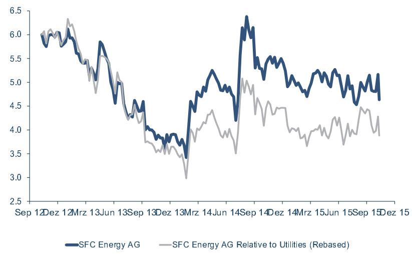
SFC Energy AG

Buy ➔ | Target 5.90 EUR vs 7.00 EUR ➘
Price : 4.63 EUR| Upside : 27 %

Est.chg	2015e	2016e
EPS	150.8%	47.0%

Improved strategic position despite short-term disappointment

Wednesday 11 November 2015



Capital			
F3C GY | F3CG.DE			
Market Cap (EURm)			40
Enterprise value (EURm)			42
Extrema 12 months		4.40 -	5.61
Free Float (%)			44.9

Performance (%)	1m	3m	12m
Absolute	-10.0	-4.7	-10.4
Perf. rel. "sector"	-13.2	1.3	-19.6
Perf. rel. Utilities	-11.9	0.8	-8.4

P&L	12/15e	12/16e	12/17e
Sales (EURm)	49.2	57.8	66.5
EBITDA (EURm)	-3.2	2.4	4.1
Current EBIT (EURm)	-5.6	0.1	1.8
Attr. net profit (EURm)	-6	-1	1.1
Adjusted EPS (EUR)	-0.72	-0.07	0.12
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	ns	ns	38.0
P/B (x)	2.8	3.1	3.1
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	ns	ns	1.7
EV/Sales (x)	0.86	0.74	0.63
EV/EBITDA (x)	ns	17.5	10.3
EV/Current EBIT (x)	ns	436.5	23.0
Gearing (%)	11	14	11
Net Debt/EBITDA(x)	ns	1.2	0.6

Next Events

2015 earnings metrics slip into red on postponement of defence order

As a big defence order was surprisingly postponed from Q4 2015 into H1 2016, SFC lowered its guidance for the current fiscal year to now € 48-50m vs. € 55-65m previously. Even if this order (for sales of up to € 7m) were not postponed, SFC would have only been able to reach the lower end of its previous sales guidance range adue to ongoing weakness in the Oil & Gas division. Regarding its expected profitability, SFC now guides for 2015 earnings below its 2014 level, whereas the company was previously optimistic that it would beat its 2014 EBITDA with a positive EBITDA in 2015. Now, both EBIT and EBITDA line are likely to be in the red.

Q3 2015 figures basically flat – balance sheet healthy

With its profit warning SFC also released its figures for Q3 2015: sales were up 3.4% yoy to € 11.5m (Q3 2014: € 11.2). Considering the challenging environment in the **Oil & Gas business**, this flattish performance development can basically be seen as a success. The low oil price constrains customer's budgets for new projects. The **Defense and Security** division started to gather momentum in Q3 2015. At the beginning of the quarter the company received a follow-up order (€1.3m) from the German Bundeswehr and was also able to win two important orders from another international defence force. All in all, the order backlog totalled € 10.3m vs. €14.6 at the end of September 2014.
Given the slightly increased top line, Q3 2015 EBITDA improved to a loss of €0.9m after a loss of € 1.1m in Q3 2014. Q3 2015 EBIT also improved slightly to a loss of € -1.5m (Q3 2014: € -1.7m). After making deferred payments related to the Simark transaction, the company's cash position as of end of September stood at € 3.1m vs. € 6.m at YE 2014. SFC's equity ratio at the end of Q3 remained healthy at ~56%.

Change in our estimates and TP

SFC's profit warning of course triggered a revision of our earnings estimates. We are now expecting 2015e sales of €49.2m (-32%), an EBITDA loss of € -3.2m (previously a profit of € 0.9m) and an EBIT loss of € 5.6m (€ -1.9m). All else equal, our 2016e sales estimates should given the postponement of the defence order into H1 2016. However, we now expect a continuation of the weak environment for the Oil & Gas business, and we also assume the predictability of orders in the Defence and Security division is lower than originally expected. Thus, we cut our sales estimate for 2016e by -23%. Our 2016 EBITDA and EBIT estimates also decrease, by 23% and 66% respectively, but should still reach break-even due to improved cost ratios. Our TP decreases by 16% to € 5.90 accordingly.

Despite disappointment, improved strategic position supports our Buy

Although this news is certainly a disappointment, the company's strategic position has nonetheless improved in recent months. Its cooperation with Toyota Tsusho, announced in September, is an important step for further growth in Japan, and came on the heels of the announcement of a cooperation agreement between SFC's Canadian subsidiary Simark Controls and Schneider Electric, which provides substantial cross-selling opportunities for the EFOY series and should broaden SFC's customer base in North America. Our new TP is suggests upside of 27%, so that we maintain our Buy recommendation.

