

# PSI AG

Germany / Software  
 Primary exchange: Frankfurt  
 Bloomberg: PSAN GR  
 ISIN: DE000A0Z1JH9

Q1 2016 results

**RATING**  
**PRICE TARGET** **ADD**  
**€14.00**  
 Return Potential 6.3%  
 Risk Rating Medium

## ON TRACK FOR 2016 GUIDANCE FOLLOWING 13% ORDER GROWTH

Q1/16 results showed a slow start to the year for sales which declined 1.4% to €42.6m (Q1/15: €43.2m) while EBIT climbed to €2.2m (Q1/15: €1.7m). However, the 13% increase in the order intake to €70m, to which all three business segments contributed, suggests that sales growth will pick up during the three remaining quarters of this year. Management guidance in the annual report for a mid-single digit percentage rise in sales and the order intake as well as EBIT in the €11-13m range thus looks achievable. We are leaving our forecasts and €14.00 price target unchanged and maintain our Add recommendation.

### Order intake rose at all three businesses within Energy Management

Energy Management segment sales rose by a modest 1.3% to €15.8m (Q1/15: €15.6m) but segmental EBIT jumped to €1.4m (Q1/15: €0.8m), equating to a margin improvement from 5.0% to 8.9% (see figure 1 overleaf). We gather from talking to management that Electrical Energy division sales climbed by a double digit percentage as it continued to benefit from the resurgence in investment by German power grid operators. Gas and Oil business sales fell but its EBIT improved, while the Energy Trading division recorded flat sales and broke even at the EBIT level. The order intake rose at all three Energy Management businesses. Orders at the Electrical Energy division included network management contracts from customers such as Netze BW, the Swedish rail company, Trafikverket, and Tiroler Wasserkraft. In the Gas and Oil business falling orders from Russia were outweighed by rising volume from Germany and western Europe.

**Orders also up at Metals despite sector downturn** Production Management sales fell 1.4% to €21.3m (Q1/15: €21.6m) as sales in the Metals division weakened as a consequence of the downturn in the steel cycle. Segmental EBIT was flat at €1.5m. Despite the steel downturn, Metals was able to book a clear increase in its orders with most of the incremental volume coming from Germany and other European countries. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	176.33	175.39	183.68	194.48	208.22	222.55
Y-o-y growth	-2.5%	-0.5%	4.7%	5.9%	7.1%	6.9%
EBIT (€m)	4.17	7.66	11.11	12.76	15.68	17.82
EBIT margin	2.4%	4.4%	6.0%	6.6%	7.5%	8.0%
Net income (€m)	0.37	4.10	7.46	8.99	10.88	12.63
EPS (diluted) (€)	0.02	0.26	0.48	0.58	0.70	0.81
DPS (€)	0.00	0.00	0.21	0.23	0.25	0.32
FCF (€m)	-3.85	9.74	11.78	6.89	8.46	10.11
Net gearing	36.6%	33.7%	15.9%	10.5%	3.8%	-3.3%
Liquid assets (€m)	21.80	29.31	38.83	40.84	45.18	51.19

### RISKS

Risks include an interruption in the current upturn in German electricity distribution network investment

### COMPANY PROFILE

PSI makes software control systems, primarily for energy, utility companies and metals producers. Customers also include manufacturers and the operators of transportation networks. The company's control system products are widespread in its core German market.

