

Recommendation:
BUY (BUY)

Risk:
HIGH (HIGH)

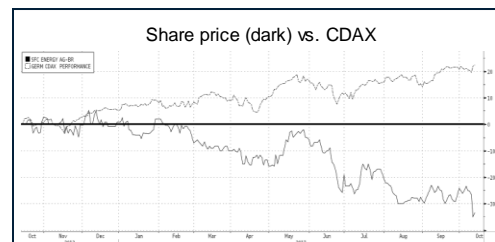
Price Target:
EUR 6.00 (7.50)

14 October 2013

Hefty profit warning for FY2013

High-margin Defense business is hit by external factors, but a rebound is expected for 2014E

- At the end of July, SFC Energy had still confirmed the management's guidance in spite of a weak 2Q 2013, hoping that **bureaucratic congestions in the Defense sector in Germany and the U.S.** might still dissolve in 3Q. As these hopes have eventually proven deceptive, the company issued a rather hefty profit warning at the end of last week. The Company **now expects group sales in the amount of EUR 32m to 36m** in FY2013 (previously: EUR 38m to 43m). As mainly the high margin Defense fuel cell business is affected, the earnings **guidance was reduced more than proportionally**. SFC now expects an underlying EBITDA of about EUR -2.5m to -3.0m in FY2013E (2012: EUR 0.8m). Accordingly the previous guidance (an improvement in underlying EBITDA in line with sales compared to 2012) cannot be reached anymore in 2013.
- At first we found it particularly disturbing that, according to the announcement, the slower than expected market penetration speed in the Industrial business has also been a reason for the profit warning. In a conference call with the management, however, it turned out that the delay in the Industry segment has been relatively minor, and that the **management expects the Industry segment to have a strong 4Q 2013**. In FY 2014, the Industry business is expected to benefit from full integration of Simark and thus improved market access which will enable faster market penetration. A sales team of about 30 people is now driving a constantly growing project pipeline which will result in **strong organic growth in FY2014, besides the full year consolidation effect from Simark**.
- We reduce our sales and earnings estimates for 2013E – 2015E, emphasising that there is still much insecurity regarding the outcomes of the PPA.** As it appears extremely unlikely that all the adverse external factors (see p. 2 for details) will occur again (and even simultaneously) in 2014, we do expect a **rebound in the Defense segment for next year**. We nevertheless make **more cautious assumptions** here due to the high imponderabilities in the Defense business which is mainly dependent on just a few relatively large orders. Furthermore, we take into account that business potential in the Consumer segment will remain restricted due to weak economic conditions in parts of Europe. We change our price target to EUR 6.00 (previously: EUR 7.50), but maintain our **BUY** recommendation.



Source: CBS Research AG, Bloomberg, SFC Energy AG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	33.9	39.5	55.2	58.7	62.1	64.7
EBITDA	-3.4	-1.5	2.0	3.5	4.1	4.9
EPS	-0.76	-0.50	-0.14	0.05	0.14	0.24

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, last closing price):	4.00
Shares outstanding (m):	7.5
Market capitalisation (EUR m):	30.0
Enterprise value (EUR m):	12.6
Ø daily trading volume (6 m., no. of shares):	4,636

Performance data:

High 52 weeks (EUR):	6.35
Low 52 weeks (EUR):	3.80
Absolute performance (12 months):	-33.3%
Relative performance vs. CDAX:	
1 month	-13.3%
3 months	-24.9%
6 months	-31.1%
12 months	-45.5%

Shareholders:

HPE	25.70%
Conduit Ventures	9.49%
Havensight	10.22%
Previous owners of PBF (lock-up agreement)	4.66%
Management and Supervisory Board	2.14%
DWS	4.92%
Other free float	42.87%

Financial calendar:

3Q 2013 report: 6 November 2013

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Y/E 31 Dec, EURm	2011	2012	2013E	2014E	2015E
Sales revenues	15.4	31.3	33.9	55.2	62.1
Underlying EBITDA	-2.7	0.8	-2.5	3.9	5.9
EBITDA	-4.6	0.7	-3.4	2.0	4.1
EBIT	-6.6	-0.5	-5.5	-0.5	1.8
Net income/loss	-6.2	-0.4	-5.8	-1.1	1.1
EPS	-0.87	-0.06	-0.76	-0.14	0.14
Underl. EBITDA margin	-17.4%	2.7%	-7.3%	7.0%	9.5%
EBITDA margin	-30.1%	2.3%	-10.1%	3.7%	6.6%
EBIT margin	-42.9%	-1.7%	-16.2%	-1.0%	2.9%
EV/EBITDA*	neg.	10.6	neg.	15.9	7.9

