

SFC Energy AG

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

Large defence order
 & Q3 figures

RATING
PRICE TARGET
 Return Potential 24.6%
 Risk Rating High

ADD
€ 7.70

MAJOR GERMAN ARMY ORDER – PRICE TARGET INCREASED

SFC Energy has received a large order from the German Army. With a volume of €3.6m, this is one of the largest single orders in the history of the company. Delivery is slated for Q1/18 and will significantly boost growth and profitability in 2018. In the coming years, SFC will benefit from two structural demand trends. In the Security & Industry segment, demand for secure and sustainable off-grid energy solutions looks set to rise significantly, especially in the defence business, which offers high margins. The same is valid for the Oil & Gas segment, as long as the oil price remains above \$50 per barrel. In our view, this means that from 2018E onwards, SFC will be a profitable growth company. For 2018E & 2019E, we forecast sales growth of 20.5% and 16.1%, respectively. We expect positive EBIT margins of 4.0% and 6.5%, which results in diluted EPS of €0.13 and €0.36, respectively. We have significantly increased our forecasts. Our new price target is €7.70 (previously: €4.60). We reiterate our Add rating.

German Army order is only the start SFC delivers a fully integrated power solution consisting of the portable JENNY fuel cell, the SFC Power Manager, a hybrid battery and a solar panel to the German Army. We believe that the need to digitise defence activities will force the military to invest heavily in reliable and powerful off-grid energy solutions delivering the necessary power. SFC's portable and stationary products meet this demand exactly. Given that SFC internationalised its defence business in recent years, we expect further orders not only from Germany, but also from India, Israel, France, the UK, the US, and market entry into further defence markets.

Industry demand also rising Demand for SFC's energy solutions comes from areas such as the wind industry, traffic management, telecommunication, and the automotive industry. Clean energy in vehicles could develop into a strong demand driver with high scaling potential for SFC.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	53.63	47.31	44.04	53.27	64.20	74.53
Y-o-y growth	65.5%	-11.8%	-6.9%	21.0%	20.5%	16.1%
EBIT (€m)	-4.27	-10.64	-4.90	-2.02	2.54	4.86
EBIT margin	-8.0%	-22.5%	-11.1%	-3.8%	4.0%	6.5%
Net income (€m)	-4.83	-10.67	-4.99	-3.20	1.21	3.51
EPS (diluted) (€)	-0.60	-1.24	-0.58	-0.35	0.13	0.36
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.19	-3.21	-6.15	-2.91	0.36	1.01
Net gearing	-4.9%	11.0%	53.5%	91.5%	48.6%	33.3%
Liquid assets (€m)	6.41	3.71	2.04	3.22	4.95	6.96

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.

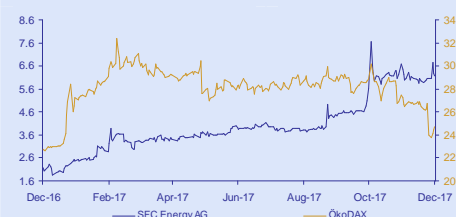
MARKET DATA

As of 14 Dec 2017

Closing Price	€ 6.18
Shares outstanding	9.21m
Market Capitalisation	€ 56.91m
52-week Range	€ 1.85 / 7.64
Avg. Volume (12 Months)	13,419

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	48.7
EV/Sales	1.5	1.3	1.0
EV/EBIT	n.a.	n.a.	26.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 3.08m
Current Assets	€ 20.70m
Intangible Assets	€ 10.96m
Total Assets	€ 33.63m
Current Liabilities	€ 11.24m
Shareholders' Equity	€ 11.29m

SHAREHOLDERS

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



Strong demand from oil & gas The oil price has almost doubled compared to its low in 2016, and the price of WTI has reached almost \$60/bl. Oil & gas companies have postponed investments in recent years and now have to invest to keep the existing businesses running and to increase production capacity. As they have reduced their costs per barrel significantly to ca. \$30-40/bl, profitability is a given. We thus anticipate strong demand for SFC's Canadian subsidiary Simark as long as the North American oil sector continues to generate profits.

