SFC Energy AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	HIGH (HIGH)	EUR 5.90 (6.00)

02 December 2013

3Q report: New guidance confirmed

Organic decline continued also in the Industry segment

- SFC Energy has issued the 3Q report. As the company had announced on 9 October (see our last update report), sales and earnings were and will be further affected by project delays in the high-margin Defense business in Germany, the U.S., and Russia. Sales in the **Defense & Security segment** declined in 3Q 2013 by 24.8% to EUR 0.8m (3Q 2012: 1.0m). While the segment's EBITDA reached about the previous year's level (EUR -0.4m) in 3Q, it still accounted for EUR -1.1m in 9M 2013 (9M 2012: EUR -0.5m).

- Total sales in the **Industry segment** increased YOY by 17.2% to EUR 5.3m in 3Q 3013 (3Q 2012: EUR 4.5m). This was due to the **first consolidation of Simark** as of 1 September. Simark's sales contribution, all of which is allocated to the Industry segment, amounted to EUR 1.8m. The Industry segment sales of **PBF** declined by 14.4% YOY to EUR 2.7m (3Q 2012: EUR 3.1m). The Industry business of **SFC** contributed only EUR 0.8m (3Q 2012: EUR 1.4m; -42.7%). The number of EFOY units sold decreased from 306 in 3Q 2012 to 127 in 3Q 2013 (-58.5%). This decrease compared to 3Q 2012 was due to the absence of any large traffic management projects. There were also delays in delivery of fuel cells in the area of oil and gas because of the switch from distribution by a Canadian oil and gas integrator to direct distribution by the Company. The **Industry segment's EBITDA** amounted to **EUR -0.5m** in 3Q compared to the break-even result in 3Q 2012.

- The **Consumer segment** performed somewhat better than expected in 3Q (see page 2 for details), particularly in the Scandinavian countries.

- The management of SFC Energy **confirmed the FY2013 guidance** altered on 9 October 2013 (sales in the amount of EUR 32m to 36m; underlying EBITDA of between EUR -2.5m to -3.0m). However, since **the Industry segment's development has not come up to our expectations in 3Q, we reduce our sales and earnings estimates for 2013E.** We also adjust our gross margin estimates for 2014E and 2015E due to the **margin impact of Simark.** According to our estimates, Simark will account for >42% of the group's sales in 2014E. In September, Simark's gross margin reached 15.9%, compared to 41.4% at SFC and 33.5% at PBF in 9M 2013.

- We change our price target to EUR 5.90 (previously: EUR 6.00), but maintain our **BUY** recommendation.

Y/E 31 Dec, EURm	2011	2012	2013E	2014E	2015E
Sales revenues	15.4	31.3	32.5	55.2	62.1
Underlying EBITDA	-2.7	0.8	-2.6	2.7	4.4
EBITDA	-4.6	0.7	-4.2	0.7	2.4
EBIT	-6.6	-0.5	-6.6	-2.7	-0.5
Net income/loss	-6.2	-0.4	-6.9	-3.7	-1.7
EPS	-0.87	-0.06	-0.90	-0.46	-0.21
Underl. EBITDA margin	-17.4%	2.7%	-7.9%	5.0%	7.0%
EBITDA margin	-30.1%	2.3%	-13.0%	1.3%	3.8%
EBIT margin	-42.9%	-1.7%	-20.4%	-4.9%	-0.8%
EV/EBITDA	neg.	8.9	neg.	43.3	15.0

Source: SFC Energy AG; CBS Research

Share price (dark) vs. CDAX

Source: CBS Research AG, Bloomberg, SFC Energy AG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	32.5	33.9	-	55.2	-	62.1
EBITDA	-4.2	-3.4	0.7	2.0	2.4	4.1
EPS	-0.90	-0.76	-0.46	-0.14	-0.21	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, last closing price):	**3.83**
Shares outstanding (m):	7.5
Market capitalisation (EUR m):	28.7
Enterprise value (EUR m):	25.2
Ø daily trading volume (6 m., no. of shares):	4,592

Performance data:

High 52 weeks (EUR):	6.35
Low 52 weeks (EUR):	3.30
Absolute performance (12 months):	-35.9%
Relative performance vs. CDAX:	
1 month	-7.5%
3 months	-21.0%
6 months	-40.1%
12 months	-50.1%

Shareholders:

HPE	24.05%
Conduit Ventures	9.49%
Havensight	9.56%
Mark Wheeler	3.94%
Management and Supervisory Board	2.00%
DWS	4.60%
Other free float	46.36%

Financial calendar:

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Key figures with YOY comparison

