

SFC Energy AG

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

Final 2014 figures

RATING
BUY

PRICE TARGET
€7.00

Return Potential 35.9%
 Risk Rating High

DEFENCE TO DRIVE 2015 GROWTH

On 26 March SFC Energy reported final 2014 figures and held a conference call at 10am. Final figures corresponded to preliminary figures and showed strong sales growth and reduced losses. For 2015 the company is guiding towards sales of €55-65m and improved profitability. We see the defence business as the main growth driver for 2015. We confirm our Buy rating and the €7.00 price target.

Strong growth in 2014 Sales increased 65.5% to €53.6m. The main growth driver was the successful integration of Simark, the Canadian oil & gas equipment supplier. In 2013 Simark was only consolidated for four months. Simark's organic growth in the first year of full consolidation was a spectacular 20% plus. At a constant EUR/CAD exchange rate, which was the basis for SFC's guidance, SFC reached its €55m guidance. As the Canadian Dollar depreciated slightly, revenues amounted to €53.6m.

Improved profitability Gross profit reached €15.7m (2013: €9.9m). The gross margin declined to 29.2% from 30.6% due mainly to the changed business mix as Simark's gross margin is lower.

EBITDA improved to €-1.2m (2013: €-4.5m). Adjusted for one-off effects, underlying EBITDA reached positive terrain at €0.4m (2013: €-2.2m). EBIT improved considerably to €-4.3m (2013: €-8.8m). Underlying EBIT was €-1.2m (2013: €-4.2m). The net result amounted to €-4.8m (2013: €-8.9m). EPS improved to €-0.60 from €-1.16 in 2013.

Guidance for 2015 hints at growth Management is guiding for sales between €55-65m and improved profitability. We believe that the worst case scenario (€55m) is unlikely as the oil & gas segment looks set to grow slightly and defence should provide the growth kicker. However, visibility in the oil & gas business is still limited following the oil price slump and defence is a project-based business which often saw delays in the past. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014A	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	53.63	60.02	70.82	82.15
Y-o-y growth	n.a.	3.7%	65.5%	11.9%	18.0%	16.0%
EBIT (€m)	-0.52	-8.84	-4.27	-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	-4.83	-2.34	0.70	2.99
EPS (diluted) (€)	-0.06	-1.16	-0.60	-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	-4.19	-1.86	-1.43	0.14
Net gearing	-61.9%	-10.3%	-4.9%	-2.2%	3.3%	2.5%
Liquid assets (€m)	22.91	7.43	6.41	5.59	3.43	1.27

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 31 Mar 2015

Closing Price	€ 5.15
Shares outstanding	8.61m
Market Capitalisation	€ 44.36m
52-week Range	€ 4.21 / 6.62
Avg. Volume (12 Months)	7,693

Multiples	2014A	2015E	2016E
P/E	n.a.	n.a.	63.1
EV/Sales	0.8	0.7	0.6
EV/EBIT	n.a.	n.a.	46.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2014

Liquid Assets	€ 6.41m
Current Assets	€ 27.54m
Intangible Assets	€ 17.81m
Total Assets	€ 47.26m
Current Liabilities	€ 13.37m
Shareholders' Equity	€ 27.59m

SHAREHOLDERS

HPE	24.5%
Havensight	8.9%
Conduit Ventures	8.6%
Other	13.9%
Free Float	44.1%



The basis for the revenue forecast is an average EUR/CAD exchange rate of 1.425. For 2015, management expects a positive and slightly improved underlying EBITDA and a slightly improved underlying EBIT.

Sentiment improving in Oil & Gas Sales in the Oil & Gas segment increased to €29.3m (2013: €8.5m). Strong demand from the Canadian oil & gas industry resulted in Simark growing 20%+ organically. Gross profit rose to €7.6m from €2.0m in 2013. The gross margin increased to 26.0% (2013: 23.4%).

Following the shock of the oil price slump, demand is slowly reviving, especially in the production optimisation segment (de-bottlenecking). Compared to February the market environment has improved and we now believe that Simark will achieve slight growth in 2015 (FBe: +2.2% y/y to €30.0m). Previously we assumed flat sales. We forecast a slightly improved gross margin of 26.7% (+0.7 PP y/y).

