

PSI AG

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

2016 results

RATING	ADD
PRICE TARGET	€ 14.00
Return Potential	10.1%
Risk Rating	Medium

SALES GROWTH TO RESUME AS SEVERAL TARGET MARKETS STABILISE

Full year results were stronger than we had expected due mainly to a Q4 rebound in profitability at the southeast Asian business, PSI Incontrol. PSI businesses such as Incontrol, Metals and oil/gas should benefit in 2017 from the past year's recovery in commodity prices. Investment in electrical energy infrastructure by large German utilities is likely to decline further in the aftermath of the fee-setting year in 2016. However, a high order backlog and increased sales to German municipalities should ensure that sales and profits at this business advance in 2017. Meanwhile, the completion of migration of many products to the company's new, more adaptable software platform should also help the top line. Management guidance for 2017 is for sales growth in the mid-single digit percentage range and EBIT of €12-15m. We have revised our 2017 sales and EBIT forecasts up by 2.0% and 6.2% respectively and also moved up our numbers for subsequent years. We now see fair value for the PSI share at €14.00 (previously: €13.00). We maintain our Add recommendation.

Lower SE Asian business crimped group sales PSI has reported final 2016 results. Sales fell 3.7% to €176.9m (FBe: €175.4m; 2015: €183.7m). Group sales declined mainly because of a €6.6m fall in revenues at the Infrastructure Management segment, whose southeast Asian business was negatively affected by the impact of low commodity prices, political turbulence and management moves to reduce exposure to low margin, capital/hardware intensive lines of business. EBIT at Infrastructure Management fell €0.7m to €0.1m but improved results at the Energy Management and Production Management segments meant that group EBIT climbed 6.5% to €11.8m (FBe: €11.0m; 2015: €11.1m). The group sales figure was close to our forecasts (see figure 1 overleaf) but EBIT was €0.8m above our projection due mainly to better Q4/16 performance at Infrastructure Management than we had modelled. EPS climbed 14.6% to €0.55 (2015: €0.48) helped by debt repayment and lower interest costs. Management will propose a dividend of €0.22 (2015: €0.21) to the AGM on 16 May. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	175.39	183.68	176.85	184.54	192.80	202.44
Y-o-y growth	-0.5%	4.7%	-3.7%	4.3%	4.5%	5.0%
EBIT (€m)	7.66	11.11	11.84	14.22	16.50	17.06
EBIT margin	4.4%	6.0%	6.7%	7.7%	8.6%	8.4%
Net income (€m)	4.10	7.46	8.55	9.76	11.56	12.30
EPS (diluted) (€)	0.26	0.48	0.55	0.62	0.74	0.79
DPS (€)	0.00	0.21	0.22	0.24	0.25	0.27
FCF (€m)	9.74	11.78	10.42	6.14	10.95	11.71
Net gearing	33.7%	15.9%	12.0%	8.4%	-0.4%	-8.3%
Liquid assets (€m)	29.31	38.83	43.01	45.69	52.87	60.66

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 29 Mar 2017

Closing Price	€ 12.71
Shares outstanding	15.70m
Market Capitalisation	€ 199.51m
52-week Range	€ 10.91 / 14.06
Avg. Volume (12 Months)	8,660

Multiples	2016	2017E	2018E
P/E	23.2	20.3	17.2
EV/Sales	1.2	1.1	1.1
EV/EBIT	17.6	14.7	12.6
Div. Yield	1.7%	1.9%	2.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 43.01m
Current Assets	€ 120.71m
Intangible Assets	€ 57.75m
Total Assets	€ 199.43m
Current Liabilities	€ 69.20m
Shareholders' Equity	€ 75.27m

SHAREHOLDERS

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



Weak commodity prices helped developed market customers, hurt emerging market customers

As PSI puts it in the annual report, “as a result of lower raw materials prices, business developed positively in the developed industrial countries of northern and western Europe, but sales and orders fell in emerging markets.” The group order intake fell 6.7% to €182m (2015: €195m) while the order backlog was stable at €129m.

Figure 1: 2016 results versus our forecasts

€m	FY 16A	FY 16E	Δ FY 16A vs. FY 16E	FY 15A	Δ FY 16A vs. FY 15A
External sales	176.9	175.4	0.9%	183.7	-3.7%
by division:					
Energy Management	69.2	66.8	3.6%	67.2	3.0%
Production Management	84.2	86.5	-2.7%	86.4	-2.6%
Infrastructure Management	23.5	22.0	6.5%	30.1	-21.9%
Total EBIT	11.8	11.0	7.6%	11.1	6.5%
by division:					
Energy Management	5.8	5.7	1.8%	5.3	9.8%
Production Management	7.1	7.6	-5.9%	6.2	14.9%
Infrastructure Management	0.1	-1.1	n.a.	0.8	-88.0%
Reconciliation	-1.2	-1.2	n.a.	-1.2	
EPS (€)	0.55	0.46	19.6%	0.48	14.6%

Source: PSI AG; First Berlin Equity Research estimates

Electrical energy sales/profits benefited from run-up to fee-setting year Sales at the Energy Management segment climbed 3.0% to €69.2m (2015: €67.2m) while EBIT rose 9.8% to €5.8m (2015: €5.3m). PSI's electrical energy business saw the customary strong investment by German network operators in 2015 (including a €10m order from E.ON) in the run-up to the regulatory fee-setting round in 2016. Electrical energy sales and profitability benefited from this in 2016, but the order intake did not reach the 2015 level.

