

SFC Energy AG

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

Record year 2014

RATING
BUY

PRICE TARGET
€7.00

Return Potential 38.1%
 Risk Rating High

UNDERLYING EBITDA REACHED BREAK-EVEN

On 5 February SFC Energy reported preliminary 2014 figures and held a conference call at 10 am. Revenues reached a record €53.6m. Underlying EBITDA amounted to €0.4m and was in line with our estimates. The oil price slump looks set to stall the growth of SFC's Oil & Gas business in North America in 2015, but we expect the Security & Industry business to grow. We confirm our 2015E forecast, the €7.00 price target and the Buy rating.

Record 2014 sales and positive underlying EBITDA SFC increased annual revenues by 65% to €53.6m (2013: €32.6m, FBe: €55.0m). the main growth driver was the consolidation of the Canadian company Simark. The organic growth of the North American business amounted to more than 20% in local currency. This is a remarkable result taking into consideration that this growth was achieved in the first year of the integration of Simark into the SFC structure. Adjusted for negative exchange rate effects sales reached €55m, which corresponds to the lower end of the guided range of €55-60m. Underlying EBITDA (adjusted for acquisition-related effects) amounted to €0.4m (2013: €-2.2m). This is in line with our estimates and company guidance. Despite the delay of a defence project and continuing low sales in France, Q4 was a record quarter with sales of €16.3m, underlying EBITDA of €1.6m and underlying EBIT of €1.2m.

Both Oil & Gas and Industry & Security drove growth Apart from the booming Oil & Gas business segment, the security & Industry segment contributed to revenue growth. Fuel cell sales increased by ca. 18% due mainly to strong demand from auxiliary power units, surveillance (e.g. fuel-cell based off-grid cameras) and wind energy (measurement and back-up power).

Cautious 2015E guidance due to oil price slump SFC is guiding towards operating results being better than in 2014. We expect more concrete guidance when the annual report is published on 26 March. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014E	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	53.60	60.02	70.82	82.15
Y-o-y growth	n.a.	3.7%	65.4%	12.0%	18.0%	16.0%
EBIT (€m)	-0.52	-8.84	-4.29	-2.22	0.92	3.45
EBIT margin	-1.7%	-27.3%	-8.0%	-3.7%	1.3%	4.2%
Net income (€m)	-0.43	-8.91	-4.41	-2.34	0.70	2.99
EPS (diluted) (€)	-0.06	-1.16	-0.55	-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	-1.53	-1.33	-0.66	0.44
Net gearing	-61.9%	-10.3%	-16.6%	-12.9%	-10.1%	-10.5%
Liquid assets (€m)	22.91	7.43	8.62	8.34	6.95	5.08

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, security & industry, and leisure. SFC is headquartered near Munich in Germany.

MARKET DATA

As of 06 Feb 2015

Closing Price	€ 5.07
Shares outstanding	8.61m
Market Capitalisation	€ 43.65m
52-week Range	€ 3.42 / 6.62
Avg. Volume (12 Months)	8,805

Multiples	2013A	2014E	2015E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.3	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	24.5%
Havensight	8.9%
Conduit Ventures	8.6%
Other	13.9%
Free Float	44.1%



Oil price slump stalls segment growth in 2015 We expect stable revenues for SFC's Oil & Gas segment. We still assume that SFC's oil price exposure is lower than average because

- 1) SFC's subsidiary Simark's products are used in production & maintenance, not in exploration (drilling). The main CAPEX cuts (average: -30%) are being made in the exploration business, not in established production & maintenance.
- 2) SFC's customer base mostly comprises established players such as Canadian National Resources or Imperial Oil. These players have production costs of 10-15 CAD/barrel and are thus still operating on a profitable basis.
- 3) Simark is not active in the area of new fracking where production costs are already higher than the current oil price.

