

SFC Energy AG

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

Capital increase

RATING	ADD
PRICE TARGET	€ 17.00
Return Potential	12.3%
Risk Rating	High

€19M PLACED TO ACCELERATE GROWTH

SFC Energy successfully placed 1.3m shares at €14.77 per share and received gross proceeds of €19.4m. The company will use the cash to accelerate its growth. SFC plans to further expand its hydrogen business and is carefully examining acquisition and investment opportunities. Before the capital increase, the company guided for over €100m in sales with an underlying EBITDA margin of clearly above 10% in ca. three years. Now management sees hydrogen as an even stronger mid-term sales driver. We stick to our forecasts pending publication of further corporate news. Given the strengthened balance sheet we have lowered our WACC, yielding a new price target of €17.00 (previously: €15.80). We reiterate our Add rating.

Benefiting from the hydrogen boom In recent years, a new consensus has been established. Instead of betting on the "all electric society", politicians, scientists, and energy experts favour a mixture of green power and hydrogen to overcome the shortcomings of the all electric society (power cannot be stored directly and the use of power is not applicable to every energy-intensive process). Hydrogen is the perfect complement to green power. Due to its versatility it can be used in all three sectors (power, heat, and mobility). Its very high energy content (almost three times the energy content of gasoline) makes it a very powerful fuel. It is no accident that it has been used in spacecraft for decades. Furthermore, it is a very good store of energy even in the long term – a very important feature given that solar power production is often much weaker and energy consumption much higher in winter. Hydrogen can be produced with green power and its use does not emit greenhouse gases. To sum up, the transition towards sustainable energy production and consumption can be completed by the combination of 100% green power and hydrogen. This is the reason why so many governments have significantly increased their support for the ramp-up of green hydrogen capacity.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	54.29	61.70	58.54	53.50	66.80	81.27
Y-o-y growth	23.3%	13.7%	-5.1%	-8.6%	24.9%	21.7%
EBIT (€m)	-0.88	1.33	-1.29	-3.71	0.43	3.41
EBIT margin	-1.6%	2.1%	-2.2%	-6.9%	0.6%	4.2%
Net income (€m)	-2.07	0.00	-1.93	-3.76	0.06	2.28
EPS (diluted) (€)	-0.23	0.00	-0.17	-0.28	0.00	0.16
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.36	-0.37	-4.95	2.14	-3.10	-0.53
Net gearing	37.7%	13.2%	-15.2%	-49.4%	-43.2%	-40.0%
Liquid assets (€m)	4.69	7.81	21.19	39.69	40.23	40.39

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 01 Dec 2020

Closing Price	€ 15.14
Shares outstanding	14.47m
Market Capitalisation	€ 219.08m
52-week Range	€ 7.64 / 17.52
Avg. Volume (12 Months)	55,562

Multiples	2019	2020E	2021E
P/E	n.a.	n.a.	3837.2
EV/Sales	3.6	4.0	3.2
EV/EBIT	n.a.	n.a.	495.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2020

Liquid Assets	€ 12.52m
Current Assets	€ 39.08m
Intangible Assets	€ 15.57m
Total Assets	€ 65.09m
Current Liabilities	€ 15.59m
Shareholders' Equity	€ 36.62m

SHAREHOLDERS

HPE	14.9%
Dt. Asset & Wealth Mgmt	7.4%
Acatis	3.5%
Conduit Ventures	2.8%
Free Float	67.0%



According to the Hydrogen Council study “Path to Hydrogen Competitiveness”, 18 governments, whose economies represent 70% of the world's gross domestic product, have developed detailed strategies for the development of hydrogen-based energy solutions.

In July 2020 the EU Commission presented its plan “A Hydrogen Strategy for a Climate-Neutral Europe”, which envisages the installation of 6 GW of green hydrogen electrolyzers by 2024 and 40 GW by 2030. In June, the German federal government adopted its national hydrogen strategy. This predicts domestic hydrogen demand of 90-110 TWh by 2030 (currently: approx. 55 TWh).

