

PSI AG

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

Q2 results

RATING	ADD
PRICE TARGET	€ 18.00
Return Potential	2.9%
Risk Rating	Medium

ORDER INTAKE UP 27% IN Q2 AND 22% AFTER SIX MONTHS

Q2/18 was another quarter of strong order intake growth at PSI (+27% to €42m) with both the Energy Management and the Production Management segments contributing to the rise. Q2/18 sales, which climbed 11.5% to €48.8m (Q2/17: €43.8m) and EBIT, which was 9.4% ahead at €3.4m (Q2/17: €3.1m), were close to our forecasts. PSI looks well placed to reach management's full year guidance of €200m for sales and for EBIT in excess of €15m. We maintain our Add recommendation and price target of €18.00.

Electrical grids business main sales driver in Energy Management segment

Sales at Energy Management climbed 13.3% to €24.5m (Q2/17: €21.6m) while segment EBIT moved ahead to €1.3m (Q2/17: €1.2m). The electrical grids business was the main driver of sales growth and won several major contracts from its German client base, including an order from Deutsche Bahn. The gas and oil business won roll-out orders from central European customers but sanctions continue to slow activity in Russia. Gas and oil sales rose y-o-y in both Q1/18 and Q2/18 - in the second quarter more strongly than in the first quarter. After recovering strongly in Q1/18 following a long period in which business was adversely affected by political turbulence and low commodity prices, PSI's South East Asian subsidiary was again in the black in the second quarter. In late July PSI announced that it had strengthened its product offering for public transportation through acquiring the Potsdam-based company Moveo Software GmbH. Moveo's main product is the profahr programme system for planning, disposition and invoicing of transportation operations. The company has 20 employees.

PSI expanding capacity in international metals and logistics businesses

The Production Management segment continues to benefit from the international economic upturn. Q2/18 sales increased 9.8% to €24.3m (Q2/17: €22.1m) and segment EBIT came in at €2.1m (Q2/17: €2.2m). PSI is planning to double the size of its team in the USA to 50 employees to accommodate increasing business primarily from metals industry customers.

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	16.94
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	10.19	11.65
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	7.39	10.98
Net gearing	33.7%	15.9%	12.0%	18.7%	13.9%	5.2%
Liquid assets (€m)	29.31	38.83	43.01	38.13	39.03	46.24

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.

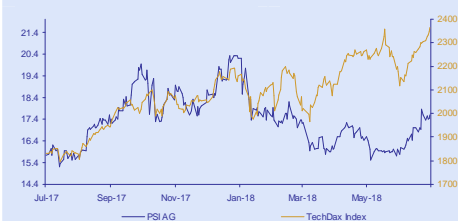
MARKET DATA

As of 30 Jul 2018

Closing Price	€ 17.50
Shares outstanding	15.70m
Market Capitalisation	€ 274.70m
52-week Range	€ 15.20 / 20.30
Avg. Volume (12 Months)	11,229

Multiples	2017	2018E	2019E
P/E	28.8	26.8	23.5
EV/Sales	1.6	1.5	1.4
EV/EBIT	21.7	19.1	17.1
Div. Yield	1.3%	1.4%	1.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 35.79m
Current Assets	€ 120.65m
Intangible Assets	€ 56.70m
Total Assets	€ 198.39m
Current Liabilities	€ 62.91m
Shareholders' Equity	€ 81.04m

SHAREHOLDERS

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



Sales continued to grow at both the automotive/mechanical engineering and logistics businesses during the second quarter. At the former business profitability was burdened by pilot projects including the migration of the production planning system to the PSI Java platform, the integration of sequential optimization functionality and the new Business Process Management-based production control for e.GO mobile electrical vehicles. Meanwhile, the logistics operation incurred exceptional costs through the move into a new, additional building which will allow the business to continue growing. PSI is also expanding logistics sales and services operations to Great Britain and Southeast Asia to take advantage of the boom in internet trading.

