

PSI AG

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

Q2 results

RATING	ADD
PRICE TARGET	€ 17.00
Return Potential	8.0%
Risk Rating	Medium

CYCLICAL UPTURN, CUSTOMER REORGANISATION HELPING BUSINESS

PSI is currently benefiting both from a cyclical upturn at its Production Management business and a structural increase in demand at Energy Management. Reorganisations and spin-offs at Energy Management's German utility customers are prompting increased readiness to invest in digitalised solutions. Following stronger than expected Q2 results, we have revised up our 2018 and 2019 EBIT forecasts by 5.3% and 17.6% respectively. We maintain our Add recommendation but have increased the price target to €17.00 (previously €14.00).

Strong improvement in profitability, robust increase in order intake PSI's Q2 results showed a 3.0% rise in sales to €43.8m (Q2/16: €42.5m) while EBIT jumped 30.8% to €3.1m (Q2/16: €2.4m). The Production Management division was solely responsible for the increase in sales. Both Energy Management (+€0.4m) and Production Management (+€0.6m) contributed to the rise in EBIT while operating profit at Infrastructure Management declined. Sales were close to our forecast but EBIT was 14.0% above our estimate due to strong performance at Energy Management and Production Management. The group order intake continued the robust trend seen in the first quarter. New orders in the second quarter rose 10.0% to €33m (Q2/16: €30m) and were 11.0% ahead after six months at €111m (H1/16: €100m). The order backlog was up 2.8% at the end of June at €148m (H1/16: €140m).

Orders in Gas and Oil business rise due to new German contracts Energy Management sales were flat in Q2/17 at €16.3m but divisional EBIT jumped to €1.6m (Q2/16: €1.2m). The Electrica Grid business saw a strong increase in orders in Q2/17. These included additional upgrade work in Germany and success in entering the US market with two small initial contracts. This business also achieved an important milestone in a major distribution grid project. Upgrade orders from German customers also raised the order intake at the Gas and Oil business. In April PSI announced that Gazprom had accepted delivery of software for its central Russian control system. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	175.39	183.68	176.85	186.37	199.90	213.94
Y-o-y growth	-0.5%	4.7%	-3.7%	5.4%	7.3%	7.0%
EBIT (€m)	7.66	11.11	11.84	14.42	17.37	20.06
EBIT margin	4.4%	6.0%	6.7%	7.7%	8.7%	9.4%
Net income (€m)	4.10	7.46	8.55	10.05	12.50	14.80
EPS (diluted) (€)	0.26	0.48	0.55	0.64	0.80	0.95
DPS (€)	0.00	0.21	0.22	0.24	0.25	0.27
FCF (€m)	9.74	11.78	10.42	12.95	11.89	13.84
Net gearing	33.7%	15.9%	12.0%	-0.2%	-9.2%	-17.9%
Liquid assets (€m)	29.31	38.83	43.01	52.47	60.59	70.51

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 Jul 2017

Closing Price	€ 15.74
Shares outstanding	15.70m
Market Capitalisation	€ 247.08m
52-week Range	€ 10.91 / 15.75
Avg. Volume (12 Months)	10,001

Multiples	2016	2017E	2018E
P/E	28.8	24.5	19.7
EV/Sales	1.5	1.4	1.3
EV/EBIT	22.6	18.5	15.4
Div. Yield	1.4%	1.5%	1.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 34.63m
Current Assets	€ 121.76m
Intangible Assets	€ 56.33m
Total Assets	€ 198.19m
Current Liabilities	€ 69.78m
Shareholders' Equity	€ 73.16m

SHAREHOLDERS

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



Production Management benefiting from cyclical upturn Production Management continues to benefit from the cyclical recovery of customers in the metals, mechanical engineering and logistics industries. Divisional sales rose 7.7% to €21.7m (Q2/16: €20.2m) while EBIT rose 49.1% to €1.9m (Q2/16: €1.3m). EBIT would have been €0.6m higher in the absence of a provision taken against receivables from an Indian steelmaker. The completion of the migration of the division's products to the group's java interface is also helping business because PSI's software can now be more easily integrated into corporate process chains. The Metals Business will receive an important new order from a Chinese customer in the third quarter.