Stephan Wulf (Analyst)
+49 (69) 92 05 48 30
stephan.wulf@oddoseydler.com

Q3 figures

EUR m	9m 2015	9m 2014	Change %	Q3 2015	Q3 2014	Change %
Sales	36.3	37.3	-2.7%	11.5	11.2	3.4%
EBITDA	-3.6	-2.1	-67.6%	-0.9	-1.1	17.4%
EBITDA underlying	-2.4	-1.3	-88.5%	-0.4	-0.8	48.6%
EBIT	-5.4	-4.2	-30.1%	-1.5	-1.7	13.4%
EBIT underlying	-3.4	-2.4	-39.2%	-0.8	-1.2	34.2%
Consolidated net loss	-5.5	-4.5	-21.9%	-1.5	-1.8	17.6%
Net loss pershare (EUR)	-0.64	-0.56	-14.3%	-0.18	-0.23	21.7%

Source: Company data, Oddo

F3CG.DE | F3C GY **Buy** Price 4.63EUR

Renewable Energies | Germany Upside 27.32% TP 5.90EUR

PER SHARE DATA (EUR)	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
Adjusted EPS	-0.58	-0.87	-0.06	-1.16	-0.60	-0.72	-0.07	0.12
Reported EPS	**-0.58**	**-0.87**	**-0.06**	**-1.16**	**-0.60**	**-0.72**	**-0.07**	**0.12**
Growth in EPS(%)	ns	ns	ns	ns	ns	ns	ns	ns
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	-0.90	-0.70	0.08	-1.04	-0.55	-0.37	-0.09	0.08
Book value per share	5.55	4.72	4.32	3.14	2.68	1.68	1.49	1.50
Number of shares market cap	7.15	7.50	7.50	8.02	8.61	8.61	8.61	8.61
Number of diluted shares	7.15	7.16	7.50	7.68	8.07	8.61	8.61	8.61
VALUATION	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
12m highest price	7.17	5.39	7.00	6.15	6.65	5.50		
12m lowest price	4.20	3.49	3.85	3.32	3.42	4.40		
(*) Reference price	5.56	4.49	5.45	4.89	4.96	4.63	4.63	4.63
Capitalization	40	34	41	39	43	40	40	40
Restated Net debt	-35.0	-26.7	-25.8	-6.2	-4.1	-1.1	-0.7	-1.7
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	1.4	5.1	3.6	3.6	3.2	3.3	3.6	4.0
Enterprise Value	**6.2**	**12**	**19**	**37**	**42**	**42**	**43**	**42**
P/E (x)	ns	ns	ns	ns	ns	ns	ns	38
P/CF (x)	ns	ns	30	ns	ns	ns	30	12
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	ns	ns	1.4%	ns	ns	ns	ns	1.7%
P/B incl. GW (x)	1.00	0.95	1.26	1.56	1.86	2.77	3.11	3.10
P/B excl. GW (x)	1.00	1.16	1.56	3.06	4.21	17.03	52.53	49.29
EV/Sales (x)	0.47	0.78	0.60	1.13	0.78	0.86	0.74	0.63
EV/EBITDA (x)	ns	ns	25	ns	ns	ns	18	10
EV/EBIT (x)	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**437**	**23**
(*) historical average price								
PROFIT AND LOSS (EURm)	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
Sales	13	15	31	32	54	49	58	66
EBITDA	-3.5	-4.6	0.7	-4.5	-1.2	-3.2	2.4	4.1
Depreciations	-1.0	-2.0	-1.3	-4.4	-3.1	-2.4	-2.4	-2.3
Current EBIT	**-4.5**	**-6.6**	**-0.5**	**-8.8**	**-4.3**	**-5.6**	**0.1**	**1.8**
Published EBIT	-4.5	-6.6	-0.5	-8.8	-4.3	-5.6	0.1	1.8
Net financial income	0.4	0.4	0.1	-0.1	-0.3	-0.3	-0.3	-0.3
Corporate Tax	0.0	0.0	0.0	0.1	-0.3	-0.3	-0.4	-0.5
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	-4.1	-6.2	-0.4	-8.9	-4.8	-6.2	-0.6	1.1
Adjusted attributable net profit	**-4.1**	**-6.2**	**-0.4**	**-8.9**	**-4.8**	**-6.2**	**-0.6**	**1.1**
BALANCE SHEET (EURm)	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
Goodwill	0.0	6.1	6.1	12	12	12	12	12
