

Recommendation:
HOLD (BUY)

Risk:
HIGH (HIGH)

Price Target:
EUR 6.00 (5.50)

04 May 2012

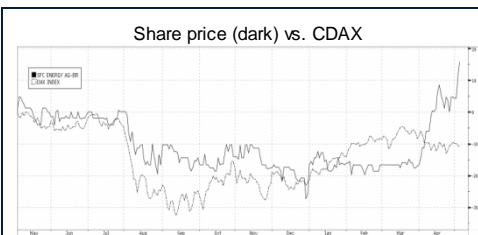
1Q 2012 was stronger than expected

Growth from further strategic industrial partnerships – potential M&A activities remain part of the strategy

- In 1Q 2012, sales reached EUR 7.55m (1Q 2011: EUR 3.72m). PBF Group B.V., consolidated as from 1 Dec 2011, contributed EUR 3.35m to total sales. Excluding PBF, SFC Energy achieved YOY sales growth of 13.0%. In particular, **sales in the 'Industry' segment jumped from EUR 0.66m in 1Q 2011 to EUR 4.32m in 1Q 2012 due to the first consolidation of PBF** which generates almost all of its sales in this segment.
- SFC's **gross margin hit another record high** of 40.6% in 1Q 2012. EBITDA significantly rose from EUR -0.97m to EUR +0.19m, with the EBITDA of each of the three segments having considerably improved as compared to 1Q 2011. **Two of three segments showed positive EBITDA figures** while only the 'Industry' segment's EBITDA remained slightly negative due to the PBF integration. Even the Group's **EBIT was positive** in 1Q 2012, reaching EUR 0.32m (1Q 2011: EUR -1.28m). However, this figure contains a reversal of impairment charges in the amount of EUR 0.54m as a consequence of the major order placed by Deutsche Bundeswehr for energy networks (sales volume: approx. EUR 5m). **Underlying EBIT excluding this one-off effect was EUR -0.22m.**
- SFC made another step in the implementation of its strategy of becoming a system supplier by concluding a **cooperation agreement with Rittal GmbH & Co. KG**. We expect that SFC will agree on **further strategic industrial partnerships in the future**, particularly in the Industry and Defense & Security segments. As already announced, **further acquisition steps** might also be part of the strategy which puts a special emphasis on complete solutions.
- In FY 2012E, SFC'S management now considers sales of around EUR 30m achievable, reflecting the upper end of the previous guidance (EUR 28m – 30m). **We slightly increased our estimates.** We also regard it as an important signal that the Group's **cash burn is about to stop**. Our new **price target is EUR 6.00** (old: 5.50). After the recent strong performance of the share, however, we change our recommendation from BUY to **HOLD**.

Y/E 31 Dec, EUR m	2009	2010	2011	2012E	2013E	2014E
Sales revenues	11.7	13.3	15.4	30.0	33.8	38.5
Gross profit	3.2	4.0	5.4	11.9	13.9	16.3
EBITDA	-3.6	-3.5	-4.6	0.4	2.0	3.1
EBITA	-4.0	-3.9	-5.2	0.1	1.7	2.7
EBIT	-4.5	-4.5	-6.6	-1.5	-0.1	1.4
Net income/loss	-3.8	-4.1	-6.2	-1.6	-0.3	1.1
EPS	-0.53	-0.58	-0.87	-0.22	-0.04	0.14
CPS	-0.51	-0.65	-0.60	-0.38	-0.05	0.16
EBITDA margin	-30.6%	-26.2%	-30.1%	1.3%	6.1%	8.0%
EBIT margin	-38.6%	-33.8%	-42.9%	-5.0%	-0.2%	3.7%
EV/Sales	1.8	1.6	1.3	0.7	0.6	0.5
EV/EBITDA	neg.	neg.	neg.	52.1	10.1	6.7

Source: SFC Energy AG; CBS Research AG



Source: CBS Research AG, Bloomberg, SFC Energy AG

Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	30.0	28.1	33.8	32.7	38.5	37.4
EBITDA	0.4	-0.3	-	2.0	3.1	3.0
EPS	-0.22	-0.31	-	-0.04	-	0.14

Internet: www.sfc.com Sector: Alternative energy
WKN: 756857 ISIN: DE0007568578
Reuters: F3CG.DE Bloomberg: F3C GY

Short company profile:

SFC Energy AG is a market leader for off grid and stationary power generation and distribution. The Company has established fully commercialized fuel cells in the Consumer, Industry, and Defense & Security sectors and furthermore develops, produces and globally distributes higher level power management components. The products increasingly are delivered as customised power supply system solutions.