Strong growth and positive EBITDA in Q3 Revenues amounted to €13.2m (+25% y/y) and were driven by strong growth in the oil & gas (+28%) and the security & industry (+26%) business (see figures 1 & 2). Revenues in the small Consumer segment, however, declined almost 16%. Gross profit was €4.0m (+39% y/y) and the gross margin increased from 27.0% to 30.4% thanks to higher gross margins in all segments. EBITDA improved to €0.3m from €-0.9m in Q3/16. The positive group EBITDA can be traced back to the EBITDA contribution of the Oil & Gas segment (€+0.3m). EBIT amounted to €-1.7m—a significant improvement compared to the previous year's figure of €-4.4m. The net income amounted to €-0.6m versus €-1.6m in Q3/16 and FBe of €-1.0m. This corresponds to EPS of €-0.07 (Q3/16: €-0.18).

Guidance for 2017 should be met Given 9M sales of €39.4m, EBIT of €-1.7m, and the usual seasonally strong Q4, we believe that SFC will meet its guidance (sales €50-55m and significantly improved profitability).

Financial situation stabilised SFC's cash position increased by €1.0m to €2.8m at the end of September. Liabilities to banks were lowered from €4.3m at the end of 2016 to €3.7m, of which €2.3m were short term. Other long term financial liabilities increased from €4.9m to €7.9m. Financial debt thus amounted to €11.6m (end2016: €9.2m). Net debt rose to €8.9m versus €7.2m at the end of 2016. Equity fell to €11.1m from €13.3m at the end of 2016. The equity ratio declined from 39% to 33%. Given the current share price, conversion of the in-the-money €1.65m bond (conversion price: €6.10), is now much more likely before it matures in December 2018. This would ease SFC's debt load.

Figure 1: Reported figures versus forecasts

All figures in €m	Q3-17A	Q3-17E	Delta	Q3-16A	Delta	9M/17	9M/16	Delta
Sales	13.19	12.64	4.3%	10.56	24.9%	39.37	31.36	25.5%
EBITDA	0.27	-0.19	-	-0.94	-	-0.28	-2.70	-
margin	2.1%	-1.5%	-	-8.9%	-	-0.7%	-8.6%	-
EBITDA adjusted	0.09	-0.01	-	-0.99	-	-0.03	-2.85	-
margin	0.7%	-0.1%	-	-9.4%	-	-0.1%	-9.1%	-
EBIT	-0.20	-0.69	-	-1.51	-	-1.73	-4.40	-
margin	-1.5%	-5.4%	-	-14.3%	-	-4.4%	-14.0%	-
EBIT adjusted	-0.02	-0.52	-	-1.33	-	-1.01	-3.80	-
margin	-0.1%	-4.1%	-	-12.6%	-	-2.6%	-12.1%	-
Net income	-0.61	-0.95	-	-1.58	-	-2.43	-4.59	-
margin	-4.6%	-7.5%	-	-15.0%	-	-6.2%	-14.6%	-
EPS (diluted, in €)	-0.07	-0.10	-	-0.18	-	-0.20	-0.48	-

Source: First Berlin Equity Research, SFC Energy AG

Operating cash flow only slightly negative Operating cash flow amounted to €-0.1m due mainly to a lower working capital requirement. Free cash flow was €-1.0m due to CAPEX of €0.9m. Cash flow from financial activities amounted to €2.1m, and net cash flow was €1.0m.



Strong growth and increasing gross margin in the Oil & Gas segment Both Q3 and 9M figures exhibit strong segment growth, driven by quarterly growth throughout the year. Q3 revenues jumped to €6.6m (+28% y/y) and the gross margin increased by more than 2 PP to 23.7% due mainly to the elimination of low margin products and an improved product mix. Q3 EBITDA was positive and amounted to €313k. The strong third quarter pushed 9M EBITDA into positive territory (€233k). Based on a relatively stable oil price (WTI crude oil ranged between \$43-52/barrel in Q3), demand from the oil & gas industry remained strong.

