

SFC Energy AG

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

Burden of low
 oil price

RATING
BUY

PRICE TARGET
€7.00

Return Potential 55.1%
 Risk Rating High

SFC RESPONDING RAPIDLY TO OIL PRICE CHALLENGE

Most North American oil & gas exploration companies have reacted to the oil price slump (-54% y/y) by cutting their CAPEX budgets. We assume that the more challenging business environment will also affect SFC's Canadian subsidiary Simark, a system integrator active in the oil & gas business. We however believe that Simark will not be hit as hard as competitors due to its client structure and flexible cost base. We have reduced our estimates for 2015E and the following years. An updated DCF model yields a new price target of €7.00 (previously: €7.60). We reiterate our Buy rating.

CAPEX budgets cut by 15-30% North American oil & gas companies are currently cutting their CAPEX budgets by 15-30% on average. New long-term exploration has been postponed. Fortunately, SFC's subsidiary is not engaged in new exploration, but in existing production and maintenance. Furthermore, Simark's clients have relatively low production costs and are thus expected to cut their budgets less than competitors do. Still, customers will be more cautious when it comes to ordering equipment.

Simark's flexible cost structure helpful Simark has been in the oil & gas business for more than 40 years and has always been profitable despite four business contractions during this time. We assume that SFC's subsidiary will soon cut costs, which is relatively easy in Canada due to the flexible labour market. Furthermore, we expect a slower and more cautious expansion into the US market.

Oil price increase from Q4 on expected Given the current structural oversupply due to increasing production in North America and Saudi Arabia's unwillingness to restrict its production we believe that oil prices will not significantly rise before Q4. As low oil prices will increase growth in oil-importing countries global oil demand looks set to increase during the year. But as the oil price is ultimately determined by politics, future development depends on...

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014E	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	55.00	60.02	70.82	82.15
Y-o-y growth	n.a.	3.7%	69.7%	9.1%	18.0%	16.0%
EBIT (€m)	-0.52	-8.84	-3.63	-2.22	0.92	3.45
EBIT margin	-1.7%	-27.3%	-6.6%	-3.7%	1.3%	4.2%
Net income (€m)	-0.43	-8.91	-3.76	-2.34	0.70	2.99
EPS (diluted) (€)	-0.06	-1.16	-0.47	-0.27	0.08	0.35
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-1.47	-0.93	-0.60	0.46
Net gearing	-61.9%	-10.3%	-16.5%	-14.4%	-11.8%	-12.1%
Liquid assets (€m)	22.91	7.43	8.68	8.80	7.47	5.63

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 20 Jan 2015

Closing Price	€ 4.51
Shares outstanding	8.61m
Market Capitalisation	€ 38.86m
52-week Range	€ 3.42 / 6.62
Avg. Volume (12 Months)	8,777

Multiples	2013A	2014E	2015E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.2	0.7	0.6
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%



...OPEC's oil production policy which is difficult to predict. The next OPEC meeting is scheduled for 5 June in Vienna.

Q4 2014 looks set to be the strongest ever We expect Q4 revenues of €17.7m and positive EBIT of €550k. For seasonal reasons the fourth quarter is traditionally SFC's strongest and we expect Q4 2014 to have been the strongest quarter in the company's history.

Estimates adjusted We have reduced our 2015E revenue forecast by €5m resulting in an EBIT reduction of 850k. New 2015E EBIT is €-2.2m. We expect clean EBIT (adjusted for acquisition-related one-off effects) to be at break-even level. We have also adjusted our forecasts for the following years (see figure 1).

Buy reiterated at lower price target An updated DCF model yields a new price target of €7.00 (previously: €7.60). We reiterate our Buy rating.

Figure 1: Change to forecasts

All figures in €m	2014E			2015E			2016E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	55.00	55.00	0.0%	65.02	60.02	-7.7%	74.12	70.82	-4.5%
EBIT	-3.63	-3.63	-	-1.37	-2.22	-	2.08	0.92	-55.7%
<i>margin</i>	-6.6%	-6.6%	-	-2.1%	-3.7%	-	2.8%	1.3%	-
Net income	-3.49	-3.76	-	-1.48	-2.34	-	1.80	0.70	-61.0%
<i>margin</i>	-6.3%	-6.8%	-	-2.3%	-3.9%	-	2.4%	1.0%	-
EPS (diluted)	-0.47	-0.47	-	-0.19	-0.27	-	0.22	0.08	-63.7%