Share data:

Share price (EUR, latest closing price):	5.55
Shares outstanding (m):	7.5
Market capitalisation (EUR m):	41.6
Enterprise value (EUR m):	20.7
Ø daily trading volume (6 m., no. of shares):	6,915

Performance data:

High 52 weeks (EUR):	5.65
Low 52 weeks (EUR):	3.49
Absolute performance (12 months):	15.9%
Relative performance vs. CDAX:	
1 month	34.8%
3 months	44.4%
6 months	17.6%
12 months	28.4%

Shareholders:

HPE	25.70%
Conduit Ventures	10.15%
Havensight	10.22%
Previous owners of PBF (lock-up agreement)	4.66%
Management and Supervisory Board	3.48%
DWS	4.92%
Other free float	40.87%

Financial calendar:

AGM: 9 May 2012

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Positive EBITDA in 1Q 2012

In 1Q 2012, sales reached EUR 7.55m (1Q 2011: EUR 3.72m). PBF Group B.V., consolidated as from 1 Dec 2011, contributed EUR 3.35m to total sales. Excluding PBF, SFC Energy achieved YOY sales growth of 13.0% on a stand-alone basis.

For the first time, SFC presented its figures according to the new market-oriented segmentation which provides an enhanced transparency. Results can now directly be tracked in a top-down manner, starting from the development in each market segment. Sales in the 'Industry' segment jumped from EUR 0.66m in 1Q 2011 to EUR 4.32m in 1Q 2012. This was mainly due to the first consolidation of PBF, as almost all (namely EUR 3.33m) of PBF's sales accrued in the 'Industry' segment. However, sales of SFC (stand-alone) in this segment also grew by 48.9%, particularly driven by the oil and gas sector and security & surveillance applications. Sales in the 'Defense & Security' segment grew 74.9%, while the 'Consumer' segment showed a decline of 19.5 %.

Strong growth from first consolidation of PBF plus 13% organic growth

New segment reporting

Industry segment boosted by PBF acquisition

Quarterly figures with YOY comparison

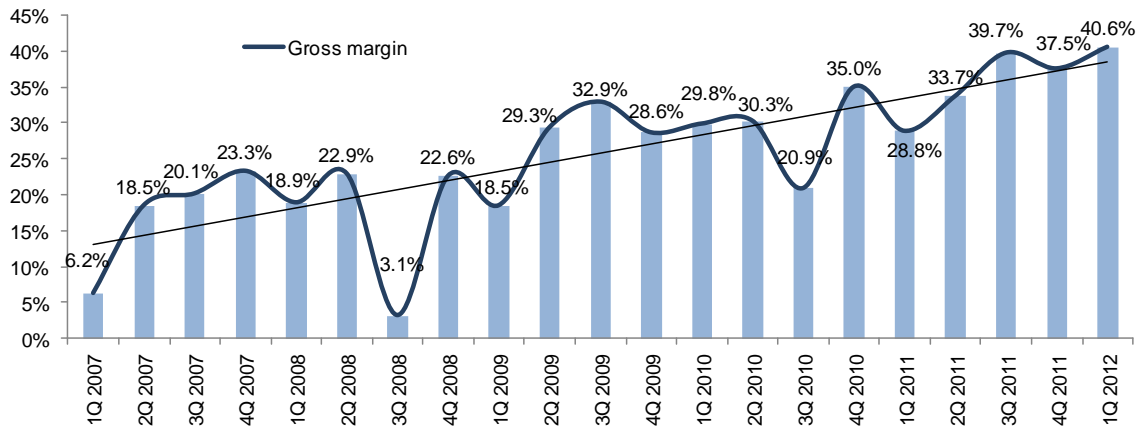
	IFRS	EURm	1Q 2012	1Q 2011	Change
Total sales			7.55	3.72	103.0%
Industry			4.31	0.66	556.7%
as % of total sales			57.0%	17.6%	
Defense & Security			1.44	0.83	74.9%
as % of total sales			19.1%	22.2%	
Consumer			1.80	2.24	-19.5%
as % of total sales			23.9%	60.2%	
Gross profit			3.06	1.07	185.6%
as % of sales			40.6%	28.8%	
Gross profit - Industry			1.58	0.26	516.4%
as % of segment sales			36.6%	39.0%	
Gross profit - Defense & Security			0.77	0.31	146.9%
as % of segment sales			53.2%	37.7%	
Gross profit - Consumer			0.72	0.51	41.6%
as % of segment sales			39.8%	22.6%	
EBITDA			0.19	-0.97	n/m
as % of sales			2.5%	-26.1%	
EBITDA - Industry			-0.03	-0.49	n/m
as % of segment sales			-0.7%	-74.1%	
EBITDA - Defense & Security			0.01	-0.37	n/m
as % of segment sales			0.4%	-45.3%	
EBITDA - Consumer			0.21	-0.11	n/m
as % of segment sales			11.8%	-5.0%	
EBIT			0.32	-1.28	n/m
as % of sales			4.2%	-34.4%	
Adjusted EBIT			-0.22	-1.28	n/m
as % of sales			-2.9%	-34.4%	
Net income after minorities			0.34	-1.18	n/m
as % of sales			4.5%	-31.6%	
Basic earnings per share (EUR)			0.05	-0.16	n/m
Cash flow from operating activities			-0.61	-2.42	n/m
Free cash flow (incl. interest received)			-0.73	-2.53	n/m

