SFC Energy AG

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

Q3 figures

RATING	**BUY**
PRICE TARGET	**€6.10**
Return Potential	32.6%
Risk Rating	High

PROFIT WARNING DUE TO POSTPONED DEFENCE ORDER

On 9 November SFC reported Q3 figures and gave a profit warning due to the postponement of a defence order into H1/16. The company now expects revenues of €48-50m (previously: €55-65m) and profitability below the 2014 level (previously: improved profitability). We lower our forecasts for 2015E and the following years. We reiterate our Buy rating, but lower the price target to €6.10 (previously: €7.00).

Profit warning The postponement of a defence order from Q4/15 to H1/16 has forced SFC to lower its 2015 guidance. The company now expects revenues of €48-50m (previously: €55-65m) and profitability below the 2014 level (previously: improved profitability).

Q3 results better than expected Revenues came in at €11.5m (FBe: €11.7m) and showed a slight increase of 3.4% compared to previous year's figure of €11.2m. Earnings figures were above our estimates due both to a higher gross profit of €3.6m vs. FBe of €3.4m and a largely stable cost basis. EBIT was €-1.5m (FBe: €-2.0m). EPS amounted to €-0.18 (FBe: €-0.24, Q3/14: €-0.23, see figure 1 on page 3).

Oil & Gas weak, but Security & Industry strong The low oil price burdened the Oil & Gas segment y/y (Q3 revenue decline of 16% to €5.6m, and gross profit decline by 31% to €1.2m). This was however outweighed by strong y/y growth of the Security & Industry segment (revenues: +42% to €5.2m and gross profit: +74% to €2.2m). Although Consumer segment revenues were weak y/y (€0.7m vs. €0.8m), gross margin recovered to 29.8% from 24.3% (see figure 2 on page 3).

Negative free cash flow Although the 9M net result was €-5.5m, operating cash flow amounted to only €-2.2m due mainly to a reduction in receivables by €2.8m. CAPEX of €0.8m resulted in a free cash flow of €-3.0m which was largely financed by depletion of the cash position. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012	2013	2014	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	53.63	48.00	60.00	70.32
Y-o-y growth	n.a.	3.7%	65.5%	-10.5%	25.0%	17.2%
EBIT (€m)	-0.52	-8.84	-4.27	-6.38	-0.06	2.25
EBIT margin	-1.7%	-27.3%	-8.0%	-13.3%	-0.1%	3.2%
Net income (€m)	-0.43	-8.91	-4.83	-6.62	-0.36	1.80
EPS (diluted) (€)	-0.06	-1.16	-0.60	-0.77	-0.04	0.21
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-4.19	-2.63	-2.82	-0.98
Net gearing	-61.9%	-10.3%	-4.9%	6.1%	19.9%	22.7%
Liquid assets (€m)	22.91	7.43	6.41	3.76	1.21	2.23

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.

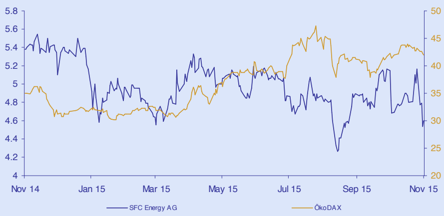
MARKET DATA

As of 12 Nov 2015

Closing Price	€4.60
Shares outstanding	8.61m
Market Capitalisation	€39.61m
52-week Range	€4.26 / 5.55
Avg. Volume (12 Months)	5,032

Multiples	2014	2015E	2016E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.8	0.9	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 2015

Liquid Assets	€3.08m
Current Assets	€20.83m
Intangible Assets	€16.38m
Total Assets	€38.98m
Current Liabilities	€12.14m
Shareholders' Equity	€21.68m

SHAREHOLDERS

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

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Loss burdens balance sheet The cash position halved to €3.1m compared to the year-end 2014 figure of €6.1m. Financial debt remained stable and amounted to €5.1m (of which short-term: €2.7m). Equity declined to €21.7m versus €27.6m at the end of 2014. The equity ratio declined to 55.6% from 58.4% at 31/12/2014.

Lower order backlog due to oil & gas The 9M order backlog amounted to €10.3m (9M/14: €14.6m) and was thus 29% lower y/y. However, order backlog slightly increased by 3% q/q (H1/15: €10.0m). The postponed defence order would have increased order backlog by ca. €5-7m.