The oil and gas business was adversely affected by a sharp fall in commodity prices during the first quarter of the year and only recovered slowly during subsequent quarters. Orders, sales and profitability were all lower than in 2015.

Prior years' investments in the product range meant that the energy trading business recorded a small profit in 2016 after breaking even in 2015.

PSI Metals' EBIT margin stable at ca. 10% Production Management sales fell 2.6% to €84.2m (2015: €86.4m) but segment EBIT climbed 14.9% to €7.1m (2015: €6.2m). PSI Metals, the largest business within the segment, is the world market leader in the supply of production management solutions for the metals industry. Rollouts at PSI Metals' large customers continued in 2016. Both the order intake and EBIT increased but sales were not quite as high as in 2015. We gather that the business' EBIT margin was stable in comparison with 2015 at around 10%.

Increased spending on sales and marketing at the logistics business meant that the EBIT margin did not meet the prior year level of 10.4% but sales moved ahead by a high single digit percentage.

The Automotive and Industry business won important orders from the vehicle maintenance subsidiary of Deutsche Bahn (German Railways) and from China Railway Rolling Stock Corporation and was able to almost double its result.

The Mines & Roads subsidiary completed reference projects for two coal mining customers in China. These projects adversely affected profitability in both 2015 and 2016 but will not burden the 2017 results.

Strong December order intake at PSI Incontrol Sales at Infrastructure Management fell 21.9% to €23.5m (2015: €30.1m) and segment EBIT dropped to €0.1m (2015: €0.8m). Weakness in sales and the result stemmed mainly from the southeast Asian business unit, PSI Incontrol, which last year accounted for around half of segment sales.

The order intake at PSI Incontrol has been under pressure over the past two to three years from low commodity prices and political turbulence in Thailand and Malaysia. In addition, management last year moved to reduce exposure to low margin, capital/hardware intensive lines of business. EBIT at Infrastructure Management was €-0.9m at the 9M/16 stage but rebounded to €1.0m in Q4/16 helped by an order intake of almost €7.5m at PSI Incontrol in December. This was the highest monthly order figure at PSI Incontrol since April 2011.

Performance at Infrastructure Management's other businesses improved in 2016. The order intake increased at PSI Transcom, which provides operational management software for public transport. Meanwhile, the Polish subsidiary made further progress in the energy market.

PSI now no longer has any bank debt Net cash flow from operations retreated 4.8% to €13.3m (2015: €14.0m) mainly because 2016 saw an outflow in connection with working capital expenditure of €1.7m (2015: an inflow of €20m). Cash flow before expenditure on working capital rose 25% to €15.0m (2015: €12.0m). Cashflow from investing was €-2.9m (2015: €-2.2m). Expenditure on fixed assets was stable but the 2015 figure was boosted by disposal proceeds of €0.7m. Free cash flow fell 11.5% to €10.4m (2015: €11.8m). Cashflow after dividends paid and FX gains/losses amounted to €7.6m (2015: €11.3m). PSI repaid all its bank debt of €3.5m, while the cash position rose from €38.8m to €43.0m. Net gearing including pension liabilities of €52.0m (2015: €470m) was 12.0% (2015: 15.0%).

Figure 2: Changes to our forecasts

€m	2017 NEW	2017 OLD	Δ %	2018 NEW	2018 OLD	Δ %	2019 NEW
External sales	184.54	180.87	2.0%	192.80	190.17	1.4%	202.44
by division:							
Energy Management	71.98	70.12	2.7%	74.86	74.33	0.7%	78.61
Production Management	88.38	88.27	0.1%	92.79	92.69	0.1%	97.43
Infrastructure Management	24.18	22.48	7.5%	25.14	23.15	8.6%	26.40
Total EBIT	14.22	13.39	6.2%	16.50	15.56	6.0%	17.06
margin (%)	7.7%	7.4%		8.6%	8.2%		8.4%
by division:							
Energy Management	6.41	6.41	-0.1%	7.19	7.18	0.2%	7.95
margin (%)	8.8%	9.0%		9.5%	9.5%		10.0%
Production Management	8.15	8.14	0.2%	9.04	9.02	0.2%	9.49
margin (%)	9.0%	9.0%		9.5%	9.5%		9.5%
Infrastructure Management	0.90	0.00	n.a.	1.56	0.59	164.1%	0.98
margin (%)	3.0%	0.0%		5.0%	2.0%		3.0%
Reconciliation	-1.24	-1.17		-1.29	-1.23		-1.36
EPS (€)	0.62	0.59	5.9%	0.74	0.69	7.3%	0.79