Figure 1: Q2/2017 results versus our forecasts

€ 000s	Q2 17A	Q2 17E	Δ Q1 17A vs. vs. Q1 17E	Q2 16A	Δ Q2 17A vs. vs. Q2 16A
External sales	43,784	44,500	-1.6%	42,513	3.0%
by division:					
Energy Management	16,271	16,300	-0.2%	16,285	-0.1%
Production Management	21,749	22,600	-3.8%	20,197	7.7%
Infrastructure Management	5,764	5,600	2.9%	6,031	-4.4%
Total EBIT	3,077	2,700	14.0%	2,353	30.8%
by division:					
Energy Management	1,613	1,500	7.5%	1,196	34.9%
Production Management	1,909	1,600	19.3%	1,280	49.1%
Infrastructure Management	-70	-100	n.a.	130	n.a.
Reconciliation	-375	-300		-253	
EPS (€)	0.08	0.07	14.0%	0.07	14.3%

Source: PSI AG; First Berlin Equity Research estimates

SE Asian utility privatisations could generate opportunities for Infrastructure Management Q2/17 sales at the Infrastructure Management business unit fell 4.4% to €5.8m (Q2/16: €6.0m). The operating result was €-01m (Q2/16: €0.1m). The largest operation within Infrastructure Management is the south east Asian business unit, PSI Incontrol. This business continues to suffer from the impact of low oil and gas prices on customers in south east Asia and the Arabian Gulf. Many of the economies in this region are now privatising and unbundling their vertically integrated energy utilities in order to lower subsidies, prices and costs. This could create business opportunities for PSI which has the appropriate software and experience/references for all stages of the unbundling process.

Net gearing remains modest at 27.2% Operating cash flow before expenditure on working capital climbed 14.6% to €4.2m in Q2 (Q2/16: €3.6m). But investment in working capital rose 48.1% in the quarter to €9.0m (Q2/16: €6.1m) in preparation for business expansion. Net cash outflow from operations thus doubled to €5.5m (Q2/16: €2.7m). Higher investment in fixed assets was the main driver of a 161% rise in the cash outflow from investing to €1.1m (Q2/16: €0.4m). Free cash outflow was €6.6m (Q2/16: €3.2m). PSI paid €3.4m in dividends in Q2/17 (Q2/16: €3.3m). New debt of €2.5m (Q2/16: €0m) meant that cash fell €7.6m to €34.6m (Q2/16: cash fell €6.5m to €34.8m). Net debt at the end of Q2/17 amounted to €19.9m and net gearing including pension liabilities was 27.2% (Q2/16: €15.4m and 21.1%).

Add recommendation maintained but price target raised to €17.00 (previously €14.00) Guidance for full year EBIT is unchanged at the upper end of a €12-15m corridor. As figure 2 shows, we have revised up our 2018 and 2019 EBIT forecasts up by 5.3% and 17.6% respectively to reflect the cyclical upturn at Production Management and strengthening investment by the German utilities in Energy Management products.



We also assume that Infrastructure Management, which has been PSI's "problem child" over the past two years, will be able to take advantage of the opportunities offered by restructuring of south east Asian utilities. We maintain our Add recommendation but have increased the price target to €17.00 (previously €14.00).

Figure 2: Changes to our forecasts

€m	2017 NEW	2017 OLD	Δ %	2018 NEW	2018 OLD	Δ %	2019 NEW	2019 OLD	Δ %
External sales	186.37	184.54	1.0%	199.90	192.80	3.7%	213.94	202.44	5.7%
by division:									
Energy Management	71.29	71.98	-1.0%	76.28	74.86	1.9%	82.38	78.61	4.8%
Production Management	90.90	88.38	2.9%	97.26	92.79	4.8%	103.10	97.43	5.8%
Infrastructure Management	24.18	24.18	0.0%	26.35	25.14	4.8%	28.46	26.40	7.8%
Total EBIT	14.42	14.22	1.4%	17.37	16.50	5.3%	20.06	17.06	17.6%
<i>margin (%)</i>	<i>7.7%</i>	<i>7.7%</i>		<i>8.7%</i>	<i>8.6%</i>		<i>9.4%</i>	<i>8.4%</i>	
by division:									
Energy Management	6.85	6.41	6.9%	8.10	7.19	12.7%	9.16	7.95	15.3%
<i>margin (%)</i>	<i>9.5%</i>	<i>8.8%</i>		<i>10.5%</i>	<i>9.5%</i>		<i>11.0%</i>	<i>10.0%</i>	
Production Management	7.92	8.15	-2.8%	8.97	9.04	-0.7%	10.57	9.49	11.4%
<i>margin (%)</i>	<i>8.5%</i>	<i>9.0%</i>		<i>9.0%</i>	<i>9.5%</i>		<i>10.0%</i>	<i>9.5%</i>	
Infrastructure Management	0.90	0.90	n.a.	1.63	1.56	4.7%	1.76	0.98	80.0%
<i>margin (%)</i>	<i>3.0%</i>	<i>3.0%</i>		<i>5.0%</i>	<i>5.0%</i>		<i>5.0%</i>	<i>3.0%</i>	
Reconciliation	-1.25	-1.24		-1.34	-1.29		-1.43	-1.36	
EPS (€)	0.64	0.62	3.8%	0.80	0.74	8.2%	0.95	0.79	19.9%