Source: SFC Energy AG; CBS Research AG

*EV 2013E-2015E: after capital increase

Project delays in the Defense business

Sales and earnings will mainly be affected by project delays in the high-margin Defense business in Germany (total project volume: around EUR 3m), the U.S. (EUR 1.5m – 2m), and Russia (also around EUR 1.5m – 2m).

In **Germany**, SFC continued to suffer from overall delays in the purchasing process of the German Army organisation after its reform. Decision making was and will be additionally delayed by the federal election in September and the still outstanding formation of government. Furthermore, SFC had to do some technical rework on some products for the German Bundeswehr as it became clear during testing that a number of systems were coming to the limits of specification. SFC therefore executed a 'proactive recall' in order to make sure that there is no residual risk. According to the management, the cut-off date for the budget allocation is around the end of October. After this date, chances for SFC being considered are close to nil.

In the **U.S.**, SFC's Defense business was affected by the unsolved federal budget situation. SFC had U.S. army projects of EUR 1.5m to 2m in the planning, but now consider it as very improbable to get any decision within 2013. It is even assumed that decision making, budget allocation, and appropriation will last until the second half of 2Q 2014.

In view of the delays in Germany and the U.S., it was particularly inconvenient that the initial decision making on a Defense project in **Russia** was postponed, too. SFC however stated that projects in Russia, Israel and other NATO states currently only have complementing character in comparison to SFC's two major Defense markets.

SFC emphasises that **these projects have only been delayed but not eliminated**. As it appears extremely unlikely that all the above described factors will occur again (and even simultaneously) in 2014, we expect a **rebound in the Defense segment for next year**.

Industry segment only affected by minor delays relating to the integration of Simark

The Industry segment has shown a somewhat slower than expected development in 9M 2013. 3Q is traditionally the weakest quarter in the Industry segment, and SFC additionally saw **some delays in the delivery of fuel cells to its key customer segment oil & gas in Canada due to the Simark integration work** (transfer of sales work from third party to own Canadian sales team, etc.). According to the management, this prevented SFC from shipping only some orders amounting to about EUR 250k to max. 400k.

The management now expects the Industry segment to have a **strong 4Q 2013**. In FY 2014, the Industry business is expected to benefit from full integration of Simark and improved market access which will enable faster market penetration. A sales team of about 30 people is now driving a constantly growing project pipeline which will result in **strong organic growth in FY2014, besides the full year consolidation effect from Simark**. The management also stated that PBF is continuing to deliver on the expected level, and that there is no reason to put a question mark over Simark's future performance.

SFC is still planning to achieve strong unit growth but also aims at higher revenues per fuel cell sold by **delivering more and more integrated solutions** (fuel cell packaged into one of SFC's energy solutions). After having launched the EFOY

Germany: Reform of the Bundeswehr and federal elections

U.S.: Unsolved federal budget situation

Russia: Postponed initial decision making

Rebound of the Defense business expected in 2014E

Simark integration caused some delay

SFC now expects a strong 4Q 2013 and double-digit growth in 2014 in the Industry segment

Integrated solutions boost sales and earnings potential

ProCube for powering mobile and vehicle based off-grid applications, and the vandalism-proof EFOY ProCabinet, SFC has recently introduced its own **EFOY ProEnergyBox** power solution engineered to withstand even the most extreme weather conditions (in particular for use in the oil & gas industry). The new offering is going to change SFC's product mix. According to SFC's plans, about 60% of the products shipped in Northern America will be integrated solutions which yield 2.5 to 5 times higher revenues per solution than the shipment of a separate EFOY Pro fuel cell.

Consumer segment is developing according to expectations

The Consumer segment is developing according to expectations (guidance: FY2013 sales at last year's level). The economic environment in some markets, especially in Southern Europe, continues to be weak. According to SFC, an overall decline in new registrations of vehicles and also a slow-down on the accessory side hampered the business development. However, while European partners reported sales reduction of 10-12%, **EFOY sales overall remain on the same level and were even above last year's level in some markets** (e.g. Scandinavian countries), **against the market trend**.

