

PSI AG

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

H1 results

RATING	ADD
PRICE TARGET	€14.00
Return Potential	4.6%
Risk Rating	Medium

SLOW FIRST HALF BUT SALES AND PROFITS SET TO PICK UP IN H2

Management guidance for 2016 is for mid-single digit growth in sales and orders and EBIT in the €11-13m range. H1 results which showed sales down 6.0% at €85.1m and a 12.0% rise in EBIT to €45m were close to our expectations but well off this pace. However, the group had a strong order backlog of €144m at the H1 stage (9.9% above the prior year level). Around half of the backlog is within the more profitable electrical energy and metals businesses. These projects were still at an early stage during H1/16. It is thus realistic to expect that sales and profit generation will accelerate during the second half of this year. Against this background we leave our full year forecasts for sales (+5.9% to €194.5m) and for EBIT (+14.9% to €12.8m) unchanged. We maintain our Add recommendation and price target of €14.00.

Group EBIT improvement driven by Energy Management H1 results showed a 6.0% decline in sales to €85.1m (H1/15: €90.5m) while EBIT climbed 12.0% to €4.5m (H1/15: €4.0m). The Production Management and Infrastructure Management divisions were responsible for the decline in sales. At Production Management, large new orders from Thyssen Krupp and Tata Steel came too late in the second quarter to boost first half sales while Infrastructure Management's largest business unit, PSI Incontrol, continues to suffer from the aftermath of the 2014 coup in Thailand and the impact of low oil prices on investment in Malaysia. The improvement in EBIT was driven mainly by Energy Management where the EBIT margin widened from 4.8% to 8.1% thanks mainly to improved profitability at the electrical energy business. EBIT at Infrastructure Management also inched ahead but the result at Infrastructure Management was €0.6m below the prior year level at €-0.3m. The order intake fell by 3.8% to €100m (H1/15: €104m) but the order backlog was 9.9% above the prior year level at €144m (H1/15: €131m). The H1 order intake comparison was influenced by the €10m order received from E.ON in 2015, 80% of which was booked in the first half of the year. (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 01 Aug 2016

Closing Price	€ 13.39
Shares outstanding	15.70m
Market Capitalisation	€ 210.19m
52-week Range	€ 10.93 / 14.43
Avg. Volume (12 Months)	10,912

Multiples	2015	2016E	2017E
P/E	28.0	23.3	19.2
EV/Sales	1.2	1.2	1.1
EV/EBIT	20.3	17.7	14.4
Div. Yield	1.6%	1.7%	1.9%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 34.76m
Current Assets	€ 122.59m
Intangible Assets	€ 59.26m
Total Assets	€ 200.83m
Current Liabilities	€ 77.88m
Shareholders' Equity	€ 72.95m

SHAREHOLDERS

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



Energy Management EBIT margin jumped from 4.8% to 8.1% Energy Management sales inched 0.7% higher to €32.0m (H1/15: €31.8m) while divisional EBIT jumped to €2.6m (H1/15: €1.6m), equivalent to a margin of 8.1% (H1/15: 4.8%). Increasing sales of the network control system, PSIcontrol, to electrical energy customers were the main driver of the increase in both sales and profitability. Orders, sales and profitability in the oil and gas business suffered from the decline in the oil price during the first few months of this year. However, both sales and orders picked up at the energy trading business and its EBIT was in the black.

Double digit order growth at PSI Metals came too late to push H1 sales ahead Sales at the Production Management division fell 6.0% to €41.5m (H1/15: €44.2m) while EBIT moved ahead to €2.8m (H1/15: €2.7m). We gather from discussions with management that order intake growth at the metals business was clearly double digit. However, as mentioned above, these orders arrived too late to push divisional sales ahead during H1. The logistics business continued to perform well and is again expected to generate an EBIT margin of around 10% this year. The automotive and industry business increased its sales and EBIT during H1/16, but the fallout from the diesel emissions affair reduced its order intake. Meanwhile, divisional EBIT also benefited from reduced costs in connection with the development of the new raw materials extraction product.

Infrastructure Management hit by weakening business at PSI Incontrol in the Far East Infrastructure Management sales fell 20.5% to €11.5m (H1/15: €14.5m) and divisional EBIT came in at €-0.3m (H1/15: €0.3m). We gather from talking to management that results at the division's Polish operation business were largely unchanged while the performance of the public transport business was only slightly below the prior year level. The main reason for the decline in the divisional result was lower orders and sales at PSI Incontrol as mentioned above.

Figure 1: H1 2016 results vs. our forecasts

€m	H1 16A	H1 16E	Δ H1 16A vs. H1 15E	H1 15A	Δ H1 16A vs. H1 15A
External sales	85.1	86.1	-1.2%	90.5	-6.0%
by division:					
Energy Management	32.0	31.7	1.1%	31.8	0.7%
Production Management	41.5	42.0	-1.1%	44.2	-6.0%
Infrastructure Management	11.5	12.4	-6.9%	14.5	-20.5%
Total EBIT	4.5	4.7	-3.1%	4.0	12.0%
by division:					
Energy Management	2.6	2.5	5.0%	1.6	66.5%
Production Management	2.8	3.0	-7.9%	2.7	2.7%
Infrastructure Management	-0.3	-0.5	n.a.	0.3	n.a.
Reconciliation	-0.6	-0.3		-0.5	
EPS (€)	0.16	0.17	-7.7%	0.15	6.7%

Source: PSI AG; First Berlin Equity Research estimates

Net gearing including pension liabilities 21.5% at end H1/16 (36.8% at end H1/15) Net cash flow from operations improved to €0.2m (H1/15: €-3.4m) due mainly to a decline in expenditure on working capital to €5.9m (H1/15: €89m) caused in turn by a €9m reduction in receivables (H1/15: an increase of €3.2m). A cash outflow from investing of €1m and a dividend payment of €3.3m meant that net debt including pension liabilities increased by €4.1m to €15.7m (net gearing of 21.5%) during H1/16. However, the balance sheet was significantly stronger than at the end of the prior year period, when net debt was €26.4m and net gearing 36.8%. Management states in the first half report that PSI is considering acquisitions in power distribution and discrete production. The modest level of balance sheet gearing means that PSI has a high degree of financial flexibility in this regard.



