

SFC Energy AG

Germany / Energy
 Primary exchange: Frankfurt
 Bloomberg: F3C GR
 ISIN: DE0007568578

Q3 figures

RATING
BUY

PRICE TARGET
€7.40

Return Potential 38.1%
 Risk Rating High

PROJECT DELAYS BURDEN Q3, BUT WILL BOOST Q4

On 6 November SFC Energy reported Q3 figures and held a conference call at 9 am. Figures showed strong earnings growth and reduced underlying operating losses, but were below our estimates due to stronger seasonality and two project delays in the defence business. A strong order backlog and extra revenues from the delayed defence projects look set to generate a very strong Q4. Management confirmed guidance, but expects sales to be at the lower end of the €55-60m range. We slightly reduce our 2014 forecast, but stick to our 2015 estimates. We reiterate our Buy rating and the €7.40 price target.

Strong revenue growth and improved earnings Q3 revenues grew by 59.4% to €11.2m (FBe: €13.3m) due mainly to the acquired Simark business. Because of stronger seasonality and two delayed defence projects, revenues and earnings remained below our estimates. Gross profit increased by 60.1% to €3.2m (FBe: €4.1m). EBIT amounted to €-1.8m (FBe: €-1.4m, Q3/13: €-1.9m). Underlying EBIT was €-1.2m (FBe: €-0.9m, Q3/13: €-1.7m). The net result was at the same level as last year and amounted to €-1.8m (see figure 1 overleaf). EPS were slightly above previous year's figure (€-0.23 vs. €0.24).

Oil & gas on track, Security & Industry suffer from project delay, Consumer remains weak Whereas the oil & gas business is roughly in line with our estimates and showed a very strong gross margin of 26.3% (FBe: 24.7%), both Security & Industry and Consumer were below our estimates (see figure 2 on page 3). The Security & Industry segment was burdened by a delay of two projects in the defence area (revenue volume ca. €600k). The Consumer segment continued to suffer from a weak French market.

Guidance reiterated Management reiterated its sales guidance of €55-60m for 2014, but anticipates a high likelihood that sales will only reach the lower end of the guidance. SFC is still guiding towards positive underlying EBITDA.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014E	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	55.00	65.02	74.12	85.24
Y-o-y growth	n.a.	3.7%	69.7%	18.2%	14.0%	15.0%
EBIT (€m)	-0.52	-8.84	-3.63	-1.37	2.08	4.35
EBIT margin	-1.7%	-27.3%	-6.6%	-2.1%	2.8%	5.1%
Net income (€m)	-0.43	-8.91	-3.76	-1.48	1.80	3.80
EPS (diluted) (€)	-0.06	-1.16	-0.47	-0.19	0.22	0.47
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-1.47	-0.86	1.21	1.39
Net gearing	-61.9%	-10.3%	-5.7%	-2.4%	-7.0%	-10.8%
Liquid assets (€m)	22.91	7.43	5.42	5.61	6.09	5.18

RISKS

The main risks are financing, internationalisation, unfavourable EUR/CAD exchange rate changes, technological innovations, and increasing competition.

COMPANY PROFILE

SFC Energy AG is a leading provider of integrated power solutions for mobile and stationary off-grid applications. The company is a pioneer in developing and commercialising fuel cells which provide reliable, efficient, and clean power for its energy solutions. Main markets are oil & gas, industry, defence, and leisure. SFC is headquartered near Munich in Germany.

MARKET DATA

As of 07 Nov 2014

Closing Price	€ 5.36
Shares outstanding	8.02m
Market Capitalisation	€ 42.96m
52-week Range	€ 3.33 / 6.62
Avg. Volume (12 Months)	8,651

Multiples	2013A	2014E	2015E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.4	0.8	0.7
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2014

Liquid Assets	€ 2.79m
Current Assets	€ 23.05m
Intangible Assets	€ 18.21m
Total Assets	€ 43.56m
Current Liabilities	€ 12.51m
Shareholders' Equity	€ 24.90m

SHAREHOLDERS

HPE	24.0%
Havensight	9.6%
Conduit Ventures	9.5%
Other	10.5%
Free Float	46.4%



Equity ratio remains high and free cash flow negative The Q3 loss reduced equity to €24.9m (end 2013: €29.1m) and the equity ratio to 57.2% (end 2013: 61.0%). Operating cash flow amounted to €-2.6m due mainly to the result before taxes of €-4.4m and depreciation & amortisation of €2.0m. CAPEX of €0.3m resulted in a free cash flow of €-2.9m.

The cash position fell to €2.8m and financial debt increased to €4.6m resulting in a net debt position of €-1.8m. At the end of H1, SFC had a net cash position of €0.6m.

