SFC Energy AG

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

Preliminary 2015 KPIs

RATING	**BUY**
PRICE TARGET	**€5.30**
Return Potential	50.3%
Risk Rating	High

HIT BY LOW OIL PRICE & DEFENCE ORDER POSTPONEMENT

On 3 March, SFC Energy reported preliminary 2015 revenues and EBITDA. Revenues almost reached our forecast (€47.3m vs. FBe: €48.0m), but EBITDA was €1m below our estimate (€-4.7m vs. FBe: €-3.7m). For 2016, SFC expects growth and improved profitability and will publish more detailed guidance with the annual report on 28 April. We believe that the very low oil price will limit growth prospects in 2016E and have thus reduced our sales forecast from €60m to €52m. We expect SFC to largely compensate for the effect of lower sales on earnings by adjusting the cost structure and by a massive expansion of the high-margin defence business. An updated DCF model yields a new price target of €5.30 (previously: €6.10). We reiterate our Buy rating.

2015 was a very difficult year Sales declined by almost 12% y/y from €53.6m to €47.3m. We believe that SFC's Oil & Gas segment (Canadian subsidiary Simark) was the main reason for the decline. In 2015, the oil price continued its dive and lost ca. 33% y/y. This decline resulted in further investment budget cuts by the oil & gas industry in Canada, which probably translated into lower sales at SFC's Canadian subsidiary Simark. This effect was aggravated by the declining Canadian Dollar which reduced revenues in Euro terms by more than 6% in 2015. The delay of an important defence order into 2016 prevented SFC from compensating for lower sales in the oil & gas business with high-margin defence revenues.

2015 EBITDA amounted to €-4.7m and was significantly below the previous year's level (2014: €-1.2m) and our estimate (FBe: €-3.7m). Q4 EBITDA was particularly weak (€-1.1m vs. €+1.0m in 2014) not only because of the expected lower revenues (€11m vs. €16.3m in Q4/14), but probably also due to lower gross margins in the oil & gas business as customers may have negotiated price discounts.

2016 guidance: growth and improved profitability For 2016, SFC expects growing revenues and improved profitability. The company… (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012	2013	2014	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	53.63	47.30	52.03	60.98
Y-o-y growth	n.a.	3.7%	65.5%	-11.8%	10.0%	17.2%
EBIT (€m)	-0.52	-8.84	-4.27	-7.40	-1.02	0.45
EBIT margin	-1.7%	-27.3%	-8.0%	-15.6%	-2.0%	0.7%
Net income (€m)	-0.43	-8.91	-4.83	-7.62	-1.40	0.04
EPS (diluted) (€)	-0.06	-1.16	-0.60	-0.89	-0.16	0.00
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-4.19	-5.32	-0.68	-2.14
Net gearing	-61.9%	-10.3%	-4.9%	19.9%	25.1%	36.5%
Liquid assets (€m)	22.91	7.43	6.41	2.56	2.15	2.01

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.

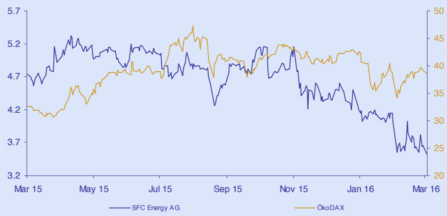
MARKET DATA

As of 07 Mar 2016

Closing Price	€3.53
Shares outstanding	8.61m
Market Capitalisation	€30.37m
52-week Range	€3.53 / 5.33
Avg. Volume (12 Months)	4,518

Multiples	2014	2015E	2016E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.6	0.7	0.6
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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…will issue more detailed guidance on 28 April with the publication of the 2015 Annual Report.

Defence business as growth and margin driver in 2016E The postponement of a large defence order hit the company in 2015 but now looks set to act as a lifeline for 2016E. We expect ca. €8-9m revenues in the highmargin defence area which will push the gross margin upwards (FBe: 35.6%). A very strong performance from the Security & Industry segment should more than compensate the declining Oil & Gas business, which we believe will shrink further due to the very low oil price.

Power electronics manufacturing agreement with WhisperPower B.V. SFC's Dutch subsidiary PBF concluded a manufacturing agreement, which entails the production of WhisperPower's high power sine wave inverter "AC PowerCube" at SFC's facility in Romania. The agreement is a first step towards a closer development and marketing partnership. We therefore believe that the initial annual value (€0.5 - 1m) of the agreement will rise as the co-operation intensifies.

