

PSI AG

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

Q1 2018 results

RATING
PRICE TARGET **ADD**
 €18.00
 Return Potential 8.4%
 Risk Rating Medium

19% JUMP IN ORDER INTAKE GETS 2018 OFF TO A GOOD START

PSI recorded a robust 19% increase in its order intake to a record €93m in Q1/18 (Q1/17: €78m). The company is benefiting from the cyclical recovery of several client groups' businesses in the industrialised countries while demand from raw materials exporting countries is recovering following commodity price increases. The completion of migration of many products to the company's new, more adaptable software platform also continues to help the top line. Management has reiterated the 2018 guidance given in the annual report for sales growth in the upper single digit percentage range. 2018 EBIT is now expected to exceed €15m (i.e. at least 12.2% above 2017 EBIT) compared with guidance in the annual report of a "low double digit percentage improvement." Our forecasts are unchanged on our study of 3 April and we maintain our Add recommendation and price target of €18.00.

Order intake rose at both business segments Both the Energy Management and Production Management segments contributed to the 19% increase in the Q1/18 order intake. The order backlog at the end of March was €174m (Q1/17: €163m). Group sales climbed 4.5% to €45.7m (Q1/17: €43.8m) while EBIT moved ahead to €2.8m (Q1/17: €2.6m) equivalent to a margin of 6.1% (Q1/17: 6.0%). Both numbers were close to our expectations. PSI changed its reporting structure from three segments to two segments during Q1/18. The former Infrastructure Management segment's Southeast Asian and public transportation businesses are now part of Energy Management while its Polish business has been allocated to Production Management. Both remaining segments are roughly equal in size, whereas during 2017 Infrastructure Management accounted for only 13% of group sales.

Strong rise in orders at electrical grids business Energy Management's sales climbed 10.7% to €22.4m (Q1/17: €20.2m) while EBIT came in at €1.1m (Q1/17: €0.9m). The order intake at the electrical grids business increased strongly due mainly to the rollout of the GLDPM module (Generation and Load Data Provision Methodology). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017	2018E	2019E
Revenue (€m)	175.39	183.68	176.85	186.10	198.86	205.82
Y-o-y growth	-0.5%	4.7%	-3.7%	5.2%	6.9%	3.5%
EBIT (€m)	7.66	11.11	11.84	13.37	15.20	16.93
EBIT margin	4.4%	6.0%	6.7%	7.2%	7.6%	8.2%
Net income (€m)	4.10	7.46	8.55	9.50	10.15	11.66
EPS (diluted) (€)	0.26	0.48	0.55	0.61	0.65	0.75
DPS (€)	0.00	0.21	0.22	0.23	0.24	0.25
FCF (€m)	9.74	11.78	10.42	-2.92	5.76	15.05
Net gearing	33.7%	15.9%	12.0%	18.7%	15.8%	2.5%
Liquid assets (€m)	29.31	38.83	43.01	38.13	37.41	48.69

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 02 May 2018

Closing Price €16.60
 Shares outstanding 15.70m
 Market Capitalisation €260.58m
 52-week Range €12.75 / 20.30
 Avg. Volume (12 Months) 12,386

Multiples	2017	2018E	2019E
P/E	27.3	25.5	22.2
EV/Sales	1.5	1.4	1.3
EV/EBIT	20.2	17.8	16.0
Div. Yield	1.4%	1.4%	1.5%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2018

Liquid Assets €42.56m
 Current Assets €123.55m
 Intangible Assets €56.85m
 Total Assets €201.93m
 Current Liabilities €65.28m
 Shareholders' Equity €82.19m

SHAREHOLDERS

Innogy SE 17.8%
 Harvinder Singh 8.1%
 Free float 74.1%



Together with the data exchange between the distribution grid operators and the transmission grid operators, the GLDPM provides the basis for distribution grid autopilots. The gas and oil business picked up during Q1/18 following the increase in the oil price, but sanctions are slowing activity in Russia. Sales and profitability recovered strongly in Southeast Asia in Q1/18 after a long period in which business was adversely affected by political turbulence and low commodity prices. The public transport business won an important contract from the BVG, the operator of the Berlin underground.