Source: SFC Energy AG, CBS Research AG

SFC's **gross margin** as a percentage of sales hit another **record high of 40.6% in 1Q 2012**. While SFC (stand-alone) enhanced its gross margin to 33.1% (1Q 2011: 28.8%), PBF posted a gross margin of about 46.5%.

Gross margin hit another record high

Gross margin development



Source: CBS Research AG, SFC Energy AG

EBITDA significantly rose from EUR -0.97m to EUR +0.19m, with the EBITDA of each of the three segments having considerably improved as compared to 1Q 2011. **Two of three segments showed positive EBITDA figures while only the Industry segment's EBITDA remained slightly negative.** As most of the PBF integration costs accrue in the Industry segment, this segment is still in a special situation which will soon improve. Even the Group's EBIT was positive in 1Q 2012, reaching EUR 0.32m (1Q 2011: EUR -1.28m). However, this figure contains a reversal of impairment charges previously recognized on capitalised development costs in the amount of EUR 0.54m as a consequence of the major order placed by Deutsche Bundeswehr for energy networks (sales volume: approx. EUR 5m). **Underlying EBIT** excluding this reversal was **EUR -0.22m**.

Positive EBITDA in 1Q

One-off effect does not affect EBITDA but only EBIT

It is an important signal that the Group's **cash burn is about to stop**. Cash flow from operating activities improved from EUR -2.42m in 1Q 2011 to EUR -0.61m in 1Q 2012. The still negative cash flow was mainly a result of a strong increase in trade receivables due to higher sales volumes, and of a reduction in receivables from percentage-of-completion due to the expiration of JDA projects.

Cash burn almost stopped

Focus on strategic industrial partnerships – potential further M&A activities

SFC made another step in the implementation of its strategy of becoming a system supplier by concluding a **cooperation agreement with Rittal GmbH & Co. KG**, one of the world's leading supplier of enclosures, power distribution, climate control, and IT infrastructure. Both companies will jointly develop and distribute integrated outdoor power supply solutions for industrial applications in a power range from 25W to 500W on the basis of SFC's fuel cells. Both companies expect synergies in customer acquisition due to the advantages these solutions offer their users. As a first result of their cooperation, Rittal and SFC recently presented **EFOY ProCabinet**, an individually adjustable, integrated outdoor power solution for autonomous electricity generation with EFOY Pro fuel cell generators in a Rittal enclosure.

EFOY ProCabinet



Source: SFC Energy AG

We expect that SFC will agree on further strategic industrial partnerships in the future, particularly in the Industry and Defense & Security segments. As already announced, **further acquisition steps** might also be part of the strategy which puts a special emphasis on complete solutions.

Further strategic industrial partnerships and takeovers are part of the strategy

Changes in our estimates

In FY 2012E, SFC'S management now considers **sales of around EUR 30m achievable**, reflecting the upper end of the previous guidance (EUR 28m – 30m) published with the consolidated financial statements 2011. The company continues to target sustainably positive EBITDA in 2H 2012.

