

PSI AG

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

Q1 2017 results

RATING	ADD
PRICE TARGET	€ 14.00
Return Potential	8.4%
Risk Rating	Medium

UPBEAT Q1 HELPED BY CYCLICAL RECOVERY

PSI recorded a robust 11% increase in its order intake to €78m in Q1/17. The company is benefiting from the cyclical recovery of several client groups' businesses. The completion of migration of many products to the company's new, more adaptable software platform is also helping the top line. Management has reiterated the 2017 guidance given in the annual report for sales growth in the mid-single digit percentage range and EBIT of €12-15m, but now expects EBIT to come in at the upper end of the range. We are leaving our forecasts unchanged on our study of 30 March and maintain our Add recommendation and price target of €14.00.

Production Management division drove Q1/17 increase in sales/orders
 Q1/17 results showed a 2.8% increase in sales to €43.8m (Q1/16: €42.6m) while EBIT climbed 19.5% to €2.6m (Q1/16: €2.2m). Overall the results were close to our expectations (see figure 1 overleaf). The order intake rose 11% - reaching a new quarterly record of €78m (Q1/16: €70m). The increase in both sales and the order intake was driven by the Production Management division which benefited from follow-on orders from existing customers in the metals and automotive industries. EBIT rose at all three divisions but the biggest contribution to the over €400k increase in the group result came from Infrastructure Management where EBIT improved to €-0.1m (Q1/16: €-0.4m).

Pick-up in Gas and Oil orders from Russia Energy Management sales climbed 1.2% to €15.9m (Q1/16: €15.8m) and the division's EBIT edged ahead to €1.5m (Q1/16: €1.4m). Orders in the Electrical Grid business fell slightly in the aftermath of the regulatory fee-setting round in 2016 but sales improved significantly in the area of higher combined energy systems and sector coupling. PSI also saw an increase in orders from Russia at the Gas and Oil business after the establishment of a joint-venture with its long standing partner, Gazprom avtomatizatsiya. (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	9.75	11.55	12.28
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	5.87	10.94	11.69
Net gearing	33.7%	15.9%	12.0%	8.8%	0.0%	-7.9%
Liquid assets (€m)	29.31	38.83	43.01	45.39	52.55	60.32

RISKS

Risks include a renewed downturn in the prices of oil, gas and steel.

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 28 Apr 2017

Closing Price	€ 12.91
Shares outstanding	15.70m
Market Capitalisation	€ 202.65m
52-week Range	€ 10.91 / 14.06
Avg. Volume (12 Months)	8,685

Multiples	2016	2017E	2018E
P/E	23.6	20.7	17.5
EV/Sales	1.2	1.2	1.1
EV/EBIT	18.0	15.0	12.9
Div. Yield	1.7%	1.9%	1.9%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 42.20m
Current Assets	€ 129.62m
Intangible Assets	€ 57.37m
Total Assets	€ 207.27m
Current Liabilities	€ 76.14m
Shareholders' Equity	€ 76.57m

SHAREHOLDERS

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

Broad-based improvement at Production Management At Production Management sales climbed 8.0% to €23.0m (Q1/16: €21.3m). The division's EBIT rose 7.1% to €1.6m (Q1/16: €1.5m). All business areas within the segment i.e. Automotive Industry, Metals Industry, Mining, Logistics contributed to the improvement in sales and EBIT.

Figure 1: Q1/17 results versus our forecasts

€ 000s	Q1 17A	Q1 17E	Δ Q1 17A vs. vs. Q1 17E	Q1 16A	Δ Q1 17A vs. vs. Q1 16A
External sales	43,784	44,451	-1.5%	42,589	2.8%
by division:					
Energy Management	15,943	16,382	-2.7%	15,752	1.2%
Production Management	23,026	22,393	2.8%	21,327	8.0%
Infrastructure Management	4,815	5,675	-15.2%	5,510	-12.6%
Total EBIT	2,607	2,611	-0.2%	2,181	19.5%
by division:					
Energy Management	1,453	1,424	2.0%	1,428	1.8%
Production Management	1,589	1,607	-1.1%	1,483	7.1%
Infrastructure Management	-110	-100	n.a.	-422	n.a.
Reconciliation	-325	-320		-308	
EPS (€)	0.11	0.11	0.0%	0.09	22.2%

Source: PSI AG; First Berlin Equity Research estimates

Slow start to 2017 in South East Asia Infrastructure Management sales declined 12.6% to €4.8m (Q1/16: €5.5m) as PSI continued to reduce its exposure to legacy projects in South East Asian countries with high raw materials price exposure. The division's operating result improved to €-0.1m (Q1/16: €-0.4m) helped by better results from the public transport business and from PSI Poland. In addition, costs of final work on a major market entry project in Oman burdened the Q1/16 result.

Balance sheet remains strong Cashflow from operations before investment in working capital came in at €3.5m (Q1/16: €3.4m). However, working capital increased by €3.7m in Q1/17, whereas in Q1/16 it decreased by €0.2m. This was the main reason why net operating cashflow came in at €-0.2m in Q1/17 (Q1/16: €2.9m). Free cashflow in Q1/17 was €-0.9m (Q1/16: €2.4m). Share buy backs of €0.3m pushed the cash outflow during Q1/17 to €1.3m (Q1/16: an inflow of €2.4m) and the company's net cash position excluding pension liabilities fell from €43.0m at end 2016 to €41.7m at end Q1/17 (Q1/16: €37.8m). Including pension liabilities of €51.8m, PSI's net debt position was €10.1m (Q1/16: €9.1m) equivalent to net gearing of 13.2% (Q1/16: 12.0%).

