

SFC Energy AG

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

Preliminary
 2023 figures

RATING
BUY

PRICE TARGET
€ 34.00

Return Potential 93.6%
 Risk Rating High

IN GOOD SHAPE FOR FURTHER PROFITABLE GROWTH

SFC Energy is guiding towards strong sales growth of ca. 20% to 30% y/y (sales of €142m - €154m) in 2024. Adjusted EBITDA is forecasted to reach between €17.5m and €22.4m, a plus of between 15% and 47% compared to the 2023 figure. Guidance is in line with our forecast. We expect strong and profitable growth thanks to regional expansion (in particular North America and Asia) and SFC's market leading position in the direct methanol fuel cell business. SFC is offering mature industrial products and has an established global marketing network. Preliminary 2023 figures were slightly above the previously reported figures. Sales rose to €118.1m (+39% y/y), adjusted EBITDA amounted to €15.2m (+86% y/y, margin: 12.8%), and adjusted EBIT more than tripled to €9.7m (margin: 8.2%). An updated DCF model yields an unchanged €34 price target. We confirm our Buy recommendation.

2024 guidance: 20% - 30% topline growth After a very successful 2023 with strong growth and significant margin expansion, SFC is guiding towards sales of €141.7m - €153.5m in 2024 (see figure 1 overleaf). Management sees rising demand in all markets with the strongest growth momentum in North America and Asia, and expects Clean Energy segment growth of ca. 20%-30% and Clean Power Management segment sales to rise ca. 10%-15% in 2024.

Forecasted adjusted EBITDA of €17.5m to €22.4m translates into a margin of between 12.4% and 14.6% (2023: 12.8%). Adjusted EBIT guidance is €9.8m to €14.7m, which corresponds to a margin of 6.9% to 9.6% (2023: 8.2%). In the best case, SFC will thus grow strongly with increasing margins. In the worst case, SFC will still show strong growth at roughly stable margins.

Record year 2023 SFC easily cleared the €100m sales hurdle and delivered a significant adjusted EBIT margin expansion to 8.2% (2022: 3.7%). Both segments contributed to the strong growth. The Clean Energy segment topline rose 37% y/y to €79.0m. The main drivers were industrial and public security markets. Clean Power Management segment sales were... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (€m)	53.22	64.32	85.23	118.15	150.76	195.99
Y-o-y growth	-9.1%	20.9%	32.5%	38.6%	27.6%	30.0%
EBIT (€m)	-4.50	-5.11	3.60	9.33	13.02	19.60
EBIT margin	-8.5%	-7.9%	4.2%	7.9%	8.6%	10.0%
Net income (€m)	-5.18	-5.83	2.02	6.96	9.56	14.24
EPS (diluted) (€)	-0.39	-0.40	0.13	0.40	0.55	0.82
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.87	-2.70	-9.96	-5.57	-3.47	-3.00
Net gearing	-37.7%	-34.8%	-50.8%	-42.6%	-36.4%	-30.2%
Liquid assets (€m)	31.75	24.62	64.80	58.22	54.82	51.73

RISKS

The main risks are internationalisation, 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 23 Feb 2024

Closing Price	€ 17.56
Shares outstanding	17.36m
Market Capitalisation	€ 304.91m
52-week Range	€ 15.92 / 24.90
Avg. Volume (12 Months)	41,071

Multiples	2022	2023E	2024E
P/E	150.9	43.8	31.9
EV/Sales	3.0	2.2	1.7
EV/EBIT	70.8	27.3	19.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2023

Liquid Assets	€ 56.80m
Current Assets	€ 120.72m
Intangible Assets	€ 19.72m
Total Assets	€ 157.69m
Current Liabilities	€ 31.12m
Shareholders' Equity	€ 110.39m

SHAREHOLDERS

DWS	4.9%
Acatis	4.7%
Hansainvest	2.5%
Conduit Ventures	2.1%
Free Float	85.9%

**Figure 1: 2024 guidance and FB estimates**

in €m	Guidance	FBe
Sales	141.7 - 153.5	150.8
Adjusted EBITDA	17.5 - 22.4	20.7
Adjusted EBIT	9.8 - 14.7	13.0

Source: First Berlin Equity Research, SFC Energy AG

...up 42% y/y at €39.1m (see figure 2). The segment benefitted from catch-up effects following supply bottlenecks in the electronics industry in 2022.

