

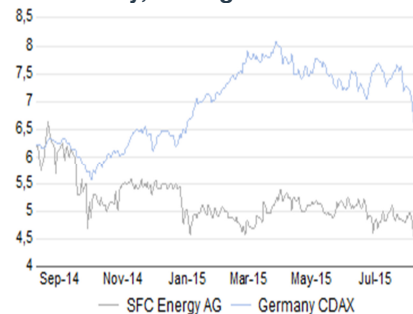
SFC Energy AG

BUY (BUY) | Target EUR 6.60 (EUR 6.60)

 Price (last closing price) : **EUR 4.42** | Upside : 49%

Est. change	2015e	2016e
EPS	-	-

Sales agreements improve strategic position

Wednesday, 26 August 2015


Project delays burdened H1 2015

As several larger orders were postponed, SFC's H1 2015 figures were overall down yoy. Despite a challenging market environment, **Oil & Gas** segment sales topped the record H1 2014 level by 3%. All in all, though, group sales were down 5%, mainly on lower sales in the **Security & Industry** segment, where delayed projects took their toll. Sales in the **Consumer** division were basically flat yoy. Group EBITDA came in at € -2.7m (€ -2m underlying, i.e. adjusted from non-recurring effects relating to the Simark acquisition and staff-related measures) after € -1.1m and € -0.5 respectively in H1 2014.

Outlook confirmed

Despite lower sales and higher losses in H1 2015, the company confirmed its full year 2015 outlook as follows: sales of € 55-65m, improved EBITDA, and improved EBIT. We regard these targets as realistic, as H2 2015 should benefit from the completion of a cost-cutting programme in Oil & Gas likely leading to annual savings of CAN\$ 1m or CAN\$ 0.5m in H2 2015e. Additionally, the normal seasonality should lift H2 2015 results, driven in particular by a strong Q4e. Looking at the individual segments, we expect the positive performance in H2 will be predominantly driven by the **Security & Industry** division. The reaffirmed guidance is broadly in line with our estimates.

Sales agreements have improved SF's strategic position

Although SFC's H1 2015 figures were somewhat disappointing, going forward the company should benefit from the improved strategic position of its **Oil & Gas** division: i) The cooperation between SFC's Canadian subsidiary Simark Controls and Schneider Electric will provide substantial cross-selling opportunities for the EFOY series and should broaden SFC's customer base in North America. ii) Based on Simark Controls' sales agreement with Gentherm Global Power Technologies (GPT), GPT will sell the EFOY Pro series into the US market. In a second step, GPT will expand sales of EFOY Pro to its international customers, especially in Asia and South America.

The **Security & Industry** segment should also be positively impacted by the latest geopolitical challenges, which should drive structural demand for security systems in Europe, e.g. in border control applications.

Assessment

After the recent weakness in equity markets, our unchanged valuation model suggests an upside for the SFC share of 49%. As triggers to drive the share price towards our PT we see the following: i) likely strong H2 2015 reporting, ii) benefits emerging from the above-mentioned sales agreements, and iii) additional orders (following the lead of the flagship order of Deutsche Bundeswehr/German armed forces) in the **Security & Industry** segment, such as the latest contract with an international defence force for the JENNY 1200.

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Capital	
F3C GY F3CG.DE	
Market Cap (EURm)	38
Enterprise value (EURm)	40
Extrema 12 months	6.65 - 4.33
Free Float (%)	56.9%

Performance (%)	1m	3m	12m
Absolute	-8.5	-13.4	-28.7
Perf. rel. "sector"	-2.0	-4.4	-28.2
Perf. rel. CDAX	1.6	-1.8	-33.8

P & L	12/15e	12/16e	12/17e
Sales (EURm)	60.3	70.0	77.9
EBITDA (EURm)	0.9	2.8	3.8
EBIT (EURm)	-1.9	-0.1	1.9
Attr. net profit (EURm)	-2.5	-0.7	1.1
EPS (EUR)	-0.29	-0.09	0.13
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	n.m.	n.m.	33.2
P/B (x)	1.5	1.6	1.5
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	-0.7	0.0	2.2
EV/Sales (x)	0.7	0.6	0.5
EV/EBITDA (x)	44.7	14.3	10.5
EV/EBIT (x)	n.m.	n.m.	20.7
Gearing (%)	n.m.	n.m.	n.m.
Net Debt/EBITDA (x)	n.m.	n.m.	n.m.

