

# SFC Energy AG

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

Capital increase

<b>RATING</b>	<b>ADD</b>
<b>PRICE TARGET</b>	<b>€ 9.50</b>
Return Potential	19.9%
Risk Rating	High

## €4.2M FOR GROWTH FINANCING

**SFC Energy successfully placed 500k shares with institutional investors at a price of €8.44 per share. The €4.2m in gross proceeds will be used to finance growth of both SFC's civilian and defence businesses. We stick to our revenue and EBIT forecasts for 2018E and the following years. We have accounted for the capital increase in our model which still yields a €9.50 price target. Our rating remains Add.**

**€4.2m proceeds from capital increase** SFC placed 500k shares with institutional investors and received gross proceeds of €4.2m. The number of shares will increase to 10.25m.

**Sales and EBIT forecasts unchanged** Our sales and EBIT forecasts for 2018E and the following years remain unchanged. But we have slightly increased our net result forecasts as we assume slightly lower interest expenses due to lower financial debt. We have reduced our EPS projections for 2019E and 2020E due to the higher number of shares (see figure 1 overleaf).

**Balance sheet strengthened** The €4.2m equity increase results in a pro forma equity position of €18.7m. Based on the Q1 balance sheet total of €378m, the pro forma equity ratio increases to ca. 45% (end Q1: 38.3%). The much stronger equity ratio should facilitate debt financing negotiations. The additional liquid funds increase SFC's financial leeway following the decline of the cash position from €4.4m to €1.7m at the end of Q1.

**SFC on track to reach guidance** Given the very strong Q1 due to the delivery of a large German army contract and a high order backlog of €16.9m, we see the company on track to reach its guidance (€60-64m in sales and significantly improved EBIT).

**Add reiterated at unchanged price target** We stick to our €9.50 price target and Add rating.

### FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	47.31	44.04	54.29	64.20	74.53	85.70
Y-o-y growth	-11.8%	-6.9%	23.3%	18.2%	16.1%	15.0%
EBIT (€m)	-10.64	-4.90	-0.88	2.54	4.86	5.74
EBIT margin	-22.5%	-11.1%	-1.6%	4.0%	6.5%	6.7%
Net income (€m)	-10.67	-4.99	-2.07	1.56	3.71	4.29
EPS (diluted) (€)	-1.24	-0.58	-0.23	0.15	0.35	0.41
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-3.21	-6.15	0.36	-0.82	1.46	1.72
Net gearing	11.0%	53.5%	37.7%	2.6%	-3.7%	-9.1%
Liquid assets (€m)	3.71	2.04	4.69	7.99	9.45	10.16

### 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, defence & security, industry, and clean energy & mobility. SFC is headquartered near Munich in Germany.

### MARKET DATA

As of 18 Jun 2018

Closing Price	€ 7.92
Shares outstanding	10.25m
Market Capitalisation	€ 81.18m
52-week Range	€ 3.75 / 9.46
Avg. Volume (12 Months)	21,591

Multiples	2017	2018E	2019E
P/E	n.a.	51.9	21.9
EV/Sales	1.6	1.4	1.2
EV/EBIT	n.a.	34.2	17.9
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2018

Liquid Assets	€ 1.99m
Current Assets	€ 25.27m
Intangible Assets	€ 10.75m
Total Assets	€ 37.77m
Current Liabilities	€ 20.67m
Shareholders' Equity	€ 14.47m

### SHAREHOLDERS

HPE	28.3%
Havensight	7.9%
Conduit Ventures	7.8%
Other	10.5%
Free Float	45.5%



Figure 1: Revisions to estimates

All figures in €m	2018E			2019E			2020E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	64.20	64.20	0.0%	74.53	74.53	0.0%	85.70	85.70	0.0%
EBIT	2.54	2.54	0.0%	4.86	4.86	0.0%	5.74	5.74	0.0%
margin	4.0%	4.0%		6.5%	6.5%		6.7%	6.7%	
Net income	1.50	1.56	4.0%	3.60	3.71	2.9%	4.23	4.29	1.4%
margin	2.3%	2.4%		4.8%	5.0%		4.9%	5.0%	
EPS (diluted) in €	0.15	0.15	0.7%	0.36	0.35	-2.5%	0.42	0.41	-3.4%