Figure 1: Q1/18 results versus our forecasts

€ 000s	Q1 18A	Q1 18E	Δ Q1 18A vs. vs. Q3 18E	Q1 17A	Δ Q1 18A vs. vs. Q1 17A
External sales	45,745	45,500	0.5%	43,784	4.5%
EBIT	2,786	2,700	3.2%	2,607	6.9%
EPS (€)	0.12	0.12	3.2%	0.11	9.1%

Source: PSI AG; First Berlin Equity Research estimates

Industrial application of A.I. looking promising for PSI Sales at Production Management fell 0.9% to €23.3m (Q1/17: €23.5m) but EBIT rose slightly to €2.1m (Q1/17: €2.0m) with the artificial intelligence, metals and logistics businesses all contributing to the increase in profits. The metals business saw increasing order volume from the U.S. while Automotive and Industry won an order from the Aachen-based electric vehicle manufacturer, e.GO Mobile for the implementation of the fully integrated PSIpenta-Manufacturing Execution System. This contract follows on from a production network order awarded to PSI by e.GO Mobile in 2017. PSI recently presented its integrated production and logistic process for the production of electrical vehicles as well as comprehensive practical examples of the industrial application of artificial intelligence at the 2018 Hannover Trade Fair. Following the recent migration of PSIpenta ERP and POM (Production Order Management) to the PSI Java Platform and the reimplementation of the Manufacturing Execution System on group standard modules, PSI expects increased orders for these products in the coming months.

Balance sheet remains strong Cashflow from operations before investment in working capital came in at €3.9m (Q1/17: €3.7m). Working capital yielded €2.6m in Q1/18 whereas in Q1/17 it consumed €3.9m. Net operating cashflow came in at €6.3m in Q1/18 (Q1/17: €-0.2m). Free cashflow in Q1/18 was €5.0m (Q1/16: €-0.9m). The cash inflow during Q1/18 was €4.4m (Q1/17: an outflow of €-0.8m) and the company's net cash position excluding pension liabilities rose from €35.5m at end 2017 to €40.4m at end Q1/18 (Q1/17: €41.7m). Including pension liabilities of €50.3m, PSI's net debt position was €9.8m at end Q1/18 (Q1/17: €10.1m), equivalent to net gearing of 12.0% (Q1/16: 13.2%).

We maintain our Add recommendation and price target of €18.00 The tone of PSI's Q1 report was upbeat. Management expects continued growth in orders both from industrialised and raw materials exporting countries over the next few quarters. Meanwhile orders from the domestic energy sector are expected to increase ahead of the regulatory base years (2019 for the gas and oil business and 2020 for the electrical grids business). Management has reiterated the 2018 guidance given in the annual report for sales growth in the upper single digit percentage range. 2018 EBIT is now expected to exceed €15m (i.e. at least 12.2% above 2017 EBIT) compared with guidance in the annual report of a "low double digit percentage improvement." We are leaving our forecasts unchanged on our study of 3 April and maintain our Add recommendation and price target of €18.00.



VALUATION MODEL

€000s	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	198,859	205,815	213,020	220,482	228,211	238,463	248,886	259,465
NOPLAT	10,637	11,854	13,124	14,469	15,937	17,162	18,184	19,537
+ Depreciation and amortisation	4,971	5,145	5,326	5,512	5,705	5,962	6,222	6,487
= net operating cash flow	15,609	16,999	18,450	19,981	21,643	23,123	24,406	26,024
- total investments (Capex and WC)	-9,709	-1,841	-882	-2,248	-4,447	-5,125	-7,692	-7,979
Capital expenditure	-5,916	-5,080	-6,082	-6,075	-6,281	-7,017	-7,296	-7,576
working capital	-3,793	3,239	5,200	3,827	1,833	1,892	-397	-403
= Free cash flow (FCF)	5,900	15,158	17,568	17,733	17,195	17,998	16,714	18,045
PV of FCF's	5,619	13,413	14,441	13,541	12,198	11,861	10,232	10,262