Next Events	
Q3 reporting:	10. Nov 15

Quarterly key figures with YOY comparison

	IFRS	EURm	2Q 2015	2Q 2014	1H 2015	1H 2014
Total sales			12.2	13.2	24.8	26.2
YOY growth			-8%	112%	-5%	93%
Oil & Gas			7.2	7.4	14.4	14.0
as % of total sales			59%	56%	58%	54%
Security & Industry			3.8	4.7	8.0	9.7
as % of total sales			31%	35%	32%	37%
Consumer			1.1	1.1	2.3	2.4
as % of total sales			9%	9%	9%	9%
EBITDA			-1.8	-0.6	-2.7	-1.1
as % of sales			-14.9%	-4.2%	-10.9%	-4.1%
Adjusted EBITDA			-1.4	-0.3	-2.0	-0.5
as % of sales			-11.6%	-2.0%	-8.0%	-1.9%
EBIT			-2.4	-1.2	-3.9	-2.4
as % of sales			-19.9%	-9.3%	-15.9%	-9.3%
Underlying EBIT			-1.7	-0.7	-2.7	-1.3
as % of sales			-14.2%	-4.9%	-10.7%	-5.0%

Source: Company Data, Oddo Seydler Bank AG

Profit and loss account

	IFRS	EURm	2011	2012	2013	2014	2015E	2016E	2017E
Sales			15.43	31.26	32.41	53.63	60.30	70.00	77.85
YoY growth			15.7%	102.6%	3.7%	65.5%	12.4%	16.1%	11.2%
Cost of sales			-10.06	-18.50	-21.77	-37.97	-41.33	-47.74	-53.02
as % of sales			-65.2%	-59.2%	-67.2%	-70.8%	-68.5%	-68.2%	-68.1%
Gross profit			5.37	12.76	10.64	15.66	18.97	22.26	24.84
as % of sales			34.8%	40.8%	32.8%	29.2%	31.5%	31.8%	31.9%
Research and development expenses			-2.54	-4.26	-6.15	-4.53	-4.56	-4.82	-5.02
as % of sales			-16.4%	-13.6%	-19.0%	-8.4%	-7.6%	-6.9%	-6.5%
Selling expenses			-4.90	-5.86	-8.23	-10.54	-11.39	-12.17	-12.30
as % of sales			-31.7%	-18.8%	-25.4%	-19.7%	-18.9%	-17.4%	-15.8%
General and administrative expenses			-2.68	-3.55	-3.86	-4.87	-4.98	-5.31	-5.61
as % of sales			-17.4%	-11.4%	-11.9%	-9.1%	-8.3%	-7.6%	-7.2%
Other operating income			0.20	0.75	1.04	0.17	0.22	0.22	0.28
as % of sales			1.3%	2.4%	3.2%	0.3%	0.4%	0.3%	0.4%
Other operating expenses			-2.07	-0.36	-1.71	-0.16	-0.17	-0.25	-0.26
as % of sales			-13.4%	-1.2%	-5.3%	-0.3%	-0.3%	-0.4%	-0.3%
Restructuring expenses			0.00	0.00	-0.57	0.00	0.00	0.00	0.00
as % of sales			0.0%	0.0%	-1.7%	0.0%	0.0%	0.0%	0.0%
EBIT			-6.61	-0.52	-8.84	-4.27	-1.90	-0.06	1.93
as % of sales			-42.9%	-1.7%	-27.3%	-8.0%	-3.2%	-0.1%	2.5%
Underlying EBIT			-4.08	-0.96	-4.22	-1.22	0.37	1.03	2.32
as % of sales			-26.5%	-3.1%	-13.0%	-2.3%	0.6%	1.5%	3.0%
Net financial result			0.39	0.08	-0.13	-0.30	-0.30	-0.30	-0.30
EBT (Earnings before income taxes)			-6.22	-0.44	-8.96	-4.57	-2.20	-0.36	1.63
as % of sales			-40.4%	-1.4%	-27.7%	-8.5%	-3.7%	-0.5%	2.1%
Income taxes			0.01	0.02	0.05	-0.26	-0.26	-0.38	-0.48
as % of EBT			-0.1%	-4.3%	-0.6%	5.7%	11.6%	107.4%	-29.7%
Group net income including minorities			-6.22	-0.43	-8.91	-4.83	-2.46	-0.74	1.15
as % of sales			-40.3%	-1.4%	-27.5%	-9.0%	-4.1%	-1.1%	1.5%
Minority interests			0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income attributable to shareholders			-6.22	-0.43	-8.91	-4.83	-2.46	-0.74	1.15
Shares outstanding (m)			7.16	7.50	7.68	8.07	8.61	8.61	8.61
Basic earnings per share (EUR)			-0.87	-0.06	-1.16	-0.60	-0.29	-0.09	0.13
Underlying EBITDA			-2.69	0.83	-2.20	0.38	2.08	2.80	3.79
as % of sales			-17.4%	2.7%	-6.8%	0.7%	3.4%	4.0%	4.9%
EBITDA			-4.64	0.73	-4.47	-1.18	0.89	2.80	3.79
as % of sales			-30.1%	2.3%	-13.8%	-2.2%	1.5%	4.0%	4.9%