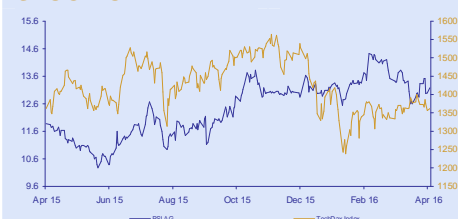
### MARKET DATA

As of 02 May 2016

Closing Price € 13.16  
 Shares outstanding 15.70m  
 Market Capitalisation € 206.66m  
 52-week Range € 10.27 / 14.43  
 Avg. Volume (12 Months) 12,068

Multiples	2015	2016E	2017E
P/E	27.6	22.9	18.9
EV/Sales	1.2	1.1	1.0
EV/EBIT	19.4	16.9	13.8
Div. Yield	1.6%	1.7%	1.9%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2016

Liquid Assets € 41.21m  
 Current Assets € 125.40m  
 Intangible Assets € 59.83m  
 Total Assets € 203.78m  
 Current Liabilities € 79.81m  
 Shareholders' Equity € 75.40m

### SHAREHOLDERS

RWE Deutschland AG 17.8%  
 Harvinder Singh 8.1%  
 Free float 74.1%

The Mines & Roads division worked on maintenance transition of the mining system. The loss of c. €0.3m recorded by this business in Q1/15 narrowed significantly in Q1/16. The automotive and industry business improved its result and also booked a license extension order from a customer in rail vehicle production. The logistics business achieved an EBIT margin of over 10% in 2015 and looks set to repeat this performance in 2016 following a double digit increase in its first quarter order intake.

**Figure 1: Q1 2016 results vs. our forecasts**

€m	Q1/16A	Q1/16E	Δ Q1/16A vs. Q1/15E	Q1/15A	Δ Q1/16A vs. Q1/15A
External sales	42.6	44.4	-4.1%	43.2	-1.4%
by division:					
Energy Management	15.8	16.4	-3.7%	15.6	1.3%
Production Management	21.3	22.0	-3.2%	21.6	-1.4%
Infrastructure Management	5.5	6.0	-8.3%	6.0	-8.1%
Total EBIT	2.2	2.7	-17.8%	1.7	29.4%
by division:					
Energy Management	1.4	1.0	40.6%	0.8	66.1%
Production Management	1.5	1.5	0.0%	1.5	2.5%
Infrastructure Management	-0.4	0.5	n.m.	-0.2	n.m.
Reconciliation	-0.3	-0.3		-0.4	
EPS (€)	0.09	0.11	-17.8%	0.09	0.0%

Source: PSI AG; First Berlin Equity Research estimates

**Order intake also up at Infrastructure Management** Infrastructure Management sales fell 8.1% to €5.5m (Q1/15: €6.0m) and EBIT came in at €-0.4m (Q1/15: €-0.2m). The South East Asian business, PSI Incontrol, saw an improved order intake in Q1/16. The operation continued to suffer from the dearth of orders received in 2015 due mainly to the aftermath of political instability in Thailand. The Q1/16 result was additionally burdened by final work on a major market entry project in Oman.

**Net gearing at end March 2016 less than half end March 2015 level** Cashflow from operations before investment in working capital declined 11.4% in Q1/16 to €2.7m (Q1/15: €3.1m) but the equivalent figure after investment in working capital climbed 97.4% to €2.9m (Q1/15: €1.5m). The increase was attributable to the large amount of working capital absorbed by work on an exceptionally high volume of projects during Q1/15. Cash generated during Q1/16 reduced net debt (including pension liabilities) from €11.6m at end 2015 (net gearing of 15.9%) to €9.2m at end March 2016 (net gearing of 12.2%). End March 2016 net gearing was less than half the end March 2015 figure of 30.0%.

**Q1/16 saw strongest first quarter order growth since 2012** PSI has recorded the year's biggest quarterly order intake in its first quarter every year since 2011. Q1/16 was the strongest first quarter for order growth (+12.9%) since the first quarter of 2012. On presenting 2016 guidance for a mid-single digit percentage rise in sales/order intake and EBIT in the €11-13m range in the annual report, management cited a high degree of uncertainty as to the development of both raw material prices and important export market currencies such as Russia and South East Asia. Although the oil and steel prices as well as the exchange rates of the Malaysian and Russian currencies have rallied significantly since early 2016, these uncertainties remain. Nevertheless, the strong Q1 order intake suggests that PSI is well placed to achieve 2016 guidance. We continue to expect EPS to expand at a three-year CAGR of 19.2%. We see the main drivers of this growth as continued investment in the reconfiguration of the German power grid for renewable energies and margin expansion occasioned by PSI's ongoing efforts to consolidate its software platforms and migrate towards a product- rather than project-based business model. Our forecasts and €14.00 price target are unchanged as is our Add recommendation.