Based on the cooperation with its partner, adKor, SFC has been developing a new generation of hydrogen fuel cells with embedded energy management aimed at power-intensive industrial off-grid and back-up applications. Hydrogen fuel cells are a good complement to SFC Energy's direct methanol fuel cell technology. The maximum capacity of SFC's direct methanol fuel cell technology is around 0.5 kW, which can be expanded by using a modular approach (two or three fuel cells combined). SFC's first hydrogen fuel cell (“Jupiter”) has a capacity of 2.5 kW, which can be increased by applying the modularity principle. But SFC is also set to develop larger hydrogen fuel cells with 10 and 20 kW capacities. In the midterm, SFC plans to extend their power range to up to 100 kW. This summer, SFC ramped up a new Jupiter hydrogen fuel cell production line. Production capacity is currently at ca. 1,200 units p.a. and can easily be tripled. In Q3/20, the sales contribution of hydrogen fuel cells was ca. €1.4m. Distribution channels will be rapidly developed in the next quarters. The recently concluded exclusive sales and partner agreement with Toyota Tsusho for hydrogen and methanol fuel cells for the Japanese market is a good example of regional business expansion. Hydrogen-based fuel cell technology will open up new markets for SFC and significantly increase the company's growth opportunity. Potential new markets are critical infrastructure, telecommunications, back-up power, and, in the long run, e-mobility as well as smart grids.

Furthermore, SFC will strengthen its research and development activities in the field of electrolysis for the on-site production of green hydrogen. This means that SFC will expand its product portfolio, which so far has focussed on fuel cells, to electrolyzers. An electrolyzer produces hydrogen from water and power. The electro-chemical process reverses the procedure in hydrogen fuel cells, which produce power from hydrogen. In simple words, electrolyzers produce and fuel cells consume hydrogen.

No concrete 2019 guidance due to low visibility, but stable medium-term outlook

New pandemic-related restrictions in many countries have lowered visibility further. SFC thus does not give concrete 2020 guidance. Management continues to expect lower revenues and profitability y/y but sticks to its medium-term outlook given in 2019 calling for sales of over €100m and underlying EBITDA clearly above 10% in the next three to four years. We forecast €98m in sales at an EBITDA margin of 10.3% in 2023.

We leave forecasts unchanged for the time being We believe that SFC will use the additional funds for external growth and await further corporate news before increasing our forecasts.

Add rating confirmed at higher price target The capital increase strengthens both the net cash position and equity. Based on the 9M figures and the capital increase, the net cash position is now ca. €21m, equity amounts to ca. €56m, and the equity ratio is ~66%. Given the very strong balance sheet and the prospect of profitable growth, we lower our WACC estimate from 7.5% to 7.2%. An updated DCF model yields a new price target of €17.00 (previously: €15.80). We confirm our Add recommendation.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	53,500	66,800	81,273	97,528	115,526	135,060	155,810	177,341
NOPLAT	-3,708	414	2,697	4,840	6,796	8,360	9,972	11,639
+ depreciation & amortisation	3,392	3,482	3,805	3,677	3,648	3,774	4,016	4,341
Net operating cash flow	-316	3,896	6,502	8,517	10,444	12,134	13,989	15,980
- total investments (CAPEX and WC)	2,039	-7,000	-7,028	-7,581	-8,555	-9,482	-10,328	-11,046
Capital expenditures	-3,210	-3,540	-3,657	-3,804	-4,358	-4,924	-5,482	-6,013
Working capital	5,249	-3,459	-3,371	-3,778	-4,197	-4,558	-4,846	-5,033
Free cash flows (FCF)	1,722	-3,104	-526	935	1,889	2,652	3,661	4,934
PV of FCF's	1,713	-2,880	-455	756	1,423	1,864	2,400	3,019

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	46,595
PV of FCFs in terminal period	173,351
Enterprise value (EV)	219,946
+ Net cash / - net debt (p.f.)	25,789
+ Investments / minority interests	0
Shareholder value	245,735
Diluted number of shares	14,470
Fair value per share in EUR	16.98

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	9.6%							
Pre-tax cost of debt	5.0%							
Tax rate	30.0%							
After-tax cost of debt	3.5%							
Share of equity capital	60.0%							
Share of debt capital	40.0%							
Price target in EUR	17.00							