Figure 1: Q2/18 results versus our forecasts

€ 000s	Q2 18A	Q2 18E	Δ Q2 18A vs. vs. Q2 18E	Q2 17A	Δ Q2 18A vs. vs. Q2 17A
External sales	48,826	49,000	-0.4%	43,784	11.5%
<i>by division:</i>					
Energy Management	24,510	24,500	0.0%	21,638	13.3%
Production Management	24,316	24,500	-0.8%	22,146	9.8%
EBIT	3,367	3,150	6.9%	3,077	9.4%
<i>by division:</i>					
Energy Management	1,337	1,250	7.0%	1,239	7.9%
Production Management	2,147	2,200	-2.4%	2,213	-3.0%
Reconciliation	-117	-300		-375	
EPS (€)	0.15	0.14	6.9%	0.11	36.4%

Source: PSI AG; First Berlin Equity Research estimates

Balance sheet remains strong Cashflow from operations before investment in working capital came in at €4.5m (Q2/17: €4.0m). The second quarter of the year usually sees a build-up in working capital. In Q2/18 working capital consumed €5.6m compared with €8.8m in Q2/17. Net operating cashflow thus came in at €-1.1m (Q2/17:€-4.8m). Free cashflow was €-2.2m (Q2/17: €-6.6m). Dividends payments in Q2/18 amounted to €3.6m (Q2/17: €3.4m). PSI repaid debt of €0.8m and bought back shares for €0.2m in Q2/18 whereas in Q2/17 it assumed debt of €2.5m and did not buy back shares. Cash fell €6.8m to €35.8m during Q2/18 (Q2/17: cash fell €7.6m to €34.6m). Net debt including pension liabilities amounted to €15.6m at the end of Q2/18 and net gearing including pension liabilities was 19.3% (Q2/17: €19.9m and 27.2%).

We maintain our Add recommendation and price target of €18.00 Guidance given in the Q1 report at the end of April was for sales growth in the upper single digit percentage range. In the Q2 report management guides towards FY sales of €200m (+7.5% vs. 2017). 2018 EBIT guidance of €15m is unchanged on the Q1 report. We are leaving our forecasts unchanged on our study of 3 May (2018 sales: €198.9m; 2018 EBIT: €15.2m) and maintain our Add recommendation and price target of €18.00.



VALUATION MODEL

€000s	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	198,858	205,815	213,016	223,666	234,850	246,592	258,922	271,868
NOPLAT	10,637	11,855	13,125	14,669	16,376	17,638	18,520	19,446
+ Depreciation and amortisation	4,971	5,145	5,325	5,592	5,871	6,165	6,473	6,797
= net operating cash flow	15,609	17,000	18,451	20,261	22,247	23,803	24,993	26,243
- total investments (Capex and WC)	-8,118	-5,902	-3,736	-5,347	-5,492	-8,350	-8,767	-9,205
Capital expenditure	-5,916	-5,080	-6,081	-6,486	-6,799	-7,374	-7,743	-8,130
working capital	-2,202	-821	2,345	1,139	1,308	-975	-1,024	-1,075
= Free cash flow (FCF)	7,491	11,098	14,714	14,914	16,755	15,453	16,226	17,037
PV of FCF's	7,264	9,999	12,315	11,595	12,101	10,368	10,114	9,865

€000s	
PVs of FCFs explicit period (2018-30)*	131,889
PVs of FCFs in terminal period	166,821
Enterprise Value (EV)	298,710
(Net cash)/net debt	15,614
Shareholder value	283,096

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%	41.03	46.65	54.89	68.13	92.93	156.12	652.73
	4.65%	30.15	32.86	36.42	41.32	48.51	60.08	81.73
	5.65%	23.56	25.05	26.90	29.26	32.37	36.66	42.95
	6.65%	19.15	20.05	21.12	22.43	24.05	26.11	28.83
	7.65%	16.00	16.58	17.25	18.04	18.98	20.12	21.54
	8.65%	13.66	14.04	14.48	14.98	15.57	16.26	17.08
	9.65%	11.84	12.11	12.41	12.74	13.13	13.57	14.08
10.65%	10.40	10.59	10.80	11.03	11.29	11.59	11.93	

