

SFC Energy AG

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

Q2 figures

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€7.00
 42.4%
 High

GROWTH DRIVERS FOR H2 INTACT

On 3 August SFC Energy reported Q2 figures and held a conference call at 9 am. Although Q2 figures were weak and below our estimates we maintain our 2015E revenue forecast as we believe that the main growth drivers, especially in the defence area, are intact and will positively impact H2. Although it will now be a bit more ambitious for SFC to reach our €60m revenue estimate (H1 revenue: €25m), we remain confident that SFC will deliver strong H2 figures based on a very strong Q4. SFC has already received the first significant defence orders (German Armed Forces and International Defence Forces – combined order volume: €3.2m) in July. We expect more orders at the end of the year when annual defence budgets have to be spent. We reiterate our Buy rating and the €7.00 price target.

Q2 figures suffer from order delays Q2 revenues of €12.2m (Q2/14: €13.2m -8% y/y) were lower than expected (FBe: €13.3m) due mainly to lower revenues from the Security & Industry segment (€3.8m vs. FBe: €4.4m) which resulted from order delays in the defence area (see also figure 2 on page 3).

Lower revenues and a worse product mix resulted in lower gross profit of €2.9m (Q2/14: €3.8m, FBe: €3.4m). The gross profit margin fell to 24.0% from 28.9% in the previous year's quarter. EBITDA amounted to €-1.8m (Q2/14: €-0.6m, FBe: €-1.1m). EBIT came in at €-2.4m (Q2/14: €-1.2m, FBe: €-1.7m). EBITDA adjusted for one-offs mainly from the Simark acquisition was €-1.4m (Q2/14: €-0.3m, FBe: €-0.8m). Adjusted EBIT amounted to €-1.7m (Q2/14: €-0.7m, FBe: €-1.1m). The net result declined to €-2.4m (Q2/14: €1.4m, FBe: €-1.7m). EPS were €-0.28 (Q2/14: €-0.17, FBe: €-0.19, see also figure 1 on page 3).

Net loss weakens balance sheet The H1 net loss of €4.0m lowered the equity position to €23.8m (31/12/2014: €27.6m). The equity ratio declined to 56.8% from 58.4% at the beginning of the year. The net cash position of €1.2m at end 2014 became a net debt position of €2.3m. The cash position of €4.1m should however be sufficient to finance growth in H2.

(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	-2.49	0.67	2.95
EPS (diluted) (€)	-0.06	-1.16	-0.60	-0.29	0.08	0.34
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-4.19	-1.93	-1.44	0.12
Net gearing	-61.9%	-10.3%	-4.9%	2.3%	7.8%	6.6%
Liquid assets (€m)	22.91	7.43	6.41	5.21	3.05	0.86

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 03 Aug 2015

Closing Price	€ 4.92
Shares outstanding	8.61m
Market Capitalisation	€ 42.33m
52-week Range	€ 4.21 / 6.62
Avg. Volume (12 Months)	7,369

Multiples	2014A	2015E	2016E
P/E	n.a.	n.a.	62.9
EV/Sales	0.8	0.7	0.6
EV/EBIT	n.a.	n.a.	48.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 4.06m
Current Assets	€ 22.64m
Intangible Assets	€ 17.40m
Total Assets	€ 41.84m
Current Liabilities	€ 12.37m
Shareholders' Equity	€ 23.76m

SHAREHOLDERS

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



Operating cash flow remains negative H1 operating cash flow amounted to €-2.8m. Negative EBITDA (€-1.8m) and lower payables (€-1.6m) were the main contributors. CAPEX of €0.5m resulted in free cash flow €-3.3m which was partly financed by additional short-term debt (€1.5m). The cash position reduced from €6.1m to €3.8m (excluding cash with limitation on disposal of €0.3m).

Management reiterates 2015 guidance Management sticks to its 2015 guidance (revenues: €55-65m, improved profitability). Given the H2 growth drivers in the Security & Industry segment we remain confident that SFC will reach its guidance despite a low order backlog of €10.0m at the end of H1 (H1/14: €13.7m). The backlog does not contain the recent orders from the defence area (volume: €2.5m).

Newsflow in July/August strong indicator for upswing in H2 business activity In July and August, SFC Energy reported the intake of three major orders in the defence business and agreements with new distribution partners in the industry and consumer business.

A €1.3m order was placed by the German Armed Forces. The purchase of EMILY fuel cell systems is a follow-up order. The system has been successfully used by the Bundeswehr since 2011 to power devices on military vehicles and for soldiers in the field. SFC has already shipped the systems which will contribute to Q3 revenues.

A €1.2m order comes from an unnamed International Defence Force and contains the shipment of next generation fuel cells for defence applications. These will power stationary off-grid applications automatically for up to ten months without requiring any user intervention. Due to the power system's silent operation, it produces almost no signature and will be non-detectable.

A €0.7m order from an international defence force includes the delivery of SFC's JENNY portable fuel cells for soldiers in multi-day missions and is scheduled to be shipped in Q1 2016. The customer has the option to purchase additional units with a value of more than €4.4m.

