SFC Energy AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	HIGH (HIGH)	EUR 7.50 (7.50)

06 May 2013

Positive EBITDA maintained in 1Q 2013

M&A negotiations are in progress

- In 1Q 2013, SFC Energy posted total **group** sales of EUR 7.35m (1Q 2012: EUR 7.55m, -2.8% YOY) and a gross margin of 39.2% (1Q 2012: 40.6%). EBITDA rose to EUR 0.29m (1Q 2012: EUR 0.19m) whilst underlying EBITDA (excl. one-off effects) reached EUR 0.11m (EUR 0.19m). The adjusted one-off effects included **acquisition-related expenses** of EUR 0.2m. According to the Management, these expenses **related to potential takeover targets**. We gathered the impression that the takeover process is already at an advanced stage, but that it is still impossible to tell whether or when the concerned takeover will really take place (pricing issues etc.).

- Group company **SFC Energy** (stand-alone) reached sales of EUR 3.77m (1Q 2012: EUR 4.20m, -10.2% YOY) and a gross margin of 42.6% (1Q 2012: 46.5%). This decline in sales of SFC Energy mainly resulted from the postponements of projects in the Defense market due to 1) the restructuring of the purchasing processes at German Bundeswehr and 2) the budget dispute in the U.S., while 1Q 2012 sales had been boosted by the delivery of fifty FC 100 systems to the U.S. Army. Sales of group company **PBF** rose by 6.6% to EUR 3.57m (1Q 2012: EUR 3.35m), accompanied by an increase in gross margin to 35.6% (1Q 2012: 33.1%). PBF's shipments of integrated systems and higher power systems increased, and the shift of production to Cluj, Romania, also resulted in margin improvements.

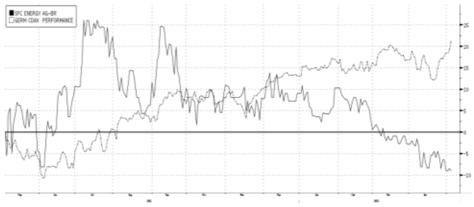
- The detailed **segment figures** are presented on page 2 of this document. In 1Q, as previously expected, only the Industry segment showed growth (+16.1%). While almost all of PBF's sales accrue in the Industry segment, SFC Energy's contribution to this segment reached EUR 1.52m in 1Q 2013 (1Q 2012: EUR 0.98m, +55.7% YOY). The number of EFOY units sold increased from 187 to 341. The fact that unit sales growth outpaced revenue growth is due to a shift in the product mix towards lower performance classes, which are used in the field of security & surveillance, in particular.

- SFC Energy **confirmed the financial guidance for FY 2013**, and we see no grounds to revise our estimates for the time being. On basis of an unchanged price target of EUR 7.50, we maintain our **BUY**.

Y/E 31 Dec, EUR m	2011	2012	2013E	2014E	2015E
Sales revenues	15.4	31.3	33.3	38.1	42.5
EBITDA	-4.6	0.7	2.0	3.5	4.3
EBITA	-5.2	0.1	1.3	2.8	3.5
EBIT	-6.6	-0.5	0.0	1.4	2.5
Net income/loss	-6.2	-0.4	0.0	1.2	2.3
EPS	-0.87	-0.06	-0.01	0.17	0.31
CPS	-0.60	0.17	-0.14	0.22	0.41
EBITDA margin	-30.1%	2.3%	6.0%	9.2%	10.2%
EBIT margin	-42.9%	-1.7%	0.1%	3.8%	6.0%
EV/Sales	1.2	0.6	0.6	0.5	0.4
EV/EBITDA	neg.	25.9	9.4	5.4	4.3

Source: SFC Energy AG; CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, SFC Energy AG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	-	33.3	-	38.1	-	42.5
EBITDA	-	2.0	-	3.5	-	4.3
EPS	-	-0.01	-	0.17	-	0.31

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):	**5.05**
Shares outstanding (m):	7.5
Market capitalisation (EUR m):	37.9
Enterprise value (EUR m):	18.9
Ø daily trading volume (6 m., no. of shares):	3,114

Performance data:	
High 52 weeks (EUR):	7.20
Low 52 weeks (EUR):	4.86
Absolute performance (12 months):	-9.0%
Relative performance vs. CDAX:	
1 month	-8.9%
3 months	-20.4%
6 months	-25.7%
12 months	-25.0%