*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	198,858	205,815
Cost of materials	-31,596	-26,210	-27,228	-28,834	-29,843
Gross profit	152,086	150,644	158,868	170,024	175,972
Total personnel costs	-106,820	-109,269	-112,343	-117,326	-121,431
Net other operating costs	-29,871	-25,246	-28,809	-32,530	-32,460
Depreciation & amortisation	-4,286	-4,294	-4,351	-4,971	-5,145
EBIT	11,109	11,835	13,365	15,196	16,935
Net interest	-1,811	-749	-983	-871	-538
Associates	140	147	142	160	168
Pretax profit	9,438	11,233	12,524	14,485	16,565
Income taxes	-1,979	-2,682	-3,027	-4,298	-4,919
Net income / loss	7,459	8,551	9,497	10,188	11,646
EPS (€)	0.48	0.55	0.61	0.65	0.75
EBITDA	15,395	16,129	17,716	20,167	22,081
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%	7.3%	14.3%



BALANCE SHEET

All figures in €'000	2015	2016	2017	2018E	2019E
Assets					
Current assets, total	120,742	120,710	116,463	121,173	131,255
Cash and cash equivalents	38,831	43,008	38,132	39,034	46,242
Trade accounts and notes receivables	36,169	27,466	31,611	29,829	30,872
Inventories	4,184	6,421	7,823	8,352	8,644
Receivables relating to long term contracts	36,366	38,184	33,118	37,783	39,105
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	13,323	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	198,208	208,630
Shareholders' equity & debt					
Current liabilities, total	77,343	69,200	59,679	58,663	60,715
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	11,931	12,349
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	84,875	92,854
Shareholders' equity	73,152	75,274	80,297	84,875	92,854
Minorities	0	0	0	0	0
Total consolidated equity and debt	199,522	199,427	194,010	198,208	208,630
Ratios					
Current ratio (x)	1.56	1.74	1.95	2.07	2.16
Quick ratio (x)	1.51	1.65	1.82	1.92	2.02
Equity ratio	36.7%	37.7%	41.4%	42.8%	44.5%
Net gearing	15.9%	12.0%	18.7%	13.9%	5.2%
Equity per share	4.66	4.80	5.12	5.41	5.92
Interest coverage ratio (x)	6.13	15.80	13.60	17.45	31.46
Capital employed (CE)	88,045	84,531	89,815	95,980	97,147
Return on capital employed (ROCE)	9.7%	9.8%	10.4%	11.1%	12.2%



CASH FLOW STATEMENT

All figures in €'000	2015	2016	2017	2018E	2019E
Pretax result	9,438	11,233	12,524	14,485	16,565
Depreciation and amortisation	4,286	4,294	4,351	4,971	5,145
Other	-1,685	-479	-1,098	-3,953	-4,833
Operating cash flow	12,039	15,048	15,777	15,504	16,877
Investment in working capital	1,971	-1,713	-14,609	-2,202	-821
Net operating cash flow	14,010	13,335	1,168	13,302	16,056
Cashflow from investing	-2,234	-2,912	-4,089	-5,916	-5,080
Free cash flow	11,776	10,423	-2,921	7,386	10,976
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	902	7,208
Cash, start of the year	29,314	38,831	43,008	38,132	39,034
Cash, end of the year	38,831	43,008	38,132	39,034	46,242
Free cash flow per share in €	0.75	0.67	-0.19	0.47	0.70
Y-o-y growth					
Operating cash flow	28%	25%	5%	-2%	9%
Net operating cash flow	-42%	-5%	-91%	1039%	21%
Free cash flow	21%	-11%	n.m.	n.m.	49%

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...62	↓	↓	↓	↓
63	6 November 2017	€17.61	Add	€20.00
64	3 April 2018	€17.25	Add	€18.00
65	3 May 2018	€16.60	Add	€18.00
66	Today	€17.50	Add	€18.00

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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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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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Legally required information regarding

- 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/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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