

SFC Energy AG

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

Q1 figures

RATING
BUY

PRICE TARGET
€7.00

Return Potential 40.9%
 Risk Rating High

REVENUE DRIVERS REMAIN INTACT

On 5 May SFC Energy AG reported Q1 figures and held a conference call at 1 pm. Q1 figures were seasonally weak and in line with our estimates. Revenues and EBIT were slightly below previous year's figures at €12.6m and €-1.5m respectively. A strong oil & gas business compensated for a weak Security & Industry segment. The company reiterated its 2015 guidance. We confirm our Buy rating and the €7.00 price target.

Weak Q1 due to postponement of several orders in Europe Revenues amounted to €12.6m (Q1/14: €12.9m, FBe: €13.0m). The main reason for the lower sales was the postponement of several large orders in Europe. EBIT was €-1.5m (Q1/14: €-1.2m, FBe: €-1.2m). Adjusted for ore-off effects underlying EBIT amounted to €-0.9m (Q1/14: €-0.6m, FBe: €0.6m). The net result came in at €-1.6m (Q1/14: €-1.3m, FBe: €-1.3m).

Resilient oil & gas business compensates for weak Security & Industry segment Despite the low oil price revenues in the oil & gas segment increased by 9% y/y to €7.2m. The gross margin was 0.4PP up at 24.9%. The industry segment's revenues fell 16% to €4.2m. The gross margin decreased to 36.7% from 37.1% in the previous year. Consumer segment figures were slightly below the previous year's figures reflecting the still challenging business environment in southern Europe (see also figure 2 on page 3).

Negative operating cash flow Due mainly to the net loss of €-1.5m the operating cash flow amounted to €-1.8m. CAPEX of €0.2m resulted in a negative free cash flow of €-2.0m.

Balance sheet slightly weaker Despite the net loss, the equity ratio remains stable at 58.4%. At the end of Q1, SFC had a net debt position of €0.9m. At the end of 2014, the company had a net cash position of €1.2m.

(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 06 May 2015

Closing Price	€ 4.97
Shares outstanding	8.61m
Market Capitalisation	€ 42.78m
52-week Range	€ 4.21 / 6.62
Avg. Volume (12 Months)	7,923

Multiples	2014A	2015E	2016E
P/E	n.a.	n.a.	60.8
EV/Sales	0.8	0.7	0.6
EV/EBIT	n.a.	n.a.	47.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2015

Liquid Assets	€ 5.10m
Current Assets	€ 25.43m
Intangible Assets	€ 17.72m
Total Assets	€ 45.00m
Current Liabilities	€ 12.71m
Shareholders' Equity	€ 26.29m

SHAREHOLDERS

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



Guidance for 2015 reiterated SFC is still guiding towards revenues of €55-65m and increased profitability. In particular, the partnership with Schneider Electric is set to contribute significant revenues already in 2015 (FBe: CAD 5m, see also our report from 13 April) that had not been initially budgeted.

Low order backlog only temporary The order backlog at the end of Q1 decreased by 39% to €9.9m from €16.3m at the end of Q1 2014. However, some orders have been postponed into Q2 and ca. 60% of these orders have already been secured. The current order backlog is around €12m.

Revenue drivers for 2015 remain intact In the oil & gas segment SFC looks set to increasingly benefit from its “de-bottlenecking” services, as its products help customers to lower production costs and increase efficiency. Furthermore, the partnership with Schneider Electric will boost segment revenues.

In the Security & Industry segment we see demand from the defence sector as the main earnings driver. The German government decided to increase its defence budget in response to the changed geo-political situation and shows an increased willingness to invest. This should result in significantly increased revenues (FBe: >€5m versus €1.8m in 2014) from SFC’s defence products. The repeat order of Volkswagen Commercial Vehicles to equip the toll inspection vehicles of the Federal Office for Goods Transport not only demonstrates that SFC’s product quality has reached automotive standards. It also underscores its strategic importance as new potential customers with large vehicle fleets have already discovered the added value of SFC’s fuel-cell-based power systems.

In the Consumer segment we expect SFC’s new mobile power outlet EFOY GO! to create revenue momentum from Q3 on. The regional expansion into Canada and Scandinavia is also beginning to bear fruits.

Buy rating and price target reiterated Based on unchanged estimates an updated DCF model still yields a price target of €7.00. We reiterate our Buy rating.

Figure 1: Reported figures versus forecasts

All figures in €m	Q1-15A	Q1-15E	Delta	Q1-14	Delta
Sales	12.61	13.00	-3.0%	12.94	-2.5%
EBITDA	-0.90	-0.60	-	-0.51	-
<i>margin</i>	-7.1%	-4.6%	-	-4.0%	-
EBITDA adjusted	-0.58	-0.30	-	-0.24	-
<i>margin</i>	-4.6%	-2.3%	-	-1.8%	-
EBIT	-1.51	-1.20	-	-1.20	-
<i>margin</i>	-12.0%	-9.2%	-	-9.3%	-
EBIT adjusted	-0.91	-0.60	-	-0.65	-
<i>margin</i>	-7.2%	-4.6%	-	-5.0%	-
Net income	-1.57	-1.30	-	-1.32	-
<i>margin</i>	-12.5%	-10.0%	-	-10.2%	-
EPS (diluted)	-0.18	-0.17	-	-0.17	-

Source: First Berlin Equity Research, SFC Energy AG



Figure 2: Segment figures – reported versus forecasts

All figures in €m	Q1-15A	Q1-15E	Delta	Q1-14	Delta
Oil & Gas					
Sales	7.19	6.70	7.3%	6.62	8.6%
Gross profit	1.79	1.65	8.4%	1.62	10.2%
<i>margin</i>	24.9%	24.6%		24.5%	
Security & Industry					
Sales	4.24	5.10	-16.9%	5.07	-16.4%
Gross profit	1.55	1.95	-20.3%	1.88	-17.4%
<i>margin</i>	36.7%	38.2%		37.1%	
Consumer					
Sales	1.18	1.20	-1.7%	1.25	-5.6%
Gross profit	0.30	0.31	-3.9%	0.34	-12.6%
<i>margin</i>	25.3%	25.8%		27.3%	

Source: First Berlin Equity Research, SFC Energy AG



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	-1,633	-1,058	208	451	1,121	1,443	1,720	1,985

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	22,763
PV of FCFs in terminal period	38,799
Enterprise value (EV)	61,563
+ Net cash / - net debt	-945
+ Investments / minority interests	0
Shareholder value	60,618

Fair value per share in EUR	7.00
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WACC	10.8%
Cost of equity	11.8%
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%
6.8%	16.21	17.16	18.33	19.81	21.74	24.36	28.14
7.8%	12.53	13.06	13.70	14.47	15.42	16.62	18.19
8.8%	9.94	10.26	10.63	11.06	11.58	12.20	12.98
9.8%	8.05	8.24	8.47	8.73	9.02	9.37	9.79
10.8%	6.62	6.74	6.88	7.04	7.22	7.43	7.66
11.8%	5.51	5.59	5.68	5.78	5.89	6.01	6.16
12.8%	4.63	4.68	4.74	4.80	4.87	4.95	5.04
13.8%	3.93	3.96	4.00	4.04	4.08	4.13	4.19



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%

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...6	↓	↓	↓	↓
7	9 February 2015	€4.65	Buy	€7.00
8	1 April 2015	€5.15	Buy	€7.00
9	13 April 2015	€5.11	Buy	€7.00
10	Today	€4.97	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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