €2.30 (previously: €2.20). We reiterate our Reduce rating.

Gross proceeds of €2m The combination of loan and option bond has generated gross proceeds of €2m. At the end of H1, the cash position was €1.4m. The capital increase in August (€1.5m) and the current capital raise increase the pro-forma cash position to ca. €4.9m. H1 free cash flow was negative and amounted to €-3.9m. For H2, we expect negative free cash flow of €-1.2m and for 2017E €-3.5m. We expect that SFC will attempt to raise further funds of ca. €2m to pull the company onto a more solid financial footing. The option bond has a nominal value of €2,500, i.e. almost nothing, and matures in 2021. The attached option grants the right to acquire 161,427 SFC shares at €2.4779 per share.

Volkswagen uses SFC's largest fuel cell Volkswagen uses SFC's most powerful fuel cell, the EFOY Pro 12000 Duo, for mobile event monitoring systems on board its Amarok Pickup. The truck is a pilot for future utility vehicles and is already in operation. The fuel cell will reliably power on-board systems for up to six days without any user intervention. Compared to generators, the fuel cell triples the autonomy time, which was the decisive argument for VW.

Partnership agreement with FC TecNrgy Pvt Ltd for Indian defence and industry markets FC TecNrgy will market and sell SFC's defence and industry portfolio of off-grid power sources to the Indian defence, homeland security, and oil & gas markets. As Indian defence and homeland security forces often operate in remote and off-grid locations, reliable power supply is very important. (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 19 Oct 2016

Closing Price	€ 2.66
Shares outstanding	9.05m
Market Capitalisation	€ 24.09m
52-week Range	€ 2.33 / 5.16
Avg. Volume (12 Months)	3,932

Multiples	2015	2016E	2017E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.6	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%



SFC's fuel cells reliably operate in a wide temperature range and are thus very suitable for India's different climate regions which include extremely high mountain regions (altitudes of up to 16,500 feet with very low temperatures). The Indian oil & gas industry, which needs power for the safe operation and surveillance of wells, pipelines, and production sites at remote locations, is also a likely source of demand.

Reduce reiterated at slightly higher price target An updated DCF model, which takes the reduced company risk following the improved liquidity situation, and the additional number of shares from the option bond into account, yields a new price target of €2.30 (previously: €2.20). We reiterate our Reduce rating.



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	2,196	3,622	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	2,665	4,131	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	706	1,793	2,507	3,213	3,895
PV of FCF's	-4,274	-2,205	-524	466	1,039	1,277	1,437	1,530

All figures in thousands	
PV of FCFs in explicit period (2016E-2030E)	9,697
PV of FCFs in terminal period	13,536
Enterprise value (EV)	23,233
+ Net cash / - net debt	-1,899
+ Investments / minority interests	0
Shareholder value	21,334

Fair value per share in EUR 2.30

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
9.9%	4.83	4.98	5.15	5.34	5.56	5.82	6.13	
10.9%	3.92	4.02	4.13	4.25	4.39	4.55	4.73	
11.9%	3.21	3.27	3.35	3.43	3.52	3.62	3.73	
12.9%	2.64	2.68	2.73	2.79	2.85	2.91	2.99	
13.9%	2.18	2.21	2.24	2.28	2.32	2.37	2.42	
14.9%	1.80	1.82	1.84	1.87	1.90	1.93	1.96	
15.9%	1.48	1.50	1.51	1.53	1.55	1.57	1.60	
16.9%	1.22	1.23	1.24	1.25	1.27	1.28	1.30	

* 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...15	↓	↓	↓	↓
16	5 August 2016	€3.70	Buy	€4.80
17	17 August 2016	€3.65	Buy	€4.70
18	6 October 2016	€2.48	Reduce	€2.20
19	Today	€2.66	Reduce	€2.30

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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/>

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