

SFC Energy AG

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

Financing secured

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

€1.65M CONVERTIBLE SUCCESSFULLY PLACED

SFC Energy has successfully placed a €1.65m convertible bond (coupon 4.0%, issue price 90% of par, conversion price €6.10, maturity 3 years). The extra cash of €1.49m bolsters SFC's cash position, which at the end of Q3 amounted to 3.08m. We believe SFC will use the extra cash to finance working capital which is temporarily higher due to the postponed defence order which caused the profit warning in November. The postponement results in temporarily higher inventories as delivery is now scheduled for H1/16 instead of Q4/15. We have adjusted our DCF model for the convertible bond issue. We stick to our €6.10 price target and the Buy rating.

Existing shareholders subscribed convertible The convertible bond was subscribed by existing shareholders through a private placement. SFC has the option of increasing the nominal amount from €1.65m to €5.0m by way of a tap issue. A full conversion of the €1.65m bond in 2018 would result in 279,492 new shares.

Cash injection to finance working capital The additional cash looks set to be used to finance temporary higher working capital requirements stemming from the postponement of the delivery date (H1/16 instead of Q4/15) of a defence order. Based on our updated forecasts, we believe the extra €1.5m is sufficient to finance SFC's cash outflows.

Estimates adjusted We have adjusted our estimates for the convertible bond issue (see figure 1 overleaf).

Buy reiterated at unchanged price target An updated DCF model, which takes the slight adjustments in our forecasts, the additional cash and the new (discounted) number of shares into consideration, still yields a price target of €6.10. We confirm our Buy rating.

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	-0.45	1.71
EPS (diluted) (€)	-0.06	-1.16	-0.60	-0.77	-0.05	0.20
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-4.19	-6.06	-0.47	-0.52
Net gearing	-61.9%	-10.3%	-4.9%	22.5%	25.3%	25.7%
Liquid assets (€m)	22.91	7.43	6.41	1.82	1.62	3.09

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 18 Dec 2015

Closing Price	€ 4.60
Shares outstanding	8.61m
Market Capitalisation	€ 39.61m
52-week Range	€ 4.21 / 5.50
Avg. Volume (12 Months)	4,935

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

**Figure 1: Revisions to forecasts**

All figures in €m	2015E			2016E			2017E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	48.00	48.00	0.0%	60.00	60.00	0.0%	70.32	70.32	0.0%
EBIT	-6.38	-6.38	-	-0.06	-0.06	-	2.25	2.25	0.0%
<i>margin</i>	-13.3%	-13.3%		-0.1%	-0.1%		3.2%	3.2%	
Net income	-6.62	-6.62	-	-0.36	-0.45	-	1.80	1.71	-4.8%
<i>margin</i>	-13.8%	-13.8%		-0.6%	-0.7%		2.6%	2.4%	
EPS (diluted)	-0.77	-0.77	-	-0.04	-0.05	-	0.21	0.20	-4.8%

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	2,121	3,411	5,064	6,018	6,927	7,830
+ depreciation & amortisation	2,665	1,500	740	494	554	620	693	770
Net operating cash flow	-3,719	1,440	2,861	3,904	5,618	6,639	7,620	8,601
- total investments (CAPEX and WC)	-2,107	-1,526	-2,977	-3,639	-3,892	-4,161	-4,389	-4,564
Capital expenditures	-1,056	-720	-844	-969	-1,093	-1,222	-1,353	-1,484
Working capital	-1,051	-806	-2,133	-2,670	-2,799	-2,939	-3,036	-3,080
Free cash flows (FCF)	-5,827	-85	-116	265	1,726	2,477	3,231	4,037
PV of FCF's	-5,807	-77	-94	196	1,153	1,496	1,765	1,995

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	18,080
PV of FCFs in terminal period	36,484
Enterprise value (EV)	54,564
+ Net cash / - net debt (pro forma)	-691
+ Investments / minority interests	0
Shareholder value	53,873

Fair value per share in EUR	6.10
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WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
6.5%	14.47	15.38	16.52	17.99	19.94	22.66	26.72	
7.5%	11.08	11.59	12.20	12.95	13.88	15.07	16.66	
8.5%	8.73	9.03	9.38	9.79	10.29	10.89	11.64	
9.5%	7.02	7.20	7.41	7.65	7.93	8.26	8.66	
10.5%	5.72	5.84	5.97	6.11	6.28	6.47	6.70	
11.5%	4.72	4.80	4.88	4.97	5.07	5.19	5.32	
12.5%	3.93	3.98	4.03	4.09	4.15	4.22	4.30	
13.5%	3.29	3.32	3.36	3.39	3.43	3.48	3.53	

* for layout purposes the model shows numbers only to 2022, but runs until 2029



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	-392	-408
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-445	-8,964	-4,567	-6,688	-452	1,842
Income taxes	-19	-52	259	-67	-5	129
Minority interests	0	0	0	0	0	0
Net income / loss	-426	-8,912	-4,826	-6,621	-448	1,713
Diluted EPS (in €)	-0.06	-1.16	-0.60	-0.77	-0.05	0.20
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%	-0.7%	2.4%
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	22,492	24,785	29,865
Cash and cash equivalents	22,911	7,428	6,407	1,816	1,616	3,093
Short-term investments	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	11,178	13,973	16,376
Inventories	5,815	7,713	7,653	8,783	8,481	9,681
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	40,597	42,110	47,294
Shareholders' equity & debt						
Current liabilities, total	7,662	12,669	13,371	12,875	13,835	18,791
Short-term debt	372	2,139	2,013	3,026	2,300	5,785
Accounts payable	3,033	5,087	6,872	5,362	7,049	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	6,755	7,755	6,270
Long-term debt	0	2,282	3,045	3,504	4,504	3,019
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	20,520	22,233
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	-59,758	-58,044
Total consolidated equity and debt	47,617	47,650	47,256	40,597	42,110	47,294
Ratios						
Current ratio (x)	4.39	2.05	2.06	1.75	1.79	1.59
Quick ratio (x)	3.63	1.44	1.49	1.06	1.18	1.07
Net cash	22,539	3,007	1,349	-4,715	-5,188	-5,711
Net gearing	-61.9%	-10.3%	-4.9%	22.5%	25.3%	25.7%
Book value per share (€)	4.85	3.79	3.44	2.43	2.38	2.58
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-31.6%	-2.2%	7.7%
Days of sales outstanding (DSO)	43.2	104.3	86.9	85.0	85.0	85.0
Days of inventory turnover	114.7	129.3	73.6	95.0	77.0	75.0
Days in payables (DIP)	59.9	85.3	66.1	58.0	64.0	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	-1,051	-806	-2,133
Other adjustments	443	-649	-361	-237	-388	-537
Operating cash flow	1,258	-7,311	-3,553	-5,008	247	320
CAPEX	-561	-345	-181	-336	-420	-492
Investments in intangibles	-318	-327	-452	-720	-300	-352
Free cash flow	380	-7,984	-4,186	-6,064	-473	-524
Debt financing, net	-388	-1,469	826	1,472	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	-4,592	-199	1,476
Cash, start of the year	0	22,911	7,143	6,407	1,816	1,616
Cash, end of the year	183	7,428	6,123	1,816	1,616	3,093
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.	29.7%
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...9	↓	↓	↓	↓
10	7 May 2015	€4.97	Buy	€7.00
11	4 August 2015	€4.92	Buy	€7.00
12	13 November 2015	€4.60	Buy	€6.10
13	Today	€4.60	Buy	€6.10

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ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

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