Source: First Berlin Equity Research estimates

Figure 3: Valuation model

€000s	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	186,368	199,897	213,944	225,749	237,910	249,595	261,873	274,429
NOPLAT	10,095	12,158	14,045	16,214	17,422	18,287	19,195	20,138
+ Depreciation and amortisation	4,659	4,997	5,349	5,644	5,948	6,240	6,547	6,861
= net operating cash flow	14,754	17,155	19,394	21,858	23,370	24,527	25,742	26,998
- total investments (Capex and WC)	-1,600	-5,717	-6,401	-7,200	-7,313	-7,519	-8,141	-8,491
Capital expenditure	-5,102	-5,354	-6,024	-6,883	-6,987	-7,205	-7,812	-8,154
working capital	3,502	-363	-377	-317	-326	-314	-329	-337
= Free cash flow (FCF)	13,154	11,438	12,993	14,658	16,057	17,008	17,601	18,508
PV of FCF's	12,739	10,257	10,789	11,270	11,432	11,212	10,745	10,461

€000s	
PVs of FCFs explicit period (2017-30)*	148,807
PVs of FCFs in terminal period	136,971
Enterprise Value (EV)	285,778
(Net cash)/net debt	19,898
Shareholder value	265,880

Value per share (€)	17.02
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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%	36.09	40.25	46.08	54.82	69.42	98.66	186.90	
5.00%	27.37	29.50	32.25	35.90	41.02	48.71	61.54	
6.00%	21.85	23.08	24.58	26.45	28.87	32.08	36.59	
7.00%	18.05	18.81	19.71	20.79	22.11	23.77	25.89	
8.00%	15.27	15.77	16.35	17.02	17.82	18.77	19.94	
9.00%	13.17	13.51	13.89	14.33	14.84	15.44	16.14	
10.00%	11.51	11.75	12.02	12.32	12.66	13.05	13.50	
11.00%	10.18	10.36	10.55	10.76	11.00	11.26	11.56	

*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	186,368	199,897	213,944
Change in inventories & capitalised production	0	0	0	0	0
Total output	183,682	176,854	186,368	199,897	213,944
Cost of materials	-31,596	-26,210	-30,751	-32,383	-34,873
Gross profit	152,086	150,644	155,617	167,514	179,071
Total personnel costs	-106,820	-109,269	-114,244	-121,937	-130,506
Net other operating costs	-29,871	-25,246	-22,294	-23,211	-23,152
Depreciation & amortisation	-4,286	-4,294	-4,659	-4,997	-5,349
EBIT	11,109	11,835	14,421	17,368	20,065
Net interest	-1,811	-749	-288	267	836
Associates	140	147	160	160	168
Pretax profit	9,438	11,233	14,293	17,795	21,069
Income taxes	-1,979	-2,682	-4,240	-5,290	-6,270
Net income / loss	7,459	8,551	10,053	12,504	14,798
EPS (€)	0.48	0.55	0.64	0.80	0.95
EBITDA	15,395	16,129	19,080	22,366	25,413
Ratios					
Gross margin	82.8%	85.2%	83.5%	83.8%	83.7%
EBIT margin	6.0%	6.7%	7.7%	8.7%	9.4%
EBITDA margin	8.4%	9.1%	10.2%	11.2%	11.9%
Net income margin	4.1%	4.8%	5.4%	6.3%	6.9%
Tax rate	21.0%	23.9%	29.7%	29.7%	29.8%
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%	-11.6%	-10.8%
Depreciation & amortisation	-2.3%	-2.4%	-2.5%	-2.5%	-2.5%
Y-o-y growth					
Total revenues	4.7%	-3.7%	5.4%	7.3%	7.0%
EBIT	45.1%	6.5%	21.8%	20.4%	15.5%
Net income / loss	82.0%	14.6%	17.6%	24.4%	18.3%