Figure 2: Reported preliminary figures

in €m	2023P	2022A	Delta
Sales	118.1	85.2	39%
of which Clean Energy	79.0	57.6	37%
of which Clean Power Mgmt.	39.1	27.6	42%
Adjusted EBITDA	15.2	8.2	86%
Margin	12.8%	9.6%	-
Adjusted EBIT	9.7	3.2	207%
Margin	8.2%	3.7%	-

Source: First Berlin Equity Research, SFC Energy AG

Order backlog up despite lower order intake In 2023, incoming orders amounted to €124.8m, which is 2% below the prior year figure of €127.2m. SFC's order backlog as of end December 2023 increased by ca. 10% to €81.3m versus €74.2m at the end of 2022. As these figures do not directly indicate annual sales growth of 20% to 30%, management pointed out that they expect some larger contracts to be concluded in Q1.

North America is fastest growing region SFC generated ca. €54m or 46% of total sales in North America. US sales more than doubled and Canada grew 24%. SFC is ramping up its new US business unit in Salt Lake City (sales, service & logistics). The unit is planned to be operational in Q2.

90% growth in India The Indian production site is now the base not only for India but also for other parts of Asia. SFC is actively looking for supply chain opportunities in India to lower material costs.

Capacity expansion in Europe almost complete SFC doubled fuel-cell capacity in Germany and started production in Romania with ca. 1,000 units produced in the last months of 2023. Construction of the new facility in Cluj is currently in its final stages and production is scheduled to be shifted to the new site in Q2. SFC is thus well prepared for strong growth.

UK MEA production ramp-up in Q2 Membrane electrode assembly (MEA) in the UK is scheduled to ramp up in Q2 with first deliveries in the second half of the quarter. Site construction is ongoing and SFC is hiring membrane experts. Although the own MEA production will initially increase costs compared to third party supply, we believe that SFC's own MEA production is a long-term competitive advantage as the MEA belongs to the most expensive parts of the bill of materials and offers large cost reduction potential.



Slower adoption of hydrogen no problem for SFC The hydrogen market take-off takes longer than initially expected. SFC thus sticks to its direct methanol fuel cell / hydrogen fuel cell revenue contributions of roughly 90/10 for 2024. We believe that the market introduction of SFC's 50 kW - 200 kW hydrogen fuel cell solutions scheduled for Q4/24 will take place at a point in time when the hydrogen market is more mature. As market leader in direct methanol fuel cells, SFC is currently not dependent on the development of the hydrogen market. The recent EU approval of the IPCEI HyInfra wave (33 Important Projects of Common European Interest (IPCEI), which will receive up to €6.9 bn in public funding) shows that the EU hydrogen market has reached another milestone.

Medium term outlook hints at strong growth and further margin expansion by 2028

SFC targets 2028 revenue of €400m - €500m. An organic 2023-2028 CAGR of almost 28% should result in revenue of ca. €400m, and the remaining €100m could come from M&A. SFC is aiming for an adjusted EBITDA margin of >15% before 2028.

Main risks: staff & IT SFC hired approx. 130 staff in 2023 and is looking for another 100. Human resources may thus become a challenge for growth. In 2024, the company will implement a uniform ERP platform (SAP), which requires significant financial and human resources and could lead to some hiccups.

Forecasts largely unchanged Apart from adjusting our 2023 estimates for the released figures, we largely stick to our forecasts. We have accounted for slightly higher CAPEX (>€10m) and D&A (€7.7m) in 2024.