Forecasts adjusted We have lowered our revenue and earnings forecasts in the wake of tumbling oil prices which look set to stay at a low level for the time being. This will limit SFC's growth both directly and indirectly. On the one hand, the company is directly exposed to the Canadian oil & gas market via its subsidiary Simark, on the other hand, SFC's core product, fuel-cell based energy supply systems, competes with fossil fuel based energy providers – and the low oil price has increased the competitiveness of the latter. We still assume a return to growth due to a strong security & industry business, but we believe that despite further adjustments to the cost structure, SFC will not reach break-even in 2016E (FBe: 2016E EBIT: €-1.0m). However, for 2017E, we forecast a clearly positive EBIT of €0.5m (see figure 2).

Buy reiterated at lower price target An updated DCF model yields a new price target of €5.30 (previously: €6.10). We reiterate our Buy rating.

Figure 1: Reported figures versus forecasts

All figures in €m	Q4-15A	Q4-15E	Delta	Q4-14	Delta	2015	2014	Delta
Sales	11.00	11.71	-6.1%	16.30	-32.5%	47.30	53.63	-11.8%
EBITDA	-1.10	-0.12	-	1.00	-	-4.70	-1.18	-

Source: First Berlin Equity Research, SFC Energy AG

Figure 2: Revisions to forecasts

	2015E			2016E			2017E		
All figures in €m	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	48.00	47.30	-1.5%	60.00	52.03	-13.3%	70.32	60.98	-13.3%
EBIT	-6.38	-7.40	-	-0.06	-1.02	-	2.25	0.45	-80.0%
margin	*-13.3%*	*-15.6%*		*-0.1%*	*-2.0%*		*3.2%*	*0.7%*	
Net income	-6.62	-7.62	-	-0.36	-1.40	-	1.80	0.04	-97.7%
margin	*-13.8%*	*-16.1%*		*-0.6%*	*-2.7%*		*2.6%*	*0.1%*	
EPS (diluted)	-0.77	-0.89	-	-0.04	-0.16	-	0.21	0.00	-97.7%

Source: First Berlin Equity Research

DCF MODEL

DCF valuation model All figures in EUR '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	**52,030**	**60,979**	**70,004**	**79,614**	**89,688**	**100,076**	**110,593**	**121,029**
NOPLAT	**-1,021**	**451**	**2,348**	**4,406**	**5,349**	**6,214**	**7,016**	**7,770**
+ depreciation & amortisation	1,496	722	467	514	568	627	691	760
Net operating cash flow	475	1,173	2,814	4,919	5,917	6,841	7,708	8,530
- total investments (CAPEX and WC)	-777	-2,900	-2,979	-3,329	-3,556	-3,748	-3,893	-3,984
Capital expenditures	-624	-732	-840	-948	-1,060	-1,174	-1,287	-1,397
Working capital	-153	-2,168	-2,139	-2,381	-2,496	-2,574	-2,606	-2,587
Free cash flows (FCF)	-302	-1,727	-164	1,591	2,361	3,094	3,814	4,545
PV of FCF's	**-277**	**-1,426**	**-122**	**1,063**	**1,419**	**1,674**	**1,857**	**1,991**

All figures in thousands	
PV of FCFs in explicit period (2016E-2029E)	19,330
PV of FCFs in terminal period	28,048
Enterprise value (EV)	47,378
+ Net cash / - net debt (pro forma)	-691
+ Investments / minority interests	0
Shareholder value	46,687
Fair value per share in EUR	5.30

WACC	11.1%
Cost of equity	12.2%
Pre-tax cost of debt	7.0%
Tax rate	28.6%
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	5.30

Terminal growth rate

WACC	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.1%	11.35	11.93	12.63	13.49	14.60	16.06	18.08
8.1%	8.98	9.31	9.70	10.18	10.75	11.46	12.37
9.1%	7.27	7.47	7.71	7.98	8.30	8.69	9.15
10.1%	6.00	6.13	6.27	6.44	6.63	6.85	7.11
11.1%	5.02	5.10	5.19	5.30	5.41	5.55	5.70
12.1%	4.25	4.31	4.36	4.43	4.50	4.59	4.68
13.1%	3.64	3.67	3.71	3.75	3.80	3.85	3.91
14.1%	3.13	3.16	3.18	3.21	3.24	3.27	3.31