* for layout purposes the model shows numbers only to 2027, but runs until 2034



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	54,292	61,704	58,538	53,500	66,800	81,273
Cost of goods sold	36,566	40,623	38,410	35,751	44,070	53,721
Gross profit	17,726	21,082	20,128	17,749	22,730	27,552
S&M	9,786	10,792	12,438	11,500	12,100	13,410
G&A	5,016	5,230	5,994	7,150	5,700	6,014
R&D	3,892	3,525	3,104	2,700	4,500	4,714
Other operating income	277	320	178	161	200	244
Other operating expenses	194	529	57	268	200	244
Operating income (EBIT)	-885	1,325	-1,288	-3,708	430	3,413
Net financial result	-1,150	-737	-752	-465	-357	-416
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-2,035	588	-2,040	-4,173	72	2,997
Income taxes	37	589	-113	-417	15	716
Minority interests	0	0	0	0	0	0
Net income / loss	-2,072	-1	-1,927	-3,756	57	2,281
Diluted EPS (in €)	-0.23	0.00	-0.17	-0.28	0.00	0.16
EBITDA	862	2,478	2,042	-316	3,912	7,219
One-off costs / earnings	592	1,227	1,589	0	0	0
Underlying EBITDA	1,454	3,705	3,631	-316	3,912	7,219
Underlying EBIT	177	2,553	301	-3,708	430	3,413
Ratios						
Gross margin	32.6%	34.2%	34.4%	33.2%	34.0%	33.9%
EBITDA margin on revenues	1.6%	4.0%	3.5%	-0.6%	5.9%	8.9%
EBIT margin on revenues	-1.6%	2.1%	-2.2%	-6.9%	0.6%	4.2%
Net margin on revenues	-3.8%	0.0%	-3.3%	-7.0%	0.1%	2.8%
Tax rate	-1.8%	100.1%	5.5%	10.0%	21.2%	23.9%
Expenses as % of revenues						
S&M	18.0%	17.5%	21.2%	21.5%	18.1%	16.5%
G&A	9.2%	8.5%	10.2%	13.4%	8.5%	7.4%
R&D	7.2%	5.7%	5.3%	5.0%	6.7%	5.8%
Other operating expenses	0.4%	0.9%	0.1%	0.5%	0.3%	0.3%
Y-Y Growth						
Revenues	23.3%	13.7%	-5.1%	-8.6%	24.9%	21.7%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	694.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	3894.9%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	21,849	28,289	47,818	58,858	64,224	69,339
Cash and cash equivalents	4,694	7,805	21,192	39,694	40,233	40,391
Short-term investments	0	0	0	0	0	0
Receivables	8,712	10,158	13,773	9,527	11,896	14,473
Inventories	7,939	9,753	12,032	8,815	10,867	13,246
Other current assets	504	573	822	822	1,229	1,229
Non-current assets, total	12,684	13,776	25,040	24,859	24,917	24,770
Property, plant & equipment	1,197	1,596	9,869	8,455	7,343	6,360
Goodwill & other intangibles	10,950	11,497	13,921	15,154	16,324	17,160
Other assets	537	684	1,250	1,250	1,250	1,250
Total assets	34,534	42,065	72,859	83,717	89,141	94,109
Shareholders' equity & debt						
Current liabilities, total	18,563	18,865	20,514	14,949	21,216	20,039
Short-term debt	9,410	7,154	5,352	2,000	6,900	4,137
Accounts payable	5,520	7,093	8,090	5,877	7,244	8,831
Current provisions	800	972	1,263	1,263	1,263	1,263
Liabilities under finance leases	0	44	2,278	2,278	2,278	2,278
Other current liabilities	2,833	3,602	3,531	3,531	3,531	3,531
Long-term liabilities, total	2,076	4,996	12,085	12,085	11,184	15,048
Long-term debt	529	3,056	3,953	3,953	3,053	6,916
Liabilities under finance leases	0	54	5,755	5,755	5,755	5,755
Other liabilities	1,547	1,886	2,376	2,376	2,376	2,376
Minority interests	0	0	0	0	0	0
Shareholders' equity	13,895	18,204	40,260	56,683	56,741	59,021
Share capital	9,659	10,250	12,950	14,470	14,470	14,470
Capital reserve	75,475	79,498	100,417	119,076	119,076	119,076
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-70,423	-70,520	-72,447	-76,203	-76,146	-73,865
Total consolidated equity and debt	34,534	42,065	72,859	83,717	89,141	94,109
Ratios						
Current ratio (x)	1.18	1.50	2.33	3.94	3.03	3.46
Quick ratio (x)	0.75	0.98	1.74	3.35	2.51	2.80
Net cash	-5,245	-2,405	6,132	27,985	24,525	23,583
Net gearing	37.7%	13.2%	-15.2%	-49.4%	-43.2%	-40.0%
Book value per share (€)	1.51	1.79	3.50	4.28	3.92	4.08
Equity ratio	40.2%	43.3%	55.3%	67.7%	63.7%	62.7%
Return on equity (ROE)	-14.9%	0.0%	-4.8%	-6.6%	0.1%	3.9%
Return on investment (ROI)	-6.0%	0.0%	-2.6%	-4.5%	0.1%	2.4%
Return on assets (ROA)	-2.6%	1.8%	-1.6%	-3.9%	0.5%	3.0%
Return on capital employed (ROCE)	-4.1%	6.1%	-4.2%	-10.3%	1.2%	8.9%
Days of sales outstanding (DSO)	58.6	60.1	85.9	65.0	65.0	65.0
Days of inventory turnover	79.3	87.6	114.3	90.0	90.0	90.0
Days in payables (DIP)	55.1	63.7	76.9	60.0	60.0	60.0