Security & Industry main growth driver in 2015 Segment sales increased to €20.2m from €19.2m (+5.4% y/y) due to a growing civilian business, whereas the defence business contributed revenues of only €1.8m (2013: €2.1m). The main reason for the increase was a major traffic technology project generating sales of €1.1m. SFC increased sales of EFOY fuel cells by 18.2%. In terms of unit sales the increase amounted to 34% to 1,029 units (2013: 767 units). Sales growth was lower than volume growth due to a changed product mix. The gross profit increased to €7.1m from €6.4m (+10.3% y/y). The gross margin amounted to 35.1% up from 33.6% in 2013 due mainly to an improved product mix (see figure 1 overleaf).

We expect segment sales to increase by 28.2% in 2015 to €25.9m mainly driven by large defence contracts which could amount to €5m or more. Due to an improved product mix (defence contracts usually have an above average gross margin), we forecast an increase in gross margin to 38.8% (+3.7 PP y/y).

Consumer segment still weak Segment sales declined 14.4% to €4.1m from €4.8m in 2013. The downward trend in the French and Southern European consumer markets as well as lower sales in Germany could not be compensated by increased sales in Scandinavia. Gross profit slumped to €0.9m from €1.5m (-38.4% y/y). The gross margin fell to 22.7% from 31.4% in 2013. The main reason for the decline was a worse product mix.

For 2015 we forecast a recovery (revenue increase of ca. +5%) due to strong Scandinavian markets, an improved German market and first inroads into the Canadian market. Improved average sales prices look set to increase the gross margin to 24.1% (+1.5 PP y/y).

Balance sheet remains stable Due mainly to the net loss, equity fell back to €27.6m from €29.1m in 2013. The equity ratio fell to 58.4% from 60.1%. Liabilities to banks increased to €5.1m from €4.4m in the previous year. SFC still has a net cash position of €1.2m (2013: €2.9m).

Operating cash flow still negative SFC's operating cash flow amounted to €-3.6m. Although this is a significant improvement compared to previous year's €-7.3m, it remains in negative territory. CAPEX of €0.6m resulted in a free cash flow of €-4.2m. The cash outflow was largely financed by a capital increase of €3.3m and a debt raise of a net €0.9m. Cash flow from financing activity amounted to €3.1m. A net cash flow of €-1.0m resulted in a cash position of €6.1m at the end of 2014.

Estimates unchanged We stick to our 2015E and 2016E estimates. Our 2015E sales forecast of €60.0m could be topped if defence contracts are larger than assumed. We assume an underlying EBITDA (adjusted for one-off effects from the Simark takeover) of €1.6m and an underlying EBIT of €0.1m.



Buy rating and price target reiterated Based on an updated DCF model we reiterate our Buy rating and the €7.00 price target.

Figure 1: Segment revenues and gross profit – reported vs. forecast

All figures in €m	Q4-14A	Q4-14E	Delta	Q4-13	Delta	2014	2013	Delta
Oil & Gas								
Sales	8.62	7.90	9.1%	6.32	36.3%	29.34	8.45	247.2%
Gross profit	2.49	2.30	8.3%	1.53	62.6%	7.64	1.98	285.9%
margin	28.9%	29.1%		24.2%		26.0%	23.4%	
Security & Industry								
Sales	6.78	7.65	-11.4%	4.51	50.2%	20.19	19.16	5.4%
Gross profit	2.30	2.61	-11.9%	1.27	81.1%	7.09	6.43	10.3%
margin	33.9%	34.1%		28.1%		35.1%	33.6%	
Consumer								
Sales	0.92	0.72	27.8%	0.99	-7.2%	4.11	4.80	-14.4%
Gross profit	0.04	-0.01	-	0.41	-90.2%	0.93	1.51	-38.4%
margin	4.3%	-1.4%		41.0%		22.6%	31.5%	