Security & Industry segment shows robust growth at high gross margin Q3 sales rose 26% to €5.9m. The gross margin increased from 33.2% to 37.8% (see figure 2). Q3 EBITDA was slightly positive (€47k) resulting in 9M EBITDA of €111k. On a 9M basis, EBITDA of SFC's two main segments were positive. In the first nine months, growth was driven by all sub segments (fuel cells (+37%), power electronics (+22%), and defence (+24%)).

The internationalisation of the defence business made further progress. In the UK, Polaris Defense presented a modified high mobility tactical vehicle with SFC's EMILY fuel cell at the Defence and Security Equipment International (DSEI) exhibition in September. The modification of the vehicle was driven by the requirements of UK's Army Warfighting Experiment 2017 for increased power capacity. SFC's EMILY 3000 fuel cells provide sustainable and reliable tactical power for extended mobility and enhanced mission endurance. In the US, SFC signed a partnership and distribution agreement with Advanced IT Concepts Inc. (AITC). The company will sell and service SFC Energy's EFOY Pro fuel cells as a reliable off-grid power source for defence equipment. Recently, NATO agreed to upgrade its command structure for the first time since the end of the Cold War. The number of military headquarters run by the alliance will increase to nine from seven. Defence spending in many countries has risen and looks set to increase further. We expect SFC to significantly benefit from this trend in coming years.

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q3-17A	Q3-17E	Delta	Q3-16A	Delta	9M-17A	9M-16A	Delta
Oil & Gas								
Sales	6.56	5.66	15.8%	5.13	27.8%	18.24	13.97	30.6%
Gross profit	1.55	1.43	8.4%	1.09	42.5%	4.27	2.93	45.9%
margin	23.7%	25.3%		21.2%		23.4%	21.0%	
Security & Industry								
Sales	5.86	6.16	-4.9%	4.67	25.6%	18.50	14.54	27.3%
Gross profit	2.21	2.47	-10.3%	1.55	42.7%	7.00	5.30	32.0%
margin	37.8%	40.1%		33.2%		37.8%	36.5%	
Consumer								
Sales	0.65	0.82	-21.4%	0.77	-15.5%	2.62	2.85	-8.0%
Gross profit	0.21	0.23	-7.5%	0.21	-0.9%	0.65	0.77	-14.9%
margin	32.5%	27.6%		27.7%		24.9%	26.9%	
Group								
Sales	13.06	12.64	3.3%	10.56	23.7%	39.37	31.36	25.5%
Gross profit	3.98	4.13	-3.6%	2.85	39.4%	11.92	8.99	32.5%
margin	30.4%	32.6%		27.0%		30.3%	28.7%	

Source: First Berlin Equity Research, SFC Energy AG

Consumer segment remains problem child Both Q3 and 9M sales fell below their respective previous year's figures. Q3 sales declined almost 16% y/y to €0.65m, and 9M sales fell 8% to €2.6m. The 9M gross margin was 2 PP lower y/y at 24.9%. 9M EBITDA was €-619k and pushed group EBITDA into negative territory. SFC still hopes to reach annual sales on par with the previous year's level of €3.65m. So far, the positive economic



momentum in the caravanning industry has not been as supportive as expected as consumers tend to use less off-grid power solutions. Management plans a bundle of measures to improve segment performance.

Order backlog seasonally lower on quarterly basis The order backlog at the end of September amounted to €13.4m. Compared to the previous year's figure, it was stable. On a quarterly basis, it fell from €16.3m at the end of H1. With the new German Army order, the order backlog should be back at a record level.

WACC reduced SFC appears to be at the beginning of a growth phase. This should result in positive and increasing operating results. We anticipate strong demand in the defence business, which will drive up margins. In 2018E, we expect the company to already generate a positive free cash flow. We appreciate the lower risk profile and reduce the WACC from 11.0% to 10.3%.