Stable development against the market trend in the Consumer segment

Changes in our estimates

We reduce our **sales estimate for FY2013 to EUR 33.9m** (previously: EUR 39.5m). According to SFC's previous guidance, the **underlying (adjusted) EBITDA** of the Group had been expected to improve in line with sales growth in FY 2013. Assuming an underlying EBITDA margin of 2.7% as achieved in 2012, this would have corresponded to about EUR 1m. Our last estimate had been only EUR 0.4m, however, and is **now lowered to EUR -2.5m** (new guidance: EUR -2.5m to EUR -3m). According to the management of SFC, **earnings adjustments** in order to arrive at the underlying EBITDA and EBIT figures are expected to comprise expenses from the Simark acquisition (about EUR 1m), income from earn-out liabilities (EUR 1m), and lower than previously expected effects from the PPA (EUR 0.8m – EUR 1.0m).

Estimates for 2013

Adjustments of 2013E earnings estimates

We also lower our sales and earnings estimates for 2014E and 2015E. **Regarding 2014E**, the management conceded in the conference call that it might be wise to be somewhat more careful in the planning of the Defense business in the future. Even though the Defense project pipeline could easily yield EUR 6m to 7m in sales in 2014E, the management now suggests to assume sales of **EUR 4m to 5m in the Defense segment**. We also believe that **weak economic conditions in parts of Europe will continue to restrict business in the Consumer segment**.

Slightly lower Defense sales and earnings contribution assumed for 2014E

Changes in financial estimates of CBS Research

	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	33.9	39.5	55.2	58.7	62.1	64.7
Gross profit	12.7	15.6	21.0	22.4	23.8	25.0
EBITDA	-3.4	-1.5	2.0	3.5	4.1	4.9
EBIT	-5.5	-3.5	-0.5	1.0	1.8	2.6
Net result after minorities	-5.8	-3.9	-1.1	0.4	1.1	1.9
EPS	-0.76	-0.50	-0.14	0.05	0.14	0.24

Source: CBS Research AG

Appendix

Profit and loss account

	IFRS	EURm	2010	2011	2012	2013E	2014E	2015E
Sales			13.33	15.43	31.26	33.93	55.20	62.10
YoY growth			14.1%	15.7%	102.6%	8.5%	62.7%	12.5%
Cost of sales			-9.29	-10.06	-18.50	-21.18	-34.17	-38.30
as % of sales			-69.7%	-65.2%	-59.2%	-62.4%	-61.9%	-61.7%
Gross profit			4.04	5.37	12.76	12.74	21.04	23.80
as % of sales			30.3%	34.8%	40.8%	37.6%	38.1%	38.3%
Research and development expenses			-1.89	-2.54	-4.26	-5.05	-6.06	-6.05
as % of sales			-14.2%	-16.4%	-13.6%	-14.9%	-11.0%	-9.8%
Selling expenses			-4.75	-4.90	-5.86	-7.34	-8.83	-9.07
as % of sales			-35.6%	-31.7%	-18.8%	-21.6%	-16.0%	-14.6%
General and administrative expenses			-2.05	-2.68	-3.55	-4.78	-5.13	-5.28
as % of sales			-15.4%	-17.4%	-11.4%	-14.1%	-9.3%	-8.5%
Other operating income			0.23	0.20	0.75	1.17	0.88	0.91
as % of sales			1.7%	1.3%	2.4%	3.5%	1.6%	1.5%
Other operating expenses			-0.09	-2.07	-0.36	-2.24	-2.43	-2.48
as % of sales			-0.6%	-13.4%	-1.2%	-6.6%	-4.4%	-4.0%
EBIT			-4.51	-6.61	-0.52	-5.51	-0.53	1.82
as % of sales			-33.8%	-42.9%	-1.7%	-16.2%	-1.0%	2.9%
Net financial result			0.39	0.39	0.08	-0.07	-0.24	-0.30
EBT (Earnings before income taxes)			-4.12	-6.22	-0.44	-5.57	-0.77	1.52
as % of sales			-30.9%	-40.4%	-1.4%	-16.4%	-1.4%	2.5%
Income taxes			0.00	0.01	0.02	-0.26	-0.33	-0.44
as % of EBT			0.0%	-0.1%	-4.3%	4.7%	43.3%	-28.7%
Group net income including minorities			-4.12	-6.22	-0.43	-5.83	-1.10	1.09
as % of sales			-30.9%	-40.3%	-1.4%	-17.2%	-2.0%	1.7%
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	-5.83	-1.10	1.09
Shares outstanding (m)			7.15	7.16	7.50	7.68	8.02	8.02
Basic earnings per share (EUR)			-0.58	-0.87	-0.06	-0.76	-0.14	0.14
Underlying EBITDA			-3.49	-2.69	0.83	-2.46	3.86	5.92
as % of sales			-26.2%	-17.4%	2.7%	-7.3%	7.0%	9.5%
EBITDA			-3.49	-4.64	0.73	-3.42	2.03	4.09
as % of sales			-26.2%	-30.1%	2.3%	-10.1%	3.7%	6.6%