In the industry business, the British company ZephIR Lidar now includes SFC Energy's EFOY Pro 2400 fuel cell within "ZephIR Power" in sales to its customers located around the world. ZephIR Lidar provides hub height and turbine mounted wind measurements for wind energy and meteorological applications onshore and offshore. The fully modular off-grid power supply "ZephIR Power" is designed for remote sensors in the most arduous deployments with a specified operating temperature range of -40 C to +50 C.

In the consumer business, the US company Fisheries Supply will serve as new marine distributor for SFC's EFOY COMFORT fuel cells on the American west coast. Customers are boat owners, builders and yards, and commercial fishermen.

Higher revenues and improved product mix should drive H2 figures In recent years, H2 was regularly the seasonally stronger half-year. We believe that this seasonality will be even more pronounced this year as the oil & gas business traditionally has a strong Q4 and the Security & Industry segment looks set to be very strong in H2 as the orders from the defence area will generate revenues only in the second half of the year.

The anticipated strong performance of this segment should result in a significant improvement in earnings as the segment's gross profit margin is by far the highest (2014: 35.1% versus Oil & Gas: 26.0%, Consumer: 22.7%). Given the expected significant increase in defence business (gross margin: ca. 50-70%) from €1.8m in 2014 to ca. €5m in 2015E we forecast an annual segment gross margin of 38.8% (H1/14: 33.8%).

Cost reduction measures at the Canadian subsidiary Simark and the Dutch subsidiary PBF will increase profitability. Simark looks set to reduce costs by CAD 1m annually with CAD 0.5m kicking in in H2/15.

Buy rating and price target confirmed Based on slightly adjusted estimates (see figure 3) we reiterate our Buy rating and the €7.00 price target.



Figure 1: Reported results versus forecasts

All figures in €m	Q2-15A	Q2-15E	Delta	Q2-14	Delta	H1 2015	H1 2014	Delta
Sales	12.18	13.29	-8.3%	13.23	-7.9%	24.79	26.16	-5.2%
EBITDA	-1.81	-1.09	-	-0.56	-	-2.71	-1.07	-
margin	-14.9%	-8.2%	-	-4.2%	-	-10.9%	-4.1%	-
EBITDA adjusted	-1.41	-0.79	-	-0.26	-	-1.99	-0.50	-
margin	-11.6%	-5.9%	-	-2.0%	-	-8.0%	-1.9%	-
EBIT	-2.42	-1.73	-	-1.23	-	-3.93	-2.44	-
margin	-19.9%	-13.0%	-	-9.3%	-	-15.9%	-9.3%	-
EBIT adjusted	-1.74	-1.13	-	-0.65	-	-2.65	-1.30	-
margin	-14.3%	-8.5%	-	-4.9%	-	-10.7%	-5.0%	-
Net income	-2.43	-1.65	-	-1.36	-	-4.00	-2.68	-
margin	-19.9%	-12.4%	-	-10.3%	-	-16.1%	-10.3%	-
EPS (diluted)	-0.28	-0.19	-	-0.17	-	-0.46	-0.33	-

Source: First Berlin Equity Research, SFC Energy

Figure 2: Reported segment results vs. forecasts

All figures in €m	Q2-15A	Q2-15E	Delta	Q2-14	Delta	H1 2015	H1 2014	Delta
Oil & Gas								
Sales	7.25	7.70	-5.8%	7.43	-2.4%	14.44	14.05	2.8%
Gross profit	1.51	1.80	-16.4%	1.81	-16.6%	3.29	3.43	-3.9%
margin	20.8%	23.4%	-	24.3%	-	22.8%	24.4%	-
Security & Industry								
Sales	3.79	4.39	-13.7%	4.66	-18.6%	8.03	9.73	-17.5%
Gross profit	1.16	1.30	-10.8%	1.66	-30.3%	2.71	3.55	-23.5%
margin	30.6%	29.6%	-	35.7%	-	33.8%	36.5%	-
Consumer								
Sales	1.14	1.20	-5.0%	1.14	0.3%	2.32	2.39	-2.9%
Gross profit	0.26	0.26	-0.4%	0.36	-27.5%	0.56	0.70	-20.3%
margin	22.7%	21.7%	-	31.4%	-	24.0%	29.2%	-
Group								
Sales	12.18	13.29	-8.4%	13.23	-7.9%	24.79	26.16	-5.2%
Gross profit	2.92	3.36	-13.0%	3.83	-23.6%	6.56	7.67	-14.5%
margin	24.0%	25.3%	-	28.9%	-	26.5%	29.3%	-

Source: First Berlin Equity Research, SFC Energy

Figure 3: Revisions to forecasts

All figures in €m	2015E			2016E			2017E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	60.02	60.02	0.0%	70.82	70.82	0.0%	82.15	82.15	0.0%
EBIT	-2.22	-2.22	-	0.92	0.92	0.0%	3.45	3.45	0.0%
margin	-3.7%	-3.7%	-	1.3%	1.3%	-	4.2%	4.2%	-
Net income	-2.34	-2.49	-	0.70	0.67	-5.2%	2.99	2.95	-1.2%
margin	-3.9%	-4.2%	-	1.0%	0.9%	-	3.6%	3.6%	-
EPS (diluted)	-0.27	-0.29	-	0.08	0.08	-5.2%	0.35	0.34	-1.1%