Guidance slightly increased

We change our estimates for SFC Energy AG as follows:

Slightly increased CBSR estimates

Changes in financial estimates of CBS Research

	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	30.0	28.1	33.8	32.7	38.5	37.4
Gross profit	11.9	11.0	13.9	13.5	16.3	15.8
EBITDA	0.4	-0.3	-	2.0	3.1	3.0
EBIT	-1.5	-2.2	-	-0.1	1.4	1.3
Net result after minorities	-1.6	-2.3	-	-0.3	1.1	1.0
EPS	-0.22	-0.31	-	-0.04	-	0.14

Source: CBS Research AG

Valuation and price target

On basis of our new estimates, we adjusted our Discounted Cash Flow model. The valuation now yields a fair value per share of EUR 6.02. We increase our **price target** for SFC Energy from EUR 5.50 to **EUR 6.00**.

New PT: EUR 6.00

After the recent strong performance of the share, we change our recommendation from BUY to **HOLD**.

BUY

Profit and loss account

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
Sales			11.69	13.33	15.43	29.96	33.78	38.54
YoY growth			-19.7%	14.1%	15.7%	94.2%	12.8%	14.1%
Cost of sales			-8.49	-9.29	-10.06	-18.07	-19.85	-22.27
as % of sales			-72.7%	-69.7%	-65.2%	-60.3%	-58.8%	-57.8%
Gross profit			3.19	4.04	5.37	11.88	13.93	16.27
as % of sales			27.3%	30.3%	34.8%	39.7%	41.2%	42.2%
Research and development expenses			-1.51	-1.89	-2.54	-3.74	-3.11	-3.20
as % of sales			-12.9%	-14.2%	-16.4%	-12.5%	-9.2%	-8.3%
Selling expenses			-4.45	-4.75	-4.90	-6.29	-6.69	-7.13
as % of sales			-38.0%	-35.6%	-31.7%	-21.0%	-19.8%	-18.5%
General and administrative expenses			-2.13	-2.05	-2.68	-3.77	-3.92	-4.16
as % of sales			-18.2%	-15.4%	-17.4%	-12.6%	-11.6%	-10.8%
Other operating income			0.42	0.23	0.20	1.02	0.49	0.50
as % of sales			3.6%	1.7%	1.3%	3.4%	1.4%	1.3%
Other operating expenses			-0.04	-0.09	-1.60	-0.60	-0.76	-0.87
as % of sales			-0.3%	-0.6%	-10.4%	-2.0%	-2.3%	-2.3%
EBIT before restructuring expenses			-4.51	-4.51	-6.14	-1.51	-0.06	1.41
as % of sales			-38.6%	-33.8%	-39.8%	-5.0%	-0.2%	3.7%
Restructuring expenses			0.0	0.0	-0.47	0.0	0.0	0.0
as % of sales			0.0%	0.0%	-3.1%	0.0%	0.0%	0.0%
EBIT			-4.51	-4.51	-6.61	-1.51	-0.06	1.41
as % of sales			-38.6%	-33.8%	-42.9%	-5.0%	-0.2%	3.7%
Net financial result			0.72	0.39	0.39	0.18	0.17	0.13
EBT (Earnings before income taxes)			-3.78	-4.12	-6.22	-1.33	0.11	1.54
as % of sales			-32.4%	-30.9%	-40.4%	-4.4%	0.3%	4.0%
Income taxes			0.00	0.00	0.01	-0.31	-0.40	-0.47
as % of EBT			0.0%	0.0%	-0.1%	23.2%	-374.9%	-30.4%
Income from continuing operations			-3.78	-4.12	-6.22	-1.64	-0.30	1.07
Income from discontinued operations, net of taxes			0.00	0.00	0.00	0.00	0.00	0.00
Group net income including minorities			-3.78	-4.12	-6.22	-1.64	-0.30	1.07
as % of sales			-32.4%	-30.9%	-40.3%	-5.5%	-0.9%	2.8%
Minority interests			0.00	0.00	0.00	0.00	0.00	0.00
Net income attributable to shareholders			-3.78	-4.12	-6.22	-1.64	-0.30	1.07
Shares outstanding (m)			7.15	7.15	7.15	7.50	7.50	7.50
Basic earnings per share (EUR)			-0.53	-0.58	-0.87	-0.22	-0.04	0.14
EBITDA			-3.58	-3.49	-4.64	0.40	2.05	3.09
EBITA			-4.02	-3.89	-5.15	0.15	1.71	2.67