Guidance given in 2015 annual report maintained Company guidance for 2016 given in the 2015 annual report is for mid-single digit growth in sales and orders and EBIT in the €11-13m range. Management has maintained this guidance and stated that it will decide on giving a more concrete update during the third quarter. H1 results, which showed sales down 6.0% at €85.1m and a 12.0% rise in EBIT to €4.5m, were well off the pace set by guidance. However, the group had a strong order backlog at the H1 stage of €144m (9.9% above the prior year level). Many of the projects within the backlog, particularly within the more profitable electrical energy and metals businesses, were still at an early stage during H1/16. It is thus realistic to expect that sales and profit generation will accelerate during the second half of this year. Against this background we leave our full year forecasts for sales (+5.9% to €194.5m) and for EBIT (+14.9% to €12.8m) unchanged. We maintain our Add recommendation and price target of €14.00.

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	-7,068	-6,776	-7,705	-7,893	-16,990
Capital expenditure	-5,348	-6,216	-6,601	-7,874	-7,021	-7,254	-7,459	-7,800
working capital	-889	-624	-651	807	245	-450	-433	-9,190
+/- 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	13,356	16,302	16,541	17,463	9,527
PV of FCF's	7,126	7,820	8,404	10,274	11,611	10,909	10,665	5,388

€000s	
PVs of FCFs explicit period (2016-25)*	90,850
PVs of FCFs in terminal period	142,945
Enterprise Value (EV)	233,795
(Net cash)/net debt	15,653
Shareholder value	218,142

Value per share (€)	13.97
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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%	29.90	33.31	38.10	45.28	57.25	81.26	153.69
	5.00%	22.65	24.39	26.62	29.59	33.75	40.00	50.43
	6.00%	18.07	19.05	20.26	21.77	23.70	26.29	29.91
	7.00%	14.91	15.51	16.23	17.08	18.13	19.43	21.11
	8.00%	12.61	13.00	13.44	13.97	14.58	15.32	16.23
	9.00%	10.86	11.12	11.41	11.75	12.13	12.58	13.12
	10.00%	9.49	9.67	9.86	10.09	10.34	10.63	10.96
	11.00%	8.39	8.51	8.65	8.80	8.97	9.16	9.37

*for layout purposes the model shows numbers only to 2023 but runs until 2025

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in €'000	2014	2015	2016E	2017E	2018E
Revenues	175,386	183,682	194,477	208,218	222,545
Change in inventories & capitalised production	0	0	0	0	0
Total output	175,386	183,682	194,477	208,218	222,545
Cost of materials	-33,101	-31,596	-32,867	-34,356	-36,052
Gross profit	142,285	152,086	161,610	173,862	186,493
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
EBIT	7,657	11,109	12,759	15,680	17,817
Net interest	-2,047	-1,811	-638	-363	-4
Associates	54	140	140	160	160
Pretax profit	5,664	9,438	12,262	15,477	17,973
Income taxes	-1,565	-1,979	-3,273	-4,595	-5,344
Net income / loss	4,099	7,459	8,989	10,882	12,629
EPS (€)	0.26	0.48	0.58	0.70	0.81
EBITDA	11,539	15,395	17,038	20,261	22,713
Ratios					
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%
Expenses as % of output					
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%
Y-o-y growth					
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
Assets					
Current assets, total	112,016	120,742	127,565	138,036	150,427
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
Non-current assets, total	80,257	78,780	79,603	81,865	84,217
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
Total assets	192,273	199,522	207,168	219,901	234,645
Shareholders' equity & debt					
Current liabilities, total	75,695	77,343	79,492	84,269	89,593
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
Non-current liabilities, total	48,284	49,027	51,048	51,534	52,040
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
Consolidated equity	68,294	73,152	76,628	84,099	93,012
Shareholders' equity	68,294	73,152	76,628	84,099	93,012
Minorities	0	0	0	0	0
Total consolidated equity and debt	192,273	199,522	207,168	219,901	234,645
Ratios					
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
Pretax result	5,664	9,438	12,262	15,477	17,973
Depreciation and amortisation	3,882	4,286	4,278	4,581	4,896
Other	-143	-1,685	-3,413	-4,755	-5,505
Operating cash flow	9,403	12,039	13,127	15,303	17,364
Investment in working capital	14,674	1,971	-889	-624	-651
Net operating cash flow	24,077	14,010	12,238	14,679	16,713
Cashflow from investing	-14,341	-2,234	-5,348	-6,216	-6,601
Free cash flow	9,736	11,776	6,890	8,463	10,113
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
Cash flow from financing	-1,708	-2,116	-4,881	-4,119	-4,110
Other	-514	-143	0	0	0
Change in cash	7,514	9,517	2,009	4,343	6,002
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
Free cash flow per share in €	0.62	0.75	0.44	0.54	0.65
Y-o-y growth					
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	8 November 2015	€13.12	Add	€14.50
58	29 March 2016	€13.41	Add	€14.00
59	3 May 2016	€13.16	Add	€14.00
60	Today	€13.39	Add	€14.00

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

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- 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/>

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