Shareholders:	
HPE	25.70%
Conduit Ventures	10.15%
Havensight	10.22%
Previous owners of PBF (lock-up agreement)	4.66%
Management and Supervisory Board	2.14%
DWS	4.92%
Other free float	42.21%

Financial calendar:
Annual General Meeting: 6 May 2013

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Key figures with YOY comparison

IFRS EURm	1Q 2013	1Q 2012	Change
Total sales	7.35	7.55	*-2.8%*
YOY growth	-52.3%	103.0%	
Industry	5.00	4.31	*16.1%*
as % of total sales	68.1%	57.0%	
Defense & Security	0.67	1.44	*-53.8%*
as % of total sales	9.1%	19.1%	
Consumer	1.68	1.80	*-6.9%*
as % of total sales	22.8%	23.9%	
Gross profit	2.88	3.06	*-6.0%*
as % of sales	39.2%	40.6%	
Gross profit - Industry	1.96	1.58	*24.0%*
as % of segment sales	39.1%	36.6%	
Gross profit - Defense & Security	0.30	0.77	*-60.8%*
as % of segment sales	45.3%	53.2%	
Gross profit - Consumer	0.62	0.72	*-13.4%*
as % of segment sales	37.0%	39.8%	
EBITDA	0.29	0.19	*57.3%*
as % of sales	4.0%	2.5%	
EBITDA - Industry	0.38	-0.03	*n/m*
as % of segment sales	7.6%	-0.7%	
EBITDA - Defense & Security	-0.28	0.01	*n/m*
as % of segment sales	-41.7%	0.4%	
EBITDA - Consumer	0.19	0.21	*-9.6%*
as % of segment sales	11.4%	11.8%	
Adjusted EBITDA	0.11	0.19	*-38.8%*
as % of sales	1.6%	2.5%	
EBIT	-0.18	0.32	*-1.58*
as % of sales	-2.5%	4.2%	
Adjusted EBIT	-0.36	-0.22	*n/m*
as % of sales	-4.9%	-2.9%	
Net income after minorities	-0.21	0.34	*-1.62*
as % of sales	-2.9%	4.5%	
Basic earnings per share (EUR)	-0.03	0.05	*-162%*
Cash flow from operating activities	-3.44	-0.61	*n/m*
Free cash flow (incl. interest received)	-3.53	-0.73	*n/m*

Source: SFC Energy AG, CBS Research AG

Profit and loss account

IFRS EURm	2010	2011	2012	2013E	2014E	2015E
Sales	**13.33**	**15.43**	**31.26**	**33.35**	**38.08**	**42.47**
YoY growth	14.1%	15.7%	102.6%	6.7%	14.2%	11.5%
Cost of sales	-9.29	-10.06	-18.50	-19.40	-21.84	-24.21
as % of sales	-69.7%	-65.2%	-59.2%	-58.2%	-57.4%	-57.0%
Gross profit	**4.04**	**5.37**	**12.76**	**13.95**	**16.24**	**18.26**
as % of sales	30.3%	34.8%	40.8%	41.8%	42.6%	43.0%
Research and development expenses	-1.89	-2.54	-4.26	-4.10	-4.19	-4.37
as % of sales	-14.2%	-16.4%	-13.6%	-12.3%	-11.0%	-10.3%
Selling expenses	-4.75	-4.90	-5.86	-5.77	-6.28	-6.79
as % of sales	-35.6%	-31.7%	-18.8%	-17.3%	-16.5%	-16.0%
General and administrative expenses	-2.05	-2.68	-3.55	-3.85	-4.11	-4.32
as % of sales	-15.4%	-17.4%	-11.4%	-11.6%	-10.8%	-10.2%
Other operating income	0.23	0.20	0.75	0.51	0.59	0.66
as % of sales	1.7%	1.3%	2.4%	1.5%	1.5%	1.6%
Other operating expenses	-0.09	-1.60	-0.36	-0.70	-0.80	-0.88
as % of sales	-0.6%	-10.4%	-1.2%	-2.1%	-2.1%	-2.1%
EBIT before restructuring expenses	**-4.51**	**-6.14**	**-0.52**	**0.04**	**1.44**	**2.55**
as % of sales	-33.8%	-39.8%	-1.7%	0.1%	3.8%	6.0%
Restructuring expenses	0.0	-0.47	0.0	0.0	0.0	0.0
as % of sales	0.0%	-3.1%	0.0%	0.0%	0.0%	0.0%
EBIT	**-4.51**	**-6.61**	**-0.52**	**0.04**	**1.44**	**2.55**
as % of sales	-33.8%	-42.9%	-1.7%	0.1%	3.8%	6.0%
Net financial result	0.39	0.39	0.08	0.20	0.20	0.25
EBT (Earnings before income taxes)	**-4.12**	**-6.22**	**-0.44**	**0.24**	**1.64**	**2.80**
as % of sales	-30.9%	-40.4%	-1.4%	0.7%	4.3%	6.6%
Income taxes	0.00	0.01	0.02	-0.28	-0.40	-0.51
as % of EBT	0.0%	-0.1%	-4.3%	-118.1%	-24.2%	-18.3%
Income from continuing operations	**-4.12**	**-6.22**	**-0.43**	**-0.04**	**1.24**	**2.29**
Income from discontinued operations, net of taxes	0.00	0.00	0.00	0.00	0.00	0.00
Group net income including minorities	**-4.12**	**-6.22**	**-0.43**	**-0.04**	**1.24**	**2.29**
as % of sales	-30.9%	-40.3%	-1.4%	-0.1%	3.3%	5.4%
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Net income attributable to shareholders	**-4.12**	**-6.22**	**-0.43**	**-0.04**	**1.24**	**2.29**
Shares outstanding (m)	7.15	7.16	7.50	7.50	7.50	7.50
Basic earnings per share (EUR)	**-0.58**	**-0.87**	**-0.06**	**-0.01**	**0.17**	**0.31**
EBITDA	**-3.49**	**-4.64**	**0.73**	**2.01**	**3.50**	**4.35**
EBITA	**-3.89**	**-5.15**	**0.07**	**1.31**	**2.76**	**3.46**

