

SFC Energy AG

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

Capital increase

RATING	ADD
PRICE TARGET	€ 12.60
Return Potential	0.8%
Risk Rating	High

€27M SUCCESSFULLY PLACED – UPGRADE TO ADD

SFC Energy has placed 2.7m shares and received gross proceeds of €27m. Given that equity amounted to €18m at the end of 2018, we view the size of the capital increase as a spectacular success for the company. We expect the equity ratio to increase from 43% at the end of 2018 to ca. 62% at the end of 2019. Based on a strong cash position of ca. €30m we believe that SFC will accelerate growth organically and/or via acquisitions. We have thus increased our medium-term forecasts. Furthermore, we have reduced our WACC due to the lowered balance sheet & financial risk. An updated DCF model yields a new price target of €12.60 (previously: €11.30). We upgrade the stock from Sell to Add.

Very successful capital increase SFC issued 2.7m shares at €10 per share and received gross proceeds of €27m. This increased equity from €18m to €45m resulting in a very high equity ratio of ca. 62%. SFC now has a very strong balance sheet and deep pockets to spur regional expansion and to penetrate the hydrogen fuel cell market.

9-20% growth and significantly higher underlying EBIT in 2019 SFC is guiding towards sales of €67-74m, which corresponds to a growth corridor of 9-20%. The company forecasts adjusted EBITDA of €4.5-7.0m, and adjusted EBIT of €3.5-6.0m. The EBITDA forecast was given without taking the effects of the adoption of the new IFRS 16 rule into account. The adjusted EBIT margin range is 5-8%. The main adjustment factor is the virtual stock option program (SAR), which resulted in expenses of €0.8m in Q1/19 and may cause further expenses depending on the share price development (FBe: Q2/19: €0.8m).

Medium-term outlook: sales >€100m and underlying EBITDA margin significantly higher than 10% by 2022 Sustainable macro trends in energy production such as decarbonisation, decentralisation, and digitalisation are boosting global demand for fuel cells which are reliable, efficient, and...

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	44.04	54.29	61.70	70.20	81.10	96.51
Y-o-y growth	-6.9%	23.3%	13.7%	13.8%	15.5%	19.0%
EBIT (€m)	-4.90	-0.88	1.33	3.66	5.62	7.72
EBIT margin	-11.1%	-1.6%	2.1%	5.2%	6.9%	8.0%
Net income (€m)	-4.99	-2.07	0.00	2.50	4.19	5.92
EPS (diluted) (€)	-0.58	-0.23	0.00	0.21	0.32	0.45
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-6.15	0.36	-0.37	2.15	0.80	2.40
Net gearing	53.5%	37.7%	13.5%	-54.9%	-51.2%	-49.8%
Liquid assets (€m)	2.04	4.69	7.81	32.22	31.64	37.83

RISKS

The main risks are internationalisation, unfavourable 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 15 Jul 2019

Closing Price	€ 12.50
Shares outstanding	12.95m
Market Capitalisation	€ 161.87m
52-week Range	€ 5.62 / 13.91
Avg. Volume (12 Months)	24,660

Multiples	2018	2019E	2020E
P/E	n.a.	64.8	38.7
EV/Sales	2.7	2.3	2.0
EV/EBIT	124.2	45.0	29.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 4.80m
Current Assets	€ 27.50m
Intangible Assets	€ 12.07m
Total Assets	€ 50.99m
Current Liabilities	€ 20.20m
Shareholders' Equity	€ 18.07m

SHAREHOLDERS

HPE	21.3%
DWS	8.4%
Havensight	7.5%
Other	12.5%
Free Float	50.3%



...emission-free providers of power. We forecast that SFC will generate €112m in revenues at an unadjusted 12.5% EBITDA margin in 2022E. Our unadjusted EBITDA margin is based on much higher depreciation than in the past as the new IFRS 16 rule (recognition of lease assets & liabilities) will increase depreciation by ca. €2m p.a.

Visit to SFC's fuel cell production site near Munich We recently met management and had a look at the production site. We were introduced to the different stages of the direct methanol fuel cell production process and were shown the newly established hydrogen fuel cell production area, which has already been equipped with a hydrogen fuel cell testing unit and connection pipes to a hydrogen fuelling station outside the building.

