

PSI AG

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

Q1 2019 results

RATING
PRICE TARGET **ADD**
€ 19.00
 Return Potential 3.0%
 Risk Rating Medium

ON TRACK FOR 2019 GUIDANCE OF 10% SALES AND EBIT INCREASE

Q1/19 results were close to our forecasts showing a 13.7% increase in sales to €52.0m (FB: €50.5m; Q1/18: €45.7m) and a 6.0% increase in EBIT to €3.0m (FB: €3.0m; Q1/18: €2.8m). The order intake and order backlog both reached new record levels at €97m (+4.3% vs. Q1/18) and €184m (+5.7% vs. Q1/18). Stripping out the acquisition of the PRINS smart grid control business (consolidated from 1 January 2019) sales rose 10.2% to €50.4m and EBIT jumped 45% to €4.1m, equivalent to an EBIT margin of 8.0% (Q1/18: 6.1%). PSI already booked the lion's share of integration costs with respect to PRINS in Q1. Meanwhile, the completion of migration of many products to the group's new, more adaptable software platform is helping the top line. In our view, PSI is well placed to reach 2019 guidance for a 10% increase in sales and EBIT. We maintain our Add recommendation and price target of €19.0.

Most of PRINS integration costs taken in Q1/19 Sales at Energy Management climbed 12.7% to €25.3m (Q1/18: €22.4m) while segment EBIT was flat at €1.1m. Sales were boosted by the acquisition of the PRINS smart grid control system from the German company BTC AG, which was consolidated from 1 January. The new acquisition contributed sales of €1.6m and a loss of €1.1m to the Q1/19 result. The loss is a consequence of low capacity utilisation which PSI flagged as an issue when the acquisition was made. As we pointed out in our note of 2 April, the PRINS business generated sales of close to €10m in 2018. We gather that PSI intends to continue around €5-6m of these sales, of which maintenance contracts account for €3m. The 150 network control specialists who will be joining PSI from BTC will be trained on PSI's own network control product, PSIcontrol. This will help PSI to meet the expected increase in demand for this product. Management expects the underutilised employees to make "an increasingly productive contribution after familiarisation from March to July." The full-year loss for the new business is expected to reach 20% of sales (€1.0m-1.2m). The €1.1m loss booked in Q1/19 is equivalent to nearly all of the upper end of this range. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Revenue (€m)	183.68	176.85	186.10	199.16	220.11	227.76
Y-o-y growth	4.7%	-3.7%	5.2%	7.0%	10.5%	3.5%
EBIT (€m)	11.11	11.84	13.37	15.45	17.15	19.45
EBIT margin	6.0%	6.7%	7.2%	7.8%	7.8%	8.5%
Net income (€m)	7.46	8.55	9.50	10.59	11.76	13.57
EPS (diluted) (€)	0.48	0.55	0.61	0.68	0.75	0.87
DPS (€)	0.21	0.22	0.23	0.25	0.27	0.29
FCF (€m)	11.78	10.42	-2.92	11.57	3.61	12.63
Net gearing	15.9%	12.0%	18.7%	9.8%	8.9%	0.2%
Liquid assets (€m)	38.83	43.01	38.13	44.58	43.25	51.63

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.

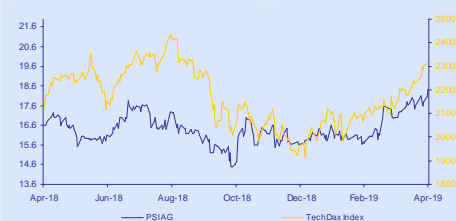
MARKET DATA

As of 30 Apr 2019

Closing Price € 18.45
 Shares outstanding 15.70m
 Market Capitalisation € 289.62m
 52-week Range € 14.50 / 18.45
 Avg. Volume (12 Months) 7,491

Multiples	2018	2019E	2020E
P/E	25.1	22.6	19.6
EV/Sales	1.4	1.3	1.2
EV/EBIT	17.8	16.1	14.2
Div. Yield	1.4%	1.5%	1.6%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets € 44.97m
 Current Assets € 139.26m
 Intangible Assets € 64.09m
 Total Assets € 249.13m
 Current Liabilities € 79.91m
 Shareholders' Equity € 89.55m

SHAREHOLDERS

InvAG für langfristige Investoren TGV 20.7%
 Innogy SE 17.8%
 Management and employees 15.0%
 Harvinder Singh 8.1%
 Free float and other 38.4%



Stripping out the acquisition, sales growth would have been 5.5% to €23.7m and the segment EBIT margin would have widened from 4.9% to 9.2% instead of narrowing to 4.4%. Underlying results improved at both the electricity and gas network control systems businesses. At the latter business order intake, sales and earnings grew due to the new upgrade subscription business and recovering activity in Russia.

