

# SFC Energy AG

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

Update

<b>RATING</b>	<b>ADD</b>
<b>PRICE TARGET</b>	<b>€ 4.30</b>
Return Potential	10.9%
Risk Rating	High

## EXERCISED OPTION ADDS €0.4M IN CASH

The Singaporean investor exercised the option bond issued by SFC Energy in October 2016. SFC receives €0.4m in cash and bolsters its equity. Since publication of encouraging Q1 figures (revenue: +27% y/y) in May, SFC has generated positive newsflow in various business segments. The high Q1 order backlog and relatively stable oil price hint at similarly good Q2 figures. We slightly increase our price target to €4.30 (previously: €4.20) and reiterate our Add rating.

**Cash injection through exercised option** The exercised option will increase the share count by 161,427 to 9,208,676 shares. The exercise price is €2.4779. SFC thus receives €0.4m in cash which will be used to finance the current business. At the end of Q1, the cash position (excluding restricted cash of €0.3m) was €2.4m. We believe that SFC is still in negotiations with potential investors to improve its financial leeway. The positive newsflow from various business segments looks set to facilitate the negotiations.

**Simark newsflow shows increasing business activity in Canada** In July, SFC's subsidiary Simark received an order for 31 fuel cell-based autonomous off-grid hybrid energy solutions. Simark's partner 3D-P sells its off-grid communication trailers, which contain SFC's energy solutions, to a large end user in the Alberta oil sands.

In June, Simark widened its network and partnered with KNS Communications for powering high performance wireless networks. KNS will employ SFC's fuel cells for its off-grid communication systems in Canada and the U.S.

In May, Simark received a CAD 1.4m follow-up order for its Variable Frequency Drive (VFD) systems from an Alberta oil producer, which had already placed a CAD 2.0m order for the same system earlier this year.

In the last three months, the oil price was relatively stable (-7%). Recently, WTI increased from its three months low of 42 \$/bl. in June to almost 48 \$/bl. We believe that at levels between 40-50 \$/bl. Canadian oil producers are profitable and continue to expand their production. For this reason, SFC's... (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%	90.7%	125.0%	115.9%
Liquid assets (€m)	6.41	3.71	2.04	2.12	1.12	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 20 Jul 2017

Closing Price	€ 3.88
Shares outstanding	9.05m
Market Capitalisation	€ 35.09m
52-week Range	€ 1.85 / 4.12
Avg. Volume (12 Months)	5,573

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.0	0.9	0.7
EV/EBIT	n.a.	n.a.	249.8
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%



...subsidiary Simark is seeing strong demand for its products, especially for SFC's fuel cells.

**Laser power supply system prototype order for PBF** In June, SFC's subsidiary PBF received a laser power supply system prototype order from an international laser tool producer via its partner Schulz-Electronic. The prototype order value amounts to €0.25m. After successful prototype qualification PBF expects an annual revenue potential of €1.0m.

**SFC's domestic and international defence business continues to generate revenues**

In May, SFC received an order (value: €160k) from the German Federal Army for the extension of their portable MKEV 100. MKEV stands for mobile and very small energy supply (German: "Mobile Kleinstenergieversorgung"). The new demonstrator prototype significantly increases energy flexibility and autonomy with an external tank and improved communication functions. The MKEV 100 builds on the MKEV 25, a fuel-cell system which the German Army has already been using in their missions. The new order is a clear sign of the German Army's confidence in SFC's technological capability and products.

Internationally, 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. We believe that SFC will continue to internationalise its defence business and expect further international orders. In 2016, SFC was active in multiple countries such as Belgium, India, the US, and received an order from an International Defence Force.

**Q2 figures on 17 August** Due to the high Q1 order backlog (€16m) and strong demand from both the Oil & Gas and the Security & Industry segment, we expect Q2 figures at the high Q1 level.

**Add rating reiterated at slightly higher price target** Based on unchanged estimates, an updated DCF model yields a new price target of €4.30 (previously: €4.20). 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
<b>PV of FCF's</b>	<b>-1,932</b>	<b>-1,375</b>	<b>170</b>	<b>1,013</b>	<b>1,615</b>	<b>1,843</b>	<b>1,993</b>	<b>2,095</b>

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	20,710
PV of FCFs in terminal period	25,767
Enterprise value (EV)	46,477
+ Net cash / - net debt	-7,253
+ Investments / minority interests	0
Shareholder value	39,223

Fair value per share in EUR	4.30
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WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.3%	Cost of equity	9.60	10.16	10.83	11.66	12.70	14.06	15.89
8.3%	Pre-tax cost of debt	7.50	7.84	8.24	8.71	9.28	9.98	10.86
9.3%	Tax rate	5.97	6.19	6.44	6.73	7.06	7.46	7.95
10.3%	After-tax cost of debt	4.82	4.97	5.13	5.31	5.52	5.77	6.05
11.3%	Share of equity capital	3.93	4.03	4.14	4.26	4.40	4.55	4.73
12.3%	Share of debt capital	3.23	3.29	3.37	3.45	3.54	3.65	3.76
13.3%		2.66	2.71	2.76	2.82	2.88	2.95	3.03
14.3%	Fair value per share in EUR	2.19	2.23	2.26	2.31	2.35	2.40	2.45