Despite a high order intake in December of more than CAD 6m, we believe that Simark's H1 revenues will fall below the previous year's level due to low demand. However, we expect improving sales in H2 against the backdrop of rising oil prices. The low oil price is boosting growth in oil-importing industrial countries which will lead to higher oil demand and increasing prices. We believe that oil prices could reach a level of 70 \$/barrel by the end of 2015E.

Security & Industry segment is growth driver in 2015 A broader product portfolio and increasing demand especially in the defence area look set to generate double-digit segment growth. The change in the product mix (from Oil & Gas to Security & Industry) looks set to increase the overall gross margin as gross margins in the Security & Industry segment are higher than in the Oil & Gas business. We assume the gross margin to increase from 30.1% in 2014 to 31.8% in 2015E.

Currency risk of minor importance In 2014 the Canadian dollar was weaker than SFC expected which resulted in lower sales in Euros. The average EUR/CAD exchange rate was 1.47 whereas SFC budgeted 1.40. For 2015 SFC assumes an exchange rate of 1.425. As both revenues and cost in CAD largely match, SFC can bear the currency risk without hedging.

Estimates for 2014 reduced, forecast for 2015 confirmed Although underlying EBITDA met our forecast, we lower our EBITDA and EBIT estimates for 2014 due to higher exceptional items. We now expect EBITDA of €-1.2m (previously: €-0.8m) and EBIT of €-4.3m (previously: €-3.6m). We stick to our 2015E revenue forecast of €60m and EBITDA of €0.5m (underlying EBITDA: €1.7m).

Buy rating and price target confirmed An updated DCF model still yields a price target of €7.00. We confirm our Buy rating.

Figure 1: Reported figures versus forecasts

All figures in €m	Q4-14A	Q4-14E	Delta	Q4-13	Delta	2014	2013	Delta
Sales	16.30	17.67	-7.8%	11.80	38.1%	53.60	32.40	65.4%
EBITDA adjusted	1.60	1.60	0.0%	-0.30	-	0.40	-2.20	-
margin	9.8%	9.1%		-2.5%		0.7%	-6.8%	
EBIT adjusted	1.20	1.10	9.1%	-2.40	-	-1.20	-4.22	-
margin	7.4%	6.2%		-20.3%		-2.2%	-13.0%	