Falling oil prices so far no threat for SFC's oil & gas business Since June oil prices have fallen by ca. 25% to ca. \$78 per barrel (WTI). Nevertheless, business activity in the Canadian oil & gas business remains high (ca. 12,000-13,000 new wells in 2014) and looks set to grow further in 2015E. As SFC is mainly targeting already existing oil & gas production, the excellent business opportunities remain intact. Existing oil & gas production should in general not be jeopardised as long as oil prices remain above \$60 per barrel.

Very strong Q4 expected Q4 is typically the seasonally strongest quarter. Due to a strongly growing oil & gas business and a strong pick-up in the Security & Industry segment – partly due to the delay of defence projects into Q4 – we expect a much improved Q4 with sales of €17.7m and EBIT of €0.6m. Growth perspectives are underlined by a record order backlog of €14.6m (+39% y/y). Based on our Q4 EBITDA forecast of €1.3m we expect an annual underlying EBITDA of €0.3m.

Mobile power outlet EFOY GO! presented at trade fairs EFOY GO! is a portable power solution for end-users which is based on lithium battery technology, weighs only 5 kg, and is intended for new market segments in the consumer and outdoor market. In combination with an EFOY fuel cell it can serve as emergency home power supply, a market which shows strong growth especially in the US and Japan. The EFOY GO! platform has received very positive feedback at all major caravanning trade fairs throughout Europe. The final product will be presented at the end of Q4; initial shipments should start in Q2 2015.

Estimates for 2014E adjusted Given the lower than expected Q3 figures we have adjusted our 2014E figures. Despite a sales forecast reduced to €55m from €58m we stick to our assumption that underlying EBITDA will be positive for 2014E. Given the still excellent growth perspectives in the oil & gas business in Canada we stick to our 2015E forecasts (see figure 3 overleaf).

Buy rating reiterated at unchanged price target An updated DCF model still yields a price target of €7.40. We reiterate our Buy rating.

Figure 1: Reported figures versus forecasts

All figures in €m	Q3-14A	Q3-14E	Delta	Q3-13	Delta	9M 2014	9M 2013	Delta
Sales	11.16	13.34	-16.3%	7.00	59.4%	37.33	20.59	81.3%
EBIT	-1.75	-1.43	-	-1.86	-	-4.18	-3.59	-
margin	-15.7%	-10.7%	-	-26.6%	-	-11.2%	-17.4%	-
EBIT adjusted	-1.15	-0.88	-	-1.66	-	-2.45	-3.30	-
margin	-10.3%	-6.6%	-	-23.7%	-	-6.6%	-16.0%	-
Net income	-1.84	-1.42	-	-1.84	-	-4.52	-3.60	-
margin	-16.5%	-10.6%	-	-26.3%	-	-12.1%	-17.5%	-
EPS (diluted)	-0.23	-0.17	-	-0.24	-	-0.56	-0.48	-

Source: First Berlin Equity Research, SFC Energy AG



Figure 2: Reported segment figures versus forecasts

All figures in €m	Q3-14A	Q3-14E	Delta	Q3-13	Delta	9M 2014	9M 2013	Delta
Oil & Gas								
Sales	6.68	7.16	-6.7%	1.83	265.0%	20.72	2.13	873.7%
Gross profit	1.76	1.77	-0.6%	0.29	506.9%	5.15	0.45	1037.5%
margin	26.3%	24.7%		15.8%		24.9%	21.3%	
Security & Industry								
Sales	3.69	5.07	-27.3%	4.23	-12.9%	13.41	14.65	-8.5%
Gross profit	1.24	1.97	-37.1%	1.49	-16.8%	4.79	5.16	-7.3%
margin	33.6%	38.9%		35.2%		35.7%	35.2%	
Consumer								
Sales	0.80	1.11	-27.9%	0.94	-15.2%	3.19	3.81	-16.3%
Gross profit	0.19	0.33	-42.4%	0.19	0.0%	0.89	1.10	-18.8%
margin	23.8%	29.7%		20.1%		28.0%	28.9%	

Source: First Berlin Equity Research, SFC Energy AG

Figure 3: Change to forecasts

All figures in €m	2014E			2015E			2016E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	58.00	55.00	-5.2%	65.02	65.02	0.0%	74.12	74.12	0.0%
EBIT	-3.36	-3.63	-	-1.37	-1.37	-	2.08	2.08	0.0%
margin	-5.8%	-6.6%		-2.1%	-2.1%		2.8%	2.8%	
Net income	-3.49	-3.76	-	-1.48	-1.48	-	1.80	1.80	0.0%
margin	-6.0%	-6.8%		-2.3%	-2.3%		2.4%	2.4%	
EPS (diluted)	-0.44	-0.47	-	-0.19	-0.19	-	0.22	0.22	0.0%