\* 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
<b>Revenues</b>	<b>53,631</b>	<b>47,310</b>	<b>44,041</b>	<b>49,949</b>	<b>57,341</b>	<b>65,197</b>
Cost of goods sold	37,970	34,083	30,795	32,717	37,559	43,095
<b>Gross profit</b>	<b>15,661</b>	<b>13,227</b>	<b>13,247</b>	<b>17,232</b>	<b>19,783</b>	<b>22,102</b>
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
<b>Operating income (EBIT)</b>	<b>-4,269</b>	<b>-10,644</b>	<b>-4,898</b>	<b>-2,018</b>	<b>172</b>	<b>2,412</b>
Net financial result	-298	-315	-475	-1,009	-1,056	-879
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-4,567</b>	<b>-10,959</b>	<b>-5,373</b>	<b>-3,027</b>	<b>-884</b>	<b>1,533</b>
Income taxes	259	-290	-380	-30	-35	184
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-4,826</b>	<b>-10,669</b>	<b>-4,993</b>	<b>-2,997</b>	<b>-849</b>	<b>1,349</b>
<b>Diluted EPS (in €)</b>	<b>-0.60</b>	<b>-1.24</b>	<b>-0.58</b>	<b>-0.33</b>	<b>-0.09</b>	<b>0.15</b>
<b>EBITDA</b>	<b>-1,177</b>	<b>-4,650</b>	<b>-2,508</b>	<b>-1,161</b>	<b>1,025</b>	<b>3,290</b>
<b>Ratios</b>						
Gross margin	29.2%	28.0%	30.1%	34.5%	34.5%	33.9%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	-2.3%	1.8%	5.0%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-4.0%	0.3%	3.7%
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%
<b>Expenses as % of revenues</b>						
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%
<b>Y-Y Growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>27,542</b>	<b>21,154</b>	<b>20,056</b>	<b>20,634</b>	<b>22,221</b>	<b>25,402</b>
Cash and cash equivalents	6,407	3,712	2,041	2,118	1,120	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
<b>Non-current assets, total</b>	<b>19,714</b>	<b>14,736</b>	<b>13,737</b>	<b>13,730</b>	<b>13,852</b>	<b>14,082</b>
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
<b>Total assets</b>	<b>47,256</b>	<b>35,889</b>	<b>33,793</b>	<b>34,364</b>	<b>36,073</b>	<b>39,484</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>13,371</b>	<b>13,041</b>	<b>13,335</b>	<b>15,874</b>	<b>15,432</b>	<b>16,494</b>
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
<b>Long-term liabilities, total</b>	<b>6,296</b>	<b>6,291</b>	<b>7,119</b>	<b>7,748</b>	<b>10,748</b>	<b>11,748</b>
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
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>27,589</b>	<b>16,558</b>	<b>13,339</b>	<b>10,742</b>	<b>9,893</b>	<b>11,243</b>
Share capital	8,611	8,611	9,047	9,209	9,209	9,209
Capital reserve	71,955	72,017	73,132	73,371	73,371	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
<b>Total consolidated equity and debt</b>	<b>47,256</b>	<b>35,889</b>	<b>33,793</b>	<b>34,364</b>	<b>36,073</b>	<b>39,484</b>
<b>Ratios</b>						
Current ratio (x)	2.06	1.62	1.50	1.30	1.44	1.54
Quick ratio (x)	1.49	0.95	0.93	0.82	0.87	0.93
Net cash	1,349	-1,821	-7,135	-9,742	-12,369	-13,027
Net gearing	-4.9%	11.0%	53.5%	90.7%	125.0%	115.9%
Book value per share (€)	3.44	1.92	1.54	1.17	1.07	1.22
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-27.9%	-8.6%	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
<b>EBIT</b>	<b>-4,269</b>	<b>-10,644</b>	<b>-4,898</b>	<b>-2,018</b>	<b>172</b>	<b>2,412</b>
Depreciation and amortisation	3,093	5,994	2,390	856	853	878
<b>EBITDA</b>	<b>-1,177</b>	<b>-4,650</b>	<b>-2,508</b>	<b>-1,161</b>	<b>1,025</b>	<b>3,290</b>
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
<b>Operating cash flow</b>	<b>-3,553</b>	<b>-1,863</b>	<b>-5,231</b>	<b>-2,157</b>	<b>-1,652</b>	<b>450</b>
CAPEX	-181	-294	-301	-350	-401	-456
Investments in intangibles	-452	-1,055	-619	-499	-573	-652
<b>Free cash flow</b>	<b>-4,186</b>	<b>-3,212</b>	<b>-6,151</b>	<b>-3,006</b>	<b>-2,627</b>	<b>-658</b>
<b>Debt financing, net</b>	<b>826</b>	<b>699</b>	<b>2,834</b>	<b>2,683</b>	<b>1,629</b>	<b>1,000</b>
<b>Equity financing, net</b>	<b>3,263</b>	<b>0</b>	<b>1,500</b>	<b>400</b>	<b>0</b>	<b>0</b>
Other changes in cash	-923	-332	296	0	0	0
<b>Net cash flows</b>	<b>-1,020</b>	<b>-2,845</b>	<b>-1,521</b>	<b>77</b>	<b>-998</b>	<b>342</b>
Cash, start of the year	7,143	6,407	3,276	2,041	2,118	1,120
<b>Cash, end of the year</b>	<b>6,123</b>	<b>3,563</b>	<b>1,756</b>	<b>2,118</b>	<b>1,120</b>	<b>1,461</b>
<b>EBITDA/share (in €)</b>	<b>-0.15</b>	<b>-0.54</b>	<b>-0.29</b>	<b>-0.13</b>	<b>0.11</b>	<b>0.36</b>
<b>Y-Y Growth</b>						
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...20	↓	↓	↓	↓
21	17 February 2017	€3.42	Add	€4.10
22	10 April 2017	€3.49	Add	€4.10
23	12 May 2017	€3.67	Add	€4.20
24	Today	€3.88	Add	€4.30

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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:

**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.

#### 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

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