Figure 2: Valuation Model

€000s	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	194,477	208,218	222,545	235,324	247,953	260,278	272,148	284,566
NOPLAT	9,314	10,976	12,472	15,247	17,623	18,519	19,368	20,257
+ Depreciation and amortisation	4,278	4,581	4,896	5,177	5,455	5,726	5,987	6,260
= net operating cash flow	13,593	15,557	17,368	20,424	23,078	24,245	25,356	26,517
- total investments (Capex and WC)	-6,237	-6,840	-7,252	-21,540	-8,297	-8,500	-8,658	-6,408
Capital expenditure	-5,348	-6,216	-6,601	-7,874	-7,021	-7,254	-7,459	-7,800
working capital	-889	-624	-651	-13,666	-1,276	-1,245	-1,199	1,392
+/- others (incl. adj. on net int., provisions, etc)	0	0	0	0	0	0	0	1
= Free cash flow (FCF)	7,355	8,717	10,117	-1,116	14,781	15,746	16,697	20,109
PV of FCF's	6,991	7,672	8,244	-842	10,328	10,188	10,003	11,155

€000s	
PVs of FCFs explicit period (2016-25)*	81,791
PVs of FCFs in terminal period	146,750
Enterprise Value (EV)	228,542
(Net cash)/net debt	9,219
Shareholder value	219,323

Value per share (€) 14.04

WACC	8.00%
Cost of equity	9.5%
Pre-tax cost of debt	5.0%
Normal tax rate	30.0%
After-tax cost of debt	3.5%
Share of equity	75.0%
Share of debt	25.0%
Terminal growth	2.0%

Sensitivity analysis

		Terminal growth rate (%)						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	4.00%	29.79	33.51	38.73	46.56	59.63	85.82	164.84
	5.00%	22.48	24.42	26.92	30.25	34.91	41.91	53.59
	6.00%	17.86	19.00	20.39	22.12	24.35	27.33	31.50
	7.00%	14.69	15.40	16.25	17.26	18.51	20.06	22.05
	8.00%	12.38	12.85	13.40	14.04	14.80	15.71	16.82
	9.00%	10.62	10.95	11.32	11.75	12.24	12.81	13.49
	10.00%	9.25	9.48	9.75	10.04	10.37	10.76	11.20
	11.00%	8.15	8.32	8.51	8.72	8.95	9.22	9.52

