

PSI AG

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

Q1 2021 results

RATING
PRICE TARGET **ADD**
€ 33.00
 Return Potential 4.1%
 Risk Rating Medium

RECORD ORDER INTAKE AND Q1 EBIT MARGIN

Q1/21 sales and EBIT were respectively 4.0% and 4.8% above our forecasts. Sales rose 10.3% to €56.1m (FBe: €54.0m; Q1/20: €50.9m) while EBIT came in at €4.4m (FBe: €4.2m; Q1/20: €2.5m) equivalent to a margin of 7.8% (Q1/20: 4.8%). The order intake climbed 9.4% to €105m (Q1/20: €96m). PS has never booked a higher quarterly order intake while the EBIT margin was a record for the first quarter of the group's financial year. The improvement in order intake was driven by the Energy Management segment. As it did in Q1 last year, the PSI Metals business within the Production Management segment received a large order from the United States. However this year's order was not as valuable as the one received in Q1/20 and the segment's overall order intake fell. All segments and units reported higher sales in Q1/21, but Production Management's sales were hit hardest in the early stages of the pandemic and so the sales rebound in this segment (+22.2%) was higher than in the Energy Management segment (+1.2%). EBIT at Production Management doubled to €3.0m (Q1/20: €1.5m) helped by a high proportion of license revenue at PSI Metals while the absence of last year's restructuring charge contributed to a 42% jump in EBIT at Energy Management to €1.7m (Q1/20: €1.2m). For the current quarter PSI expect a high level of new orders at the Production Management segment and also a further increase in results, especially at Energy Management. Full year 2021 guidance for EBIT "in excess of €20m" remains unchanged. We have revised our own EBIT forecast up from €21m to €22m on the strength of better Q1 results than we had expected. We now see fair value for the PSI share at €33.00 (previously: €31.00). The recommendation remains at Add.

Energy Management benefitted from business stabilisation in Malaysia
 Sales at the Energy Management segment (energy grids, energy trading, public transport) climbed 1.2% to €29.1m (Q1/20: €28.8m) while segment EBIT came in at €1.7m (Q1/20: €1.2m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Revenue (€m)	186.10	199.16	225.18	217.79	236.40	262.41
Y-o-y growth	5.2%	7.0%	13.1%	-3.3%	8.5%	11.0%
EBIT (€m)	13.37	15.45	17.20	14.95	21.87	25.50
EBIT margin	7.2%	7.8%	7.6%	6.9%	9.3%	9.7%
Net income (€m)	9.50	10.59	14.26	10.28	15.51	18.51
EPS (diluted) (€)	0.61	0.68	0.91	0.66	0.99	1.18
DPS (€)	0.23	0.25	0.05	0.30	0.35	0.45
FCF (€m)	-2.92	11.57	3.75	11.43	15.77	10.96
Net gearing	18.7%	9.8%	42.0%	40.7%	25.5%	18.5%
Liquid assets (€m)	38.13	44.58	38.66	40.48	59.10	65.60

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 2021

Closing Price € 31.70
 Shares outstanding 15.70m
 Market Capitalisation € 497.61m
 52-week Range € 18.90 / 34.50
 Avg. Volume (12 Months) 10,707

Multiples	2020	2021E	2022E
P/E	48.4	32.0	26.9
EV/Sales	2.4	2.2	2.0
EV/EBIT	35.3	24.1	20.7
Div. Yield	0.9%	1.1%	1.4%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2021

Liquid Assets € 54.11m
 Current Assets € 164.26m
 Intangible Assets € 70.04m
 Total Assets € 287.26m
 Current Liabilities € 93.38m
 Shareholders' Equity € 103.79m

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%

Figure 1: Q1/21 results versus our forecasts

€ 000s	Q1 21A	Q1 20E	Δ Q1 20A vs. Q1 20E	Q1 20A	Δ Q1 21A vs. Q1 20A
External sales	56,138	54,000	4.0%	50,888	10.3%
<i>by division:</i>					
Energy Management	29,097	29,000	0.3%	28,762	1.2%
Production Management	27,041	25,000	8.2%	22,126	22.2%
EBIT	4,351	4,150	4.8%	2,459	76.9%
margin	7.8%	7.7%	-	4.8%	-
<i>by division:</i>					
Energy Management	1,650	1,600	3.1%	1,161	42.1%
<i>margin</i>	<i>5.5%</i>	<i>5.4%</i>	<i>-</i>	<i>3.9%</i>	<i>-</i>
Production Management	2,966	2,800	5.9%	1,479	100.5%
<i>margin</i>	<i>9.6%</i>	<i>9.8%</i>	<i>-</i>	<i>5.9%</i>	<i>-</i>
Reconciliation	-265	-250	n.a.	-181	n.a.
EPS (€)	0.20	0.19	4.8%	0.10	100.0%

Source: PSI AG; First Berlin Equity Research estimates

The Q1/20 result was adversely affected by a charge taken in connection with the restructuring of the Malaysian subsidiary, PSI Incontrol. Orders in Malaysia stabilised in Q1/21 and so no further restructuring charge was necessary. As indicated above, the €9m increase in the overall group order intake was concentrated on the Energy Management segment. Orders at all three of the segment's main businesses rose. Within energy grids the electrical networks business benefitted from a boom in redispatch infrastructure. By law, all German utilities are required to have installed redispatch software by October. In the gas grids business, stronger order intake in Germany outweighed weak new business in Russia. Ongoing climate-protection investments also boosted orders in the public transport business.