Expansion into Western U.S. SFC's subsidiary Simark Controls signed a sales cooperation agreement for its EFOY Pro hybrid fuel cell solutions with LaTech Equipment, Salt Lake City, Utah, in the Western U.S. LaTech is an industrial equipment specialist and will offer EFOY to oil & gas, mining, security, telecom & radio, environmental monitoring and rail signal & control customers in Utah, Idaho, Wyoming, Montana, Colorado and North Dakota. This is Simark's second US cooperation following the agreement with Vector Controls and Automation Group, Houston, Texas, in March 2019. Vector markets SFC's EFOY Pro hybrid fuel cell solutions to customers in the oil & gas, water and waste water industries in Texas, Kansas, Oklahoma and New Mexico. The cooperations expand SFC's territorial range from Canada further into the West and South of the United States.

Interest in hydrogen fuel cell sector reaches new peak In April, Bosch, the world's largest automotive supplier, formed an alliance with the fuel-cell stack manufacturer Powercell Sweden AB. Both companies will cooperate to make the polymer-electrolyte membrane (PEM) fuel cell ready for production. Bosch will then manufacture this technology under license for the global automotive market. Bosch expects that the share of electric vehicles worldwide powered by fuel cells will be as high as 20% by 2030.

In June, Cummins, a global player in the engine business with more than 60,000 employees and \$23.8 bn in revenue in 2018, announced the takeover of the Canadian fuel cell and electrolyser producer Hydrogenics. Cummins offered \$15.00 per Hydrogenics share in cash, representing an enterprise value of ca. \$290m.

SFC entered the hydrogen fuel cells market at the right point in time Based on a cooperation with adKor formed in November 2018, SFC has entered the hydrogen fuel cell market. We expect initial hydrogen fuel cell sales in Q4. The cooperation with adKor gives SFC access to an existing portfolio of hydrogen fuel cells, which is a perfect complement to SFC's own direct methanol fuel cell technology. The maximum capacity of SFC's direct methanol fuel cell technology is around 0.5 kW, whereas adKor's hydrogen fuel cell capacity starts at 0.5 kW and offers maximum power of up to 50 kW. In the midterm, SFC looks set to extend its power range to up to 100 kW. Hydrogen-based fuel cell technology will open up new markets for SFC and significantly enlarges the company's growth opportunity. Potential new markets are critical infrastructure, telecommunications, back-up power, and, in the long run, e-mobility and smart grids.

WACC lowered due to reduced balance sheet and financial risk Due to the €27m capital increase and the resulting high equity ratio (ca. 62%), we have lowered our WACC estimate from 9.9% to 9.5%.

Plenty of cash to spur organic and/or external growth Based on a current cash position of ca. €30m, SFC has ample financial resources to spur growth. We expect a rapid regional expansion, particularly in the US and China, including possible acquisitions. Furthermore, the introduction of hydrogen fuel cells looks set to drive sales. As the implementation of these measures will take some time and is currently difficult to quantify, we have, for the



time being, increased our forecasts from 2022E on. The higher share count results in lower EPS in 2019E and the coming years (see figure 1).

Figure 1: Revisions to forecasts

All figures in €m	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	70.20	70.20	0.0%	81.10	81.10	0.0%	96.51	96.51	0.0%
EBIT	3.66	3.66	0.0%	5.62	5.62	0.0%	7.72	7.72	0.0%
margin	5.2%	5.2%		6.9%	6.9%		8.0%	8.0%	
Net income	2.50	2.50	0.0%	4.19	4.19	0.0%	5.92	5.92	0.0%
margin	3.6%	3.6%		5.2%	5.2%		6.1%	6.1%	
EPS (diluted) in €	0.24	0.21	-11.4%	0.40	0.32	-20.5%	0.57	0.45	-20.5%

Source: First Berlin Equity Research

Upgrade to Add at increased price target An updated DCF model, which accounts for the lower WACC and higher medium-term forecasts, yields a new price target of €12.60 (previously: €11.30). We upgrade the stock from Sell to Add.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	70,200	81,100	96,509	111,950	128,539	146,068	164,260	182,776
NOPLAT	3,035	4,569	6,128	8,273	9,814	11,158	12,504	13,838
+ depreciation & amortisation	3,745	3,536	3,544	3,197	3,007	2,938	2,954	3,029
Net operating cash flow	6,781	8,104	9,672	11,470	12,821	14,096	15,458	16,867
- total investments (CAPEX and WC)	-4,630	-7,303	-7,272	-5,908	-6,347	-6,818	-7,216	-7,517
Capital expenditures	-2,668	-2,757	-2,220	-2,463	-2,723	-2,974	-3,211	-3,423
Working capital	-1,963	-4,546	-5,052	-3,446	-3,625	-3,844	-4,005	-4,094
Free cash flows (FCF)	2,151	801	2,400	5,562	6,474	7,277	8,243	9,351
PV of FCF's	2,063	701	1,919	4,063	4,319	4,433	4,585	4,750