IFRS EURm	3Q 2013	3Q 2012	Change	9M 2013	9M 2012	Change
Total sales	7.00	6.21	*12.8%*	20.58	21.17	*-2.8%*
YOY growth	12.8%	127.5%		-2.8%	101.6%	
Industry	5.30	4.52	*17.2%*	14.69	14.18	*3.6%*
as % of total sales	75.7%	72.9%		71.4%	67.0%	
Defense & Security	0.76	1.01	*-24.8%*	2.09	3.35	*-37.7%*
as % of total sales	10.8%	16.2%		10.1%	15.8%	
Consumer	0.94	0.68	*39.7%*	3.81	3.64	*4.5%*
as % of total sales	13.5%	10.9%		18.5%	17.2%	
Gross profit	2.15	2.41	*-10.8%*	7.25	8.56	*-15.3%*
as % of sales	30.8%	38.9%		35.2%	40.4%	
Gross profit - Industry	1.40	1.70	*-17.4%*	4.90	5.44	*-10.0%*
as % of segment sales	26.4%	37.5%		33.3%	38.3%	
Gross profit - Defense & Security	0.50	0.49	*3.2%*	1.08	1.77	*-39.0%*
as % of segment sales	66.2%	48.2%		51.8%	52.9%	
Gross profit - Consumer	0.25	0.23	*8.5%*	1.28	1.35	*-5.5%*
as % of segment sales	26.7%	34.4%		33.5%	37.1%	
EBITDA	-1.23	-0.64	*n/m*	-2.00	-0.16	*>1,000%*
as % of sales	-17.6%	-10.3%		-9.7%	-0.8%	
EBITDA - Industry	-0.52	0.01	*n/m*	-0.68	0.50	*-237.2%*
as % of segment sales	-9.8%	0.3%		-4.6%	3.5%	
EBITDA - Defense & Security	-0.38	-0.36	*n/m*	-1.15	-0.49	*n/m*
as % of segment sales	-49.6%	-35.3%		-54.9%	-14.6%	
EBITDA - Consumer	-0.34	-0.30	*n/m*	-0.18	-0.17	*n/m*
as % of segment sales	-35.7%	-44.1%		-4.7%	-4.6%	
Adjusted EBITDA	-1.17	-0.61	*n/m*	-1.86	-0.10	*n/m*
as % of sales	-16.7%	-9.8%		-9.1%	-0.5%	
EBIT	-1.86	-1.11	*n/m*	-3.59	-0.95	*n/m*
as % of sales	-26.6%	-17.9%		-17.4%	-4.5%	
Adjusted EBIT	-1.66	-1.08	*n/m*	-3.30	-1.42	*n/m*
as % of sales	-23.6%	-17.4%		-16.0%	-6.7%	
Net income after minorities	-1.84	-1.11	*n/m*	-3.60	-0.92	*n/m*
as % of sales	-26.3%	-17.9%		-17.5%	-4.3%	
Basic earnings per share (EUR)	-0.24	-0.15	*n/m*	-0.48	-0.12	*n/m*
Cash flow from operating activities	-6.79	-0.04	*n/m*	-11.48	-2.22	*n/m*
Free cash flow (incl. interest received)	-12.52	-0.21	*n/m*	-17.59	-2.64	*n/m*

Source: SFC Energy AG, CBS Research AG

Changes in financial estimates of CBS Research

	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	32.5	33.9	-	55.2	-	62.1
Gross profit	10.5	12.7	16.2	21.0	19.0	23.8
Underlying EBITDA	-2.6	-2.5	2.7	3.9	4.4	5.9
EBITDA	-4.2	-3.4	0.7	2.0	2.4	4.1
EBIT	-6.6	-5.5	-2.7	-0.5	-0.5	1.8
Net result after minorities	-6.9	-5.8	-3.7	-1.1	-1.7	1.1
EPS	-0.90	-0.76	-0.46	-0.14	-0.21	0.14