Figure 1: Q1/19 results versus our forecasts

€ 000s	Q1 19A	Q1 19E	Δ Q1 19A vs. Q1 19E	Q1 18A	Δ Q1 19A vs. Q1 18A
External sales	51,993	50,500	3.0%	45,745	13.7%
<i>by division:</i>					
Energy Management	25,250	25,000	1.0%	22,412	12.7%
Production Management	26,743	25,500	4.9%	23,333	14.6%
EBIT	2,952	3,000	-1.6%	2,786	6.0%
margin	5.7%	5.9%		6.1%	
<i>by division:</i>					
Energy Management	1,142	1,100	3.8%	1,129	1.2%
<i>margin</i>	<i>4.4%</i>	<i>1.1%</i>		<i>5.0%</i>	
Production Management	1,921	2,100	-8.5%	2,099	-8.5%
<i>margin</i>	<i>6.6%</i>	<i>1.9%</i>		<i>8.3%</i>	
Reconciliation	-111	-200		-442	
EPS (€)	0.13	0.13	-1.6%	0.12	8.3%

Source: PSI AG; First Berlin Equity Research estimates

Production Management benefiting from product migration to group platform

Production Management sales climbed 14.1% to €29.0m (Q1/18: €25.4m), but segment EBIT fell to €1.9m (Q1/18: €2.1m). The decline in the segment's EBIT margin was due mainly to a shift in the sales mix away from PSI Metals, where business from European customers was affected by uncertainty regarding both tariffs and carbon emissions. Counter to this trend, PSI Metals did however announce in February a major order from the Chinese steel manufacturer, HBIS Laoting Steel. Elsewhere in the segment, the Logistics business saw a further jump in orders and sales following migration of its products to the group platform. Results at Logistics are expected to improve significantly during the remainder of the year as economies of scale kick in. Meanwhile product migration to the group platform also helped spark rising orders, sales and profits at the Automotive and Industry segment.

Balance sheet remains robust Cashflow from operations before investment in working capital came in at €5.4m (Q1/18: €3.9m). But working capital yielded only €0.8m in Q1/19 compared with €2.6m in Q1/18 and so net operating cashflow declined to €6.0m in Q1/19 (Q1/18: €6.3m). Net cash outflow from investing was €4.0m in Q1/19 (Q1/18: €1.2m). The increased outflow was due mainly to the purchase of the PRINS business. Cash and cash equivalents rose €0.4m during Q1/19 (Q1/18: €4.4m). PSI's net debt position including pension liabilities was €7.4m at the end of Q1/19 equivalent to net gearing of 8% (Q1/18: €9.8m equivalent to net gearing of 12.0%).

We maintain our Add rating and price target of €19.00 Management has maintained the 2019 guidance given in the annual report of a 10% increase in both sales and EBIT. Given the underlying strength of the Q1 figures and the prospect of further improvements in performance during the remaining quarters of this year, we think 2019 guidance is readily achievable. We are leaving our forecasts unchanged and maintain our price target of €19.00. The recommendation stays at Add.



Figure 2: Valuation model

€000s	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	220,108	227,755	239,143	251,225	263,787	276,976	290,825	303,844
NOPLAT	12,005	13,614	15,195	16,904	18,146	19,575	20,883	22,311
+ Depreciation and amortisation	4,931	5,103	5,836	6,131	6,437	6,759	7,097	7,415
= net operating cash flow	16,936	18,716	21,031	23,034	24,584	26,335	27,980	29,726
- total investments (Capex and WC)	-11,403	-6,156	-8,149	-8,492	-10,830	-9,525	-14,073	-10,328
Capital expenditure	-10,010	-5,446	-7,092	-7,463	-7,822	-8,213	-8,624	-8,850
working capital	-1,393	-710	-1,057	-1,029	-3,008	-1,312	-5,449	-1,477
= Free cash flow (FCF)	5,533	12,561	12,882	14,542	13,753	16,809	13,907	19,398
PV of FCF's	5,269	11,112	10,587	11,103	9,755	11,075	8,512	11,030