Forecasts for 2018E and the following years significantly raised Based on robust demand trends both in the security & industry and in the oil & gas business, we increase our estimates for 2018E and the following years (see figure 3). For 2018E & 2019E, we have increased our sales forecast by 12.0% and 14.3%, respectively. We now expect positive EBIT margins of 4.0% and 6.5% (previously: 2018E: 0.3% and 2019E: 3.7%). This results in diluted EPS of €0.13 and €0.36, respectively.

Figure 3: Revisions to forecasts

All figures in €m	2017E			2018E			2019E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	53.27	53.27	0.0%	57.34	64.20	12.0%	65.20	74.53	14.3%
EBIT	-2.02	-2.02	-	0.17	2.54	1375.6%	2.41	4.86	101.5%
margin	-3.8%	-3.8%	-	0.3%	4.0%		3.7%	6.5%	
Net income	-3.20	-3.20	-	-1.06	1.21	-	1.23	3.51	185.2%
margin	-6.0%	-6.0%	-	-1.8%	1.9%		1.9%	4.7%	
EPS (diluted) in €	-0.35	-0.35	-	-0.11	0.13	-	0.13	0.36	177.2%

Source: First Berlin Equity Research

Add reiterated at significantly higher price target An updated DCF model yields a new price target of €7.70 (previously: €4.60). 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	53,270	64,200	74,525	85,704	97,624	110,138	123,054	136,143
NOPLAT	-2,018	2,487	4,381	4,892	6,337	7,342	8,318	9,278
+ depreciation & amortisation	2,005	1,484	1,289	1,131	1,222	1,325	1,431	1,536
Net operating cash flow	-13	3,971	5,670	6,022	7,558	8,667	9,749	10,814
- total investments (CAPEX and WC)	-1,715	-2,341	-3,791	-4,144	-4,169	-4,433	-4,646	-4,795
Capital expenditures	-906	-1,091	-1,267	-1,457	-1,597	-1,732	-1,857	-1,968
Working capital	-809	-1,250	-2,524	-2,687	-2,572	-2,701	-2,789	-2,827
Free cash flows (FCF)	-1,728	1,630	1,879	1,879	3,389	4,234	5,103	6,019
PV of FCF's	-1,720	1,471	1,539	1,394	2,281	2,585	2,826	3,022

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	36,517
PV of FCFs in terminal period	45,941
Enterprise value (EV)	82,458
+ Net cash / - net debt (pro forma)	-8,172
+ Investments / minority interests	0
Shareholder value	74,285

Fair value per share in EUR 7.70

WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	11.6%	6.3%	17.23	18.53	20.19	22.34	25.29	29.52	36.17
Pre-tax cost of debt	7.0%	7.3%	13.27	14.01	14.91	16.02	17.43	19.26	21.76
Tax rate	30.0%	8.3%	10.54	11.00	11.53	12.16	12.92	13.86	15.06
After-tax cost of debt	4.9%	9.3%	8.56	8.85	9.18	9.57	10.02	10.56	11.21
Share of equity capital	80.0%	10.3%	7.07	7.26	7.48	7.73	8.01	8.33	8.72
Share of debt capital	20.0%	11.3%	5.92	6.05	6.19	6.36	6.54	6.75	6.99
		12.3%	5.00	5.09	5.19	5.30	5.42	5.56	5.72
Fair value per share in EUR	7.70	13.3%	4.26	4.32	4.39	4.47	4.56	4.65	4.75