€000s	
PVs of FCFs explicit period (2018-30)*	140,563
PVs of FCFs in terminal period	157,610
Enterprise Value (EV)	298,173
(Net cash)/net debt	15,030
Shareholder value	283,143

Value per share (€)	18.04
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WACC	7.65%
Cost of equity	9.5%
Pre-tax cost of debt	3.0%
Normal tax rate	30.0%
After-tax cost of debt	2.1%
Share of equity	75.0%
Share of debt	25.0%
Terminal growth	2.0%

Sensitivity analysis

		Terminal growth rate (%)						Fair value per share
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	3.65%	40.09	45.51	53.45	66.21	90.11	151.03	629.72
	4.65%	29.67	32.29	35.74	40.49	47.45	58.64	79.61
	5.65%	23.34	24.79	26.59	28.89	31.91	36.08	42.20
	6.65%	19.08	19.96	21.01	22.29	23.87	25.89	28.55
	7.65%	16.04	16.61	17.26	18.04	18.96	20.09	21.48
	8.65%	13.76	14.14	14.57	15.07	15.65	16.33	17.15
	9.65%	11.99	12.26	12.55	12.89	13.27	13.71	14.22
10.65%	10.58	10.77	10.98	11.21	11.47	11.77	12.10	

*for layout purposes the model shows numbers only to 2025 but runs until 2030

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in €'000	2015	2016	2017	2018E	2019E
Revenues	183,682	176,854	186,096	198,859	205,815
Cost of materials	-31,596	-26,210	-27,228	-28,835	-29,843
Gross profit	152,086	150,644	158,868	170,024	175,972
Total personnel costs	-106,820	-109,269	-112,343	-117,327	-121,431
Net other operating costs	-29,871	-25,246	-28,809	-32,530	-32,462
Depreciation & amortisation	-4,286	-4,294	-4,351	-4,971	-5,145
EBIT	11,109	11,835	13,365	15,196	16,934
Net interest	-1,811	-749	-983	-924	-512
Associates	140	147	142	160	168
Pretax profit	9,438	11,233	12,524	14,432	16,590
Income taxes	-1,979	-2,682	-3,027	-4,282	-4,927
Net income / loss	7,459	8,551	9,497	10,151	11,664
EPS (€)	0.48	0.55	0.61	0.65	0.75
EBITDA	15,395	16,129	17,716	20,167	22,079
Ratios					
Gross margin	82.8%	85.2%	85.4%	85.5%	85.5%
EBIT margin	6.0%	6.7%	7.2%	7.6%	8.2%
EBITDA margin	8.4%	9.1%	9.5%	10.1%	10.7%
Net income margin	4.1%	4.8%	5.1%	5.1%	5.7%
Tax rate	21.0%	23.9%	24.2%	29.7%	29.7%
Expenses as % of output					
Personnel	-58.2%	-61.8%	-60.4%	-59.0%	-59.0%
Net other operating income/expenses	-16.3%	-14.3%	-15.5%	-16.4%	-15.8%
Depreciation & amortisation	-2.3%	-2.4%	-2.3%	-2.5%	-2.5%
Y-o-y growth					
Total revenues	4.7%	-3.7%	5.2%	6.9%	3.5%
EBIT	45.1%	6.5%	12.9%	13.7%	11.4%
Net income / loss	82.0%	14.6%	11.1%	6.9%	14.9%