Source: CBS Research AG

Profit and loss account

IFRS EURm	2010	2011	2012	2013E	2014E	2015E
Sales	**13.33**	**15.43**	**31.26**	**32.46**	**55.24**	**62.14**
YoY growth	14.1%	15.7%	102.6%	3.8%	70.2%	12.5%
Cost of sales	-9.29	-10.06	-18.50	-21.95	-39.02	-43.14
as % of sales	-69.7%	-65.2%	-59.2%	-67.6%	-70.6%	-69.4%
Gross profit	**4.04**	**5.37**	**12.76**	**10.51**	**16.22**	**19.00**
as % of sales	30.3%	34.8%	40.8%	32.4%	29.4%	30.6%
Research and development expenses	-1.89	-2.54	-4.26	-5.11	-5.47	-5.69
as % of sales	-14.2%	-16.4%	-13.6%	-15.7%	-9.9%	-9.2%
Selling expenses	-4.75	-4.90	-5.86	-7.25	-8.67	-8.89
as % of sales	-35.6%	-31.7%	-18.8%	-22.3%	-15.7%	-14.3%
General and administrative expenses	-2.05	-2.68	-3.55	-3.68	-3.78	-3.85
as % of sales	-15.4%	-17.4%	-11.4%	-11.3%	-6.9%	-6.2%
Other operating income	0.23	0.20	0.75	1.20	1.38	1.43
as % of sales	1.7%	1.3%	2.4%	3.7%	2.5%	2.3%
Other operating expenses	-0.09	-2.07	-0.36	-2.29	-2.38	-2.49
as % of sales	-0.6%	-13.4%	-1.2%	-7.0%	-4.3%	-4.0%
EBIT	**-4.51**	**-6.61**	**-0.52**	**-6.62**	**-2.70**	**-0.48**
as % of sales	-33.8%	-42.9%	-1.7%	-20.4%	-4.9%	-0.8%
Net financial result	0.39	0.39	0.08	-0.12	-0.24	-0.30
EBT (Earnings before income taxes)	**-4.12**	**-6.22**	**-0.44**	**-6.74**	**-2.94**	**-0.78**
as % of sales	-30.9%	-40.4%	-1.4%	-20.8%	-5.3%	-1.3%
Income taxes	0.00	0.01	0.02	-0.15	-0.72	-0.94
as % of EBT	0.0%	-0.1%	-4.3%	2.2%	24.3%	121.1%
Group net income including minorities	**-4.12**	**-6.22**	**-0.43**	**-6.88**	**-3.66**	**-1.72**
as % of sales	-30.9%	-40.3%	-1.4%	-21.2%	-6.6%	-2.8%
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**	**-6.88**	**-3.66**	**-1.72**
Shares outstanding (m)	7.15	7.16	7.50	7.63	8.02	8.02
Basic earnings per share (EUR)	**-0.58**	**-0.87**	**-0.06**	**-0.90**	**-0.46**	**-0.21**
Underlying EBITDA	**-3.49**	**-2.69**	**0.83**	**-2.55**	**2.73**	**4.36**
as % of sales	-26.2%	-17.4%	2.7%	-7.9%	5.0%	7.0%
EBITDA	**-3.49**	**-4.64**	**0.73**	**-4.24**	**0.73**	**2.36**
as % of sales	-26.2%	-30.1%	2.3%	-13.0%	1.3%	3.8%

Source: CBS Research AG, SFC Energy AG

Discounted Cash Flow Model

EURm	PHASE 1 2013E	2014E	2015E	PHASE 2 2016E	2017E	2018E	2019E	2020E	2021E	2022E	PHASE 3 ∞
Sales	32.5	55.2	62.1	69.3	76.2	83.8	91.4	98.7	103.6	106.2	
Sales growth	3.8%	70.2%	12.5%	11.5%	10.0%	10.0%	9.0%	8.0%	5.0%	2.5%	
EBIT	-6.6	-2.7	-0.5	1.9	3.0	5.0	6.9	7.4	7.8	8.0	
EBIT margin	-20.4%	-4.9%	-0.8%	2.8%	4.0%	6.0%	7.5%	7.5%	7.5%	7.5%	
Cash taxes on EBIT	-0.3	-0.8	-0.9	-1.2	-1.2	-1.2	-1.7	-1.9	-1.9	-2.0	
Depreciation and amortisation	2.4	3.4	2.8	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	-0.7	-0.7	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0	
Change in net working capital	1.0	-10.1	-1.6	-0.4	-0.3	-0.4	-0.4	-0.4	-0.3	-0.2	
Net capital expenditure	-1.0	-1.2	-1.2	-1.3	-1.4	-1.5	-1.8	-1.2	-1.2	-1.1	
Purchase of consolidated companies	-5.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	**-10.5**	**-12.6**	**-2.2**	**0.6**	**1.7**	**3.3**	**4.2**	**5.1**	**5.6**	**5.9**	
Present values	**-10.4**	**-11.4**	**-1.8**	**0.5**	**1.1**	**2.0**	**2.4**	**2.6**	**2.6**	**2.5**	**35.4**

Present value Phase 1	-23.6
Present value Phase 2	13.6
Present value Phase 3	35.4
Total present value	25.4
+ Liquid funds (31 Dec. 2012)	22.6
- Financial debt (31 Dec. 2012)	-0.4
- Minority interest	0.0
Fair value of equity	**47.6**
Number of shares (m) (after takeover)	8.0
Fair value per share (EUR)	**5.94**

Risk free rate:	3.5%	Target equity ratio:	80.0%
Equity risk premium:	6.0%	Beta:	1.3
Debt risk premium:	2.0%	**WACC:**	**9.6%**
Tax shield:	25.0%	**Terminal growth:**	**2.5%**

Sensitivity analysis

		Terminal growth (Phase 3)				
		1.5%	**2.0%**	**2.5%**	**3.0%**	**3.5%**
	8.65%	6.41	6.80	7.24	7.77	8.40
	9.15%	5.85	6.17	6.54	6.97	7.48
WACC	**9.65%**	5.36	5.63	**5.94**	6.30	6.71
	10.15%	4.93	5.16	5.42	5.72	6.06
	10.65%	4.56	4.75	4.97	5.22	5.51

Source: CBS Research AG

Research

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Recommendation System:
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
2 December 2013	BUY	EUR 3.83	EUR 5.90
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

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

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