Order pipeline at Production Management is full Sales at the Production Management segment (metals production, industry, logistics) jumped 22.2% to €27.0m (Q1/20: €22.1m). EBIT doubled to €3.0m (Q1/20: €1.5m). As indicated above, the orders fell at PSI Metals because of a large order in Q1/20. PSI Poland's Q1/21 order intake also fell short of the Q1/20 figure which contained a large order from a local gas utility. However, the segment's order pipeline is full and management has indicated that the Q2 order intake will be at a high level. All the segment's major business units saw improved sales and results in Q1/21.

Q1/21 net gearing at 29.1% (Q1/20: 35.9%) Improved profitability meant that free cashflow jumped 44.0% to €10.8m (Q1/20: €7.5m). At end Q1/21 net debt including pension liabilities and leasing liabilities of €30.2m (net gearing of 29.1%) was down €10.6m on the end December figure of €40.8m (net gearing of 40.7%). At end Q1/20 net debt including pension liabilities and leasing liabilities was €34.3m (net gearing of 35.9%).

Platform harmonisation allows outsourcing of installation work to partners PSI's Energy Management segment continues to benefit from the growing share of German electricity generation taken by renewable energy and gas, and also from climate change-related investments in public transport. Meanwhile, the Production Management segment offers participation in the world's leading metals production software business as well as Internet of Things exposure through the Automotive & Industry segment. Ongoing software platform harmonisation is widening margins. The Production Management segment's products are now based on one harmonised platform. An important benefit of platform harmonisation is that it allows PSI to outsource a large part of the installation work to partners, thereby raising its own profitability. Increased use of partners has been one of the key enablers of the successful and profitable internationalisation of PSI Metals in recent years. Export business accounted for 36% of PSI's sales in 2020. Management aims to increase this figure, particularly through further internationalisation of the electrical grids business. So far internationalisation of this business has been mainly restricted to the "near abroad" such as the Netherlands and Scandinavia where PSI's German staff can intervene relatively easily.



We gather that completing platform harmonisation of the Energy Management segment and in particular the electrical grids business is a high priority for management. As a preliminary to expansion of the electrical grids business to the US, PSI plans to start a pilot project in the country later this year.

Price target raised from €31.00 to €33.00. Add recommendation maintained We have revised up our forecasts for 2021 and subsequent years on the basis of better Q1 results than we had expected. We now see fair value for the PSI share at €33.00 (previously: €31.00). The recommendation remains at Add.

Figure 2: Changes to our forecasts

€m	2021E			2022E		
	New	Old	Δ %	New	Old	Δ %
External sales	236.4	230.1	2.7%	262.4	255.4	2.7%
by division:						
Energy Man.	126.6	126.3	0.2%	140.5	140.2	0.2%
Production Man.	109.8	103.8	5.8%	121.9	115.3	5.7%
Total EBIT	21.9	21.0	4.1%	25.5	24.5	4.1%
margin (%)	9.3%	9.1%	-	9.7%	9.6%	-
by division:						
Energy Man.	10.4	10.3	0.9%	12.3	12.2	0.5%
margin (%)	8.0%	8.0%	-	8.5%	8.5%	-
Production Man.	15.0	13.4	11.8%	17.3	15.5	11.7%
margin (%)	12.0%	11.5%	-	12.5%	12.0%	-
Reconciliation	-3.5	-2.8	n.a.	-4.1	-3.2	n.a.
EPS (€)	0.99	0.95	4.2%	1.18	1.13	4.5%

Source: PSI AG; First Berlin Equity Research estimates



VALUATION MODEL

€000s	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net sales	236,403	262,407	284,992	312,670	339,751	367,755	396,617	426,309
NOPLAT	15,856	18,918	21,463	24,546	27,836	30,740	33,083	35,470
+ Depreciation and amortisation	13,064	14,501	15,749	17,278	18,775	20,322	21,917	23,558
= net operating cash flow	28,920	33,418	37,211	41,825	46,610	51,062	55,000	59,028
- total investments (Capex and WC)	-12,494	-21,724	-22,638	-25,722	-27,036	-29,232	-30,751	-32,645
Capital expenditure	-15,567	-19,304	-20,537	-23,146	-24,516	-26,259	-28,036	-29,853
working capital	3,073	-2,420	-2,102	-2,576	-2,520	-2,974	-2,715	-2,793
= Free cash flow (FCF)	16,426	11,694	14,573	16,103	19,575	21,829	24,249	26,383
PV of FCF's	15,649	10,350	11,982	12,299	13,889	14,389	14,848	15,007