Source: First Berlin Equity Research, SFC Energy AG

## VALUATION MODEL

DCF valuation model									
All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	
Net sales	64,200	74,525	85,704	97,617	110,218	123,354	136,833	150,429	
NOPLAT	2,473	4,354	4,839	6,239	7,644	8,720	9,690	10,688	
+ depreciation & amortisation	1,208	1,231	1,264	1,322	1,410	1,513	1,624	1,737	
Net operating cash flow	3,682	5,585	6,104	7,561	9,054	10,233	11,314	12,425	
- total investments (CAPEX and WC)	-3,587	-3,482	-3,834	-4,168	-4,458	-4,710	-4,910	-5,048	
Capital expenditures	-1,284	-1,341	-1,457	-1,659	-1,804	-1,940	-2,065	-2,174	
Working capital	-2,303	-2,140	-2,377	-2,509	-2,655	-2,770	-2,845	-2,873	
Free cash flows (FCF)	95	2,103	2,269	3,393	4,595	5,523	6,404	7,378	
PV of FCF's	90	1,819	1,786	2,430	2,994	3,274	3,454	3,620	

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	45,941
PV of FCFs in terminal period	54,221
Enterprise value (EV)	100,161
+ Net cash / - net debt (pro forma)	-687
+ Investments / minority interests	0
Shareholder value	99,474
Diluted number of shares	10,427
Fair value per share in EUR	9.54

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
5.9%	Cost of equity	20.56	22.23	24.39	27.31	31.43	37.73	48.53
6.9%	Pre-tax cost of debt	15.86	16.78	17.92	19.34	21.18	23.66	27.17
7.9%	Tax rate	12.70	13.25	13.90	14.69	15.65	16.86	18.43
8.9%	After-tax cost of debt	10.44	10.79	11.19	11.66	12.21	12.88	13.70
9.9%	Share of equity capital	8.76	8.99	9.24	9.54	9.88	10.28	10.76
10.9%	Share of debt capital	7.47	7.62	7.79	7.99	8.21	8.46	8.75
11.9%		6.45	6.56	6.67	6.81	6.95	7.12	7.31
12.9%		5.63	5.71	5.79	5.88	5.98	6.09	6.22

\* for layout purposes the model shows numbers only to 2025, but runs until 2032



## INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
<b>Revenues</b>	<b>53,631</b>	<b>47,310</b>	<b>44,041</b>	<b>54,292</b>	<b>64,200</b>	<b>74,525</b>	<b>85,704</b>
Cost of goods sold	37,970	34,083	30,795	36,566	42,051	48,516	56,393
<b>Gross profit</b>	<b>15,661</b>	<b>13,227</b>	<b>13,247</b>	<b>17,726</b>	<b>22,149</b>	<b>26,009</b>	<b>29,311</b>
S&M	10,540	12,499	9,126	9,786	10,207	11,200	12,427
G&A	4,872	5,546	4,883	5,016	5,161	5,400	5,999
R&D	4,530	5,806	4,148	3,892	4,050	4,550	5,142
Other operating income	170	142	96	277	449	224	257
Other operating expenses	159	161	83	194	642	224	257
<b>Operating income (EBIT)</b>	<b>-4,269</b>	<b>-10,644</b>	<b>-4,898</b>	<b>-885</b>	<b>2,538</b>	<b>4,859</b>	<b>5,742</b>
Net financial result	-298	-315	-475	-1,150	-911	-645	-554
Non-operating expenses	0	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>-2,035</b>	<b>1,628</b>	<b>4,214</b>	<b>5,188</b>
Income taxes	259	-290	-380	37	65	506	903
Minority interests	0	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-4,826</b>	<b>-10,669</b>	<b>-4,993</b>	<b>-2,072</b>	<b>1,563</b>	<b>3,708</b>	<b>4,285</b>
<b>Diluted EPS (in €)</b>	<b>-0.60</b>	<b>-1.24</b>	<b>-0.58</b>	<b>-0.23</b>	<b>0.15</b>	<b>0.35</b>	<b>0.41</b>
<b>EBITDA</b>	<b>-1,177</b>	<b>-4,650</b>	<b>-2,508</b>	<b>862</b>	<b>3,747</b>	<b>6,090</b>	<b>7,006</b>
<b>Ratios</b>							
Gross margin	29.2%	28.0%	30.1%	32.6%	34.5%	34.9%	34.2%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	1.6%	5.8%	8.2%	8.2%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-1.6%	4.0%	6.5%	6.7%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-3.8%	2.4%	5.0%	5.0%
Tax rate	-5.7%	2.6%	7.1%	-1.8%	4.0%	12.0%	17.4%
<b>Expenses as % of revenues</b>							
S&M	19.7%	26.4%	20.7%	18.0%	15.9%	15.0%	14.5%
G&A	9.1%	11.7%	11.1%	9.2%	8.0%	7.2%	7.0%
R&D	8.4%	12.3%	9.4%	7.2%	6.3%	6.1%	6.0%
Other operating expenses	0.3%	0.3%	0.2%	0.4%	1.0%	0.3%	0.3%
<b>Y-Y Growth</b>							
Revenues	65.5%	-11.8%	-6.9%	23.3%	18.2%	16.1%	15.0%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	91.4%	18.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	137.3%	15.6%



## BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
<b>Assets</b>							
<b>Current assets, total</b>	<b>27,542</b>	<b>21,154</b>	<b>20,056</b>	<b>21,849</b>	<b>28,263</b>	<b>32,835</b>	<b>37,115</b>
Cash and cash equivalents	6,407	3,712	2,041	4,694	7,989	9,447	10,162
Short-term investments	0	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	8,712	10,553	12,251	14,088
Inventories	7,653	8,782	7,718	7,939	9,217	10,634	12,360
Other current assets	715	1,170	1,044	504	504	504	504
<b>Non-current assets, total</b>	<b>19,714</b>	<b>14,736</b>	<b>13,737</b>	<b>12,684</b>	<b>12,760</b>	<b>12,871</b>	<b>13,063</b>
Property, plant & equipment	1,601	1,390	1,205	1,197	1,352	1,468	1,627
Goodwill & other intangibles	17,813	12,768	11,855	10,950	10,872	10,866	10,899
Other assets	300	578	678	537	537	537	537
<b>Total assets</b>	<b>47,256</b>	<b>35,889</b>	<b>33,793</b>	<b>34,534</b>	<b>41,023</b>	<b>45,706</b>	<b>50,178</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>18,563</b>	<b>12,970</b>	<b>13,944</b>	<b>14,131</b>
Short-term debt	2,013	2,014	4,317	9,410	3,000	3,000	2,000
Accounts payable	6,872	7,263	5,790	5,520	6,336	7,311	8,498
Current provisions	686	667	646	800	800	800	800
Other current liabilities	3,800	3,097	2,583	2,833	2,833	2,833	2,833
<b>Long-term liabilities, total</b>	<b>6,296</b>	<b>6,291</b>	<b>7,119</b>	<b>2,076</b>	<b>7,076</b>	<b>7,076</b>	<b>7,076</b>
Long-term debt	3,045	3,520	4,860	529	5,529	5,529	5,529
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	3,251	2,772	2,259	1,547	1,547	1,547	1,547
<b>Minority interests</b>	<b>0</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>13,895</b>	<b>20,977</b>	<b>24,686</b>	<b>28,971</b>
Share capital	8,611	8,611	9,047	9,659	10,454	10,454	10,454
Capital reserve	71,955	72,017	73,132	75,475	80,200	80,200	80,200
Other reserves	0	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0	0
Loss carryforward / retained earnings	-52,689	-63,358	-68,351	-70,423	-68,860	-65,152	-60,866
<b>Total consolidated equity and debt</b>	<b>47,256</b>	<b>35,889</b>	<b>33,793</b>	<b>34,534</b>	<b>41,023</b>	<b>45,706</b>	<b>50,178</b>
<b>Ratios</b>							
Current ratio (x)	2.06	1.62	1.50	1.18	2.18	2.35	2.63
Quick ratio (x)	1.49	0.95	0.93	0.75	1.47	1.59	1.75
Net cash	1,349	-1,821	-7,135	-5,245	-540	918	2,633
Net gearing	-4.9%	11.0%	53.5%	37.7%	2.6%	-3.7%	-9.1%
Book value per share (€)	3.44	1.92	1.54	1.51	2.07	2.36	2.77
Equity ratio	58.4%	46.1%	39.5%	40.2%	51.1%	54.0%	57.7%
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-14.9%	7.4%	15.0%	14.8%
Return on investment (ROI)	-10.2%	-29.7%	-14.8%	-6.0%	3.8%	8.1%	8.5%
Return on assets (ROA)	-9.6%	-28.8%	-12.7%	-2.6%	6.1%	9.6%	9.7%
Return on capital employed (ROCE)	-14.4%	-42.0%	-22.3%	-4.1%	11.6%	20.1%	21.6%
Days of sales outstanding (DSO)	86.9	57.8	76.7	58.6	60.0	60.0	60.0
Days of inventory turnover	73.6	94.0	91.5	79.3	80.0	80.0	80.0
Days in payables (DIP)	66.1	77.8	68.6	55.1	55.0	55.0	55.0



## CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
<b>EBIT</b>	<b>-4,269</b>	<b>-10,644</b>	<b>-4,898</b>	<b>-885</b>	<b>2,538</b>	<b>4,859</b>	<b>5,742</b>
Depreciation and amortisation	3,093	5,994	2,390	1,747	1,208	1,231	1,264
<b>EBITDA</b>	<b>-1,177</b>	<b>-4,650</b>	<b>-2,508</b>	<b>862</b>	<b>3,747</b>	<b>6,090</b>	<b>7,006</b>
Changes in working capital	-2,015	3,216	-3,541	1,362	-2,303	-2,140	-2,377
Other adjustments	-361	-429	818	-519	-976	-1,151	-1,457
<b>Operating cash flow</b>	<b>-3,553</b>	<b>-1,863</b>	<b>-5,231</b>	<b>1,704</b>	<b>468</b>	<b>2,799</b>	<b>3,172</b>
CAPEX	-181	-294	-301	-497	-514	-522	-600
Investments in intangibles	-452	-1,055	-619	-844	-770	-820	-857
<b>Free cash flow</b>	<b>-4,186</b>	<b>-3,212</b>	<b>-6,151</b>	<b>363</b>	<b>-816</b>	<b>1,458</b>	<b>1,715</b>
Acquisitions & disposals, net	1	12	205	33	0	0	0
Other investments	14	-146	150	0	0	0	0
<b>Investing cash flow</b>	<b>-618</b>	<b>-1,483</b>	<b>-565</b>	<b>-1,308</b>	<b>-1,284</b>	<b>-1,341</b>	<b>-1,457</b>
Debt financing, net	826	699	2,834	2,252	-1,410	0	-1,000
Equity financing, net	3,263	0	1,500	400	5,520	0	0
Dividend paid	0	0	0	0	0	0	0
Other financing	-946	-201	-60	-394	0	0	0
<b>Financing cash flow</b>	<b>3,143</b>	<b>498</b>	<b>4,274</b>	<b>2,258</b>	<b>4,110</b>	<b>0</b>	<b>-1,000</b>
Forex & other effects	8	4	1	-2	0	0	0
<b>Net cash flows</b>	<b>-1,020</b>	<b>-2,845</b>	<b>-1,521</b>	<b>2,653</b>	<b>3,295</b>	<b>1,458</b>	<b>715</b>
Cash, start of the year	7,143	6,123	3,277	1,756	4,694	7,989	9,447
<b>Cash, end of the year</b>	<b>6,123</b>	<b>3,277</b>	<b>1,756</b>	<b>4,409</b>	<b>7,989</b>	<b>9,447</b>	<b>10,162</b>
<b>EBITDA/share (in €)</b>	<b>-0.15</b>	<b>-0.54</b>	<b>-0.29</b>	<b>0.09</b>	<b>0.37</b>	<b>0.58</b>	<b>0.67</b>
<b>Y-Y Growth</b>							
Operating cash flow	n.m.	n.m.	n.m.	n.m.	-72.5%	497.6%	13.3%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	17.6%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	293.8%	57.9%	15.0%

**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...27	↓	↓	↓	↓
28	12 February 2018	€7.68	Add	€8.70
29	16 April 2018	€8.36	Add	€9.40
30	8 May 2018	€8.80	Add	€9.50
31	Today	€7.92	Add	€9.50

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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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

#### 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

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#### Legally required information regarding

- 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/>

**SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt**

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