Figure 3: Revisions to forecasts

All figures in €m	2023E			2024E			2025E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	118.0	118.1	0%	150.8	150.8	0%	196.0	196.0	0%
Adjusted EBIT	9.5	9.7	2%	13.0	13.0	0%	19.6	19.6	0%
margin	8.0%	8.2%		8.6%	8.6%		10.0%	10.0%	
Net income	6.8	7.0	2%	9.6	9.6	0%	14.2	14.2	0%
margin	5.8%	5.9%		6.4%	6.3%		7.2%	7.3%	
EPS (diluted) in €	0.39	0.40	2%	0.55	0.55	0%	0.82	0.82	0%

Source: First Berlin Equity Research

Why we like SFC The company is clear market leader for direct methanol fuel cells with an industrialised product offering and established global market access. SFC is one of the very few profitable players in the fuel cell business. The company has a rock-solid balance sheet with a large net cash position (9M/23: €42m) and high equity ratio of 70%.

Next share price drivers We expect new large orders in Q1 and strong Q1 and H1 sales growth as management pointed to strong demand in H1. The geopolitical situation (Ukraine-Russia war, Israel-Hamas war, Huthi attacks on international supply chains) will lead to higher public security spending. We believe that SFC's public security products will benefit from this development.

Buy rating reiterated at unchanged price target An updated DCF model yields an unchanged price target of €34. We confirm our Buy recommendation.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2023 E	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E
Net sales	118,148	150,760	195,988	248,905	310,678	381,005	458,937	542,798
NOPLAT	6,922	9,485	14,331	18,349	23,967	29,677	35,854	42,479
+ depreciation & amortisation	5,462	7,704	7,837	7,933	8,051	8,552	9,366	10,425
Net operating cash flow	12,384	17,189	22,169	26,282	32,018	38,229	45,220	52,904
- total investments (CAPEX and WC)	-17,954	-20,657	-25,168	-27,323	-32,503	-37,526	-42,284	-46,429
Capital expenditures	-9,688	-11,005	-9,015	-8,463	-10,139	-11,915	-13,726	-15,494
Working capital	-8,266	-9,651	-16,152	-18,860	-22,364	-25,611	-28,557	-30,934
Free cash flows (FCF)	-5,570	-3,468	-2,999	-1,041	-485	703	2,936	6,475
PV of FCF's	-5,570	-3,245	-2,597	-834	-360	482	1,864	3,805

All figures in thousands		
PV of FCFs in explicit period (2023E-2037E)	95,107	
PV of FCFs in terminal period	450,903	
Enterprise value (EV)	546,010	
+ Net cash / - net debt (pro forma)	50,398	Terminal growth rate: 3.0%
+ Investments / minority interests	0	Terminal EBIT margin: 11.0%
Shareholder value	596,408	
Diluted number of shares	17,556	
Fair value per share in EUR	33.97	

WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	11.1%	6.6%	43.27	45.97	49.34	53.64	59.36	67.31	79.12
Pre-tax cost of debt	5.0%	7.1%	37.91	39.91	42.34	45.38	49.26	54.42	61.59
Tax rate	30.0%	7.6%	33.51	35.02	36.81	39.01	41.74	45.24	49.89
After-tax cost of debt	3.5%	8.1%	29.86	31.00	32.35	33.97	35.95	38.40	41.56
Share of equity capital	60.0%	8.6%	26.78	27.66	28.69	29.90	31.36	33.13	35.34
Share of debt capital	40.0%	9.1%	24.16	24.85	25.64	26.56	27.65	28.96	30.55
Price target in EUR	34.00	9.6%	21.91	22.45	23.07	23.78	24.60	25.58	26.75