€000s	
PVs of FCFs explicit period (2021-35)*	214,855
PVs of FCFs in terminal period	333,329
Enterprise Value (EV)	548,185
Net cash/(net debt)	-30,225
Shareholder value	517,960

Value per share (€)	33.00
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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	2.5%
Terminal EBIT margin	11.0%

Sensitivity analysis

WACC	Terminal growth rate (%)						Fair value per share
	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
4.65%	62.89	69.60	78.85	92.41	114.21	155.03	259.06
5.65%	46.47	49.83	54.11	59.75	67.51	78.90	97.21
6.65%	36.09	37.96	40.23	43.05	46.64	51.38	57.90
7.65%	29.00	30.11	31.43	33.00	34.90	37.27	40.29
8.65%	23.88	24.58	25.39	26.33	27.43	28.75	30.35
9.65%	20.05	20.50	21.02	21.61	22.28	23.07	24.00
10.65%	17.08	17.39	17.73	18.11	18.55	19.04	19.61
11.65%	14.74	14.95	15.18	15.44	15.72	16.04	16.41

*for layout purposes the model shows numbers only to 2028 but runs until 2035



INCOME STATEMENT

All figures in €'000	2017	2018	2019	2020	2021E	2022E
Revenues	186,096	199,156	225,180	217,795	236,403	262,407
Cost of materials	-27,228	-28,919	-32,259	-29,734	-31,914	-34,113
Gross profit	158,868	170,237	192,921	188,061	204,488	228,294
Total personnel costs	-112,343	-121,279	-137,795	-141,377	-153,456	-161,000
Net other operating costs	-28,809	-28,897	-27,089	-19,516	-16,098	-27,298
Depreciation & amortisation	-4,351	-4,611	-10,832	-12,220	-13,064	-14,501
EBIT	13,365	15,450	17,205	14,948	21,871	25,495
Net interest	-983	-1,061	-1,053	-1,586	-906	-994
Associates	142	134	288	300	315	331
Pretax profit	12,524	14,523	16,440	13,662	21,280	24,832
Income taxes	-3,027	-3,938	-2,178	-3,382	-5,765	-6,321
Net income / loss	9,497	10,585	14,262	10,280	15,514	18,511
EPS (€)	0.61	0.68	0.91	0.66	0.99	1.18
EBITDA	17,716	20,061	28,037	27,168	34,935	39,996
Ratios						
Gross margin	85.4%	85.5%	85.7%	86.3%	86.5%	87.0%
EBIT margin	7.2%	7.8%	7.6%	6.9%	9.3%	9.7%
EBITDA margin	9.5%	10.1%	12.5%	12.5%	14.8%	15.2%
Net income margin	5.1%	5.3%	6.3%	4.7%	6.6%	7.1%
Tax rate	24.2%	27.1%	13.2%	24.8%	27.1%	25.5%
Expenses as % of output						
Personnel	-60.4%	-60.9%	-61.2%	-64.9%	-64.9%	-61.4%
Net other operating income/expenses	-15.5%	-14.5%	-12.0%	-9.0%	-6.8%	-10.4%
Depreciation & amortisation	-2.3%	-2.3%	-4.8%	-5.6%	-5.5%	-5.5%
Y-o-y growth						
Total revenues	5.2%	7.0%	13.1%	-3.3%	8.5%	11.0%
EBIT	12.9%	15.6%	11.4%	-13.1%	46.3%	16.6%
Net income / loss	11.1%	11.5%	34.7%	-27.9%	50.9%	19.3%