Other intangible assets	2.9	4.9	4.9	7.3	5.7	4.1	2.4	1.8
Tangible fixed assets	2.3	2.7	2.4	2.3	1.6	1.6	1.6	1.8
WCR	3.4	4.6	3.7	8.3	10	8.8	10	12
Financial assets	0.9	1.8	0.6	0.4	0.3	0.3	0.7	0.8
Ordinary shareholders equity	40	34	32	24	22	14	13	13
Minority interests	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Shareholders equity	42	37	36	29	28	21	21	22
Non-current provisions	1.4	5.1	3.6	3.6	3.2	3.3	3.6	4.0
Net debt	**-33.6**	**-21.7**	**-22.3**	**-2.6**	**-0.9**	**2.3**	**3.0**	**2.3**
CASH FLOW STATEMENT (EURm)	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
EBITDA	**-3.5**	**-4.6**	**0.7**	**-4.5**	**-1.2**	**-3.2**	**2.4**	**4.1**
Change in WCR	-1.1	0.1	0.1	-2.2	-2.0	1.4	-1.0	-1.4
Interests & taxes	0.5	0.4	0.2	-0.1	-0.6	-0.6	-1.1	-0.9
Others	-0.1	0.3	0.5	-0.6	0.1	0.0	0.0	0.0
Operating Cash flow	-4.2	-3.9	1.5	-7.3	-3.8	-2.3	0.3	1.8
CAPEX	-2.2	-1.1	-0.9	-0.7	-0.6	-0.9	-1.1	-1.1
Free cash-flow	**-6.5**	**-5.0**	**0.6**	**-8.0**	**-4.4**	**-3.2**	**-0.7**	**0.7**
Acquisitions / disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	-0.1	0.0	0.0	3.0	0.0	0.0	0.0
Others	0.0	-0.3	-0.4	-1.5	0.4	0.1	0.0	0.0
Change in net debt	-7.0	-10.8	0.6	-14.0	-1.4	-3.2	-0.7	0.7
GROWTH MARGINS PRODUCTIVITY	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
Sales growth	14.1%	15.7%	ns	3.7%	65.5%	-8.3%	17.5%	15.0%
Lfl sales growth	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Current EBIT growth	ns	ns	ns	ns	ns	ns	ns	ns
Growth in EPS(%)	ns	ns	ns	ns	ns	ns	ns	ns
Net margin	-30.9%	-40.3%	-1.4%	-27.5%	-9.0%	-12.5%	-1.0%	1.6%
EBITDA margin	**-26.2%**	**-30.1%**	**2.3%**	**-13.8%**	**-2.2%**	**-6.5%**	**4.2%**	**6.1%**
Current EBIT margin	**-33.8%**	**-42.9%**	**-1.7%**	**-27.3%**	**-8.0%**	**-11.4%**	**0.2%**	**2.8%**
CAPEX / Sales	-16.6%	-7.4%	-2.8%	-2.1%	-1.2%	-1.7%	-1.8%	-1.7%
WCR / Sales	25.7%	29.6%	11.8%	25.6%	18.9%	18.0%	17.6%	17.9%
Tax Rate	0.0%	0.1%	4.3%	0.6%	-5.7%	-4.3%	ns	31.6%
Normative tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Asset Turnover	1.8	1.1	1.8	1.4	1.8	1.8	2.2	2.5
ROCE post-tax (normative tax rate)	**-46.9%**	**-36.7%**	**-2.2%**	**-28.4%**	**-10.8%**	**-15.0%**	**0.3%**	**5.1%**
ROCE post-tax hors GW (normative tax rate)	-46.9%	-47.4%	-3.4%	-46.0%	-18.1%	-26.4%	0.5%	9.3%
ROE	-9.7%	-16.9%	-1.3%	-31.6%	-21.1%	-34.2%	-4.3%	8.2%
DEBT RATIOS	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**	**12/15e**	**12/16e**	**12/17e**
Gearing	-80%	-59%	-61%	-9%	-3%	11%	14%	11%
Net Debt / Market Cap	-0.84	-0.64	-0.54	-0.07	-0.02	0.06	0.07	0.06
Net debt / EBITDA	**9.62**	**4.67**	**ns**	**0.59**	**0.79**	**ns**	**1.22**	**0.56**
EBITDA / net financial charges	9.0	11.9	-9.2	-35.0	-3.9	-10.7	8.2	13.6

Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)
10.11.15	Buy	5.90	4.63
21.09.15	Buy	7.00	4.90
13.04.15	Buy	6.60	5.27
27.03.15	Buy	6.25	4.87
06.02.15	Buy	6.50	5.04
22.12.14	Buy	7.00	5.40

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