* for layout purposes the model shows numbers only to 2030, but runs until 2037



INCOME STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Revenues	53,223	64,320	85,229	118,148	150,760	195,988
Cost of goods sold	35,307	41,682	53,823	73,015	94,169	123,472
Gross profit	17,915	22,638	31,406	45,133	56,591	72,516
S&M	12,122	15,051	14,187	15,825	20,051	25,086
G&A	7,125	10,292	10,293	14,780	16,885	19,991
R&D	2,843	3,257	4,441	6,026	6,633	7,840
Other operating income	157	904	2,521	2,717	1,508	1,960
Other operating expenses	483	48	1,407	1,890	1,508	1,960
Operating income (EBIT)	-4,501	-5,105	3,599	9,329	13,021	19,599
Net financial result	-443	-410	-609	37	76	-90
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-4,945	-5,515	2,990	9,366	13,097	19,509
Income taxes	239	315	970	2,407	3,536	5,267
Minority interests	0	0	0	0	0	0
Net income / loss	-5,184	-5,829	2,020	6,959	9,561	14,241
Diluted EPS (in €)	-0.39	-0.40	0.13	0.40	0.55	0.82
Adjusted EBITDA (AEBITDA)	2,936	6,233	8,150	15,158	20,725	27,436
One-off costs / earnings (-/+)	-3,922	-7,030	443	-367	0	0
EBITDA	-986	-797	8,593	14,791	20,725	27,436
Adjusted EBIT (AEBIT)	-579	1,925	3,156	9,696	13,021	19,599
Ratios						
Gross margin	33.7%	35.2%	36.8%	38.2%	37.5%	37.0%
EBITDA margin on revenues	-1.9%	-1.2%	10.1%	12.5%	13.7%	14.0%
Adjusted EBITDA margin on revenues	5.5%	9.7%	9.6%	12.8%	13.7%	14.0%
EBIT margin on revenues	-8.5%	-7.9%	4.2%	7.9%	8.6%	10.0%
Adjusted EBIT margin on revenues	-1.1%	3.0%	3.7%	8.2%	8.6%	10.0%
Net margin on revenues	-9.7%	-9.1%	2.4%	5.9%	6.3%	7.3%
Tax rate	-4.8%	-5.7%	32.4%	25.7%	27.0%	27.0%
Expenses as % of revenues						
S&M	22.8%	23.4%	16.6%	13.4%	13.3%	12.8%
G&A	13.4%	16.0%	12.1%	12.5%	11.2%	10.2%
R&D	5.3%	5.1%	5.2%	5.1%	4.4%	4.0%
Other operating expenses	0.9%	0.1%	1.7%	1.6%	1.0%	1.0%
Y-Y Growth						
Revenues	-9.1%	20.9%	32.5%	38.6%	27.6%	30.0%
Operating income	n.m.	n.m.	n.m.	159.2%	39.6%	50.5%
Net income/ loss	n.m.	n.m.	n.m.	244.5%	37.4%	49.0%



BALANCE SHEET

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
Assets						
Current assets, total	58,447	58,724	113,146	117,781	127,517	145,397
Cash and cash equivalents	31,750	24,623	64,803	58,215	54,823	51,734
Short-term investments	0	385	385	385	385	385
Receivables	13,031	17,851	19,376	27,514	35,108	45,641
Inventories	12,617	14,185	24,921	28,006	33,540	43,976
Other current assets	1,049	1,680	3,661	3,661	3,661	3,661
Non-current assets, total	27,882	28,641	34,025	38,251	41,552	42,730
Property, plant & equipment	9,985	8,887	13,396	15,101	16,601	16,657
Goodwill & other intangibles	15,999	17,698	18,576	21,097	22,898	24,021
Other assets	1,898	2,056	2,053	2,053	2,053	2,053
Total assets	86,330	87,365	147,171	156,031	169,069	188,127
Shareholders' equity & debt						
Current liabilities, total	18,780	20,998	26,591	28,493	31,970	36,787
Short-term debt	4,340	2,735	4,055	3,000	3,000	3,000
Accounts payable	4,742	7,642	9,046	12,003	15,480	20,297
Current provisions	1,583	2,020	2,064	2,064	2,064	2,064
Liabilities under finance leases	1,353	1,860	2,009	2,009	2,009	2,009
Other current liabilities	6,762	6,741	9,417	9,417	9,417	9,417
Long-term liabilities, total	12,711	16,348	17,143	17,143	17,143	17,143
Long-term debt	209	0	0	0	0	0
Liabilities under finance leases	6,548	4,891	8,552	8,552	8,552	8,552
Other liabilities	5,954	11,458	8,591	8,591	8,591	8,591
Minority interests	0	0	0	0	0	0
Shareholders' equity	54,838	50,018	103,437	110,395	119,956	134,198
Share capital	14,470	14,470	17,364	17,364	17,364	17,364
Capital reserve	119,118	119,637	168,262	168,262	168,262	168,262
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-77,631	-83,461	-81,441	-74,482	-64,921	-50,680
Total consolidated equity and debt	86,330	87,365	147,171	156,031	169,069	188,127
Ratios						
Current ratio (x)	3.11	2.80	4.25	4.13	3.99	3.95
Quick ratio (x)	2.44	2.12	3.32	3.15	2.94	2.76
Net cash	20,653	17,382	52,581	47,048	43,656	40,567
Net gearing	-37.7%	-34.8%	-50.8%	-42.6%	-36.4%	-30.2%
Book value per share (€)	4.14	3.46	6.60	6.36	6.91	7.73
Equity ratio	63.5%	57.3%	70.3%	70.8%	71.0%	71.3%
Return on equity (ROE)	-9.5%	-11.7%	2.0%	6.3%	8.0%	10.6%
Return on investment (ROI)	-6.0%	-6.7%	1.4%	4.5%	5.7%	7.6%
Return on assets (ROA)	-5.5%	-6.2%	1.8%	4.9%	6.1%	7.9%
Return on capital employed (ROCE)	-11.2%	-11.6%	6.7%	13.7%	16.1%	20.4%
Days of sales outstanding (DSO)	89	101	83	85	85	85
Days of inventory turnover	130	124	169	140	130	130
Days in payables (DIP)	49	67	61	60	60	60