Source: CBS Research AG, SFC Energy AG

Balance sheet

IFRS EURm	2010	2011	2012	2013E	2014E	2015E
Assets						
Current assets	**40.17**	**33.93**	**33.60**	**37.40**	**40.25**	**43.89**
as % of total assets	86.7%	68.5%	70.6%	74.0%	76.5%	78.9%
Inventories and prepayments	1.94	4.91	5.81	5.80	6.55	7.13
Trade accounts receivable	2.71	4.47	3.70	8.22	9.91	10.47
Other assets incl. tax and PoC receivables	1.39	1.82	1.18	2.61	3.05	3.53
Cash and cash equivalents	33.56	22.44	22.63	20.67	20.64	22.65
Cash and cash equival. with limitation on disposal	0.57	0.29	0.29	0.10	0.10	0.10
Noncurrent assets	**6.15**	**15.61**	**14.02**	**13.16**	**12.39**	**11.72**
as % of total assets	13.3%	31.5%	29.4%	26.0%	23.5%	21.1%
Intangible assets excl. goodwill	2.95	4.89	4.86	4.14	3.57	3.41
Goodwill	0.00	6.14	6.14	6.14	6.14	6.14
Property, plant and equipment	2.34	2.75	2.40	2.12	1.90	1.61
Other non-current assets	0.07	0.05	0.00	0.14	0.16	0.19
Deferred taxes	0.80	1.77	0.62	0.62	0.62	0.37
Total assets	**46.31**	**49.54**	**47.62**	**50.57**	**52.64**	**55.61**
Shareholders´ equity and liabilities						
Current liabilities	**3.18**	**7.49**	**7.66**	**9.91**	**10.54**	**11.38**
as % of total equity and liabilities	6.9%	15.1%	16.1%	19.6%	20.0%	20.5%
Provisions	0.55	1.58	1.00	1.87	2.06	2.17
Advance payments received	0.00	0.20	0.01	0.25	0.25	0.28
Trade accounts payable	1.38	3.17	3.03	3.59	4.00	4.38
Financial debt	0.00	0.56	0.37	0.73	0.76	0.79
Other liabilities	1.24	1.98	3.24	3.48	3.48	3.76
Noncurrent liabilities	**1.41**	**5.26**	**3.56**	**4.30**	**4.51**	**4.34**
as % of total equity and liabilities	3.1%	10.6%	7.5%	8.5%	8.6%	7.8%
Other noncurrent provisions	0.50	1.41	1.39	1.53	1.59	1.40
Financial debt	0.00	0.20	0.00	0.00	0.00	0.00
Other noncurrent liabilities	0.12	1.46	1.04	1.64	1.78	1.81
Deferred tax liabilities	0.80	2.19	1.13	1.13	1.13	1.13
Shareholders´ equity	**41.72**	**36.79**	**36.39**	**36.35**	**37.59**	**39.88**
as % of total equity and liabilities	90.1%	74.3%	76.4%	71.9%	71.4%	71.7%
Subscribed capital	7.15	7.50	7.50	7.50	7.50	7.50
Capital reserve	66.88	67.88	67.88	67.88	67.88	67.88
Other changes in equity not effecting profit or loss	0.00	-0.07	-0.04	-0.04	-0.04	-0.04
Accumulated loss brought forward	-28.18	-32.31	-38.53	-38.95	-38.99	-37.75
Net result of the year	-4.12	-6.22	-0.43	-0.04	1.24	2.29
Total equity and liabilities	**46.31**	**49.54**	**47.62**	**50.57**	**52.64**	**55.61**

