

SFC Energy AG

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

Q1 figures

RATING	ADD
PRICE TARGET	€ 4.20
Return Potential	14.5%
Risk Rating	High

STRONG SALES GROWTH AND HIGH ORDER BACKLOG

On 11 May, SFC Energy published Q1 figures and held a conference call. Revenues were up 27% and topped our forecast. Earnings improved only slightly due to a lower gross margin compared to Q1/16. A significant increase (+59%) in the order backlog to €16m bodes well for Q2. SFC confirmed its guidance (sales €50-55m and significant improvement in profitability). We reiterate our Add rating at a slightly increased price target of €4.20 (previously: €4.10).

Strong sales growth and slightly improved earnings Q1 sales increased 27% to €13.1m (FBe: €11.7m, Q1/16: €10.3m, see figure 1 overleaf) and were mainly driven by the oil & gas business (+45%). Earnings improved only slightly due to a lower gross margin (27.8% vs. 31.3% in Q1/16), which we trace to a worse product mix. EBIT amounted to €-0.8m (FBe: €-0.6m, Q1/16: €1.0m). The net result remained stable at €-1.0m and was close to our forecast of €-0.9m.

Balance sheet metrics largely stable The cash position (excluding the restricted cash of €0.3m) improved to €2.4m from €1.8m at the end of 2016. Financial liabilities to banks increased to €4.9m from €4.3m at 31/12/2016. Other long-term financial liabilities remained largely stable at €5.0m (end Q4/16: €4.9m). Net debt was unchanged at €7.2m. Equity fell to €12.3m from €13.3m at the end of 2016 due to the net loss of €1.0m. The equity ratio declined to 37% from 40%. SFC is still in negotiations with potential investors to improve its financial leeway. We believe that both the strong Q1 revenues and the high order backlog support these negotiations.

Positive free cash flow Despite the net loss of €1.0m, operating cash flow was slightly positive at €0.3m. As CAPEX was low (€0.1m), free cash flow amounted to €0.2m. Financing cash flow was also positive (€0.5m) due mainly to changes to current account liabilities. Net cash flow amounted to €0.6m.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	53.63	47.31	44.04	49.95	57.34	65.20
Y-o-y growth	65.5%	-11.8%	-6.9%	13.4%	14.8%	13.7%
EBIT (€m)	-4.27	-10.64	-4.90	-2.02	0.17	2.41
EBIT margin	-8.0%	-22.5%	-11.1%	-4.0%	0.3%	3.7%
Net income (€m)	-4.83	-10.67	-4.99	-3.00	-0.85	1.35
EPS (diluted) (€)	-0.60	-1.24	-0.58	-0.33	-0.09	0.15
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.19	-3.21	-6.15	-3.01	-2.63	-0.66
Net gearing	-4.9%	11.0%	53.5%	98.1%	134.5%	115.9%
Liquid assets (€m)	6.41	3.71	2.04	1.72	0.72	1.46

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 11 May 2017

Closing Price	€ 3.67
Shares outstanding	9.05m
Market Capitalisation	€ 33.19m
52-week Range	€ 1.85 / 4.00
Avg. Volume (12 Months)	5,625

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.9	0.8	0.7
EV/EBIT	n.a.	n.a.	237.2
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 2.40m
Current Assets	€ 20.37m
Intangible Assets	€ 11.46m
Total Assets	€ 33.68m
Current Liabilities	€ 12.41m
Shareholders' Equity	€ 12.31m

SHAREHOLDERS

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

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q1-17A	Q4-17E	Delta	Q1-16A	Delta
Sales	13.11	11.65	12.5%	10.30	27.3%
EBITDA	-0.33	-0.40	-	-0.45	-
<i>margin</i>	-2.5%	-3.5%		-4.4%	
EBITDA adjusted	-0.31	-0.40	-	-0.54	-
<i>margin</i>	-2.4%	-3.5%		-5.2%	
EBIT	-0.82	-0.61	-	-1.00	-
<i>margin</i>	-6.2%	-5.2%		-9.7%	
EBIT adjusted	-0.61	-0.51	-	-0.84	-
<i>margin</i>	-4.7%	-4.4%		-8.2%	
Net income	-0.99	-0.85	-	-1.02	-
<i>margin</i>	-7.6%	-7.3%		-9.9%	
EPS (diluted, in €)	-0.11	-0.10	-	-0.12	-

