

SFC Energy AG

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

Q3 figures

RATING
PRICE TARGET **REDUCE**
€2.30
 Return Potential -3.4%
 Risk Rating High

FIRST SIGNS OF RECOVERY IN THE OIL & GAS BUSINESS

On 8 November, SFC Energy reported Q3 figures and held a conference call. Q3 figures were slightly ahead of our forecasts due to a stronger than expected oil & gas business. SFC reiterated its 2016 revenue guidance of €40-42m and expects an operating loss at the previous year's level. We reiterate our Reduce rating and the €2.30 price target.

Q3 figures slightly above forecasts Q3 revenues declined almost 9% y/y to €10.6m due to a weak security & industry business. Despite the decline, group revenues were higher than our forecast (FBe: €9.8m) due to stronger revenue generation in the oil & gas business. Gross profit fell to €2.9m (FBe: €3.1m) from €3.6m in Q3/15. The gross margin fell to 27.0% vs. 30.8% in Q3/15. The lower gross margin is mainly attributable to a lower gross margin in the Security & Industry segment which in Q3/15 benefited from the delivery of Emily fuel cells to the German Army. EBIT remained flat y/y at €-1.5m (FBe: -€1.7m) as SFC managed to offset the lower gross profit with lower sales costs (€2.2m vs. €2.7m in Q3/15) and lower G&A costs (€1.1m vs. €1.2m). Higher interest expenses resulted in a slightly increased net loss of €-1.6m (Q3/15: €-1.5m). Diluted EPS amounted to €-0.16 vs. €-0.18 in Q3/16 (see figure2 on page 3).

Revenue guidance reiterated SFC maintains its €40-42m revenue guidance and expects an operating loss at the previous year's level. In 2015, EBIT amounted to €-10.7m, but underlying EBIT – adjusted for one-off costs – was €-4.4m. We continue to forecast an operating loss of €5.4m, which implies Q4 EBIT of ca. €-1.0m. Due to the delay of the large German defence project, management did not rule out write-downs on inventory in Q4, which could increase the 2016 operating loss.

Balance sheet remains stretched At the end of Q3, unrestricted liquid funds amounted to just €0.8m. The assumption of a €2.0m loan in October (see our report of 20 October 2016), however, eased the tight liquidity situation.

(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	-5.19	-3.42	-1.42
Net gearing	-10.3%	-4.9%	3.0%	35.1%	86.5%	109.5%
Liquid assets (€m)	7.43	6.41	3.71	5.51	1.90	1.10

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 08 Nov 2016

Closing Price	€ 2.38
Shares outstanding	9.05m
Market Capitalisation	€ 21.54m
52-week Range	€ 2.33 / 5.16
Avg. Volume (12 Months)	4,196

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 Sep 2016

Liquid Assets	€ 0.77m
Current Assets	€ 18.70m
Intangible Assets	€ 11.98m
Total Assets	€ 32.61m
Current Liabilities	€ 11.58m
Shareholders' Equity	€ 13.69m

SHAREHOLDERS

HPE	26.5%
DWS	8.8%
Havensight	8.5%
Other	16.7%
Free Float	39.5%



At the end of Q3, financial debt rose to €6.5m and net debt (including liabilities under financial leases (€0.1m) and restricted cash (€0.3m) was €5.4m. Equity fell to €13.7m vs. €16.6m at FY15, due mainly to the 9M net loss of €46m and despite the €1.5m capital increase in August. The equity ratio declined to 42.0% from 46.1% at the beginning of the year.

Higher working capital requirements burden operating cash flow Apart from the €4.6m net loss, higher receivables (€0.8m) and lower payables (€1.9m) were the main drivers of the €-5.2m operating cash flow. Due to CAPEX of almost €0.3m, 9M free cash flow amounted to €-5.4m. Cash flow from financing activity was €3.2m and reflects the €1.5m capital increase and €1.4m proceeds from the convertible bond. The net cash outflow was €-2.5m.

First signs of recovery in the oil & gas business Although 9M oil & gas revenues were still more than 30% below the previous year's figure (€14.0m vs. €20.1m), the third quarter, which is normally the weakest of the year, has been the strongest quarter so far in 2016 (revenues in Q1: €4.0m, Q2: €4.8m, Q3: €5.1m). Cautious customer spending has continued to ease and first projects are being awarded again. SFC's customers have reduced costs significantly and their production is profitable again at current oil price levels (WTI: ca. \$45/barrel). As the number of new wells drilled has fallen dramatically (by ca. 2/3) and the depletion of existing wells accelerates, spending is beginning to increase to at least maintain the current production level. We thus expect SFC's oil & gas business to be back on the growth path in 2017E.