* 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	53,270	64,200	74,525
Cost of goods sold	37,970	34,083	30,795	36,064	42,051	48,516
Gross profit	15,661	13,227	13,247	17,206	22,149	26,009
S&M	10,540	12,499	9,126	9,930	10,207	11,200
G&A	4,872	5,546	4,883	5,064	5,161	5,400
R&D	4,530	5,806	4,148	4,230	4,243	4,550
Other operating income	170	142	96	160	193	224
Other operating expenses	159	161	83	160	193	224
Operating income (EBIT)	-4,269	-10,644	-4,898	-2,018	2,538	4,859
Net financial result	-298	-315	-475	-1,212	-1,273	-873
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-3,230	1,265	3,987
Income taxes	259	-290	-380	-32	51	478
Minority interests	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-3,197	1,214	3,508
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.35	0.13	0.36
EBITDA	-1,177	-4,650	-2,508	-13	4,022	6,149
Ratios						
Gross margin	29.2%	28.0%	30.1%	32.3%	34.5%	34.9%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	0.0%	6.3%	8.3%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-3.8%	4.0%	6.5%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-6.0%	1.9%	4.7%
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%	18.6%	15.9%	15.0%
G&A	9.1%	11.7%	11.1%	9.5%	8.0%	7.2%
R&D	8.4%	12.3%	9.4%	7.9%	6.6%	6.1%
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%	21.0%	20.5%	16.1%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	91.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	188.9%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	27,542	21,154	20,056	23,167	27,301	33,071
Cash and cash equivalents	6,407	3,712	2,041	3,217	4,952	6,959
Short-term investments	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	10,508	12,664	14,701
Inventories	7,653	8,782	7,718	8,398	8,641	10,368
Other current assets	711	742	888	888	888	888
Non-current assets, total	19,714	14,736	13,737	12,638	12,246	12,223
Property, plant & equipment	1,601	1,390	1,205	1,156	1,201	1,302
Goodwill & other intangibles	17,813	12,768	11,855	10,804	10,367	10,243
Other assets	300	578	678	678	678	678
Total assets	47,256	35,889	33,793	35,805	39,547	45,295
Shareholders' equity & debt						
Current liabilities, total	13,371	13,041	13,335	17,516	16,293	17,533
Short-term debt	2,013	2,014	4,317	7,371	5,000	5,000
Accounts payable	6,872	7,263	5,790	6,916	8,065	9,304
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	9,098	10,098
Long-term debt	3,045	3,520	4,860	5,488	6,838	7,838
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	10,541	14,155	17,664
Share capital	8,611	8,611	9,047	9,209	9,684	9,684
Capital reserve	71,955	72,017	73,132	73,371	75,295	75,295
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	-71,548	-70,334	-66,826
Total consolidated equity and debt	47,256	35,889	33,793	35,805	39,547	45,295
Ratios						
Current ratio (x)	2.06	1.62	1.50	1.32	1.68	1.89
Quick ratio (x)	1.49	0.95	0.93	0.84	1.15	1.29
Net cash	1,349	-1,821	-7,135	-9,643	-6,887	-5,880
Net gearing	-4.9%	11.0%	53.5%	91.5%	48.6%	33.3%
Book value per share (€)	3.44	1.92	1.54	1.15	1.46	1.82
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-30.3%	8.6%	19.9%
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	75.0	78.0
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	2,538	4,859
Depreciation and amortisation	3,093	5,994	2,390	2,005	1,484	1,289
EBITDA	-1,177	-4,650	-2,508	-13	4,022	6,149
Changes in working capital	-2,015	3,216	-3,541	-809	-1,250	-2,524
Other adjustments	-361	-429	818	-1,180	-1,324	-1,351
Operating cash flow	-3,553	-1,863	-5,231	-2,002	1,448	2,274
CAPEX	-181	-294	-301	-373	-449	-522
Investments in intangibles	-452	-1,055	-619	-533	-642	-745
Free cash flow	-4,186	-3,212	-6,151	-2,908	356	1,007
Debt financing, net	826	699	2,834	3,683	-1,021	1,000
Equity financing, net	3,263	0	1,500	400	2,400	0
Other changes in cash	-923	-332	296	0	0	0
Net cash flows	-1,020	-2,845	-1,521	1,176	1,735	2,007
Cash, start of the year	7,143	6,407	3,276	2,041	3,217	4,952
Cash, end of the year	6,123	3,563	1,756	3,217	4,952	6,959
EBITDA/share (in €)	-0.15	-0.54	-0.29	0.00	0.42	0.63
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	57.0%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	182.5%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	52.9%

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...23	↓	↓	↓	↓
24	21 July 2017	€3.88	Add	€4.30
25	7 August 2017	€3.89	Add	€4.60
26	18 August 2017	€3.75	Add	€4.60
27	Today	€6.18	Add	€7.70

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