Source: First Berlin Equity Research, SFC Energy AG

Figure 2: Reported figures vs. forecast

All figures in €m	Q4-14A	Q4-14E	Delta	Q4-13	Delta	2014	2013	Delta
Sales	16.30	16.30	0.0%	11.80	38.1%	53.60	32.40	65.4%
EBITDA	0.97	0.95	2.1%	-2.47	-	-1.18	-4.47	-
margin	6.0%	5.8%		-20.9%		-2.2%	-13.8%	
EBITDA adjusted	1.64	1.60	2.5%	-0.30	-	0.38	-2.20	-
margin	10.1%	9.8%		-2.5%		0.7%	-6.8%	
EBIT	0.09	0.06	50.0%	-5.25	-	-4.27	-8.84	-
margin	0.6%	0.4%		-44.5%		-8.0%	-27.3%	
EBIT adjusted	1.23	1.21	1.7%	-2.40	-	-1.22	-4.22	-
margin	7.5%	7.4%		-20.3%		-2.3%	-13.0%	
Net income	-0.30	0.09	-	-1.84	-	-4.83	-8.91	-
margin	-1.8%	0.6%		-15.6%		-9.0%	-27.5%	
EPS (diluted)	-0.04	0.01	-	-0.24	-	-0.60	-1.16	-

Source: First Berlin Equity Research, SFC Energy AG



INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	31,260	32,413	53,631	60,018	70,821	82,153
Cost of goods sold	18,497	21,773	37,970	40,932	47,804	55,042
Gross profit	12,763	10,640	15,661	19,086	23,017	27,110
S&M	5,862	8,233	10,540	10,563	10,482	11,008
G&A	3,555	3,860	4,872	5,222	5,595	6,244
R&D	4,257	6,149	4,530	5,822	6,374	6,819
Other operating income	749	1,041	170	1,200	1,416	1,643
Other operating expenses	362	2,275	159	900	1,062	1,232
Operating income (EBIT)	-524	-8,836	-4,269	-2,221	921	3,450
Net financial result	80	-128	-298	-139	-180	-133
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-4,567	-2,360	740	3,318
Income taxes	-19	-52	259	-24	37	332
Minority interests	0	0	0	0	0	0
Net income / loss	-426	-8,912	-4,826	-2,336	703	2,986
Diluted EPS (in €)	-0.06	-1.16	-0.60	-0.27	0.08	0.35
EBITDA	730	-4,474	-1,177	354	2,311	4,174
Ratios						
Gross margin	40.8%	32.8%	29.2%	31.8%	32.5%	33.0%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-3.7%	1.3%	4.2%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	0.6%	3.3%	5.1%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-3.9%	1.0%	3.6%
Tax rate	4.3%	0.6%	-5.7%	1.0%	5.0%	10.0%
Expenses as % of revenues						
S&M	18.8%	25.4%	19.7%	17.6%	14.8%	13.4%
G&A	11.4%	11.9%	9.1%	8.7%	7.9%	7.6%
R&D	13.6%	19.0%	8.4%	9.7%	9.0%	8.3%
Other operating expenses	1.2%	7.0%	0.3%	1.5%	1.5%	1.5%
Y-Y Growth						
Revenues	n.a.	3.7%	65.5%	11.9%	18.0%	16.0%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	274.8%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	324.6%



BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Assets						
Current assets, total	33,598	25,934	27,542	28,634	30,394	32,126
Cash and cash equivalents	22,911	7,428	6,407	5,591	3,431	1,271
Short-term investments	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	14,141	16,687	19,131
Inventories	5,815	7,713	7,653	8,186	9,561	11,008
Other current assets	1,118	1,426	711	711	711	711
Non-current assets, total	14,020	21,715	19,714	17,344	16,804	17,066
Property, plant & equipment	2,400	2,296	1,601	1,577	1,600	1,855
Goodwill & other intangibles	11,000	19,054	17,813	15,467	14,904	14,911
Other assets	619	365	300	300	300	300
Total assets	47,617	47,650	47,256	45,978	47,198	49,192
Shareholders' equity & debt						
Current liabilities, total	7,662	12,669	13,371	14,914	15,430	14,439
Short-term debt	372	2,139	2,013	3,026	2,300	0
Accounts payable	3,033	5,087	6,872	7,401	8,644	9,953
Current provisions	999	802	686	686	686	686
Other current liabilities	3,258	4,641	3,800	3,800	3,800	3,800
Long-term liabilities, total	3,562	5,918	6,296	5,812	5,812	5,812
Long-term debt	0	2,282	3,045	2,000	2,000	2,000
Deferred revenue	0	0	0	0	0	0
Other liabilities	3,562	3,636	3,251	3,812	3,812	3,812
Minority interests	0	0	0	0	0	0
Shareholders' equity	36,394	29,063	27,589	25,252	25,956	28,941
Share Capital	7,503	8,020	8,611	8,611	8,611	8,611
Capital Reserve	67,879	69,570	71,955	71,955	71,955	71,955
Other Reserves	0	0	0	0	0	0
Treasury Stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-38,951	-47,863	-52,689	-55,025	-54,322	-51,336
Total consolidated equity and debt	47,617	47,650	47,256	45,978	47,198	49,192
Ratios						
Current ratio	4.39	2.05	2.06	1.92	1.97	2.22
Quick ratio	3.63	1.44	1.49	1.37	1.35	1.46
Financial leverage	1.31	1.64	1.71	1.82	1.82	1.70
Book value per share	4.85	3.79	3.44	2.93	3.01	3.36
Net cash	22,539	3,007	1,349	565	-869	-729
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-9.3%	2.7%	10.3%
Days of sales outstanding (DSO)	43.2	104.3	86.9	86.0	86.0	85.0
Days of inventory turnover	114.7	129.3	73.6	73.0	73.0	73.0
Days in payables (DIP)	59.9	85.3	66.1	66.0	66.0	66.0



CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
EBIT	-524	-8,836	-4,269	-2,221	921	3,450
Depreciation and amortisation	1,255	4,362	3,093	2,574	1,390	724
EBITDA	730	-4,474	-1,177	354	2,311	4,174
Changes in working capital	85	-2,188	-2,015	-1,379	-2,677	-2,584
Other adjustments	443	-649	-361	-115	-217	-465
Operating cash flow	1,258	-7,311	-3,553	-1,141	-584	1,126
CAPEX	-561	-345	-181	-420	-496	-575
Investments in intangibles	-318	-327	-452	-300	-354	-411
Free cash flow	380	-7,984	-4,186	-1,861	-1,434	140
Debt financing, net	-388	-1,469	826	1,045	-726	-2,300
Equity financing, net	0	0	3,263	0	0	0
Other changes in cash	191	-6,029	-923	0	0	0
Net cash flows	183	-15,482	-1,020	-817	-2,160	-2,160
Cash, start of the year	0	22,911	7,143	6,407	5,591	3,431
Cash, end of the year	183	7,428	6,123	5,591	3,431	1,271
EBITDA/share (in €)	0.10	-0.58	-0.15	0.04	0.27	0.48
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	553.6%	80.6%



DCF MODEL

DCF valuation model								
All figures in EUR '000	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	60,018	70,821	82,153	94,311	107,258	120,831	134,825	148,994
NOPLAT	-2,221	884	3,119	4,508	5,702	6,698	7,695	8,745
+ depreciation & amortisation	2,574	1,390	724	527	600	681	768	861
Net operating cash flow	354	2,274	3,842	5,035	6,302	7,379	8,463	9,607
- total investments (CAPEX and WC)	-2,099	-3,527	-3,569	-4,380	-4,496	-4,803	-5,061	-5,258
Capital expenditures	-720	-850	-986	-1,132	-1,277	-1,428	-1,581	-1,734
Working capital	-1,379	-2,677	-2,584	-3,248	-3,219	-3,375	-3,480	-3,524
Free cash flows (FCF)	-1,746	-1,253	273	655	1,806	2,576	3,402	4,349
PV of FCF's	-1,614	-1,044	205	443	1,102	1,416	1,685	1,942

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	22,138
PV of FCFs in terminal period	36,740
Enterprise value (EV)	58,878
+ Net cash / - net debt	1,213
+ Investments / minority interests	0
Shareholder value	60,091

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%
7.0%	15.63	16.48	17.52	18.82	20.51	22.76	25.94
8.0%	12.18	12.67	13.24	13.93	14.78	15.84	17.21
9.0%	9.74	10.04	10.37	10.76	11.23	11.79	12.47
10.0%	7.95	8.13	8.34	8.57	8.84	9.16	9.53
11.0%	6.59	6.71	6.83	6.98	7.14	7.33	7.55
12.0%	5.53	5.61	5.69	5.78	5.88	6.00	6.13
13.0%	4.69	4.74	4.80	4.85	4.92	4.99	5.07
14.0%	4.02	4.05	4.09	4.12	4.16	4.21	4.26

Fair value per share in EUR	7.00
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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...4	↓	↓	↓	↓
5	3 December 2014	€5.42	Buy	€7.60
6	21 January 2015	€4.51	Buy	€7.00
7	9 February 2015	€4.65	Buy	€7.00
8	Today	€5.15	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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