BALANCE SHEET

All figures in €'000	2017	2018	2019	2020	2021E	2022E
Assets						
Current assets, total	116,463	127,787	136,310	134,624	158,744	176,206
Cash and cash equivalents	38,132	44,579	38,656	40,482	59,101	65,602
Trade accounts and notes receivables	31,611	34,407	38,455	29,209	37,824	41,985
Inventories	7,823	8,712	10,612	8,661	10,520	11,677
Receivables relating to long term contracts	33,118	34,367	40,725	47,705	42,552	47,233
Other current assets	5,779	5,722	7,862	8,567	8,747	9,709
Non-current assets, total	77,547	80,884	112,527	124,775	128,893	135,843
Property, plant and equipment	12,531	13,592	37,039	38,928	41,370	44,609
Goodwill	48,289	49,417	54,892	60,804	60,804	60,804
Other intangible assets	8,200	9,468	9,531	9,395	9,456	11,021
Associates	150	440	440	440	755	1,086
Deferred tax assets	8,377	7,967	10,625	15,208	16,507	18,323
Other non-current assets	0	0	0	0	0	0
Total assets	194,010	208,671	248,837	259,399	287,637	312,049
Shareholders' equity & debt						
Current liabilities, total	59,679	65,960	74,706	72,079	80,719	89,598
Interest bearing debt	2,622	1,795	1,112	65	0	0
Leasing liabilities	0	0	5,606	5,498	5,910	6,560
Trade accounts payable	14,564	16,440	17,454	17,977	19,513	21,659
Liabilities relating to long term contracts	13,287	16,531	17,212	13,930	17,730	19,681
Provisions	0	0	0	0	0	0
Other current liabilities	29,206	31,194	33,322	34,609	37,566	41,698
Non-current liabilities, total	54,034	56,081	79,592	86,997	90,375	91,582
Interest bearing debt	0	0	0	168	5,426	3,243
Leasing liabilities	0	0	16,917	19,132	20,803	23,092
Pension provisions	50,540	51,284	54,737	56,416	56,698	56,982
Deferred tax liabilities	3,494	4,797	6,328	8,726	4,610	5,117
Other liabilities	0	0	1,610	2,555	2,837	3,149
Consolidated equity	80,297	86,630	94,539	100,323	116,544	130,869
Shareholders' equity	80,297	86,630	94,539	100,323	116,544	130,869
Minorities	0	0	0	0	0	0
Total consolidated equity and debt	194,010	208,671	248,837	259,399	287,637	312,049
Ratios						
Current ratio (x)	1.95	1.94	1.82	1.87	1.97	1.97
Quick ratio (x)	1.82	1.81	1.68	1.75	1.84	1.84
Equity ratio	41.4%	41.5%	38.0%	38.7%	40.5%	41.9%
Net gearing	18.7%	9.8%	42.0%	40.7%	25.5%	18.5%
Equity per share (€)	5.12	5.52	6.02	6.39	7.42	8.34
Interest coverage ratio (x)	13.60	14.56	16.34	9.42	24.13	25.65
Capital employed (CE)	89,815	95,229	114,693	137,688	143,700	150,712
Return on capital employed (ROCE)	10.4%	11.4%	10.5%	7.6%	11.0%	12.6%



CASH FLOW STATEMENT

All figures in €'000	2017	2018	2019	2020	2021E	2022E
Pretax result	12,524	14,523	16,440	13,662	21,280	24,832
Depreciation and amortisation	4,351	4,611	10,832	12,220	13,064	14,501
Other	-1,098	-94	-1,030	-558	-6,080	-6,652
Operating cash flow	15,777	19,040	26,242	25,324	28,263	32,681
Investment in working capital	-14,609	-51	-13,764	-492	3,073	-2,420
Net operating cash flow	1,168	18,989	12,478	24,832	31,336	30,261
Cashflow from investing	-4,089	-7,424	-8,729	-13,403	-15,567	-19,304
Free cash flow	-2,921	11,565	3,749	11,429	15,769	10,957
Dividend paid	-3,439	-3,596	-3,919	-784	-4,709	-5,494
Share buy back	-297	-422	-275	-9	0	0
New share capital	0	0	0	0	0	0
Debt financing	2,622	-827	-683	-1,057	5,475	-1,900
Lease liabilities	0	0	-4,759	-5,560	2,084	2,938
Other	0	0	-544	-491	0	0
Cash flow from financing	-1,114	-4,845	-10,180	-7,901	2,850	-4,456
Other	-841	-273	508	-1,702	0	0
Change in cash	-4,876	6,447	-5,923	1,826	18,619	6,501
Cash, start of the year	43,008	38,132	44,579	38,656	40,482	59,101
Cash, end of the year	38,132	44,579	38,656	40,482	59,101	65,602
Free cash flow per share in €	-0.19	0.74	0.24	0.73	1.01	0.70
Y-o-y growth						
Operating cash flow	5%	21%	38%	-3%	12%	16%
Net operating cash flow	-91%	1526%	-34%	99%	26%	-3%
Free cash flow	n.m.	n.m.	-68%	205%	38%	-31%

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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.

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...66	↓	↓	↓	↓
67	2 April 2019	€17.00	Add	€19.00
68	2 May 2019	€18.45	Add	€19.00
69	6 November 2019	€19.10	Add	€22.40
70	6 April 2020	€16.50	Buy	€21.20
71	2 November 2020	€23.80	Add	€26.00
72	30 March 2021	€26.50	Add	€31.00
75	Today	€31.70	Add	€33.00

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.

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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: <https://firstberlin.com/disclaimer-english-link/>

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