

# SFC Energy AG

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

Large contract won

<b>RATING</b>	<b>BUY</b>
<b>PRICE TARGET</b>	<b>€7.00</b>
Return Potential	37.0%
Risk Rating	High

## CANADIAN BUSINESS RECEIVES IMPORTANT BOOST

On 7 April SFC Energy reported that its subsidiary Simark closed a sales and service agreement with Schneider Electric which looks set to contribute ca. CAD 5m in revenues in 2015. Simark will offer Schneider Electric's Telemetry & Remote SCADA Solutions (TRSS) to end users, system integrators and OEMs in Western Canada. We expect significant synergies to come from this extension of the Simark product portfolio as TRSS require reliable off-grid power which SFC's fuel cell-based power supply solutions offer. We view this service agreement as an important step to fulfil our forecasts. Furthermore, on 13 April SFC reported a big follow-up order by Volkswagen. We reiterate our Buy rating and the €7.00 price target.

**Agreement boosts revenues & earnings** We expect a revenue contribution of ca. CAD 5m in 2015E. In 2016E, when all processes of the cooperation will be well established, we expect a sales contribution of up to CAD 10m.

**Huge synergy effects support sale of fuel cell-based energy solutions** Schneider Electric's Telemetry & Remote SCADA Solutions (TRSS) enable operators to efficiently monitor and control field equipment and operations across widely dispersed infrastructures. The TRSS portfolio includes product lines such as SCADA software, natural gas flow measurement equipment, transmitters, ethernet and serial data radios, and battery-powered wireless sensor networks. In an off-grid situation these products require a reliable off-grid power supply which Simark can offer in form of a range of integrated, fully autonomous power supply solutions based on SFC's EFOY Pro fuel cells. Based on Schneider Electric's product lines SFC thus has excellent cross-selling opportunities for its power supply solutions.

**Big follow-up order by Volkswagen** SFC has received a follow up order for equipping another 306 Volkswagen transporters with EFOY Pro fuel cells.

(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 10 Apr 2015

Closing Price	€ 5.11
Shares outstanding	8.61m
Market Capitalisation	€ 44.01m
52-week Range	€ 4.21 / 6.62
Avg. Volume (12 Months)	7,819

Multiples	2014A	2015E	2016E
P/E	n.a.	n.a.	62.6
EV/Sales	0.8	0.7	0.6
EV/EBIT	n.a.	n.a.	46.5
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%



Of this order: 266 EFOY Pro fuel cells were shipped in Q4 2014 with the remaining 40 devices having been delivered in Q1 2015. The Federal Office for Goods Transport (BAG) uses these vehicles for toll inspection purposes in Germany. The fuel cells produce power for the electric measuring and surveillance devices and office equipment on board the vehicles. We estimate that the revenue volume of the complete order (306 transporters) amounts to ca. €1.2m. SFC has now supplied toll inspection vehicles with reliable, autonomous power for five years.

**Service agreement with Schneider Electric supports guidance and our estimates** We see SFC on the right track to fulfil its 2015E guidance (sales: €55-65m, improved profitability) as well as our revenue estimate of €60.0m and EBITDA forecast of €0.4m.