Source: First Berlin Equity Research, SFC Energy AG

Guidance reiterated SFC is still guiding towards €50-55m in sales and a significant improvement in profitability. The strong Q1 revenue and the high order backlog, which increased 58% to €16.1m, support the guidance. Even if revenues in the coming quarters only remained on the Q1 level, this would result in annual sales of €52m.

Strong rebound in the Oil & Gas segment Segment sales increased 45% to €5.8m (FBe: €5.1m, see figure 2). Following years of cost cutting and postponed investment, customers have lowered their production costs significantly and are now profitable at current oil prices of ca. \$40-50 / barrel. The oil & gas producers have released their investment budgets and SFC's subsidiary Simark is seeing strong demand for its products, especially for SFC's fuel cells, which is currently the fastest growing product line at Simark. SFC acquired Simark in 2013 anticipating the attraction of SFC's fuel cells to the oil & gas industry. Gross profit rose 32% to €1.24m, but the gross margin lagged behind the previous year's figure (21% vs. 23%). EBITDA was almost at break-even (€-0.1m).

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q1-17A	Q4-17E	Delta	Q1-16A	Delta
Oil & Gas					
Sales	5.82	5.10	14.1%	4.02	44.7%
Gross profit	1.24	1.28	-3.1%	0.94	31.9%
<i>margin</i>	21.2%	25.0%		23.3%	
Security & Industry					
Sales	6.20	5.40	14.8%	4.98	24.5%
Gross profit	2.27	2.05	10.7%	1.90	19.5%
<i>margin</i>	36.7%	38.0%		38.2%	
Consumer					
Sales	1.10	1.15	-4.6%	1.30	-15.4%
Gross profit	0.14	0.33	-59.3%	0.38	-64.5%
<i>margin</i>	12.4%	29.0%		29.6%	
Group					
Sales	13.11	11.65	12.6%	10.30	27.3%
Gross profit	3.64	3.66	-0.5%	3.22	13.1%
<i>margin</i>	27.8%	31.4%		31.3%	

Source: First Berlin Equity Research, SFC Energy AG



Security & Industry with positive EBITDA Strong sales growth (+25%) resulted in gross profit of €2.3m—a 20% jump y/y. The gross margin declined to 37% from 38% as the high margin defence business almost halved to €483k. The reason for this was a large defence order in Q1/16. Q1/17 defence revenues were still above management's expectations. Segment EBITDA was slightly positive at €0.1m. Strong international demand for SFC's surveillance and defence products is continuing and looks set to increase in H2, as customers usually order towards the end of the year. According to management, preparations for the large order from the German Army, which was postponed due to minor technical problems, are on schedule. We still expect delivery in H2. The internationalisation of the defence business is continuing. SFC celebrated its first success in the UK together with its local distribution partner ZeroAlpha. SFC's range of defence products was selected to undergo extensive field trials by the UK Ministry of Defence under both the Army Warfighting Experiment and Information Warrior exercises.

Consumer business burdened by weak demand and one-offs Segment revenues fell 15% to €1.1m due to lower sales in France, Germany, and Sweden. Gross profit slumped 64% to €136k (Q1/16: €383k) due mainly to one-off effects. Due to increased visibility, management is still confident of reaching annual segment sales at the previous year's level of €3.65m.