€000s	
PVs of FCFs explicit period (2019-30)*	121,512
PVs of FCFs in terminal period	184,602
Enterprise Value (EV)	306,115
Net cash/(net debt)	-7,366
Shareholder value	298,749

Value per share (€)	19.03
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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

WACC	Terminal growth rate (%)							Fair value per share
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
4.65%	31.84	34.72	38.51	43.74	51.41	63.73	86.81	
5.65%	24.86	26.45	28.42	30.94	34.26	38.83	45.53	
6.65%	20.19	21.15	22.29	23.69	25.42	27.62	30.52	
7.65%	16.87	17.48	18.19	19.03	20.04	21.25	22.77	
8.65%	14.39	14.80	15.26	15.80	16.42	17.16	18.04	
9.65%	12.47	12.75	13.07	13.43	13.84	14.31	14.86	
10.65%	10.95	11.15	11.38	11.62	11.90	12.22	12.58	
11.65%	9.72	9.87	10.03	10.20	10.40	10.62	10.86	

*for layout purposes the model shows numbers only to 2026 but runs until 2030

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in €'000	2015	2016	2017	2018	2019E	2020E
Revenues	183,682	176,854	186,096	199,156	220,108	227,755
Cost of materials	-31,596	-26,210	-27,228	-28,919	-31,916	-33,025
Gross profit	152,086	150,644	158,868	170,237	188,192	194,731
Total personnel costs	-106,820	-109,269	-112,343	-121,279	-129,864	-134,376
Net other operating costs	-29,871	-25,246	-28,809	-28,897	-36,248	-35,804
Depreciation & amortisation	-4,286	-4,294	-4,351	-4,611	-4,931	-5,103
EBIT	11,109	11,835	13,365	15,450	17,149	19,448
Net interest	-1,811	-749	-983	-1,061	-546	-275
Associates	140	147	142	134	141	148
Pretax profit	9,438	11,233	12,524	14,523	16,744	19,321
Income taxes	-1,979	-2,682	-3,027	-3,938	-4,981	-5,752
Net income / loss	7,459	8,551	9,497	10,585	11,763	13,569
EPS (€)	0.48	0.55	0.61	0.68	0.75	0.87
EBITDA	15,395	16,129	17,716	20,061	22,081	24,551
Ratios						
Gross margin	82.8%	85.2%	85.4%	85.5%	85.5%	85.5%
EBIT margin	6.0%	6.7%	7.2%	7.8%	7.8%	8.5%
EBITDA margin	8.4%	9.1%	9.5%	10.1%	10.0%	10.8%
Net income margin	4.1%	4.8%	5.1%	5.3%	5.3%	6.0%
Tax rate	21.0%	23.9%	24.2%	27.1%	29.7%	29.8%
Expenses as % of output						
Personnel	-58.2%	-61.8%	-60.4%	-60.9%	-59.0%	-59.0%
Net other operating income/expenses	-16.3%	-14.3%	-15.5%	-14.5%	-16.5%	-15.7%
Depreciation & amortisation	-2.3%	-2.4%	-2.3%	-2.3%	-2.2%	-2.2%
Y-o-y growth						
Total revenues	4.7%	-3.7%	5.2%	7.0%	10.5%	3.5%
EBIT	45.1%	6.5%	12.9%	15.6%	11.0%	13.4%
Net income / loss	82.0%	14.6%	11.1%	11.5%	11.1%	15.4%