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	62,202
PV of FCFs in terminal period	78,663
Enterprise value (EV)	140,865
+ Net cash / - net debt (pro forma)	24,931
+ Investments / minority interests	0
Shareholder value	165,796
Diluted number of shares	13,146
Fair value per share in EUR	12.61

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
5.5%	Cost of equity	25.76	28.00	30.98	35.16	41.44	51.90	72.88
6.5%	Pre-tax cost of debt	20.00	21.18	22.66	24.56	27.10	30.65	35.98
7.5%	Tax rate	16.23	16.92	17.74	18.74	20.00	21.62	23.77
8.5%	After-tax cost of debt	13.60	14.02	14.51	15.10	15.80	16.65	17.72
9.5%	Share of equity capital	11.67	11.94	12.25	12.61	13.03	13.53	14.12
10.5%	Share of debt capital	10.20	10.38	10.59	10.82	11.09	11.39	11.75
11.5%		9.06	9.18	9.32	9.48	9.65	9.85	10.07
12.5%		8.15	8.23	8.33	8.44	8.55	8.69	8.83
	Price target in EUR							

* for layout purposes the model shows numbers only to 2026, but runs until 2033



INCOME STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Revenues	44,041	54,292	61,704	70,200	81,100	96,509
Cost of goods sold	30,795	36,566	40,623	45,490	52,715	63,696
Gross profit	13,247	17,726	21,082	24,710	28,385	32,813
S&M	9,126	9,786	10,792	11,400	12,200	12,932
G&A	4,883	5,016	5,230	5,400	5,700	6,370
R&D	4,148	3,892	3,525	4,250	4,870	5,791
Other operating income	96	277	320	211	243	290
Other operating expenses	83	194	529	211	243	290
Operating income (EBIT)	-4,898	-885	1,325	3,660	5,615	7,721
Net financial result	-475	-1,150	-737	-536	-383	-207
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-5,373	-2,035	588	3,125	5,232	7,514
Income taxes	-380	37	589	625	1,046	1,593
Minority interests	0	0	0	0	0	0
Net income / loss	-4,993	-2,072	-1	2,500	4,185	5,921
Diluted EPS (in €)	-0.58	-0.23	0.00	0.21	0.32	0.45
EBITDA	-2,508	862	2,478	7,406	9,151	11,264
Ratios						
Gross margin	30.1%	32.6%	34.2%	35.2%	35.0%	34.0%
EBITDA margin on revenues	-5.7%	1.6%	4.0%	10.5%	11.3%	11.7%
EBIT margin on revenues	-11.1%	-1.6%	2.1%	5.2%	6.9%	8.0%
Net margin on revenues	-11.3%	-3.8%	0.0%	3.6%	5.2%	6.1%
Tax rate	7.1%	-1.8%	100.1%	20.0%	20.0%	21.2%
Expenses as % of revenues						
S&M	20.7%	18.0%	17.5%	16.2%	15.0%	13.4%
G&A	11.1%	9.2%	8.5%	7.7%	7.0%	6.6%
R&D	9.4%	7.2%	5.7%	6.1%	6.0%	6.0%
Other operating expenses	0.2%	0.4%	0.9%	0.3%	0.3%	0.3%
Y-Y Growth						
Revenues	-6.9%	23.3%	13.7%	13.8%	15.5%	19.0%
Operating income	n.m.	n.m.	n.m.	176.2%	53.4%	37.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	67.4%	41.5%