Add reiterated at slightly increased price target An updated DCF model yields a slightly increased price target of €4.20 (previously: €4.10) We reiterate our Add rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	49,949	57,341	65,197	73,477	82,161	91,146	100,311	109,512
NOPLAT	-2,018	172	2,228	3,664	4,920	5,717	6,446	7,134
+ depreciation & amortisation	856	853	878	925	985	1,050	1,119	1,190
Net operating cash flow	-1,161	1,025	3,106	4,590	5,905	6,768	7,565	8,324
- total investments (CAPEX and WC)	-866	-2,632	-2,886	-3,122	-3,299	-3,457	-3,579	-3,657
Capital expenditures	-849	-975	-1,108	-1,249	-1,344	-1,433	-1,514	-1,583
Working capital	-17	-1,657	-1,777	-1,873	-1,955	-2,024	-2,065	-2,074
Free cash flows (FCF)	-2,027	-1,607	221	1,467	2,606	3,311	3,987	4,667
PV of FCF's	-1,893	-1,347	166	992	1,582	1,806	1,953	2,052

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	20,289
PV of FCFs in terminal period	25,244
Enterprise value (EV)	45,532
+ Net cash / - net debt	-7,253
+ Investments / minority interests	0
Shareholder value	38,279

Fair value per share in EUR 4.20

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.3%	Cost of equity	9.50	10.06	10.72	11.54	12.58	13.92	15.74
8.3%	Pre-tax cost of debt	7.40	7.74	8.13	8.60	9.17	9.86	10.73
9.3%	Tax rate	5.88	6.10	6.34	6.63	6.96	7.35	7.83
10.3%	After-tax cost of debt	4.74	4.88	5.04	5.22	5.43	5.67	5.95
11.3%	Share of equity capital	3.85	3.95	4.06	4.17	4.31	4.46	4.64
12.3%	Share of debt capital	3.15	3.22	3.29	3.37	3.46	3.56	3.68
13.3%		2.59	2.63	2.69	2.74	2.80	2.87	2.95
14.3%	Fair value per share in EUR	2.13	2.16	2.20	2.24	2.28	2.33	2.38