Source: First Berlin Equity Research, SFC Energy AG



INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
Revenues	31,260	32,413	53,600	60,018	70,821
Cost of goods sold	18,497	21,773	37,469	40,932	47,804
Gross profit	12,763	10,640	16,131	19,086	23,017
S&M	5,862	8,233	10,613	10,383	10,482
G&A	3,555	3,860	5,038	5,222	5,595
R&D	4,257	6,149	4,878	6,002	6,374
Other operating income	749	1,041	214	1,200	1,416
Other operating expenses	362	2,275	107	900	1,062
Operating income (EBIT)	-524	-8,836	-4,291	-2,221	921
Net financial result	80	-128	-167	-139	-180
Non-operating expenses	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-4,458	-2,360	740
Income taxes	-19	-52	-45	-24	37
Minority interests	0	0	0	0	0
Net income / loss	-426	-8,912	-4,414	-2,336	703
Diluted EPS (in €)	-0.06	-1.16	-0.55	-0.27	0.08
EBITDA	730	-4,474	-1,196	354	2,311
Ratios					
Gross margin	40.8%	32.8%	30.1%	31.8%	32.5%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-3.7%	1.3%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	0.6%	3.3%
Net margin on revenues	-1.4%	-27.5%	-8.2%	-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%	19.8%	17.3%	14.8%
G&A	11.4%	11.9%	9.4%	8.7%	7.9%
R&D	13.6%	19.0%	9.1%	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%	65.4%	12.0%	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	30,337	31,706	33,824
Cash and cash equivalents	22,911	7,428	8,620	8,336	6,948
Short-term investments	0	0	0	0	0
Receivables	3,696	9,258	12,482	13,648	15,911
Inventories	5,815	7,713	7,699	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	19,361	17,507	16,967
Property, plant & equipment	2,400	2,296	1,753	1,577	1,600
Goodwill & other intangibles	11,000	19,054	17,145	15,467	14,904
Other assets	619	365	463	463	463
Total assets	47,617	47,650	49,698	49,213	50,791
Shareholders' equity & debt					
Current liabilities, total	7,662	12,669	15,869	18,002	18,876
Short-term debt	372	2,139	1,700	3,026	2,300
Accounts payable	3,033	5,087	8,726	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	27,912	25,576	26,279
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	-52,277	-54,613	-53,909
Total consolidated equity and debt	47,617	47,650	49,698	49,213	50,791
Ratios					
Current ratio	4.39	2.05	1.91	1.76	1.79
Quick ratio	3.63	1.44	1.43	1.31	1.29
Financial leverage	1.31	1.64	1.78	1.92	1.93
Book value per share	4.85	3.79	3.48	2.97	3.05
Net cash	22,539	3,007	4,639	3,310	2,648
Return on equity (ROE)	-1.2%	-30.7%	-15.8%	-9.1%	2.7%
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	-4,291	-2,221	921
Depreciation and amortisation	1,255	4,362	3,095	2,574	1,390
EBITDA	730	-4,474	-1,196	354	2,311
Changes in working capital	85	-2,188	429	-847	-1,906
Other adjustments	443	-649	-123	-115	-217
Operating cash flow	1,258	-7,311	-890	-608	188
CAPEX	-561	-345	-375	-420	-496
Investments in intangibles	-318	-327	-268	-300	-354
Free cash flow	380	-7,984	-1,533	-1,329	-662
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	1,193	-284	-1,388
Cash, start of the year	0	22,911	7,428	8,620	8,336
Cash, end of the year	183	7,428	8,620	8,336	6,948
EBITDA/share (in €)	0.10	-0.58	-0.15	0.04	0.27
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.	553.6%



DCF MODEL

DCF valuation model								
All figures in EUR '000	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	53,600	60,018	70,821	82,153	94,326	107,189	120,539	134,127
NOPLAT	-4,291	-2,221	884	3,119	4,533	4,920	5,943	6,976
+ depreciation & amortisation	3,095	2,574	1,390	724	527	599	678	763
Net operating cash flow	-1,196	354	2,274	3,842	5,060	5,518	6,620	7,739
- total investments (CAPEX and WC)	-214	-1,567	-2,756	-3,274	-3,565	-3,846	-4,089	-4,283
Capital expenditures	-643	-720	-850	-986	-1,123	-1,267	-1,414	-1,561
Working capital	429	-847	-1,906	-2,288	-2,441	-2,579	-2,676	-2,723
Free cash flows (FCF)	-1,410	-1,213	-482	569	1,495	1,673	2,531	3,455
PV of FCF's	0	-1,105	-395	421	997	1,006	1,371	1,688

All figures in thousands	
PV of FCFs in explicit period (2014E-2028E)	21,717
PV of FCFs in terminal period	37,027
Enterprise value (EV)	58,744
+ Net cash / - net debt	1,390
+ Investments / minority interests	0
Shareholder value	60,134

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%	15.05	15.92	16.98	18.32	20.04	22.35	25.60	
7.9%	11.82	12.33	12.92	13.64	14.52	15.63	17.06	
8.9%	9.53	9.84	10.20	10.61	11.11	11.70	12.43	
9.9%	7.84	8.03	8.26	8.51	8.81	9.15	9.56	
10.9%	6.55	6.68	6.82	6.98	7.17	7.38	7.62	
11.9%	5.55	5.63	5.73	5.83	5.95	6.08	6.23	
12.9%	4.75	4.80	4.87	4.94	5.01	5.10	5.19	
13.9%	4.10	4.14	4.18	4.23	4.28	4.34	4.40	

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...3	↓	↓	↓	↓
4	10 November 2014	€5.36	Buy	€7.40
5	3 December 2014	€5.42	Buy	€7.60
6	21 January 2015	€4.51	Buy	€7.00
7	Today	€5.07	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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