We maintain our Add recommendation and price target of €14.00 The tone of PSI's Q1 report was upbeat. Sales are picking up due to the cyclical recovery of several client segments and the completion of migration of many products to the company's new, more adaptable software platform. The company also sees great additional potential for its electrical grid software, particularly as an aid to network stabilisation, in both Northern Europe and the USA. Management has reiterated the 2017 guidance given in the annual report for mid-single digit percentage sales growth and EBIT of €12-15m, but now expects EBIT to come in at the upper end of the range. We are leaving our forecasts unchanged on our study of 30 March and maintain our Add recommendation and price target of €14.00.



VALUATION MODEL

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	-6,928	-7,131	-7,926	-5,474
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	-131	-684	-715	1,903
+/- 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	13,310	14,025	14,188	17,525
PV of FCF's	5,921	9,530	9,175	9,317	9,298	9,072	8,498	9,720

€000s	
PVs of FCFs explicit period (2017-30)*	116,984
PVs of FCFs in terminal period	112,283
Enterprise Value (EV)	229,267
(Net cash)/net debt	10,074
Shareholder value	219,193

Value per share (€)	14.03
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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

WACC	Terminal growth rate (%)							Fair value per share
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
4.00%	29.87	33.31	38.13	45.36	57.43	81.62	154.59	
5.00%	22.62	24.38	26.64	29.66	33.88	40.22	50.80	
6.00%	18.04	19.05	20.29	21.83	23.81	26.46	30.17	
7.00%	14.89	15.52	16.26	17.15	18.23	19.59	21.33	
8.00%	12.60	13.01	13.48	14.03	14.68	15.46	16.42	
9.00%	10.86	11.14	11.46	11.82	12.23	12.72	13.29	
10.00%	9.50	9.70	9.91	10.16	10.44	10.76	11.12	
11.00%	8.41	8.55	8.70	8.88	9.07	9.28	9.53	

*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	-518	-225	244
Associates	140	147	160	160	168
Pretax profit	9,438	11,233	13,865	16,432	17,476
Income taxes	-1,979	-2,682	-4,111	-4,881	-5,192
Net income / loss	7,459	8,551	9,753	11,550	12,284
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%	18.4%	6.3%



BALANCE SHEET

All figures in €'000	2015	2016	2017E	2018E	2019E
Assets					
Current assets, total	120,742	120,710	130,514	141,494	153,711
Cash and cash equivalents	38,831	43,008	45,386	52,554	60,324
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	206,311	217,870	230,592
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	78,206	86,109	94,608
Shareholders' equity	73,152	75,274	78,206	86,109	94,608
Minorities	0	0	0	0	0
Total consolidated equity and debt	199,522	199,427	206,311	217,870	230,592
Ratios					
Current ratio (x)	1.56	1.74	1.81	1.88	1.94
Quick ratio (x)	1.51	1.65	1.71	1.78	1.85
Equity ratio	36.7%	37.7%	37.9%	39.5%	41.0%
Net gearing	15.9%	12.0%	8.8%	0.0%	-7.9%
Equity per share	4.66	4.80	4.98	5.49	6.03
Interest coverage ratio (x)	6.13	15.80	27.46	73.40	-70.03
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	13,865	16,432	17,476
Depreciation and amortisation	4,286	4,294	4,613	4,820	5,061
Other	-1,685	-1,632	-4,271	-4,780	-5,098
Operating cash flow	12,039	13,895	14,207	16,472	17,439
Investment in working capital	1,971	-560	-4,416	-579	-675
Net operating cash flow	14,010	13,335	9,791	15,893	16,764
Cashflow from investing	-2,234	-2,912	-3,922	-4,958	-5,071
Free cash flow	11,776	10,423	5,869	10,935	11,694
Dividend paid	0	-3,277	-3,453	-3,767	-3,924
Share buy back	-303	0	-297	0	0
New share capital	0	0	0	0	0
Debt financing	-1,813	-3,457	0	0	0
Other	0	0	260	0	0
Cash flow from financing	-2,116	-6,734	-3,490	-3,767	-3,924
Other	-143	488	0	0	0
Change in cash	9,517	4,177	2,378	7,168	7,770
Cash, start of the year	29,314	38,831	43,008	45,386	52,554
Cash, end of the year	38,831	43,008	45,386	52,554	60,324
Free cash flow per share in €	0.75	0.67	0.38	0.70	0.75
Y-o-y growth					
Operating cash flow	28%	15%	2%	16%	6%
Net operating cash flow	-42%	-5%	-27%	62%	5%
Free cash flow	21%	-11%	-44%	86%	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...57	↓	↓	↓	↓
58	2 August 2016	€13.39	Add	€14.00
59	3 November 2016	€12.04	Add	€13.00
60	30 March 2017	€12.71	Add	€14.00
61	Today	€12.91	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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