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	-885	1,325	-1,288	-3,708	430	3,413
Depreciation and amortisation	1,747	1,153	3,330	3,392	3,482	3,805
EBITDA	862	2,478	2,042	-316	3,912	7,219
Changes in working capital	1,362	-1,417	-5,026	5,249	-3,459	-3,371
Other adjustments	-519	945	1,723	417	-15	-716
Operating cash flow	1,704	2,005	-1,261	5,350	437	3,132
Investments in PP&E	-497	-928	-1,110	-856	-1,002	-1,219
Investments in intangibles	-844	-1,445	-2,582	-2,354	-2,538	-2,438
Free cash flow	363	-368	-4,952	2,140	-3,104	-526
Acquisitions & disposals, net	33	0	64	0	0	0
Other investments	0	0	0	0	0	0
Investing cash flow	-1,308	-2,373	-3,628	-3,210	-3,540	-3,657
Debt financing, net	2,252	-1,786	-5,258	-3,352	4,000	1,100
Equity financing, net	400	4,220	27,000	20,179	0	0
Dividend paid	0	0	0	0	0	0
Other financing	-394	1,045	-3,467	-465	-357	-416
Financing cash flow	2,258	3,479	18,275	16,362	3,643	684
Forex & other effects	-2	0	0	0	0	0
Net cash flows	2,653	3,111	13,387	18,502	539	158
Cash, start of the year	1,756	4,409	7,520	21,192	39,694	40,233
Cash, end of the year	4,409	7,520	20,907	39,694	40,233	40,391
EBITDA/share (in €)	0.09	0.24	0.18	-0.02	0.27	0.50

Y-Y Growth

Operating cash flow	n.m.	17.7%	n.m.	n.m.	-91.8%	616.8%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	160.5%	-27.2%	n.m.	n.m.	84.5%

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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.

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.

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...38	↓	↓	↓	↓
39	29 August 2019	€10.10	ADD	€11.90
40	18 November 2019	€9.22	Add	€10.00
41	13 February 2020	€12.20	Reduce	€11.40
42	23 March 2020	€9.00	Add	€9.40
43	2 April 2020	€9.02	Add	€9.40
44	20 May 2020	€9.79	Reduce	€9.40
45	25 August 2020	€14.86	Reduce	€14.00
46	18 November 2020	€14.92	Add	€15.80
47	Today	€15.14	Add	€17.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

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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: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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