Security & Industry segment on track for y/y growth Due to the postponement of a large German defence order (see our report of 6 October 2016), Q3 segment figures were lower y/y (revenues: €4.7m vs. €5.2m in Q3/15, gross profit: €1.6m vs. €2.2m in Q3/15, see figure 1). On the 9M level, however, segment sales grew 10% y/y and gross profit 9%. Despite the weakness of the defence business, 9M segment sales grew due to the power electronics business (+13%) and the commercial fuel cell business (+20%). For 2017E, we expect growing sales as the postponed German defence order looks set to be delivered next year. SFC has already presented solutions for the technical deficiencies. As other defence projects with NATO members and other countries are developing as planned, the defence business could be an important earnings driver in 2017E.

Figure 1: Reported segment figures vs. forecasts

All figures in €m	Q3-16A	Q3-16E	Delta	Q3-15	Delta	9M 2016	9M 2015	Delta
Oil & Gas								
Sales	5.13	3.96	29.6%	5.63	-8.9%	13.97	20.07	-30.4%
Gross profit	1.09	0.86	26.3%	1.20	-9.2%	2.93	4.49	-34.9%
margin	21.2%	21.8%		21.3%		21.0%	22.4%	
Security & Industry								
Sales	4.66	4.88	-4.5%	5.23	-10.9%	14.54	13.26	9.6%
Gross profit	1.55	1.93	-19.7%	2.16	-28.2%	5.30	4.87	8.7%
margin	33.3%	39.6%		41.3%		36.5%	36.7%	
Consumer								
Sales	0.77	0.96	-20.3%	0.68	12.5%	2.85	3.00	-4.8%
Gross profit	0.21	0.27	-20.0%	0.20	6.0%	0.77	0.76	1.1%
margin	27.7%	27.6%		29.4%		26.9%	25.3%	
Group								
Sales	10.56	9.80	7.7%	11.54	-8.5%	31.36	36.33	-13.7%
Gross profit	2.85	3.06	-6.7%	3.56	-19.9%	8.99	10.13	-11.2%
margin	27.0%	31.2%		30.8%		28.7%	27.9%	

Source: First Berlin Equity Research, SFC Energy AG



Consumer business is stabilising Consumer segment revenues increased almost 13% y/y to €0.8m in Q3 and gross profit was 6% higher at €0.2m. SFC expects 2016 Consumer segment revenues at prior year's level. European demand in general is gaining traction, but the French market remains weak and burdens revenue generation. For 2017E, we expect slight growth.

Order backlog with strong y/y increase SFC's 9M order backlog was €13.3m vs. €10.3m in the previous year's quarter. This 29% increase is a clear sign that the overall business will gain momentum.

Figure 2: Reported figures vs. forecasts

All figures in €m	Q3-16A	Q3-16E	Delta	Q3-15	Delta	9M 2016	9M 2015	Delta
Sales	10.56	9.80	7.8%	11.54	-8.5%	31.36	36.33	-13.7%
EBITDA	-0.94	-1.34	-	-0.89	-	-2.70	-3.60	-
<i>margin</i>	-8.9%	-13.6%	-	-7.7%	-	-8.6%	-9.9%	-
EBITDA adjusted	-0.99	-1.24	-	-0.40	-	-2.85	-2.38	-
<i>margin</i>	-9.4%	-12.6%	-	-3.4%	-	-9.1%	-6.6%	-
EBIT	-1.51	-1.68	-	-1.51	-	-4.40	-5.45	-
<i>margin</i>	-14.3%	-17.1%	-	-13.1%	-	-14.0%	-15.0%	-
EBIT adjusted	-1.33	-1.48	-	-0.76	-	-3.80	-3.41	-
<i>margin</i>	-12.6%	-15.1%	-	-6.6%	-	-12.1%	-9.4%	-
Net income	-1.58	-1.81	-	-1.52	-	-4.59	-5.51	-
<i>margin</i>	-15.0%	-18.4%	-	-13.1%	-	-14.6%	-15.2%	-
EPS (diluted, in €)	-0.16	-0.20	-	-0.18	-	-0.48	-0.64	-

Source: First Berlin Equity Research, SFC Energy AG

Reduce reiterated at unchanged price target Q3 figures were slightly ahead of our estimates and we forecast a q/q improvement of the underlying operating result in Q4. We maintain our forecasts for 2016E and the following years. Due to the €2m loan should ensure that the company is financed until the end of Q1/17. We continue to assume another €2m financing round. We reiterate our Reduce rating and the €2.30 price target.