Source: First Berlin Equity Research estimates

We raise price target to €14.00 (previously: €13.00, maintain Add recommendation

Management notes that many of PSI's target markets have stabilised in recent months and is guiding towards sales growth in the mid-single digit percentage range and EBIT of €12-€15m. We have revised our 2017 sales and EBIT forecasts up by 2.0% and 6.2% respectively and also moved up our numbers for subsequent years (see figure 2). We now see fair value for the PSI share at €14.00 (previously: €13.00). We maintain our Add recommendation.



Figure 3: Valuation model

€000s	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	184,535	192,800	202,440	214,134	225,682	235,892	246,570	256,432
NOPLAT	9,956	11,547	11,945	14,135	14,596	15,258	15,950	16,588
+ Depreciation and amortisation	4,613	4,820	5,061	5,353	5,642	5,897	6,164	6,411
= net operating cash flow	14,569	16,367	17,006	19,488	20,238	21,155	22,114	22,999
- total investments (Capex and WC)	-8,338	-5,537	-5,745	-7,139	-7,605	-7,161	-7,958	-5,503
Capital expenditure	-3,922	-4,958	-5,071	-6,320	-6,797	-6,447	-7,211	-7,377
working capital	-4,416	-579	-675	-819	-808	-715	-747	1,874
+/- others (incl. adj. on net int., provisions, etc)	0	0	0	0	0	0	0	0
= Free cash flow (FCF)	6,231	10,831	11,260	12,349	12,633	13,994	14,156	17,495
PV of FCF's	5,880	9,464	9,111	9,252	8,764	8,990	8,420	9,636

€000s	
PVs of FCFs explicit period (2017-30)*	115,586
PVs of FCFs in terminal period	111,399
Enterprise Value (EV)	226,984
(Net cash)/net debt	9,029
Shareholder value	217,955

Value per share (€)	13.95
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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%	29.77	33.20	37.99	45.18	57.19	81.24	153.82
	5.00%	22.54	24.29	26.53	29.53	33.72	40.02	50.53
	6.00%	17.97	18.97	20.19	21.72	23.69	26.32	30.00
	7.00%	14.82	15.44	16.18	17.06	18.13	19.47	21.20
	8.00%	12.54	12.94	13.41	13.95	14.60	15.37	16.31
	9.00%	10.80	11.08	11.39	11.75	12.16	12.64	13.20
	10.00%	9.45	9.64	9.85	10.10	10.37	10.68	11.05
	11.00%	8.36	8.50	8.65	8.82	9.01	9.22	9.46

*for layout purposes the model shows numbers only to 2024 but runs until 2030

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in €'000	2015	2016	2017E	2018E	2019E
Revenues	183,682	176,854	184,535	192,800	202,440
Change in inventories & capitalised production	0	0	0	0	0
Total output	183,682	176,854	184,535	192,800	202,440
Cost of materials	-31,596	-26,210	-30,448	-31,234	-32,998
Gross profit	152,086	150,644	154,087	161,567	169,443
Total personnel costs	-106,820	-109,269	-113,120	-117,608	-123,489
Net other operating costs	-29,871	-25,246	-22,131	-22,642	-23,829
Depreciation & amortisation	-4,286	-4,294	-4,613	-4,820	-5,061
EBIT	11,109	11,835	14,223	16,496	17,064
Net interest	-1,811	-749	-508	-205	265
Associates	140	147	160	160	168
Pretax profit	9,438	11,233	13,875	16,452	17,497
Income taxes	-1,979	-2,682	-4,114	-4,888	-5,199
Net income / loss	7,459	8,551	9,760	11,564	12,298
EPS (€)	0.48	0.55	0.62	0.74	0.79
EBITDA	15,395	16,129	18,836	21,316	22,125
Ratios					
Gross margin	82.8%	85.2%	83.5%	83.8%	83.7%
EBIT margin	6.0%	6.7%	7.7%	8.6%	8.4%
EBITDA margin	8.4%	9.1%	10.2%	11.1%	10.9%
Net income margin	4.1%	4.8%	5.3%	6.0%	6.1%
Tax rate	21.0%	23.9%	29.7%	29.7%	29.7%
Expenses as % of output					
Personnel	-58.2%	-61.8%	-61.3%	-61.0%	-61.0%
Net other operating income/expenses	-16.3%	-14.3%	-12.0%	-11.7%	-11.8%
Depreciation & amortisation	-2.3%	-2.4%	-2.5%	-2.5%	-2.5%
Y-o-y growth					
Total revenues	4.7%	-3.7%	4.3%	4.5%	5.0%
EBIT	45.1%	6.5%	20.2%	16.0%	3.4%
Net income / loss	82.0%	14.6%	14.1%	18.5%	6.3%