Postponed order overshadows positive trend in Security & Industry In Q3, SFC won three important defence orders from two different defence organisations with a total value of €3.2m. Delivery of the two international orders is scheduled for Q1 and Q4 2016. The customer has an option to purchase additional units to an amount of €4.2m after successful fulfilment of the initial contract.
Furthermore, SFC started a co-operation with Toyota Tsusho which gives access to the large Japanese market and is an important internationalisation step. Toyota Tsusho, which belongs to Toyota Motor Corporation Group, will become an official representative of SFC in Japan, and a first order of EFOY Pro fuel cells has already been shipped.

Oil & Gas remains challenging SFC's customers have reacted to the low oil price and reduced their CAPEX budgets. As we no longer expect a significant oil price increase in 2016E, we believe that demand will remain flat. A CAD 1.3m order from a major international oil & gas producer and the inclusion of SFC's EFOY Pro fuel cell in a solution officially listed on Gazprom's vendor list show that SFC is also able to attract business in a difficult economic environment. The co-operation with the Russian oil & gas multinational Gazprom is an important step towards expansion into the Russian and Asian oil & gas markets.

Cost reductions to improve profitability Significant parts of the production of Dutch subsidiary PBF have been relocated to SFC's production site in Romania. This measure has already generated savings of €0.3m this year and looks set to reduce annual costs by ca. €1m in coming years. Canadian subsidiary Simark has already completed its cost reduction program which will reduce costs by CAD 1m annually with CAD 0.5m kicking in in H2/15.

Estimates adjusted We have reduced our estimates for 2015E and the following years. For 2016E, we assume flat demand in the oil & gas business, but a significant increase in the Security & Industry segment due mainly to the pick-up in the defence business. As the defence business offers high gross margins we expect the group gross margin to increase to 33.0% (2015E: 29.7%). Cost reduction programs look set to reduce fix costs slightly. As a result we forecast that SFC will almost reach break-even EBIT in 2016E (see figure 3 overleaf).

Buy reiterated at lower price target An updated DCF model yields a new price target of €6.10 (previously: €7.00). We reiterate our Buy rating.

Figure 1: Reported figures versus forecasts

All figures in €m	Q3-15A	Q3-15E	Delta	Q3-14	Delta	9M 2015	9M 2014	Delta
Sales	11.54	11.71	-1.5%	11.16	3.4%	36.33	37.33	-2.7%
EBITDA	-0.89	-1.32	-	-1.08	-	-3.60	-2.15	-
margin	*-7.7%*	*-11.3%*		*-9.6%*		*-9.9%*	*-5.7%*	
EBITDA adjusted	-0.40	-1.02	-	-0.77	-	-2.38	-1.27	-
margin	*-3.4%*	*-8.7%*		*-6.9%*		*-6.6%*	*-3.4%*	
EBIT	-1.51	-2.02	-	-1.75	-	-5.45	-4.18	-
margin	*-13.1%*	*-17.2%*		*-15.7%*		*-15.0%*	*-11.2%*	
EBIT adjusted	-0.76	-1.42	-	-1.15	-	-3.41	-2.45	-
margin	*-6.6%*	*-12.1%*		*-10.3%*		*-9.4%*	*-6.6%*	
Net income	-1.52	-2.08	-	-1.84	-	-5.51	-4.52	-
margin	*-13.1%*	*-17.8%*		*-16.5%*		*-15.2%*	*-12.1%*	
EPS (diluted)	-0.18	-0.24	-	-0.23	-	-0.64	-0.56	-

Source: First Berlin Equity Research, SFC Energy AG

Figure 2: Reported segment figures versus forecasts

All figures in €m	Q3-15A	Q3-15E	Delta	Q3-14	Delta	9M 2015	9M 2014	Delta
Oil & Gas								
Sales	5.63	6.90	-18.4%	6.68	-15.7%	20.07	20.72	-3.1%
Gross profit	1.20	1.50	-20.0%	1.73	-30.5%	4.49	5.15	-12.8%
margin	*21.3%*	*21.7%*		*25.8%*		*22.4%*	*24.9%*	
Security & Industry								
Sales	5.23	3.91	33.8%	3.69	41.9%	13.26	13.41	-1.1%
Gross profit	2.16	1.65	30.9%	1.24	74.1%	4.87	4.79	1.8%
margin	*41.3%*	*42.2%*		*33.7%*		*36.7%*	*35.7%*	
Consumer								
Sales	0.68	0.90	-24.8%	0.80	-15.5%	3.00	3.19	-6.1%
Gross profit	0.20	0.25	-19.2%	0.20	3.6%	0.76	0.89	-15.0%
margin	*29.8%*	*27.8%*		*24.3%*		*25.3%*	*28.0%*	
Group								
Sales	11.54	11.71	-1.5%	11.16	3.3%	36.33	37.33	-2.7%
Gross profit	3.56	3.40	4.8%	3.16	12.7%	10.13	10.83	-6.5%
margin	*30.9%*	*29.0%*		*28.3%*		*27.9%*	*29.0%*	