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
Revenues	31,260	32,413	55,000	65,018	74,121
Cost of goods sold	18,497	21,773	38,448	44,537	50,031
Gross profit	12,763	10,640	16,552	20,481	24,089
S&M	5,862	8,233	10,175	10,598	10,229
G&A	3,555	3,860	4,895	5,266	5,707
R&D	4,257	6,149	5,225	6,307	6,448
Other operating income	749	1,041	220	1,300	1,482
Other operating expenses	362	2,275	110	975	1,112
Operating income (EBIT)	-524	-8,836	-3,633	-1,365	2,075
Net financial result	80	-128	-166	-134	-177
Non-operating expenses	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-3,799	-1,499	1,898
Income taxes	-19	-52	-38	-15	95
Minority interests	0	0	0	0	0
Net income / loss	-426	-8,912	-3,761	-1,484	1,803
Diluted EPS (in €)	-0.06	-1.16	-0.47	-0.19	0.22
EBITDA	730	-4,474	-814	1,308	3,540
Ratios					
Gross margin	40.8%	32.8%	30.1%	31.5%	32.5%
EBIT margin on revenues	-1.7%	-27.3%	-6.6%	-2.1%	2.8%
EBITDA margin on revenues	2.3%	-13.8%	-1.5%	2.0%	4.8%
Net margin on revenues	-1.4%	-27.5%	-6.8%	-2.3%	2.4%
Tax rate	4.3%	0.6%	1.0%	1.0%	5.0%
Expenses as % of revenues					
S&M	18.8%	25.4%	18.5%	16.3%	13.8%
G&A	11.4%	11.9%	8.9%	8.1%	7.7%
R&D	13.6%	19.0%	9.5%	9.7%	8.7%
Other operating expenses	1.2%	7.0%	0.2%	1.5%	1.5%
Y-Y Growth					
Revenues	n.a.	3.7%	69.7%	18.2%	14.0%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
Assets					
Current assets, total	33,598	25,934	27,662	30,534	33,466
Cash and cash equivalents	22,911	7,428	5,418	5,606	6,089
Short-term investments	0	0	0	0	0
Receivables	3,696	9,258	12,808	14,607	16,246
Inventories	5,815	7,713	7,900	8,785	9,595
Other current assets	1,118	1,426	1,426	1,426	1,426
Non-current assets, total	14,020	21,715	19,654	17,760	17,185
Property, plant & equipment	2,400	2,296	2,038	1,800	1,779
Goodwill & other intangibles	11,000	19,054	17,152	15,496	14,943
Other assets	619	365	463	463	463
Total assets	47,617	47,650	47,316	48,294	50,651
Shareholders' equity & debt					
Current liabilities, total	7,662	12,669	16,097	18,841	19,394
Short-term debt	372	2,139	1,700	3,026	2,300
Accounts payable	3,033	5,087	8,954	10,372	11,651
Current provisions	999	802	802	802	802
Other current liabilities	3,258	4,641	4,641	4,641	4,641
Long-term liabilities, total	3,562	5,918	5,918	5,636	5,636
Long-term debt	0	2,282	2,282	2,000	2,000
Deferred revenue	0	0	0	0	0
Other liabilities	3,562	3,636	3,636	3,636	3,636
Minority interests	0	0	0	0	0
Shareholders' equity	36,394	29,063	25,302	23,817	25,620
Share Capital	7,503	8,020	8,020	8,020	8,020
Capital Reserve	67,879	69,570	69,570	69,570	69,570
Other Reserves	0	0	0	0	0
Treasury Stock	0	0	0	0	0
Loss carryforward / retained earnings	-38,951	-47,863	-51,624	-53,108	-51,305
Total consolidated equity and debt	47,617	47,650	47,316	48,294	50,651
Ratios					
Current ratio	4.39	2.05	1.72	1.62	1.73
Quick ratio	3.63	1.44	1.23	1.15	1.23
Financial leverage	1.31	1.64	1.87	2.03	1.98
Book value per share	4.85	3.79	3.15	2.97	3.19
Net cash	22,539	3,007	1,437	580	1,789
Return on equity (ROE)	-1.2%	-30.7%	-14.9%	-6.2%	7.0%
Days of sales outstanding (DSO)	43.2	104.3	85.0	82.0	80.0
Days of inventory turnover	114.7	129.3	75.0	72.0	70.0
Days in payables (DIP)	59.9	85.3	85.0	85.0	85.0



CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
EBIT	-524	-8,836	-3,633	-1,365	2,075
Depreciation and amortisation	1,255	4,362	2,819	2,674	1,465
EBITDA	730	-4,474	-814	1,308	3,540
Changes in working capital	85	-2,188	130	-1,266	-1,169
Other adjustments	443	-649	-128	-119	-272
Operating cash flow	1,258	-7,311	-812	-76	2,099
CAPEX	-561	-345	-385	-455	-519
Investments in intangibles	-318	-327	-275	-325	-371
Free cash flow	380	-7,984	-1,472	-856	1,209
Debt financing, net	-388	-1,469	-439	1,045	-726
Equity financing, net	0	0	0	0	0
Other changes in cash	191	-6,029	-98	0	0
Net cash flows	183	-15,482	-2,009	188	483
Cash, start of the year	0	22,911	7,428	5,418	5,606
Cash, end of the year	183	7,428	5,418	5,606	6,089
EBITDA/share (in €)	0.10	-0.58	-0.10	0.16	0.44
Y-Y Growth					
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	170.5%



DCF MODEL

DCF valuation model								
All figures in EUR '000	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	55,000	65,018	74,121	85,239	97,095	109,540	122,386	135,404
NOPLAT	-3,633	-1,365	1,980	3,925	5,147	5,418	6,401	7,385
+ depreciation & amortisation	2,819	2,674	1,465	765	562	632	708	791
Net operating cash flow	-814	1,308	3,445	4,690	5,709	6,049	7,110	8,175
- total investments (CAPEX and WC)	-530	-2,046	-2,058	-3,169	-3,401	-3,645	-3,855	-4,020
Capital expenditures	-660	-780	-889	-1,023	-1,156	-1,295	-1,435	-1,576
Working capital	130	-1,266	-1,169	-2,146	-2,244	-2,350	-2,419	-2,445
Free cash flows (FCF)	-1,344	-737	1,387	1,521	2,308	2,405	3,255	4,155
PV of FCF's	-1,324	-655	1,109	1,097	1,501	1,409	1,719	1,978

All figures in thousands	
PV of FCFs in explicit period (2014E-2028E)	25,071
PV of FCFs in terminal period	36,206
Enterprise value (EV)	61,276
+ Net cash / - net debt	-1,772
+ Investments / minority interests	0
Shareholder value	59,504

Fair value per share in EUR 7.40

WACC	10.9%
Cost of equity	12.0%
Pre-tax cost of debt	7.0%
Tax rate	30.0%
After-tax cost of debt	4.9%
Share of equity capital	85.0%
Share of debt capital	15.0%
Fair value per share in EUR	7.40

WACC	Terminal growth rate						
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
6.9%	16.08	17.02	18.17	19.61	21.47	23.97	27.49
7.9%	12.62	13.17	13.81	14.60	15.55	16.75	18.30
8.9%	10.15	10.49	10.88	11.34	11.88	12.53	13.32
9.9%	8.33	8.55	8.79	9.07	9.40	9.77	10.22
10.9%	6.94	7.08	7.24	7.42	7.62	7.85	8.12
11.9%	5.85	5.95	6.05	6.17	6.30	6.45	6.62
12.9%	4.98	5.05	5.12	5.20	5.29	5.38	5.49
13.9%	4.28	4.33	4.37	4.43	4.49	4.55	4.62

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 June 2014	€4.84	Buy	€7.40
2...1	↓	↓	↓	↓
2	12 August 2014	€5.10	Buy	€7.40
3	Today	€5.36	Buy	€7.40

Dr. Karsten von Blumenthal

First Berlin
Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 93
Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

FIRST BERLIN POLICY

In an effort to assure the independence of First Berlin research neither analysts nor the company itself trade or own securities in subject companies. In addition, analysts' compensation is not directly linked to specific financial transactions, trading revenue or asset management fees. Analysts are compensated on a broad range of benchmarks. Furthermore, First Berlin receives no compensation from subject companies in relation to the costs of producing this report.

ANALYST CERTIFICATION

I, Dr. Karsten von Blumenthal, certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

INVESTMENT RATING SYSTEM

First Berlin's investment rating system is five tiered and includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 16 May 2008, First Berlin's investment rating system was three tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: **BUY:** expected return greater than 15%; **HOLD:** expected return between 0% and 15%; and **SELL:** expected negative return.

ADDITIONAL DISCLOSURES

First Berlin's research reports are for qualified institutional investors only.

This report is not constructed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer would be illegal. We are not soliciting any action based upon this material. This material is for the general information of clients of First Berlin. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, a client should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only; such opinions are subject to change without notice.

Copyright © 2014 First Berlin Equity Research GmbH. All rights reserved. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without First Berlin's prior written consent. The research is not for distribution in the USA or Canada. When quoting please cite First Berlin as the source. Additional information is available upon request.