Source: CBS Research AG, SFC Energy AG

Balance sheet

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
Assets								
Current assets			45.60	40.17	33.47	32.82	33.32	34.99
as % of total assets			90.4%	86.7%	68.6%	68.1%	68.7%	69.4%
Inventories and prepayments			1.33	1.94	4.91	5.36	6.15	6.94
Trade accounts receivable			2.20	2.71	4.47	7.39	8.88	10.56
Other assets incl. tax and PoC receivables			1.48	1.39	1.36	1.76	2.69	3.14
Cash and cash equivalents			40.54	33.56	22.44	18.22	15.50	14.26
Cash and cash equival. with limitation on disposal			0.05	0.57	0.29	0.10	0.10	0.10
Noncurrent assets			4.85	6.15	15.31	15.39	15.19	15.45
as % of total assets			9.6%	13.3%	31.4%	31.9%	31.3%	30.6%
Intangible assets excl. goodwill			2.41	2.95	4.89	4.54	4.07	4.11
Goodwill			0.00	0.00	6.02	6.02	6.02	6.02
Property, plant and equipment			1.68	2.34	2.75	3.10	3.37	3.56
Other non-current assets			0.06	0.07	0.05	0.13	0.14	0.16
Deferred taxes			0.69	0.80	1.59	1.59	1.59	1.59
Total assets			50.44	46.31	48.78	48.21	48.51	50.45
Shareholders' equity and liabilities								
Current liabilities			3.44	3.18	6.78	7.75	8.14	8.80
as % of total equity and liabilities			6.8%	6.9%	13.9%	16.1%	16.8%	17.4%
Provisions			0.57	0.55	0.87	0.99	1.11	1.23
Advance payments received			0.02	0.00	0.20	0.25	0.25	0.25
Trade accounts payable			1.96	1.38	3.17	3.43	3.67	4.07
Liabilities from finance leases			0.00	0.00	0.56	0.70	0.73	0.76
Other liabilities			0.90	1.24	1.98	2.38	2.37	2.48
Noncurrent liabilities			1.14	1.41	5.22	5.31	5.52	5.72
as % of total equity and liabilities			2.3%	3.1%	10.7%	11.0%	11.4%	11.3%
Other noncurrent provisions			0.26	0.50	1.41	1.47	1.53	1.59
Other noncurrent liabilities			0.18	0.12	1.46	1.50	1.64	1.78
Deferred tax liabilities			0.69	0.80	2.15	2.15	2.15	2.15
Shareholders' equity			45.86	41.72	36.79	35.15	34.85	35.93
as % of total equity and liabilities			90.9%	90.1%	75.4%	72.9%	71.9%	71.2%
Subscribed capital			7.15	7.15	7.50	7.50	7.50	7.50
Capital reserve			66.88	66.88	67.88	67.88	67.88	67.88
Other changes in equity not effecting profit or loss			0.01	0.00	-0.07	-0.07	-0.07	-0.07
Accumulated loss brought forward			-24.40	-28.18	-32.31	-38.53	-40.16	-40.46
Net result of the year			-3.78	-4.12	-6.22	-1.64	-0.30	1.07
Total equity and liabilities			50.44	46.31	48.78	48.21	48.51	50.45