* for layout purposes the model shows numbers only to 2024, but runs until 2031



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Revenues	53,631	47,310	44,041	49,949	57,341	65,197
Cost of goods sold	37,970	34,083	30,795	32,717	37,559	43,095
Gross profit	15,661	13,227	13,247	17,232	19,783	22,102
S&M	10,540	12,499	9,126	9,900	10,207	10,236
G&A	4,872	5,546	4,883	5,120	5,161	5,216
R&D	4,530	5,806	4,148	4,230	4,243	4,238
Other operating income	170	142	96	150	172	196
Other operating expenses	159	161	83	150	172	196
Operating income (EBIT)	-4,269	-10,644	-4,898	-2,018	172	2,412
Net financial result	-298	-315	-475	-1,009	-1,056	-879
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-3,027	-884	1,533
Income taxes	259	-290	-380	-30	-35	184
Minority interests	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-2,997	-849	1,349
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.33	-0.09	0.15
EBITDA	-1,177	-4,650	-2,508	-1,161	1,025	3,290
Ratios						
Gross margin	29.2%	28.0%	30.1%	34.5%	34.5%	33.9%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-4.0%	0.3%	3.7%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	-2.3%	1.8%	5.0%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-6.0%	-1.5%	2.1%
Tax rate	-5.7%	2.6%	7.1%	1.0%	4.0%	12.0%
Expenses as % of revenues						
S&M	19.7%	26.4%	20.7%	19.8%	17.8%	15.7%
G&A	9.1%	11.7%	11.1%	10.3%	9.0%	8.0%
R&D	8.4%	12.3%	9.4%	8.5%	7.4%	6.5%
Other operating expenses	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%
Y-Y Growth						
Revenues	65.5%	-11.8%	-6.9%	13.4%	14.8%	13.7%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	1302.3%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	27,542	21,154	20,056	20,234	21,821	25,402
Cash and cash equivalents	6,407	3,712	2,041	1,718	720	1,461
Short-term investments	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	9,853	11,311	12,861
Inventories	7,653	8,782	7,718	7,619	8,747	10,036
Other current assets	711	742	888	888	888	888
Non-current assets, total	19,714	14,736	13,737	13,730	13,852	14,082
Property, plant & equipment	1,601	1,390	1,205	1,193	1,237	1,322
Goodwill & other intangibles	17,813	12,768	11,855	11,859	11,937	12,082
Other assets	300	578	678	678	678	678
Total assets	47,256	35,889	33,793	33,964	35,673	39,484
Shareholders' equity & debt						
Current liabilities, total	13,371	13,041	13,335	15,874	15,432	16,494
Short-term debt	2,013	2,014	4,317	6,371	5,000	5,000
Accounts payable	6,872	7,263	5,790	6,274	7,203	8,265
Current provisions	686	667	646	646	646	646
Other current liabilities	3,800	3,097	2,583	2,583	2,583	2,583
Long-term liabilities, total	6,296	6,291	7,119	7,748	10,748	11,748
Long-term debt	3,045	3,520	4,860	5,488	8,488	9,488
Deferred revenue	0	0	0	0	0	0
Other liabilities	3,251	2,772	2,259	2,259	2,259	2,259
Minority interests	0	0	0	0	0	0
Shareholders' equity	27,589	16,558	13,339	10,342	9,493	11,243
Share capital	8,611	8,611	9,047	9,047	9,047	9,209
Capital reserve	71,955	72,017	73,132	73,132	73,132	73,371
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-52,689	-63,358	-68,351	-71,347	-72,196	-70,847
Total consolidated equity and debt	47,256	35,889	33,793	33,964	35,673	39,484
Ratios						
Current ratio (x)	2.06	1.62	1.50	1.27	1.41	1.54
Quick ratio (x)	1.49	0.95	0.93	0.79	0.85	0.93
Net cash	1,349	-1,821	-7,135	-10,142	-12,769	-13,027
Net gearing	-4.9%	11.0%	53.5%	98.1%	134.5%	115.9%
Book value per share (€)	3.44	1.92	1.54	1.13	1.04	1.23
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-29.0%	-8.9%	12.0%
Days of sales outstanding (DSO)	86.9	57.8	76.7	72.0	72.0	72.0
Days of inventory turnover	73.6	94.0	91.5	85.0	85.0	85.0
Days in payables (DIP)	66.1	77.8	68.6	70.0	70.0	70.0



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
EBIT	-4,269	-10,644	-4,898	-2,018	172	2,412
Depreciation and amortisation	3,093	5,994	2,390	856	853	878
EBITDA	-1,177	-4,650	-2,508	-1,161	1,025	3,290
Changes in working capital	-2,015	3,216	-3,541	-17	-1,657	-1,777
Other adjustments	-361	-429	818	-979	-1,021	-1,063
Operating cash flow	-3,553	-1,863	-5,231	-2,157	-1,652	450
CAPEX	-181	-294	-301	-350	-401	-456
Investments in intangibles	-452	-1,055	-619	-499	-573	-652
Free cash flow	-4,186	-3,212	-6,151	-3,006	-2,627	-658
Debt financing, net	826	699	2,834	2,683	1,629	1,000
Equity financing, net	3,263	0	1,500	0	0	400
Other changes in cash	-923	-332	296	0	0	0
Net cash flows	-1,020	-2,845	-1,521	-323	-998	742
Cash, start of the year	7,143	6,407	3,276	2,041	1,718	720
Cash, end of the year	6,123	3,563	1,756	1,718	720	1,461
EBITDA/share (in €)	-0.15	-0.54	-0.29	-0.13	0.11	0.36
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	220.9%

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...19	↓	↓	↓	↓
20	9 November 2016	€2.38	Reduce	€2.30
21	17 February 2017	€3.42	Add	€4.10
22	10 April 2017	€3.49	Add	€4.10
23	Today	€3.67	Add	€4.20

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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:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

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%.

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.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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