CASH FLOW STATEMENT

All figures in EUR '000	2020A	2021A	2022A	2023E	2024E	2025E
EBIT	-4,501	-5,105	3,599	9,329	13,021	19,599
Depreciation and amortisation	3,516	4,308	4,993	5,462	7,704	7,837
EBITDA	-986	-797	8,593	14,791	20,725	27,436
Changes in working capital	-4,300	-5,086	-13,135	-8,266	-9,651	-16,152
Other adjustments	4,691	6,961	-219	-2,407	-3,536	-5,267
Operating cash flow	-595	1,078	-4,761	4,118	7,538	6,016
Investments in PP&E	-943	-1,021	-2,146	-4,726	-6,030	-4,704
Investments in intangibles	-3,336	-2,762	-3,056	-4,962	-4,975	-4,312
Free cash flow	-4,874	-2,705	-9,963	-5,570	-3,468	-2,999
Acquisitions & disposals, net	0	9	0	0	0	0
Other investments	0	-99	0	0	0	0
Investing cash flow	-4,279	-3,873	-5,202	-9,688	-11,005	-9,015
Debt financing, net	-2,953	-654	-239	-1,055	0	0
Equity financing, net	19,665	0	56,432	0	0	0
Dividend paid	0	0	0	0	0	0
Other financing	-1,280	-3,392	-6,017	37	76	-90
Financing cash flow	15,432	-4,046	50,176	-1,018	76	-90
Forex & other effects	0	0	-32	0	0	0
Net cash flows	10,558	-6,842	40,181	-6,588	-3,392	-3,089
Cash, start of the year	21,192	31,750	24,623	64,803	58,215	54,823
Cash, end of the year	31,464	24,908	64,803	58,215	54,823	51,734
EBITDA/share (in €)	-0.07	-0.06	0.55	0.85	1.19	1.58
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	83.0%	-20.2%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	55.4%	40.1%	32.4%

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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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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...58	↓	↓	↓	↓
59	18 November 2022	€20.15	Buy	€35.00
60	17 February 2023	€21.90	Buy	€35.00
61	19 April 2023	€21.25	Buy	€36.00
62	25 May 2023	€21.90	Buy	€36.00
63	24 August 2023	€23.75	Buy	€36.00
64	16 November 2023	€19.86	Buy	€34.00
65	4 December 2023	€21.10	Buy	€34.00
66	7 February 2024	€18.86	Buy	€34.00
67	Today	€17.56	Buy	€34.00

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

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