* for layout purposes the model shows numbers only to 2023, but runs until 2029

INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	**31,260**	**32,413**	**53,631**	**47,300**	**52,030**	**60,979**
Cost of goods sold	18,497	21,773	37,970	33,867	33,507	40,246
Gross profit	**12,763**	**10,640**	**15,661**	**13,433**	**18,523**	**20,733**
S&M	5,862	8,233	10,540	11,416	10,720	11,010
G&A	3,555	3,860	4,872	5,298	4,820	5,020
R&D	4,257	6,149	4,530	4,021	3,900	4,130
Other operating income	749	1,041	170	142	156	183
Other operating expenses	362	2,275	159	237	260	305
Operating income (EBIT)	**-524**	**-8,836**	**-4,269**	**-7,395**	**-1,021**	**451**
Net financial result	80	-128	-298	-304	-393	-409
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	**-445**	**-8,964**	**-4,567**	**-7,699**	**-1,415**	**42**
Income taxes	-19	-52	259	-77	-14	0
Minority interests	0	0	0	0	0	0
Net income / loss	**-426**	**-8,912**	**-4,826**	**-7,622**	**-1,400**	**42**
Diluted EPS (in €)	**-0.06**	**-1.16**	**-0.60**	**-0.89**	**-0.16**	**0.00**
EBITDA	**730**	**-4,474**	**-1,177**	**-4,731**	**475**	**1,173**
Ratios						
Gross margin	40.8%	32.8%	29.2%	28.4%	35.6%	34.0%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-15.6%	-2.0%	0.7%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	-10.0%	0.9%	1.9%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-16.1%	-2.7%	0.1%
Tax rate	4.3%	0.6%	-5.7%	1.0%	1.0%	1.0%
Expenses as % of revenues						
S&M	18.8%	25.4%	19.7%	24.1%	20.6%	18.1%
G&A	11.4%	11.9%	9.1%	11.2%	9.3%	8.2%
R&D	13.6%	19.0%	8.4%	8.5%	7.5%	6.8%
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%	-11.8%	10.0%	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**	**21,525**	**21,764**	**25,198**
Cash and cash equivalents	22,911	7,428	6,407	2,556	2,149	2,013
Short-term investments	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	10,367	11,831	14,201
Inventories	5,815	7,713	7,653	7,887	7,069	8,270
Other current assets	1,118	1,426	711	711	711	711
Non-current assets, total	**14,020**	**21,715**	**19,714**	**18,090**	**17,218**	**17,228**
Property, plant & equipment	2,400	2,296	1,601	1,388	1,336	1,495
Goodwill & other intangibles	11,000	19,054	17,813	16,402	15,583	15,432
Other assets	619	365	300	300	300	300
Total assets	**47,617**	**47,650**	**47,256**	**39,615**	**38,983**	**42,426**
Shareholders' equity & debt						
Current liabilities, total	**7,662**	**12,669**	**13,371**	**12,894**	**12,662**	**17,549**
Short-term debt	372	2,139	2,013	3,026	2,300	5,785
Accounts payable	3,033	5,087	6,872	5,382	5,875	7,277
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**	**19,967**	**18,566**	**18,608**
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	-60,311	-61,712	-61,670
Total consolidated equity and debt	**47,617**	**47,650**	**47,256**	**39,615**	**38,983**	**42,426**

Ratios						
Current ratio (x)	4.39	2.05	2.06	1.67	1.72	1.44
Quick ratio (x)	3.63	1.44	1.49	1.06	1.16	0.96
Net cash	22,539	3,007	1,349	-3,974	-4,655	-6,791
Net gearing	-61.9%	-10.3%	-4.9%	19.9%	25.1%	36.5%
Book value per share (€)	4.85	3.79	3.44	2.32	2.16	2.16
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-38.2%	-7.5%	0.2%
Days of sales outstanding (DSO)	43.2	104.3	86.9	80.0	83.0	85.0
Days of inventory turnover	114.7	129.3	73.6	85.0	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**	**-7,395**	**-1,021**	**451**
Depreciation and amortisation	1,255	4,362	3,093	2,665	1,496	722
EBITDA	**730**	**-4,474**	**-1,177**	**-4,731**	**475**	**1,173**
Changes in working capital	85	-2,188	-2,015	675	-153	-2,168
Other adjustments	443	-649	-361	-227	-379	-409
Operating cash flow	**1,258**	**-7,311**	**-3,553**	**-4,283**	**-57**	**-1,404**
CAPEX	-561	-345	-181	-331	-364	-427
Investments in intangibles	-318	-327	-452	-710	-260	-305
Free cash flow	**380**	**-7,984**	**-4,186**	**-5,323**	**-681**	**-2,136**
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**	**-3,851**	**-407**	**-136**
Cash, start of the year	0	22,911	7,143	6,407	2,556	2,149
Cash, end of the year	**183**	**7,428**	**6,123**	**2,556**	**2,149**	**2,013**
EBITDA/share (in €)	**0.10**	**-0.58**	**-0.15**	**-0.55**	**0.06**	**0.14**

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.	147.0%

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...10	↓	↓	↓	↓
11	4 August 2015	€4.92	Buy	€7.00
12	13 November 2015	€4.60	Buy	€6.10
13	21 December 2015	€4.60	Buy	€6.10
14	Today	€3.53	Buy	€5.30

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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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