BALANCE SHEET

All figures in €'000	2015	2016	2017E	2018E	2019E
Assets					
Current assets, total	120,742	120,710	133,225	147,206	163,209
Cash and cash equivalents	38,831	43,008	52,470	60,589	70,506
Trade accounts and notes receivables	36,169	27,466	28,887	30,984	33,161
Inventories	4,184	6,421	6,766	7,258	7,768
Receivables relating to long term contracts	36,366	38,184	39,137	41,978	44,928
Other current assets	5,192	5,631	5,964	6,397	6,846
Non-current assets, total	78,780	78,717	76,993	77,969	79,290
Property, plant and equipment	12,214	12,153	13,046	13,393	14,334
Goodwill	49,559	48,914	48,914	48,914	48,914
Other intangible assets	9,859	8,837	8,387	8,396	8,130
Associates	149	150	310	470	638
Deferred tax assets	6,999	8,663	6,337	6,797	7,274
Other non-current assets	0	0	0	0	0
Total assets	199,522	199,427	210,217	225,175	242,499
Shareholders' equity & debt					
Current liabilities, total	77,343	69,200	75,754	81,253	86,963
Interest bearing debt	3,374	0	0	0	0
Trade accounts payable	14,929	12,553	13,232	14,193	15,190
Liabilities relating to long term contracts	28,819	25,728	27,112	29,080	31,124
Provisions	0	0	0	0	0
Other current liabilities	30,221	30,919	35,410	37,980	40,649
Non-current liabilities, total	49,027	54,953	55,931	56,457	56,993
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	3,634	3,898	4,172
Consolidated equity	73,152	75,274	78,532	87,465	98,543
Shareholders' equity	73,152	75,274	78,532	87,465	98,543
Minorities	0	0	0	0	0
Total consolidated equity and debt	199,522	199,427	210,217	225,175	242,499
Ratios					
Current ratio (x)	1.56	1.74	1.76	1.81	1.88
Quick ratio (x)	1.51	1.65	1.67	1.72	1.79
Equity ratio	36.7%	37.7%	37.4%	38.8%	40.6%
Net gearing	15.9%	12.0%	-0.2%	-9.2%	-17.9%
Equity per share	4.66	4.80	5.00	5.57	6.28
Interest coverage ratio (x)	6.13	15.80	50.10	-65.14	-24.01
Capital employed (CE)	88,045	84,531	81,331	78,897	80,147
Return on capital employed (ROCE)	9.7%	9.8%	12.4%	15.4%	17.5%



CASH FLOW STATEMENT

All figures in €'000	2015	2016	2017E	2018E	2019E
Pretax result	9,438	11,233	14,293	17,795	21,069
Depreciation and amortisation	4,286	4,294	4,659	4,997	5,349
Other	-1,685	-1,632	-4,400	-5,189	-6,175
Operating cash flow	12,039	13,895	14,552	17,603	20,242
Investment in working capital	1,971	-560	3,502	-363	-377
Net operating cash flow	14,010	13,335	18,054	17,240	19,865
Cashflow from investing	-2,234	-2,912	-5,102	-5,354	-6,024
Free cash flow	11,776	10,423	12,952	11,886	13,841
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	9,462	8,119	9,917
Cash, start of the year	29,314	38,831	43,008	52,470	60,589
Cash, end of the year	38,831	43,008	52,470	60,589	70,506
Free cash flow per share in €	0.75	0.67	0.83	0.76	0.89
Y-o-y growth					
Operating cash flow	28%	15%	5%	21%	15%
Net operating cash flow	-42%	-5%	35%	-5%	15%
Free cash flow	21%	-11%	24%	-8%	16%

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...58	↓	↓	↓	↓
59	3 November 2016	€12.04	Add	€13.00
60	30 March 2017	€12.71	Add	€14.00
61	2 May 2017	€12.91	Add	€14.00
62	Today	€15.74	Add	€17.00

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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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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.

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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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