BALANCE SHEET

All figures in €'000	2015	2016	2017	2018	2019E	2020E
Assets						
Current assets, total	120,742	120,710	116,463	127,787	134,697	146,262
Cash and cash equivalents	38,831	43,008	38,132	44,579	43,247	51,635
Trade accounts and notes receivables	36,169	27,466	31,611	34,407	38,079	39,402
Inventories	4,184	6,421	7,823	8,712	9,629	9,963
Receivables relating to long term contracts	36,366	38,184	33,118	34,367	37,418	38,718
Other current assets	5,192	5,631	5,779	5,722	6,324	6,544
Non-current assets, total	78,780	78,717	77,547	80,884	108,620	109,403
Property, plant and equipment	12,214	12,153	12,531	13,592	38,522	38,576
Goodwill	49,559	48,914	48,289	48,289	52,789	52,789
Other intangible assets	9,859	8,837	8,200	10,596	9,245	9,566
Associates	149	150	150	440	581	728
Deferred tax assets	6,999	8,663	8,377	7,967	7,484	7,744
Other non-current assets	0	0	0	0	0	0
Total assets	199,522	199,427	194,010	208,671	243,317	255,665
Shareholders' equity & debt						
Current liabilities, total	77,343	69,200	59,679	65,960	71,014	73,481
Interest bearing debt	3,374	0	2,622	1,795	0	0
Trade accounts payable	14,929	12,553	14,564	16,440	18,269	18,904
Liabilities relating to long term contracts	28,819	25,728	13,287	16,531	18,269	18,904
Provisions	0	0	0	0	0	0
Other current liabilities	30,221	30,919	29,206	31,194	34,476	35,674
Non-current liabilities, total	49,027	54,953	54,034	56,081	78,833	79,272
Interest bearing debt	83	0	0	0	0	0
Leasing liabilities	0	0	0	0	23,000	23,032
Pension provisions	46,981	52,037	50,540	51,284	51,540	51,798
Deferred tax liabilities	1,963	2,916	3,494	4,797	4,292	4,441
Consolidated equity	73,152	75,274	80,297	86,630	93,470	102,912
Shareholders' equity	73,152	75,274	80,297	86,630	93,470	102,912
Minorities	0	0	0	0	0	0
Total consolidated equity and debt	199,522	199,427	194,010	208,671	243,317	255,665
Ratios						
Current ratio (x)	1.56	1.74	1.95	1.94	1.90	1.99
Quick ratio (x)	1.51	1.65	1.82	1.81	1.76	1.85
Equity ratio	36.7%	37.7%	41.4%	41.5%	38.4%	40.3%
Net gearing	15.9%	12.0%	18.7%	9.8%	8.9%	0.2%
Equity per share	4.66	4.80	5.12	5.52	5.95	6.56
Interest coverage ratio (x)	6.13	15.80	13.60	14.56	31.42	70.76
Capital employed (CE)	88,045	84,531	89,815	95,229	98,447	102,419
Return on capital employed (ROCE)	9.7%	9.8%	10.4%	11.4%	12.2%	13.3%



CASH FLOW STATEMENT

All figures in €'000	2015	2016	2017	2018	2019E	2020E
Pretax result	9,438	11,233	12,524	14,523	16,744	19,321
Depreciation and amortisation	4,286	4,294	4,351	4,611	4,931	5,103
Other	-1,685	-479	-1,098	-94	-6,660	-5,642
Operating cash flow	12,039	15,048	15,777	19,040	15,015	18,782
Investment in working capital	1,971	-1,713	-14,609	-51	-1,393	-710
Net operating cash flow	14,010	13,335	1,168	18,989	13,622	18,072
Cashflow from investing	-2,234	-2,912	-4,089	-7,424	-10,010	-5,446
Free cash flow	11,776	10,423	-2,921	11,565	3,613	12,626
Dividend paid	0	-3,277	-3,439	-3,596	-3,924	-4,238
Share buy back	-303	0	-297	-422	-1,020	0
New share capital	0	0	0	0	0	0
Debt financing	-1,813	-3,457	2,622	-827	0	0
Other	0	0	0	0	0	0
Cash flow from financing	-2,116	-6,734	-1,114	-4,845	-4,944	-4,238
Other	-143	488	-841	-273	0	0
Change in cash	9,517	4,177	-4,876	6,447	-1,332	8,388
Cash, start of the year	29,314	38,831	43,008	38,132	44,579	43,247
Cash, end of the year	38,831	43,008	38,132	44,579	43,247	51,635
Free cash flow per share in €	0.75	0.67	-0.19	0.74	0.23	0.81
Y-o-y growth						
Operating cash flow	28%	25%	5%	21%	-21%	25%
Net operating cash flow	-42%	-5%	-91%	1526%	-28%	33%
Free cash flow	21%	-11%	n.m.	n.m.	-69%	249%

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...64	↓	↓	↓	↓
65	31 July 2018	€17.50	Add	€18.00
66	5 November 2018	€16.20	Add	€19.00
67	2 April 2019	€17.00	Add	€19.00
68	Today	€18.45	Add	€19.00

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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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In accordance with Section 34b Paragraph 1 of the German Securities Trading Act [WpHG] and Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) financial analyses may only be passed on or publicly distributed if circumstances or relations which may cause conflicts of interest among the authors, the legal entities responsible for such preparation or companies associated with them are disclosed along with the financial analysis.

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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:

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.

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

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

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