Source: Company Data, Oddo Seydler Bank AG

Balance sheet

	IFRS	EURm	2011	2012	2013	2014	2015E	2016E	2017E
Assets									
Current assets			33.93	33.60	25.93	27.54	28.68	31.42	34.71
as % of total assets			68.5%	70.6%	54.4%	58.3%	61.7%	65.6%	68.8%
Inventories and prepayments			4.91	5.81	7.71	7.65	7.78	8.68	9.65
Trade accounts receivable			4.47	3.70	9.26	11.55	12.77	14.79	16.42
Other assets incl. tax and PoC receivables			1.82	1.18	1.54	1.93	2.19	2.33	2.50
Cash and cash equivalents			22.44	22.63	7.14	6.12	5.66	5.34	5.85
Cash and cash equival. with limitation on disposal			0.29	0.29	0.29	0.29	0.29	0.29	0.29
Noncurrent assets			15.61	14.02	21.72	19.71	17.77	16.45	15.76
as % of total assets			31.5%	29.4%	45.6%	41.7%	38.3%	34.4%	31.2%
Intangible assets excl. goodwill			4.89	4.86	7.26	5.73	4.06	2.41	1.82
Goodwill			6.14	6.14	11.80	12.08	12.08	12.08	12.08
Property, plant and equipment			2.75	2.40	2.30	1.60	1.32	1.18	1.04
Other non-current assets			0.05	0.00	0.00	0.00	0.00	0.00	0.00
Deferred taxes			1.77	0.62	0.37	0.30	0.30	0.78	0.82
Total assets			49.54	47.62	47.65	47.26	46.45	47.87	50.47
Shareholders' equity and liabilities									
Current liabilities			7.49	7.66	12.67	13.37	14.45	16.24	17.39
as % of total equity and liabilities			15.1%	16.1%	26.6%	28.3%	31.1%	33.9%	34.5%
Provisions			1.58	1.00	0.80	0.69	0.96	1.12	1.25
Advance payments received			0.20	0.01	0.01	0.00	0.01	0.05	0.05
Trade accounts payable			3.17	3.03	5.09	6.87	7.48	8.55	9.44
Financial debt			0.56	0.37	2.19	2.06	2.20	2.20	2.20
Other liabilities			1.98	3.24	4.58	3.75	3.80	4.33	4.46
Noncurrent liabilities			5.26	3.56	5.92	6.30	6.87	7.24	7.54
as % of total equity and liabilities			10.6%	7.5%	12.4%	13.3%	14.8%	15.1%	14.9%
Other noncurrent provisions			1.41	1.39	1.80	1.74	2.29	2.66	2.96
Financial debt			0.20	0.00	2.31	3.13	3.13	3.13	3.13
Other noncurrent liabilities			1.46	1.04	0.07	0.12	0.14	0.14	0.14
Deferred tax liabilities			2.19	1.13	1.73	1.31	1.31	1.31	1.31
Shareholders' equity			36.79	36.39	29.06	27.59	25.13	24.39	25.54
as % of total equity and liabilities			74.3%	76.4%	61.0%	58.4%	54.1%	51.0%	50.6%
Subscribed capital			7.50	7.50	8.02	8.61	8.61	8.61	8.61
Capital reserve			67.88	67.88	69.57	71.95	71.95	71.95	71.95
Other changes in equity not effecting profit or loss			-0.07	-0.04	-0.66	-0.29	-0.29	-0.29	-0.29
Accumulated loss brought forward			-32.31	-38.53	-38.95	-47.86	-52.69	-55.15	-55.88
Net result of the year			-6.22	-0.43	-8.91	-4.83	-2.46	-0.74	1.15
Total equity and liabilities			49.54	47.62	47.65	47.26	46.45	47.87	50.47