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	25.87	27.95	31.72
as % of total assets			86.7%	68.5%	70.6%	50.4%	53.6%	57.8%
Inventories and prepayments			1.94	4.91	5.81	5.04	9.33	10.43
Trade accounts receivable			2.71	4.47	3.70	7.16	10.59	11.91
Other assets incl. tax and PoC receivables			1.39	1.82	1.18	2.97	4.15	4.77
Cash and cash equivalents			33.56	22.44	22.63	10.59	3.79	4.51
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	25.49	24.17	23.17
as % of total assets			13.3%	31.5%	29.4%	49.6%	46.4%	42.2%
Intangible assets excl. goodwill			2.95	4.89	4.86	9.02	8.04	7.46
Goodwill			0.00	6.14	6.14	11.97	11.97	11.97
Property, plant and equipment			2.34	2.75	2.40	3.73	3.37	2.91
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	0.64
Total assets			46.31	49.54	47.62	51.36	52.12	54.90
Shareholders' equity and liabilities								
Current liabilities			3.18	7.49	7.66	6.94	12.31	13.96
as % of total equity and liabilities			6.9%	15.1%	16.1%	13.5%	23.6%	25.4%
Provisions			0.55	1.58	1.00	1.04	1.71	1.86
Advance payments received			0.00	0.20	0.01	0.25	0.25	0.28
Trade accounts payable			1.38	3.17	3.03	2.14	5.47	6.13
Financial debt			0.00	0.56	0.37	0.73	1.00	1.60
Other liabilities			1.24	1.98	3.24	2.78	3.88	4.09
Noncurrent liabilities			1.41	5.26	3.56	11.06	7.56	7.60
as % of total equity and liabilities			3.1%	10.6%	7.5%	21.5%	14.5%	13.8%
Other noncurrent provisions			0.50	1.41	1.39	1.53	1.59	1.60
Financial debt			0.00	0.20	0.00	3.06	3.06	3.06
Other noncurrent liabilities			0.12	1.46	1.04	5.34	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	33.35	32.25	33.33
as % of total equity and liabilities			90.1%	74.3%	76.4%	64.9%	61.9%	60.7%
Subscribed capital			7.15	7.50	7.50	8.02	8.02	8.02
Capital reserve			66.88	67.88	67.88	70.15	70.15	70.15
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	-44.78	-45.89
Net result of the year			-4.12	-6.22	-0.43	-5.83	-1.10	1.09
Total equity and liabilities			46.31	49.54	47.62	51.36	52.12	54.90