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
Revenues	31,260	32,413	55,000	60,018	70,821
Cost of goods sold	18,497	21,773	38,448	40,932	47,804
Gross profit	12,763	10,640	16,552	19,086	23,017
S&M	5,862	8,233	10,340	10,383	10,482
G&A	3,555	3,860	5,060	5,222	5,595
R&D	4,257	6,149	4,895	6,002	6,374
Other operating income	749	1,041	220	1,200	1,416
Other operating expenses	362	2,275	110	900	1,062
Operating income (EBIT)	-524	-8,836	-3,633	-2,221	921
Net financial result	80	-128	-166	-139	-180
Non-operating expenses	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-3,799	-2,360	740
Income taxes	-19	-52	-38	-24	37
Minority interests	0	0	0	0	0
Net income / loss	-426	-8,912	-3,761	-2,336	703
Diluted EPS (in €)	-0.06	-1.16	-0.47	-0.27	0.08
EBITDA	730	-4,474	-814	453	2,368
Ratios					
Gross margin	40.8%	32.8%	30.1%	31.8%	32.5%
EBIT margin on revenues	-1.7%	-27.3%	-6.6%	-3.7%	1.3%
EBITDA margin on revenues	2.3%	-13.8%	-1.5%	0.8%	3.3%
Net margin on revenues	-1.4%	-27.5%	-6.8%	-3.9%	1.0%
Tax rate	4.3%	0.6%	1.0%	1.0%	5.0%
Expenses as % of revenues					
S&M	18.8%	25.4%	18.8%	17.3%	14.8%
G&A	11.4%	11.9%	9.2%	8.7%	7.9%
R&D	13.6%	19.0%	8.9%	10.0%	9.0%
Other operating expenses	1.2%	7.0%	0.2%	1.5%	1.5%
Y-Y Growth					
Revenues	n.a.	3.7%	69.7%	9.1%	18.0%
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	30,925	32,166	34,341
Cash and cash equivalents	22,911	7,428	8,681	8,796	7,465
Short-term investments	0	0	0	0	0
Receivables	3,696	9,258	12,808	13,648	15,911
Inventories	5,815	7,713	7,900	8,186	9,430
Other current assets	1,118	1,426	1,426	1,426	1,426
Non-current assets, total	14,020	21,715	19,654	17,700	17,102
Property, plant & equipment	2,400	2,296	2,038	1,765	1,731
Goodwill & other intangibles	11,000	19,054	17,152	15,471	14,907
Other assets	619	365	463	463	463
Total assets	47,617	47,650	50,579	49,866	51,443
Shareholders' equity & debt					
Current liabilities, total	7,662	12,669	16,097	18,002	18,876
Short-term debt	372	2,139	1,700	3,026	2,300
Accounts payable	3,033	5,087	8,954	9,532	11,133
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	28,565	26,229	26,932
Share Capital	7,503	8,020	8,611	8,611	8,611
Capital Reserve	67,879	69,570	72,242	72,242	72,242
Other Reserves	0	0	0	0	0
Treasury Stock	0	0	0	0	0
Loss carryforward / retained earnings	-38,951	-47,863	-51,624	-53,960	-53,257
Total consolidated equity and debt	47,617	47,650	50,579	49,866	51,443
Ratios					
Current ratio	4.39	2.05	1.92	1.79	1.82
Quick ratio	3.63	1.44	1.43	1.33	1.32
Financial leverage	1.31	1.64	1.77	1.90	1.91
Book value per share	4.85	3.79	3.56	3.05	3.13
Net cash	22,539	3,007	4,700	3,770	3,165
Return on equity (ROE)	-1.2%	-30.7%	-13.2%	-8.9%	2.6%
Days of sales outstanding (DSO)	43.2	104.3	85.0	83.0	82.0
Days of inventory turnover	114.7	129.3	75.0	73.0	72.0
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	-2,221	921
Depreciation and amortisation	1,255	4,362	2,819	2,674	1,448
EBITDA	730	-4,474	-814	453	2,368
Changes in working capital	85	-2,188	130	-547	-1,906
Other adjustments	443	-649	-128	-115	-217
Operating cash flow	1,258	-7,311	-812	-210	245
CAPEX	-561	-345	-385	-420	-496
Investments in intangibles	-318	-327	-275	-300	-354
Free cash flow	380	-7,984	-1,472	-930	-605
Debt financing, net	-388	-1,469	-439	1,045	-726
Equity financing, net	0	0	3,263	0	0
Other changes in cash	191	-6,029	-98	0	0
Net cash flows	183	-15,482	1,254	115	-1,331
Cash, start of the year	0	22,911	7,428	8,681	8,796
Cash, end of the year	183	7,428	8,681	8,796	7,465
EBITDA/share (in €)	0.10	-0.58	-0.10	0.05	0.28
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.	422.7%



DCF MODEL

DCF valuation model								
All figures in EUR '000	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	55,000	60,018	70,821	82,153	94,326	107,189	120,539	134,127
NOPLAT	-3,633	-2,221	884	3,119	4,533	4,920	5,943	6,976
+ depreciation & amortisation	2,819	2,674	1,448	750	548	616	691	774
Net operating cash flow	-814	453	2,331	3,869	5,081	5,535	6,634	7,750
- total investments (CAPEX and WC)	-530	-1,268	-2,756	-3,274	-3,565	-3,846	-4,089	-4,283
Capital expenditures	-660	-720	-850	-986	-1,123	-1,267	-1,414	-1,561
Working capital	130	-547	-1,906	-2,288	-2,441	-2,579	-2,676	-2,723
Free cash flows (FCF)	-1,344	-814	-424	595	1,517	1,690	2,545	3,466
PV of FCF's	0	-738	-346	438	1,007	1,011	1,372	1,685

All figures in thousands	
PV of FCFs in explicit period (2014E-2028E)	22,089
PV of FCFs in terminal period	36,854
Enterprise value (EV)	58,943
+ Net cash / - net debt	1,390
+ Investments / minority interests	0
Shareholder value	60,333

Fair value per share in EUR	7.00
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WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
6.9%	15.07	15.93	16.99	18.32	20.04	22.34	25.59	
7.9%	11.84	12.34	12.94	13.65	14.53	15.64	17.06	
8.9%	9.55	9.86	10.21	10.63	11.12	11.72	12.44	
9.9%	7.86	8.06	8.28	8.53	8.83	9.17	9.58	
10.9%	6.58	6.70	6.85	7.01	7.19	7.40	7.64	
11.9%	5.57	5.66	5.75	5.86	5.97	6.10	6.25	
12.9%	4.77	4.83	4.89	4.96	5.04	5.12	5.22	
13.9%	4.13	4.17	4.21	4.26	4.31	4.36	4.43	

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...2	↓	↓	↓	↓
3	12 August 2014	€5.10	Buy	€7.40
4	10 November 2014	€5.36	Buy	€7.40
5	3 December 2014	€5.42	Buy	€7.60
6	Today	€4.51	Buy	€7.00

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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.

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