BALANCE SHEET

All figures in €'000	2015	2016	2017E	2018E	2019E
Assets					
Current assets, total	120,742	120,710	130,818	141,812	154,044
Cash and cash equivalents	38,831	43,008	45,690	52,872	60,657
Trade accounts and notes receivables	36,169	27,466	30,079	31,426	32,998
Inventories	4,184	6,421	6,700	7,000	7,350
Receivables relating to long term contracts	36,366	38,184	42,443	44,344	46,561
Other current assets	5,192	5,631	5,905	6,170	6,478
Non-current assets, total	78,780	78,717	75,797	76,376	76,881
Property, plant and equipment	12,214	12,153	11,995	12,339	12,754
Goodwill	49,559	48,914	48,914	48,914	48,914
Other intangible assets	9,859	8,837	8,304	8,098	7,693
Associates	149	150	310	470	638
Deferred tax assets	6,999	8,663	6,274	6,555	6,883
Other non-current assets	0	0	0	0	0
Total assets	199,522	199,427	206,615	218,188	230,925
Shareholders' equity & debt					
Current liabilities, total	77,343	69,200	72,209	75,443	79,216
Interest bearing debt	3,374	0	0	0	0
Trade accounts payable	14,929	12,553	13,102	13,689	14,373
Liabilities relating to long term contracts	28,819	25,728	26,845	28,048	29,450
Provisions	0	0	0	0	0
Other current liabilities	30,221	30,919	32,262	33,707	35,392
Non-current liabilities, total	49,027	54,953	55,896	56,318	56,769
Interest bearing debt	83	0	0	0	0
Pension provisions	46,981	52,037	52,297	52,559	52,821
Deferred tax liabilities	1,963	2,916	3,598	3,760	3,948
Consolidated equity	73,152	75,274	78,510	86,427	94,940
Shareholders' equity	73,152	75,274	78,510	86,427	94,940
Minorities	0	0	0	0	0
Total consolidated equity and debt	199,522	199,427	206,615	218,188	230,925
Ratios					
Current ratio (x)	1.56	1.74	1.81	1.88	1.94
Quick ratio (x)	1.51	1.65	1.72	1.79	1.85
Equity ratio	36.7%	37.7%	38.0%	39.6%	41.1%
Net gearing	15.9%	12.0%	8.4%	-0.4%	-8.3%
Equity per share	4.66	4.80	5.00	5.51	6.05
Interest coverage ratio (x)	6.13	15.80	27.99	80.65	-64.43
Capital employed (CE)	88,045	84,531	84,710	85,615	86,609
Return on capital employed (ROCE)	9.7%	9.8%	11.8%	13.5%	13.8%



CASH FLOW STATEMENT

All figures in €'000	2015	2016	2017E	2018E	2019E
Pretax result	9,438	11,233	13,875	16,452	17,497
Depreciation and amortisation	4,286	4,294	4,613	4,820	5,061
Other	-1,685	-1,632	-4,014	-4,786	-5,104
Operating cash flow	12,039	13,895	14,474	16,486	17,454
Investment in working capital	1,971	-560	-4,416	-579	-675
Net operating cash flow	14,010	13,335	10,058	15,907	16,779
Cashflow from investing	-2,234	-2,912	-3,922	-4,958	-5,071
Free cash flow	11,776	10,423	6,136	10,949	11,709
Dividend paid	0	-3,277	-3,453	-3,767	-3,924
Share buy back	-303	0	0	0	0
New share capital	0	0	0	0	0
Debt financing	-1,813	-3,457	0	0	0
Other	0	0	0	0	0
Cash flow from financing	-2,116	-6,734	-3,453	-3,767	-3,924
Other	-143	488	0	0	0
Change in cash	9,517	4,177	2,682	7,182	7,784
Cash, start of the year	29,314	38,831	43,008	45,690	52,872
Cash, end of the year	38,831	43,008	45,690	52,872	60,657
Free cash flow per share in €	0.75	0.67	0.39	0.70	0.75

Y-o-y growth					
Operating cash flow	28%	15%	4%	14%	6%
Net operating cash flow	-42%	-5%	-25%	58%	5%
Free cash flow	21%	-11%	-41%	78%	7%

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	3 May 2016	€13.16	Add	€14.00
58	2 August 2016	€13.39	Add	€14.00
59	3 November 2016	€12.04	Add	€13.00
60	Today	€12.71	Add	€14.00

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INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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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

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