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	-5.51	-0.53	1.82
Amortisation of intangible assets incl. assets from PPA			0.62	1.46	0.59	1.39	1.74	1.33
Depreciation of PP&E			0.40	0.51	0.66	0.70	0.83	0.93
Other expenses / income with no effect on liquidity			-0.11	0.25	0.45	-0.59	-0.44	-0.45
Increase/decrease in inventories, trade receivables, and other assets			-1.01	-0.99	0.45	4.80	-8.47	-2.62
Increase/decrease in trade accounts payable and other liabilities			-0.13	1.10	-0.37	-3.09	3.47	2.32
Cash taxes paid			0.11	-0.03	-0.01	-0.26	-0.33	-0.46
Cash flow from operating activities			-4.64	-4.32	1.26	-2.56	-3.74	2.88
Net cash outflows from the purchase and retirement of noncurrent assets			-2.22	-1.13	-0.88	-0.98	-1.22	-1.22
Bank balances released/pledged			-0.52	0.29	0.00	0.19	0.00	0.00
Interests received			0.39	0.43	0.22	0.10	0.06	0.03
Purchase of consolidated companies			0.00	-6.00	0.00	-12.03	-1.87	-1.23
Cash flow from investing activities			-2.35	-6.42	-0.66	-12.72	-3.03	-2.42
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	3.41	0.27	0.60
Interests paid			0.00	0.00	-0.03	-0.17	-0.30	-0.33
Cash flow from financing activities			0.00	-0.40	-0.42	3.25	-0.03	0.27
Total change in cash and cash equivalents			-6.98	-11.14	0.18	-12.03	-6.80	0.73
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	10.59	3.79
Cash and cash equiv. at the end of the period			33.56	22.44	22.63	10.59	3.79	4.51

Source: CBS Research AG, SFC Energy AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	∞
Sales	33.9	55.2	62.1	67.7	73.8	79.7	85.3	90.4	94.9	97.3	
Sales growth	8.5%	62.7%	12.5%	9.0%	9.0%	8.0%	7.0%	6.0%	5.0%	2.5%	
EBIT	-5.5	-0.5	1.8	2.9	3.8	4.9	6.0	6.3	6.6	6.8	
EBIT margin	-16.2%	-1.0%	2.9%	4.3%	5.2%	6.1%	7.0%	7.0%	7.0%	7.0%	
Cash taxes on EBIT	-0.4	0.0	-0.7	-0.5	-0.6	-0.8	-1.1	-1.1	-1.2	-1.6	
Depreciation and amortisation	2.1	2.6	2.3	1.8	1.6	1.3	1.2	1.1	1.1	1.1	
Change in long-term provisions	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other non-cash items	-0.6	-0.4	0.5	0.2	0.1	0.1	0.0	0.0	0.0	0.0	
Change in net working capital	1.7	-5.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	
Net capital expenditure	-1.0	-1.2	-1.2	-1.2	-1.1	-1.1	-1.3	-1.1	-1.2	-1.1	
Purchase of consolidated companies	-12.0	-1.9	-1.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	-15.5	-6.5	1.1	2.0	3.7	4.1	4.7	5.0	5.2	5.2	
Present values	-15.2	-5.7	0.9	1.4	2.5	2.5	2.6	2.5	2.4	2.1	30.3
Present value Phase 1	-20.1										
Present value Phase 2	15.9										
Present value Phase 3	30.3										
Total present value	26.1										
+ Liquid funds (31 Dec. 2012)	22.6										
- Financial debt (31 Dec. 2012)	-0.4										
- Minority interest	0.0										
Fair value of equity	48.4										
Number of shares (m) (after takeover)	8.0										
Fair value per share (EUR)	6.03										

Risk free rate:	3.5%	Target equity ratio:	80.0%
Equity risk premium:	6.0%	Beta:	1.3
Debt risk premium:	2.0%	WACC:	9.7%
Tax shield:	24.0%	Terminal growth:	2.5%

Sensitivity analysis						
Terminal growth (Phase 3)						
	1.5%	2.0%	2.5%	3.0%	3.5%	
8.66%	6.47	6.80	7.18	7.64	8.17	
9.16%	5.97	6.25	6.56	6.93	7.36	
WACC 9.66%	5.53	5.77	6.03	6.33	6.68	
10.16%	5.15	5.35	5.57	5.82	6.11	
10.66%	4.81	4.98	5.16	5.38	5.62	

Source: CBS Research AG

Research



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Date	Recommendation	Price at change date	Price Target
14 October 2013	BUY	EUR 4.00	EUR 6.00
30 July 2013	BUY	EUR 4.978	EUR 7.50
9 July 2013	BUY	EUR 4.421	EUR 7.50
6 May 2013	BUY	EUR 5.05	EUR 7.50
26 March 2013	BUY	EUR 5.45	EUR 7.50
29 January 2013	BUY	EUR 6.05	EUR 7.50
31 October 2012	BUY	EUR 6.163	EUR 7.50

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