BALANCE SHEET

All figures in €'000	2015	2016	2017	2018E	2019E
Assets					
Current assets, total	120,742	120,710	116,463	127,101	139,468
Cash and cash equivalents	38,831	43,008	38,132	37,405	48,692
Trade accounts and notes receivables	36,169	27,466	31,611	31,817	32,930
Inventories	4,184	6,421	7,823	7,954	8,233
Receivables relating to long term contracts	36,366	38,184	33,118	43,749	43,221
Other current assets	5,192	5,631	5,779	6,175	6,391
Non-current assets, total	78,780	78,717	77,547	77,036	77,375
Property, plant and equipment	12,214	12,153	12,531	13,324	13,790
Goodwill	49,559	48,914	48,289	48,289	48,289
Other intangible assets	9,859	8,837	8,200	8,352	7,821
Associates	149	150	150	310	478
Deferred tax assets	6,999	8,663	8,377	6,761	6,998
Other non-current assets	0	0	0	0	0
Total assets	199,522	199,427	194,010	204,137	216,843
Shareholders' equity & debt					
Current liabilities, total	77,343	69,200	59,679	64,629	68,948
Interest bearing debt	3,374	0	2,622	0	0
Trade accounts payable	14,929	12,553	14,564	14,914	15,436
Liabilities relating to long term contracts	28,819	25,728	13,287	17,897	20,582
Provisions	0	0	0	0	0
Other current liabilities	30,221	30,919	29,206	31,817	32,930
Non-current liabilities, total	49,027	54,953	54,034	54,670	55,060
Interest bearing debt	83	0	0	0	0
Pension provisions	46,981	52,037	50,540	50,793	51,047
Deferred tax liabilities	1,963	2,916	3,494	3,878	4,013
Consolidated equity	73,152	75,274	80,297	84,838	92,835
Shareholders' equity	73,152	75,274	80,297	84,838	92,835
Minorities	0	0	0	0	0
Total consolidated equity and debt	199,522	199,427	194,010	204,137	216,843
Ratios					
Current ratio (x)	1.56	1.74	1.95	1.97	2.02
Quick ratio (x)	1.51	1.65	1.82	1.84	1.90
Equity ratio	36.7%	37.7%	41.4%	41.6%	42.8%
Net gearing	15.9%	12.0%	18.7%	15.8%	2.5%
Equity per share	4.66	4.80	5.12	5.40	5.91
Interest coverage ratio (x)	6.13	15.80	13.60	16.45	33.10
Capital employed (CE)	88,045	84,531	89,815	96,776	96,707
Return on capital employed (ROCE)	9.7%	9.8%	10.4%	11.0%	12.3%



CASH FLOW STATEMENT

All figures in €'000	2015	2016	2017	2018E	2019E
Pretax result	9,438	11,233	12,524	14,432	16,590
Depreciation and amortisation	4,286	4,294	4,351	4,971	5,145
Other	-1,685	-479	-1,098	-3,937	-4,841
Operating cash flow	12,039	15,048	15,777	15,467	16,895
Investment in working capital	1,971	-1,713	-14,609	-3,793	3,239
Net operating cash flow	14,010	13,335	1,168	11,674	20,134
Cashflow from investing	-2,234	-2,912	-4,089	-5,916	-5,080
Free cash flow	11,776	10,423	-2,921	5,758	15,054
Dividend paid	0	-3,277	-3,439	-3,610	-3,767
Share buy back	-303	0	-297	-252	0
New share capital	0	0	0	0	0
Debt financing	-1,813	-3,457	2,622	-2,622	0
Other	0	0	0	0	0
Cash flow from financing	-2,116	-6,734	-1,114	-6,484	-3,767
Other	-143	488	-841	0	0
Change in cash	9,517	4,177	-4,876	-727	11,287
Cash, start of the year	29,314	38,831	43,008	38,132	37,405
Cash, end of the year	38,831	43,008	38,132	37,405	48,692
Free cash flow per share in €	0.75	0.67	-0.19	0.37	0.96
Y-o-y growth					
Operating cash flow	28%	25%	5%	-2%	9%
Net operating cash flow	-42%	-5%	-91%	899%	72%
Free cash flow	21%	-11%	-128%	-297%	161%

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...61	↓	↓	↓	↓
62	31 July 2017	€15.74	Add	€17.00
63	6 November 2017	€17.61	Add	€20.00
64	3 April 2018	€17.25	Add	€18.00
65	Today	€16.60	Add	€18.00

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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%.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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