Source: First Berlin Equity Research, SFC Energy AG

Figure 3: Revisions to forecasts

		2015E			2016E			2017E	
All figures in €m	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	60.02	48.00	-20.0%	70.82	60.00	-15.3%	82.15	70.32	-14.4%
EBIT	-2.22	-6.38	-	0.92	-0.06	-	3.45	2.25	-34.8%
margin	*-3.7%*	*-13.3%*		*1.3%*	*-0.1%*		*4.2%*	*3.2%*	
Net income	-2.34	-6.62	-	0.70	-0.36	-	2.99	1.80	-39.8%
margin	*-3.9%*	*-13.8%*		*1.0%*	*-0.6%*		*3.6%*	*2.6%*	
EPS (diluted)	-0.27	-0.77	-	0.08	-0.04	-	0.35	0.21	-39.8%

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	**48,000**	**60,000**	**70,320**	**80,727**	**91,809**	**103,427**	**115,406**	**127,534**
NOPLAT	**-6,384**	**-60**	**2,115**	**3,397**	**5,088**	**6,025**	**6,927**	**7,830**
+ depreciation & amortisation	2,665	1,500	740	494	554	620	693	770
Net operating cash flow	-3,719	1,440	2,855	3,890	5,642	6,645	7,620	8,601
- total investments (CAPEX and WC)	1,324	-3,967	-3,516	-3,941	-3,871	-4,140	-4,367	-4,541
Capital expenditures	-1,056	-720	-844	-969	-1,093	-1,222	-1,353	-1,484
Working capital	2,380	-3,247	-2,672	-2,973	-2,778	-2,917	-3,013	-3,057
Free cash flows (FCF)	-2,396	-2,527	-661	-51	1,771	2,505	3,253	4,060
PV of FCF's	**-2,365**	**-2,256**	**-534**	**-37**	**1,171**	**1,498**	**1,760**	**1,987**

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	18,556
PV of FCFs in terminal period	36,171
Enterprise value (EV)	54,727
+ Net cash / - net debt	-2,176
+ Investments / minority interests	0
Shareholder value	52,550
Fair value per share in EUR	6.10

WACC	10.5%
Cost of equity	11.5%
Pre-tax cost of debt	7.0%
Tax rate	28.8%
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	6.10

Terminal growth rate

WACC	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
6.5%	14.61	15.54	16.70	18.20	20.19	22.96	27.11
7.5%	11.16	11.68	12.30	13.06	14.01	15.22	16.84
8.5%	8.76	9.07	9.42	9.84	10.35	10.96	11.73
9.5%	7.02	7.21	7.42	7.66	7.95	8.29	8.69
10.5%	5.71	5.82	5.95	6.10	6.27	6.47	6.70
11.5%	4.69	4.76	4.85	4.94	5.04	5.16	5.30
12.5%	3.89	3.93	3.99	4.05	4.11	4.18	4.26
13.5%	3.24	3.27	3.30	3.34	3.38	3.43	3.48

INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	**31,260**	**32,413**	**53,631**	**48,000**	**60,000**	**70,320**
Cost of goods sold	18,497	21,773	37,970	33,744	40,200	47,114
Gross profit	**12,763**	**10,640**	**15,661**	**14,256**	**19,800**	**23,206**
S&M	5,862	8,233	10,540	11,280	10,920	11,392
G&A	3,555	3,860	4,872	5,280	4,920	5,204
R&D	4,257	6,149	4,530	3,984	3,900	4,219
Other operating income	749	1,041	170	144	180	211
Other operating expenses	362	2,275	159	240	300	352
Operating income (EBIT)	**-524**	**-8,836**	**-4,269**	**-6,384**	**-60**	**2,250**
Net financial result	80	-128	-298	-304	-302	-317
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	**-445**	**-8,964**	**-4,567**	**-6,688**	**-362**	**1,933**
Income taxes	-19	-52	259	-67	-4	135
Minority interests	0	0	0	0	0	0
Net income / loss	**-426**	**-8,912**	**-4,826**	**-6,621**	**-358**	**1,798**
Diluted EPS (in €)	**-0.06**	**-1.16**	**-0.60**	**-0.77**	**-0.04**	**0.21**
EBITDA	**730**	**-4,474**	**-1,177**	**-3,719**	**1,440**	**2,990**
Ratios						
Gross margin	40.8%	32.8%	29.2%	29.7%	33.0%	33.0%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-13.3%	-0.1%	3.2%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	-7.7%	2.4%	4.3%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-13.8%	-0.6%	2.6%
Tax rate	4.3%	0.6%	-5.7%	1.0%	1.0%	7.0%
Expenses as % of revenues						
S&M	18.8%	25.4%	19.7%	23.5%	18.2%	16.2%
G&A	11.4%	11.9%	9.1%	11.0%	8.2%	7.4%
R&D	13.6%	19.0%	8.4%	8.3%	6.5%	6.0%
Other operating expenses	1.2%	7.0%	0.3%	0.5%	0.5%	0.5%
Y-Y Growth						
Revenues	n.a.	3.7%	65.5%	-10.5%	25.0%	17.2%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.

BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Assets						
Current assets, total	**33,598**	**25,934**	**27,542**	**21,746**	**23,610**	**28,554**
Cash and cash equivalents	22,911	7,428	6,407	3,762	1,211	2,233
Short-term investments	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	10,521	13,644	16,183
Inventories	5,815	7,713	7,653	6,749	8,040	9,423
Other current assets	1,118	1,426	711	711	711	711
Non-current assets, total	**14,020**	**21,715**	**19,714**	**18,106**	**17,325**	**17,429**
Property, plant & equipment	2,400	2,296	1,601	1,393	1,395	1,608
Goodwill & other intangibles	11,000	19,054	17,813	16,413	15,630	15,521
Other assets	619	365	300	300	300	300
Total assets	**47,617**	**47,650**	**47,256**	**39,852**	**40,935**	**45,983**
Shareholders' equity & debt						
Current liabilities, total	**7,662**	**12,669**	**13,371**	**13,614**	**14,055**	**15,306**
Short-term debt	372	2,139	2,013	3,026	2,300	2,300
Accounts payable	3,033	5,087	6,872	6,102	7,269	8,519
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**	**5,270**	**6,270**	**8,270**
Long-term debt	0	2,282	3,045	2,019	3,019	5,019
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**	**20,968**	**20,610**	**22,407**
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	-59,310	-59,668	-57,870
Total consolidated equity and debt	**47,617**	**47,650**	**47,256**	**39,852**	**40,935**	**45,983**
Ratios						
Current ratio (x)	4.39	2.05	2.06	1.60	1.68	1.87
Quick ratio (x)	3.63	1.44	1.49	1.10	1.11	1.25
Net cash	22,539	3,007	1,349	-1,284	-4,108	-5,087
Net gearing	-61.9%	-10.3%	-4.9%	6.1%	19.9%	22.7%
Book value per share (€)	4.85	3.79	3.44	2.43	2.39	2.60
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-31.6%	-1.7%	8.0%
Days of sales outstanding (DSO)	43.2	104.3	86.9	80.0	83.0	84.0
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**	**-6,384**	**-60**	**2,250**
Depreciation and amortisation	1,255	4,362	3,093	2,665	1,500	740
EBITDA	**730**	**-4,474**	**-1,177**	**-3,719**	**1,440**	**2,990**
Changes in working capital	85	-2,188	-2,015	2,380	-3,247	-2,672
Other adjustments	443	-649	-361	-237	-298	-453
Operating cash flow	**1,258**	**-7,311**	**-3,553**	**-1,577**	**-2,105**	**-134**
CAPEX	-561	-345	-181	-336	-420	-492
Investments in intangibles	-318	-327	-452	-720	-300	-352
Free cash flow	**380**	**-7,984**	**-4,186**	**-2,633**	**-2,825**	**-978**
Debt financing, net	**-388**	**-1,469**	**826**	**-13**	**274**	**2,000**
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**	**-2,646**	**-2,551**	**1,022**
Cash, start of the year	0	22,911	7,143	6,407	3,762	1,211
Cash, end of the year	**183**	**7,428**	**6,123**	**3,762**	**1,211**	**2,233**
EBITDA/share (in €)	**0.10**	**-0.58**	**-0.15**	**-0.43**	**0.17**	**0.35**

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.	n.m.	107.6%

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...8	↓	↓	↓	↓
9	13 April 2015	€5.11	Buy	€7.00
10	7 May 2015	€4.97	Buy	€7.00
11	4 August 2015	€4.92	Buy	€7.00
12	Today	€4.60	Buy	€6.10

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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

First Berlin's research reports are for qualified institutional investors only.

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