Fair value per share



## INCOME STATEMENT

All figures in €'000	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>175,386</b>	<b>183,682</b>	<b>194,477</b>	<b>208,218</b>	<b>222,545</b>
Change in inventories & capitalised production	0	0	0	0	0
<b>Total output</b>	<b>175,386</b>	<b>183,682</b>	<b>194,477</b>	<b>208,218</b>	<b>222,545</b>
Cost of materials	-33,101	-31,596	-32,867	-34,356	-36,052
<b>Gross profit</b>	<b>142,285</b>	<b>152,086</b>	<b>161,610</b>	<b>173,862</b>	<b>186,493</b>
Total personnel costs	-103,604	-106,820	-112,602	-119,726	-127,518
Net other operating costs	-27,142	-29,871	-31,970	-33,876	-36,261
Depreciation & amortisation	-3,882	-4,286	-4,278	-4,581	-4,896
<b>EBIT</b>	<b>7,657</b>	<b>11,109</b>	<b>12,759</b>	<b>15,680</b>	<b>17,817</b>
Net interest	-2,047	-1,811	-638	-363	-4
Associates	54	140	140	160	160
<b>Pretax profit</b>	<b>5,664</b>	<b>9,438</b>	<b>12,262</b>	<b>15,477</b>	<b>17,973</b>
Income taxes	-1,565	-1,979	-3,273	-4,595	-5,344
<b>Net income / loss</b>	<b>4,099</b>	<b>7,459</b>	<b>8,989</b>	<b>10,882</b>	<b>12,629</b>
<b>EPS (€)</b>	<b>0.26</b>	<b>0.48</b>	<b>0.58</b>	<b>0.70</b>	<b>0.81</b>
<b>EBITDA</b>	<b>11,539</b>	<b>15,395</b>	<b>17,038</b>	<b>20,261</b>	<b>22,713</b>
<b>Ratios</b>					
Gross margin	81.1%	82.8%	83.1%	83.5%	83.8%
EBIT margin	4.4%	6.0%	6.6%	7.5%	8.0%
EBITDA margin	6.6%	8.4%	8.8%	9.7%	10.2%
Net income margin	2.3%	4.1%	4.6%	5.2%	5.7%
Tax rate	27.6%	21.0%	26.7%	29.7%	29.7%
<b>Expenses as % of output</b>					
Personnel	-59.1%	-58.2%	-57.9%	-57.5%	-57.3%
Net other operating income/expenses	-15.5%	-16.3%	-16.4%	-16.3%	-16.3%
Depreciation & amortisation	-2.2%	-2.3%	-2.2%	-2.2%	-2.2%
<b>Y-o-y growth</b>					
Total revenues	-0.5%	4.7%	5.9%	7.1%	6.9%
EBIT	83.7%	45.1%	14.9%	22.9%	13.6%
Net income / loss	1004.9%	82.0%	20.5%	21.1%	16.1%



## BALANCE SHEET

All figures in €'000	2014	2015	2016E	2017E	2018E
<b>Assets</b>					
<b>Current assets, total</b>	<b>112,016</b>	<b>120,742</b>	<b>127,565</b>	<b>138,036</b>	<b>150,427</b>
Cash and cash equivalents	29,314	38,831	40,840	45,183	51,185
Trade accounts and notes receivables	33,708	36,169	38,295	41,000	43,822
Inventories	3,468	4,184	4,430	4,743	5,069
Receivables relating to long term contracts	39,865	36,366	38,503	41,224	44,060
Other current assets	5,661	5,192	5,497	5,886	6,291
<b>Non-current assets, total</b>	<b>80,257</b>	<b>78,780</b>	<b>79,603</b>	<b>81,865</b>	<b>84,217</b>
Property, plant and equipment	12,949	12,214	12,641	13,534	14,465
Goodwill	51,000	49,559	49,559	49,559	49,559
Other intangible assets	10,502	9,859	10,502	11,244	12,017
Associates	149	149	289	449	609
Deferred tax assets	5,657	6,999	6,612	7,079	7,567
Other non-current assets	0	0	0	0	0
<b>Total assets</b>	<b>192,273</b>	<b>199,522</b>	<b>207,168</b>	<b>219,901</b>	<b>234,645</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>75,695</b>	<b>77,343</b>	<b>79,492</b>	<b>84,269</b>	<b>89,593</b>
Interest bearing debt	5,082	3,374	1,598	871	457
Trade accounts payable	15,113	14,929	15,558	16,657	17,804
Liabilities relating to long term contracts	26,011	28,819	30,338	32,482	34,717
Provisions	0	0	0	0	0
Other current liabilities	29,489	30,221	31,997	34,258	36,615
<b>Non-current liabilities, total</b>	<b>48,284</b>	<b>49,027</b>	<b>51,048</b>	<b>51,534</b>	<b>52,040</b>
Interest bearing debt	188	83	39	21	11
Pension provisions	47,080	46,981	47,216	47,452	47,689
Deferred tax liabilities	1,016	1,963	3,792	4,060	4,340
<b>Consolidated equity</b>	<b>68,294</b>	<b>73,152</b>	<b>76,628</b>	<b>84,099</b>	<b>93,012</b>
Shareholders' equity	68,294	73,152	76,628	84,099	93,012
Minorities	0	0	0	0	0
<b>Total consolidated equity and debt</b>	<b>192,273</b>	<b>199,522</b>	<b>207,168</b>	<b>219,901</b>	<b>234,645</b>
<b>Ratios</b>					
Current ratio (x)	1.48	1.56	1.60	1.64	1.68
Quick ratio (x)	1.43	1.51	1.55	1.58	1.62
Equity ratio	35.5%	36.7%	37.0%	38.2%	39.6%
Net gearing	33.7%	15.9%	10.5%	3.8%	-3.3%
Equity per share	4.35	4.66	4.88	5.36	5.93
Net debt	23,036	11,607	8,014	3,161	-3,028
Interest coverage ratio (x)	3.84	6.13	20.01	43.17	4114.56
Capital employed (CE)	92,685	88,045	84,700	85,951	88,622
Return on capital employed (ROCE)	5.8%	9.7%	11.0%	12.8%	14.1%