Source: Company Data, Oddo Seydler Bank AG

Cash flow statement

	IFRS	EURm	2011	2012	2013	2014	2015E	2016E	2017E
Income/loss before interest and taxes			-6.61	-0.52	-8.84	-4.27	-1.90	-0.06	1.93
Amortisation and impairments of intangible assets			1.46	0.59	3.60	2.10	2.07	2.13	1.09
Depreciation and impairments of PP&E			0.51	0.66	0.76	1.00	0.73	0.72	0.77
Other expenses / income with no effect on liquidity			0.25	0.45	-0.62	0.06	0.00	0.00	0.00
Increase/decrease in inventories, trade receivables, and other assets			-0.99	0.45	-1.05	-2.41	-1.60	-3.06	-2.78
Increase/decrease in trade accounts payable and other liabilities			1.10	-0.37	-1.14	0.40	1.52	2.16	1.45
Cash taxes paid			-0.03	-0.01	-0.03	-0.42	-0.25	-0.86	-0.52
Cash flow from operating activities			-4.32	1.26	-7.31	-3.55	0.55	1.04	1.94
Net cash outflows from the purchase and retirement of noncurrent assets			-1.13	-0.88	-0.67	-0.63	-0.85	-1.06	-1.13
Bank balances released/pledged			0.29	0.00	0.00	0.00	0.00	0.00	0.00
Interests received			0.43	0.22	0.08	0.01	0.03	0.03	0.03
Purchase of consolidated companies			-6.00	0.00	-6.00	0.00	0.00	0.00	0.00
Cash flow from investing activities			-6.42	-0.66	-6.59	-0.62	-0.82	-1.03	-1.10
Net cash inflow from capital stock increases deducting expenses			-0.05	0.00	0.00	2.98	0.00	0.00	0.00
Net cash flow from financial debt incl. leasing			-0.35	-0.39	-1.47	0.39	0.14	0.00	0.00
Interests paid			0.00	-0.03	-0.10	-0.23	-0.33	-0.33	-0.33
Cash flow from financing activities			-0.40	-0.42	-1.57	3.14	-0.19	-0.33	-0.33
Total change in cash and cash equivalents			-11.14	0.18	-15.47	-1.03	-0.46	-0.32	0.51
Currency effects on cash and cash equivalents			0.01	0.00	-0.01	0.01	0.00	0.00	0.00
Cash and cash equiv. at the start of the period			33.56	22.44	22.63	7.14	6.12	5.66	5.34
Cash and cash equiv. at the end of the period			22.44	22.63	7.14	6.12	5.66	5.34	5.85

Source: Company Data, Oddo Seydler Bank AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
26 August 2015	BUY	EUR 4.42	EUR 6.60
5 May 2015	BUY	EUR 5.27	EUR 6.60
13 April 2015	BUY	EUR 5.18	EUR 6.60
27 March 2015	BUY	EUR 4.90	EUR 6.25
6 February 2015	BUY	EUR 5.14	EUR 6.50

22 December 2014	BUY	EUR 5.40	EUR 7.00
7 November 2014	BUY	EUR 5.149	EUR 7.50

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