Source: First Berlin Equity Research



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	886	3,122	4,515	5,711	6,707	7,705	8,756
+ depreciation & amortisation	2,665	1,421	733	523	599	681	769	863
Net operating cash flow	444	2,306	3,856	5,039	6,310	7,388	8,474	9,619
- total investments (CAPEX and WC)	-2,099	-3,527	-3,569	-4,380	-4,523	-4,836	-5,102	-5,305
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	-3,245	-3,408	-3,520	-3,571
Free cash flows (FCF)	-1,655	-1,221	286	659	1,787	2,552	3,372	4,314
PV of FCF's	-1,587	-1,057	224	465	1,137	1,466	1,749	2,019

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	23,295
PV of FCFs in terminal period	39,575
Enterprise value (EV)	62,870
+ Net cash / - net debt	-2,320
+ Investments / minority interests	0
Shareholder value	60,550

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%
6.8%	11.8%	16.27	17.22	18.39	19.87	21.80	24.43	28.21
7.8%	7.0%	12.57	13.10	13.74	14.51	15.46	16.66	18.23
8.8%	28.5%	9.96	10.28	10.65	11.09	11.60	12.22	12.99
9.8%	5.0%	8.06	8.25	8.48	8.73	9.03	9.38	9.79
10.8%	85.0%	6.61	6.74	6.87	7.03	7.21	7.41	7.65
11.8%	15.0%	5.49	5.57	5.66	5.76	5.87	5.99	6.13
12.8%		4.60	4.66	4.71	4.77	4.84	4.92	5.01
13.8%		3.89	3.92	3.96	4.00	4.04	4.09	4.14

Fair value per share in EUR	7.00
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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	-297	-219	-171
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-4,567	-2,518	702	3,279
Income taxes	-19	-52	259	-25	35	328
Minority interests	0	0	0	0	0	0
Net income / loss	-426	-8,912	-4,826	-2,493	667	2,951
Diluted EPS (in €)	-0.06	-1.16	-0.60	-0.29	0.08	0.34
EBITDA	730	-4,474	-1,177	444	2,341	4,184
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%	0.7%	3.3%	5.1%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-4.2%	0.9%	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.	342.6%



BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Assets						
Current assets, total	33,598	25,934	27,542	28,254	30,009	31,716
Cash and cash equivalents	22,911	7,428	6,407	5,211	3,046	861
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	17,770	17,199	17,452
Property, plant & equipment	2,400	2,296	1,601	1,477	1,530	1,799
Goodwill & other intangibles	11,000	19,054	17,813	15,993	15,369	15,353
Other assets	619	365	300	300	300	300
Total assets	47,617	47,650	47,256	46,024	47,208	49,168
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	6,014	6,014	6,014
Long-term debt	0	2,282	3,045	2,764	2,764	2,764
Deferred revenue	0	0	0	0	0	0
Other liabilities	3,562	3,636	3,251	3,251	3,251	3,251
Minority interests	0	0	0	0	0	0
Shareholders' equity	36,394	29,063	27,589	25,096	25,763	28,714
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	-55,182	-54,515	-51,564
Total consolidated equity and debt	47,617	47,650	47,256	46,024	47,208	49,168
Ratios						
Current ratio (x)	4.39	2.05	2.06	1.89	1.94	2.20
Quick ratio (x)	3.63	1.44	1.49	1.35	1.33	1.43
Net cash	22,539	3,007	1,349	-578	-2,018	-1,903
Net gearing	-61.9%	-10.3%	-4.9%	2.3%	7.8%	6.6%
Book value per share	4.85	3.79	3.44	2.91	2.99	3.33
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-9.9%	2.6%	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	2,665	1,421	733
EBITDA	730	-4,474	-1,177	444	2,341	4,184
Changes in working capital	85	-2,188	-2,015	-1,379	-2,677	-2,584
Other adjustments	443	-649	-361	-272	-254	-499
Operating cash flow	1,258	-7,311	-3,553	-1,207	-590	1,101
CAPEX	-561	-345	-181	-420	-496	-575
Investments in intangibles	-318	-327	-452	-300	-354	-411
Free cash flow	380	-7,984	-4,186	-1,928	-1,440	115
Debt financing, net	-388	-1,469	826	732	-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	-1,196	-2,166	-2,185
Cash, start of the year	0	22,911	7,143	6,407	5,211	3,046
Cash, end of the year	183	7,428	6,123	5,211	3,046	861
EBITDA/share (in €)	0.10	-0.58	-0.15	0.05	0.27	0.49
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.	427.3%	78.7%

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...7	↓	↓	↓	↓
8	1 April 2015	€5.15	Buy	€7.00
9	13 April 2015	€5.11	Buy	€7.00
10	7 May 2015	€4.97	Buy	€7.00
11	Today	€4.92	Buy	€7.00

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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

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