BALANCE SHEET

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Assets						
Current assets, total	20,056	21,849	28,289	54,928	57,387	68,987
Cash and cash equivalents	2,041	4,694	7,805	32,222	31,640	37,833
Short-term investments	0	0	0	0	0	0
Receivables	9,253	8,712	10,158	11,540	13,332	15,864
Inventories	7,718	7,939	9,753	10,593	11,843	14,310
Other current assets	1,044	504	573	573	573	980
Non-current assets, total	13,737	12,684	13,776	22,220	21,442	20,118
Property, plant & equipment	1,205	1,197	1,596	9,088	7,890	6,882
Goodwill & other intangibles	11,855	10,950	11,497	12,449	12,869	12,552
Other assets	678	537	684	684	684	684
Total assets	33,793	34,534	42,065	77,148	78,829	89,104
Shareholders' equity & debt						
Current liabilities, total	13,335	18,563	18,865	14,927	12,422	17,677
Short-term debt	4,317	9,410	7,198	3,000	2,000	6,900
Accounts payable	5,790	5,520	7,093	7,353	7,943	9,598
Current provisions	646	800	972	972	972	972
Other current liabilities	2,583	2,833	3,602	3,602	1,507	207
Long-term liabilities, total	7,119	2,076	4,996	14,517	14,517	13,617
Long-term debt	4,860	529	3,056	3,056	3,056	2,156
Deferred revenue	0	0	0	0	0	0
Other liabilities	2,259	1,547	1,940	11,461	11,461	11,461
Minority interests	0	0	0	0	0	0
Shareholders' equity	13,339	13,895	18,204	47,704	51,890	57,810
Share capital	9,047	9,659	10,250	12,950	12,950	12,950
Capital reserve	73,132	75,475	79,498	103,798	103,798	103,798
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-68,351	-70,423	-70,520	-68,020	-63,835	-57,914
Total consolidated equity and debt	33,793	34,534	42,065	77,148	78,829	89,104
Ratios						
Current ratio (x)	1.50	1.18	1.50	3.68	4.62	3.90
Quick ratio (x)	0.93	0.75	0.98	2.97	3.67	3.09
Net cash	-7,135	-5,245	-2,449	26,166	26,584	28,776
Net gearing	53.5%	37.7%	13.5%	-54.9%	-51.2%	-49.8%
Book value per share (€)	1.54	1.51	1.79	4.04	3.94	4.39
Equity ratio	39.5%	40.2%	43.3%	61.8%	65.8%	64.9%
Return on equity (ROE)	-37.4%	-14.9%	0.0%	5.2%	8.1%	10.2%
Return on investment (ROI)	-14.8%	-6.0%	0.0%	3.2%	5.3%	6.6%
Return on assets (ROA)	-12.7%	-2.6%	1.8%	4.0%	5.8%	7.0%
Return on capital employed (ROCE)	-22.3%	-4.1%	6.1%	13.2%	16.1%	20.0%
Days of sales outstanding (DSO)	76.7	58.6	60.1	60.0	60.0	60.0
Days of inventory turnover	91.5	79.3	87.6	85.0	82.0	82.0
Days in payables (DIP)	68.6	55.1	63.7	59.0	55.0	55.0



CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	-4,898	-885	1,325	3,660	5,615	7,721
Depreciation and amortisation	2,390	1,747	1,153	3,745	3,536	3,544
EBITDA	-2,508	862	2,478	7,406	9,151	11,264
Changes in working capital	-3,541	1,362	-1,417	-1,963	-4,546	-5,052
Other adjustments	818	-519	945	-625	-1,046	-1,593
Operating cash flow	-5,231	1,704	2,005	4,818	3,558	4,619
CAPEX	-301	-497	-928	-842	-892	-965
Investments in intangibles	-619	-844	-1,445	-1,825	-1,865	-1,255
Free cash flow	-6,151	363	-368	2,151	801	2,400
Acquisitions & disposals, net	205	33	0	0	0	0
Other investments	150	0	0	0	0	0
Investing cash flow	-565	-1,308	-2,373	-2,668	-2,757	-2,220
Debt financing, net	2,834	2,252	-1,786	-4,198	-1,000	4,000
Equity financing, net	1,500	400	4,220	27,000	0	0
Dividend paid	0	0	0	0	0	0
Other financing	-60	-394	1,045	-536	-383	-207
Financing cash flow	4,274	2,258	3,479	22,267	-1,383	3,793
Forex & other effects	1	-2	0	0	0	0
Net cash flows	-1,521	2,653	3,111	24,417	-582	6,193
Cash, start of the year	3,277	1,756	4,409	7,805	32,222	31,640
Cash, end of the year	1,756	4,409	7,520	32,222	31,640	37,833
EBITDA/share (in €)	-0.29	0.09	0.24	0.63	0.70	0.86

Y-Y Growth

Operating cash flow	n.m.	n.m.	17.7%	140.3%	-26.1%	29.8%
Free cash flow	n.m.	n.m.	n.m.	n.m.	-62.8%	199.6%
EBITDA/share	n.m.	n.m.	160.5%	157.1%	10.9%	23.1%

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...34	↓	↓	↓	↓
35	13 February 2019	€10.60	Add	€11.20
36	27 March 2019	€9.90	Add	€11.20
37	24 May 2019	€14.50	Sell	€11.30
38	Today	€12.50	Add	€12.60

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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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	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%

¹ 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.

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