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



## INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>Revenues</b>	<b>31,260</b>	<b>32,413</b>	<b>53,631</b>	<b>60,018</b>	<b>70,821</b>	<b>82,153</b>
Cost of goods sold	18,497	21,773	37,970	40,932	47,804	55,042
<b>Gross profit</b>	<b>12,763</b>	<b>10,640</b>	<b>15,661</b>	<b>19,086</b>	<b>23,017</b>	<b>27,110</b>
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
<b>Operating income (EBIT)</b>	<b>-524</b>	<b>-8,836</b>	<b>-4,269</b>	<b>-2,221</b>	<b>921</b>	<b>3,450</b>
Net financial result	80	-128	-298	-139	-180	-133
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-445</b>	<b>-8,964</b>	<b>-4,567</b>	<b>-2,360</b>	<b>740</b>	<b>3,318</b>
Income taxes	-19	-52	259	-24	37	332
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-426</b>	<b>-8,912</b>	<b>-4,826</b>	<b>-2,336</b>	<b>703</b>	<b>2,986</b>
<b>Diluted EPS (in €)</b>	<b>-0.06</b>	<b>-1.16</b>	<b>-0.60</b>	<b>-0.27</b>	<b>0.08</b>	<b>0.35</b>
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-1,177</b>	<b>354</b>	<b>2,311</b>	<b>4,174</b>
<b>Ratios</b>						
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%
<b>Expenses as % of revenues</b>						
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%
<b>Y-Y Growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>33,598</b>	<b>25,934</b>	<b>27,542</b>	<b>28,634</b>	<b>30,394</b>	<b>32,126</b>
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
<b>Non-current assets, total</b>	<b>14,020</b>	<b>21,715</b>	<b>19,714</b>	<b>17,344</b>	<b>16,804</b>	<b>17,066</b>
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
<b>Total assets</b>	<b>47,617</b>	<b>47,650</b>	<b>47,256</b>	<b>45,978</b>	<b>47,198</b>	<b>49,192</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>7,662</b>	<b>12,669</b>	<b>13,371</b>	<b>14,914</b>	<b>15,430</b>	<b>14,439</b>
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
<b>Long-term liabilities, total</b>	<b>3,562</b>	<b>5,918</b>	<b>6,296</b>	<b>5,812</b>	<b>5,812</b>	<b>5,812</b>
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
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>36,394</b>	<b>29,063</b>	<b>27,589</b>	<b>25,252</b>	<b>25,956</b>	<b>28,941</b>
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
<b>Total consolidated equity and debt</b>	<b>47,617</b>	<b>47,650</b>	<b>47,256</b>	<b>45,978</b>	<b>47,198</b>	<b>49,192</b>
<b>Ratios</b>						
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
<b>EBIT</b>	<b>-524</b>	<b>-8,836</b>	<b>-4,269</b>	<b>-2,221</b>	<b>921</b>	<b>3,450</b>
Depreciation and amortisation	1,255	4,362	3,093	2,574	1,390	724
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-1,177</b>	<b>354</b>	<b>2,311</b>	<b>4,174</b>
Changes in working capital	85	-2,188	-2,015	-1,379	-2,677	-2,584
Other adjustments	443	-649	-361	-115	-217	-465
<b>Operating cash flow</b>	<b>1,258</b>	<b>-7,311</b>	<b>-3,553</b>	<b>-1,141</b>	<b>-584</b>	<b>1,126</b>
CAPEX	-561	-345	-181	-420	-496	-575
Investments in intangibles	-318	-327	-452	-300	-354	-411
<b>Free cash flow</b>	<b>380</b>	<b>-7,984</b>	<b>-4,186</b>	<b>-1,861</b>	<b>-1,434</b>	<b>140</b>
<b>Debt financing, net</b>	<b>-388</b>	<b>-1,469</b>	<b>826</b>	<b>1,045</b>	<b>-726</b>	<b>-2,300</b>
<b>Equity financing, net</b>	<b>0</b>	<b>0</b>	<b>3,263</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other changes in cash	191	-6,029	-923	0	0	0
<b>Net cash flows</b>	<b>183</b>	<b>-15,482</b>	<b>-1,020</b>	<b>-817</b>	<b>-2,160</b>	<b>-2,160</b>
Cash, start of the year	0	22,911	7,143	6,407	5,591	3,431
<b>Cash, end of the year</b>	<b>183</b>	<b>7,428</b>	<b>6,123</b>	<b>5,591</b>	<b>3,431</b>	<b>1,271</b>
<b>EBITDA/share (in €)</b>	<b>0.10</b>	<b>-0.58</b>	<b>-0.15</b>	<b>0.04</b>	<b>0.27</b>	<b>0.48</b>
<b>Y-Y Growth</b>						
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	-1,619	-1,047	206	445	1,105	1,420	1,690	1,948

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	22,206
PV of FCFs in terminal period	36,853
Enterprise value (EV)	59,058
+ Net cash / - net debt	1,213
+ Investments / minority interests	0
Shareholder value	60,272

Fair value per share in EUR	7.00
-----------------------------	------

WACC	11.0%
Cost of equity	12.0%
Pre-tax cost of debt	7.0%
Tax rate	28.5%
After-tax cost of debt	5.0%
Share of equity capital	85.0%
Share of debt capital	15.0%
Fair value per share in EUR	7.00

WACC	Terminal growth rate						
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.0%	15.66	16.51	17.55	18.86	20.55	22.81	25.99
8.0%	12.21	12.69	13.27	13.96	14.81	15.87	17.24
9.0%	9.77	10.06	10.40	10.79	11.26	11.82	12.50
10.0%	7.97	8.15	8.36	8.59	8.87	9.18	9.56
11.0%	6.61	6.73	6.85	7.00	7.16	7.35	7.57
12.0%	5.55	5.63	5.71	5.80	5.90	6.02	6.15
13.0%	4.71	4.76	4.81	4.87	4.94	5.01	5.09
14.0%	4.03	4.07	4.10	4.14	4.18	4.22	4.27

**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...5	↓	↓	↓	↓
6	21 January 2015	€4.51	Buy	€7.00
7	9 February 2015	€4.65	Buy	€7.00
8	1 April 2015	€5.15	Buy	€7.00
9	Today	€5.11	Buy	€7.00

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 © 2015 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.