## CASH FLOW STATEMENT

All figures in €'000	2014	2015	2016E	2017E	2018E
<b>Pretax result</b>	<b>5,664</b>	<b>9,438</b>	<b>12,262</b>	<b>15,477</b>	<b>17,973</b>
Depreciation and amortisation	3,882	4,286	4,278	4,581	4,896
Other	-143	-1,685	-3,413	-4,755	-5,505
<b>Operating cash flow</b>	<b>9,403</b>	<b>12,039</b>	<b>13,127</b>	<b>15,303</b>	<b>17,364</b>
Investment in working capital	14,674	1,971	-889	-624	-651
<b>Net operating cash flow</b>	<b>24,077</b>	<b>14,010</b>	<b>12,238</b>	<b>14,679</b>	<b>16,713</b>
Cashflow from investing	-14,341	-2,234	-5,348	-6,216	-6,601
<b>Free cash flow</b>	<b>9,736</b>	<b>11,776</b>	<b>6,890</b>	<b>8,463</b>	<b>10,113</b>
Dividend paid	0	0	-3,296	-3,610	-3,924
Share buy back	-488	-303	0	0	0
New share capital	0	0	0	0	0
Debt financing	-1,220	-1,813	-1,584	-509	-187
Other	0	0	0	0	1
<b>Cash flow from financing</b>	<b>-1,708</b>	<b>-2,116</b>	<b>-4,881</b>	<b>-4,119</b>	<b>-4,110</b>
<b>Other</b>	<b>-514</b>	<b>-143</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in cash</b>	<b>7,514</b>	<b>9,517</b>	<b>2,009</b>	<b>4,343</b>	<b>6,002</b>
Cash, start of the year	21,800	29,314	38,831	40,840	45,183
Cash, end of the year	29,314	38,831	40,840	45,183	51,185
<b>Free cash flow per share in €</b>	<b>0.62</b>	<b>0.75</b>	<b>0.44</b>	<b>0.54</b>	<b>0.65</b>
<b>Y-o-y growth</b>					
Operating cash flow	105%	28%	9%	17%	13%
Net operating cash flow	n.a.	-42%	-13%	20%	14%
Free cash flow	n.a.	21%	-41%	23%	19%

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	15 July 2003	€4.96	Market Perform	€5.00
2...56	↓	↓	↓	↓
57	7 August 2015	€12.45	Add	€12.90
58	8 November 2015	€13.12	Add	€14.50
59	29 March 2015	€13.41	Add	€14.00
60	Today	€13.16	Add	€14.00

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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:

**STRONG BUY:** An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

**BUY:** An expected favourable price trend of more than 25% percent.

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

**SELL:** An expected negative price trend of more than -15%.

#### 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

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

### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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