Source: CBS Research AG, SFC Energy AG

Cash flow statement

	IFRS	EURm	2009	2010	2011	2012E	2013E	2014E
Income/loss before interest and taxes			-4.51	-4.51	-6.61	-1.51	-0.06	1.41
Depreciation of PP&E			0.49	0.62	1.46	1.66	1.77	1.25
Amortisation of intangible assets incl. assets from PPA			0.44	0.40	0.51	0.25	0.33	0.42
Other expenses / income with no effect on liquidity			-0.12	-0.11	0.25	-0.51	-0.24	-0.25
Increase/decrease in inventories, trade receivables, and other assets			-0.07	-1.01	-0.99	-3.33	-2.98	-2.68
Increase/decrease in trade accounts payable and other liabilities			-0.41	-0.13	1.10	0.92	1.24	1.51
Cash taxes paid			0.51	0.11	-0.03	-0.31	-0.40	-0.47
Cash flow from operating activities			-3.68	-4.64	-4.32	-2.83	-0.34	1.20
Net cash outflows from the purchase and retirement of noncurrent assets			-2.05	-2.22	-1.13	-1.90	-1.90	-1.92
Bank balances released/pledged			0.00	-0.52	0.29	0.19	0.00	0.00
Interests received			0.82	0.39	0.43	0.33	0.24	0.20
Purchase of consolidated companies			0.00	0.00	-6.00	0.00	-0.68	-0.68
Cash flow from investing activities			-1.23	-2.35	-6.42	-1.39	-2.34	-2.40
Net cash inflow from capital stock increases deducting expenses			0.00	0.00	-0.05	0.00	0.00	0.00
Net cash flow from financial debt incl. leasing			-0.12	0.00	-0.35	0.14	0.03	0.03
Interests paid			0.00	0.00	0.00	-0.15	-0.07	-0.07
Cash flow from financing activities			-0.12	0.00	-0.40	-0.01	-0.04	-0.04
Total change in cash and cash equivalents			-5.02	-6.98	-11.14	-4.23	-2.72	-1.23
Currency effects on cash and cash equivalents			0.00	0.00	0.01	0.00	0.00	0.00
Cash and cash equiv. at the start of the period			45.57	40.54	33.56	22.44	18.22	15.50
Cash and cash equiv. at the end of the period			40.54	33.56	22.44	18.22	15.50	14.26

Source: CBS Research AG, SFC Energy AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	∞
Sales	30.0	33.8	38.5	43.0	47.2	52.0	57.2	60.0	63.0	64.6	
Sales growth	94.2%	12.8%	14.1%	11.5%	10.0%	10.0%	10.0%	5.0%	5.0%	2.5%	
EBIT	-1.5	-0.1	1.4	2.5	3.8	4.7	5.4	5.9	6.2	6.3	
EBIT margin	-5.0%	-0.2%	3.7%	5.7%	8.0%	9.0%	9.5%	9.8%	9.8%	9.8%	
Cash taxes on EBIT	-0.3	-0.5	-0.5	-0.5	-0.7	-0.8	-1.0	-1.0	-1.1	-1.7	
Depreciation and amortisation	1.9	2.1	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	
Change in long-term provisions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other non-cash items	-0.5	-0.2	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-2.4	-1.7	-1.2	-0.8	-0.8	-0.9	-0.9	-0.5	-0.6	-0.3	
Net capital expenditure	-1.9	-1.9	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.7	
Purchase of consolidated companies	0.0	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	-4.7	-2.9	-1.4	1.1	2.4	3.1	3.6	4.4	4.5	4.5	
Present values	-4.4	-2.4	-1.0	0.8	1.5	1.7	1.8	2.0	1.8	1.6	21.0
Present value Phase 1	-7.9										
Present value Phase 2	11.1										
Present value Phase 3	21.0										
Total present value	24.2										
+ Cash and non-operating assets	21.5										
- Financial debt	-0.6										
- Minority interest	0.0										
Fair value of equity	45.2										
Number of shares (m)	7.5										
Fair value per share (EUR)	6.02										

Risk free rate:	3.5%	Target equity ratio:	90.0%
Equity risk premium:	6.0%	Beta:	1.3
Debt risk premium:	3.0%	WACC:	10.5%
Tax shield:	26.5%	Terminal growth:	2.5%

Sensitivity analysis						
Terminal growth (Phase 3)						
		1.5%	2.0%	2.5%	3.0%	3.5%
	9.46%	6.37	6.59	6.84	7.13	7.47
	9.96%	6.00	6.19	6.40	6.64	6.92
WACC	10.46%	5.68	5.84	6.02	6.22	6.45
	10.96%	5.40	5.53	5.69	5.86	6.05
	11.46%	5.14	5.26	5.39	5.54	5.70

Source: CBS Research AG

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Date	Recommendation	Price at change date	Price Target
08 August 2011	BUY)	EUR 4.49	EUR 6.50
02 November 2011	BUY	EUR 4.10	EUR 5.50
26 January 2012	BUY	EUR 4.00	EUR 5.50
30 March 2012	BUY	EUR 3.95	EUR 5.50
11 April 2012	BUY	EUR 4.74	EUR 5.50
4 May 2012	HOLD	EUR 5.55	EUR 6.00

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