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	2,204	3,632	4,456	5,247	5,972
+ depreciation & amortisation	1,825	710	436	469	509	555	605	660
Net operating cash flow	-3,574	-1,508	608	2,673	4,142	5,011	5,853	6,632
- total investments (CAPEX and WC)	-909	-970	-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	-368	-321	-617	-1,176	-1,463	-1,523	-1,562	-1,574
Free cash flows (FCF)	-4,483	-2,478	-697	714	1,803	2,517	3,224	3,895
PV of FCF's	-4,405	-2,150	-534	483	1,077	1,328	1,501	1,602

All figures in thousands

PV of FCFs in explicit period (2016E-2030E)	10,610
PV of FCFs in terminal period	15,587
Enterprise value (EV)	26,196
+ Net cash / - net debt	-5,376
+ Investments / minority interests	0
Shareholder value	20,820

Fair value per share in EUR 2.30

WACC	13.2%
Cost of equity	15.1%
Pre-tax cost of debt	7.0%
Tax rate	30.0%
After-tax cost of debt	4.9%
Share of equity capital	82.0%
Share of debt capital	18.0%
Fair value per share in EUR	2.30

		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.2%	5.29	5.49	5.71	5.98	6.29	6.65	7.10
	10.2%	4.19	4.32	4.47	4.63	4.82	5.04	5.30
	11.2%	3.35	3.43	3.53	3.63	3.75	3.89	4.05
	12.2%	2.68	2.74	2.80	2.87	2.95	3.04	3.14
	13.2%	2.14	2.18	2.23	2.27	2.33	2.39	2.45
	14.2%	1.70	1.73	1.76	1.80	1.83	1.87	1.92
	15.2%	1.34	1.36	1.38	1.41	1.43	1.46	1.49
16.2%	1.04	1.05	1.07	1.08	1.10	1.12	1.14	

* 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	29,632	32,716	37,559
Gross profit	12,763	10,640	15,661	13,227	11,992	17,232	19,783
S&M	5,862	8,233	10,540	12,499	9,014	10,200	10,321
G&A	3,555	3,860	4,872	5,806	4,478	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	-6,103	-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	-3,574	-1,508	608
Ratios							
Gross margin	40.8%	32.8%	29.2%	28.0%	28.8%	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%	21.7%	20.4%	18.0%
G&A	11.4%	11.9%	9.1%	12.3%	10.8%	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	22,309	19,306	20,098
Cash and cash equivalents	22,911	7,428	6,407	3,712	5,512	1,895	1,101
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	8,443	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	35,761	32,697	33,740
Shareholders' equity & debt							
Current liabilities, total	7,662	12,669	13,371	13,041	17,515	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	6,251	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	9,920
Long-term debt	0	2,282	3,045	2,203	2,203	2,832	5,832
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	11,955	8,798	8,245
Share capital	7,503	8,020	8,611	8,611	9,047	9,047	9,047
Capital reserve	67,879	69,570	71,955	72,017	73,081	73,081	73,081
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	-69,461	-72,617	-73,171
Total consolidated equity and debt	47,617	47,650	47,256	35,889	35,761	32,697	33,740
Ratios							
Current ratio (x)	4.39	2.05	2.06	1.62	1.27	1.14	1.29
Quick ratio (x)	3.63	1.44	1.49	0.95	0.79	0.69	0.80
Net cash	22,539	3,007	1,349	-505	-4,191	-7,608	-9,031
Net gearing	-61.9%	-10.3%	-4.9%	3.0%	35.1%	86.5%	0.0%
Book value per share (€)	4.85	3.79	3.44	1.92	1.36	0.97	0.91
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-64.4%	-51.1%	-35.9%	-6.7%
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	-3,574	-1,508	608
Changes in working capital	85	-2,188	-2,015	3,216	-368	-321	-617
Other adjustments	443	-649	-361	-429	-704	-938	-726
Operating cash flow	1,258	-7,311	-3,553	-1,864	-4,645	-2,767	-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	-5,187	-3,416	-1,423
Debt financing, net	-388	-1,469	826	699	5,486	-200	629
Equity financing, net	0	0	3,263	0	1,500	0	0
Other changes in cash	191	-6,029	-923	-332	0	0	0
Net cash flows	183	-15,482	-1,020	-2,845	1,799	-3,616	-794
Cash, start of the year	0	22,911	7,143	6,407	3,712	5,512	1,895
Cash, end of the year	183	7,428	6,123	3,562	5,512	1,895	1,101
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...16	↓	↓	↓	↓
17	17 August 2016	€3.65	Buy	€4.70
18	6 October 2016	€2.48	Reduce	€2.20
19	20 October 2016	€2.66	Reduce	€2.30
20	Today	€2.38	Reduce	€2.30

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