Source: CBS Research AG, SFC Energy AG

Cash flow statement

IFRS EURm	2010	2011	2012	2013E	2014E	2015E
Income/loss before interest and taxes	-4.51	-6.61	-0.52	0.04	1.44	2.55
Depreciation of PP&E	0.62	1.46	0.59	1.27	1.32	0.91
Amortisation of intangible assets incl. assets from PPA	0.40	0.51	0.66	0.71	0.75	0.88
Other expenses / income with no effect on liquidity	-0.11	0.25	0.45	-0.26	-0.29	-0.33
Increase/decrease in inventories, trade receivables, and other assets	-1.01	-0.99	0.45	-5.83	-2.61	-1.32
Increase/decrease in trade accounts payable and other liabilities	-0.13	1.10	-0.37	3.31	1.48	0.64
Cash taxes paid	0.11	-0.03	-0.01	-0.28	-0.40	-0.26
Cash flow from operating activities	**-4.64**	**-4.32**	**1.26**	**-1.04**	**1.68**	**3.08**
Net cash outflows from the purchase and retirement of noncurrent assets	-2.22	-1.13	-0.88	-0.98	-1.27	-1.35
Bank balances released/pledged	-0.52	0.29	0.00	0.19	0.00	0.00
Interests received	0.39	0.43	0.22	0.30	0.30	0.35
Purchase of consolidated companies	0.00	-6.00	0.00	-0.68	-0.68	0.00
Cash flow from investing activities	**-2.35**	**-6.42**	**-0.66**	**-1.17**	**-1.65**	**-1.00**
Net cash inflow from capital stock increases deducting expenses	0.00	-0.05	0.00	0.00	0.00	0.00
Net cash flow from financial debt incl. leasing	0.00	-0.35	-0.39	0.36	0.03	0.03
Interests paid	0.00	0.00	-0.03	-0.10	-0.10	-0.10
Cash flow from financing activities	**0.00**	**-0.40**	**-0.42**	**0.26**	**-0.07**	**-0.07**
Total change in cash and cash equivalents	**-6.98**	**-11.14**	**0.18**	**-1.95**	**-0.03**	**2.01**
Currency effects on cash and cash equivalents	0.00	0.01	0.00	0.00	0.00	0.00
Cash and cash equiv. at the start of the period	40.54	33.56	22.44	22.63	20.67	20.64
Cash and cash equiv. at the end of the period	**33.56**	**22.44**	**22.63**	**20.67**	**20.64**	**22.65**

Source: CBS Research AG, SFC Energy AG

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Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

BUY: The expected performance of the share price is above +10%.
HOLD: The expected performance of the share price is between 0% and +10%.
SELL: The expected performance of the share price is below 0%.

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

Date	Recommendation	Price at change date	Price Target
1 August 2012	BUY	EUR 6.78	EUR 7.50
31 October 2012	BUY	EUR 6.163	EUR 7.50
29 January 2013	BUY	EUR 6.05	EUR 7.50
26 March 2013	BUY	EUR 5.45	EUR 7.50
6 May 2013	BUY	EUR 5.05	EUR 7.50

Risk-scaling System:
Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark
MEDIUM: The volatility is expected to be equal to the volatility of the benchmark
HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.
The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.
These may change at any time without prior notice.

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