

Recommendation:

BUY (HOLD)

Risk:

HIGH (HIGH)

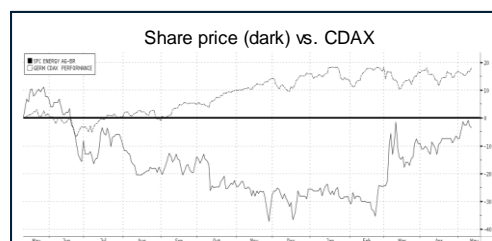
Price Target:

EUR 5.70 (5.00)

13 May 2014

1Q report: Strong 2H 2014 expected

- In our last report on SFC Energy from 28 March, we had expressed the expectation that SFC Energy will achieve a significant YOY sales increase in 1Q 2014 while underlying EBITDA should still be slightly negative due to final integration work in America. The 1Q report now confirmed our assessment. **Sales** increased by 76.1% YOY due to the first consolidation of Simark, reaching EUR 12.9m (1Q 2013: EUR 7.3m). **Underlying EBITDA** (adjusted for personnel expenses relating to the contingent consideration) amounted to EUR -0.2m (1Q 2013: 0.1m). **Underlying EBIT** (additionally adjusted for PPA amortisations) accounted for EUR -0.6m (1Q 2013: EUR -0.4m). **Unadjusted EBITDA** came in at EUR -0.5m (1Q 2013: 0.3m), while the **unadjusted EBIT** in the amount of EUR -1.2m was more significantly below the previous year's level (EUR -0.2m).
- Due to the Simark acquisition and the group's change in strategy, SFC has changed the segment reporting. **Oil & Gas**, previously part of the 'Industry' segment, now represents a separate segment with sales of EUR 6.6m in 1Q 2014 (1Q 2013: EUR 0.1m), accounting for 51.1% of total sales in 1Q 2014. In the **Security & Industry** segment, which addresses industrial and governmental end users (except for Oil & Gas), revenue fell YOY from EUR 5.5m in Q1 2013 to EUR 5.1m in 1Q 2014. This was a result of an order cancellation and some revenue slippage due to the slower start-up of two new projects at PBF. Regarding the defense business included in this segment, SFC announced a delivery to the US Air Force as well as a major order from Singapore for an integrated hybrid power system to be used to power security cameras. Sales in the **Consumer** segment were down YOY from EUR 1.7m to EUR 1.3m, mainly because last year's Q1 was exceptionally strong. **EBITDA was negative in all three segments**, while EBITDA in the Security & Industry segment as well as the Consumer segment had already been positive in 1Q 2013 (see p. 2 for details).
- SFC reported that the Simark integration process is ahead of expectations. In April, SFC/Simark already launched their first joint product (EFOY ProCabinet). This product is expected to contribute significantly to revenues in 2H 2014. We share the management's **expectation of a strong 2H 2014**, considering in particular that Oil & Gas as well as Defense both tend to be back-end loaded. SFC confirmed the guidance for FY 2014. In light of the **promising developments in Oil & Gas**, we changed our long-term margin assumptions and lift our price target to EUR 5.70 (prev.: EUR 5.00). We change our recommendation from HOLD to **BUY**.



Source: CBS Research AG, Bloomberg, SFC Energy AG

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	-	55.2	-	62.1	-	69.4
EBITDA	-	-0.2	-	2.1	-	3.9
EPS	-	-0.66	-	-0.42	-	-0.14

Internet: www.sfc.com

WKN: 756857

Reuters: F3CG.DE

Sector: Alternative energy

ISIN: DE0007568578

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):	5.101
Shares outstanding (m):	8.0
Market capitalisation (EUR m):	40.9
Enterprise value (EUR m):	38.8
Ø daily trading volume (6 m., no. of shares):	6,637

Performance data:

High 52 weeks (EUR):	5.92
Low 52 weeks (EUR):	3.30
Absolute performance (12 months):	-7.8%
Relative performance vs. CDAX:	
1 month	3.0%
3 months	34.7%
6 months	23.5%
12 months	-22.2%

Shareholders:

HPE	24.05%
Conduit Ventures	9.49%
Havensight	9.56%
Mark Wheeler	3.94%
Management and Supervisory Board	3.45%
DWS	4.60%
Other free float	44.91%

Financial calendar:

Annual General Meeting: 16 May 2014

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Y/E 31 Dec, EURm	2011	2012	2013	2014E	2015E	2016E
Sales revenues	15.4	31.3	32.4	55.2	62.1	69.4
Underlying EBITDA	-2.7	0.8	-2.2	1.4	3.6	3.9
EBITDA	-4.6	0.7	-4.5	-0.2	2.1	3.9
EBIT	-6.6	-0.5	-8.8	-5.0	-2.9	-0.4
Net income/loss	-6.2	-0.4	-8.9	-5.3	-3.4	-1.1
EPS	-0.87	-0.06	-1.16	-0.66	-0.42	-0.14
Underl. EBITDA margin	-17.4%	2.7%	-6.8%	2.5%	5.8%	5.6%
EBITDA margin	-30.1%	2.3%	-13.8%	-0.4%	3.4%	5.6%
EBIT margin	-42.9%	-1.7%	-27.3%	-9.0%	-4.6%	-0.6%
EV/Underlying EBITDA	neg.	46.9	neg.	28.3	10.8	10.0
EV/EBITDA	neg.	53.2	neg.	neg.	18.4	10.0

Source: SFC Energy AG; CBS Research

Quarterly key figures with YOY comparison

	IFRS	EURm	1Q 2014	1Q 2013
Total sales			12.94	7.35
YOY growth			76.1%	-2.8%
Oil & Gas			6.61	0.12
as % of total sales			51.1%	1.6%
Security & Industry			5.07	5.55
as % of total sales			39.2%	75.5%
Consumer			1.25	1.68
as % of total sales			9.7%	22.8%
Gross profit			3.93	2.88
as % of sales			30.4%	39.2%
Gross profit - Oil & Gas			1.62	0.07
as % of segment sales			24.5%	54.8%
Gross profit - Security & Industry			1.93	2.19
as % of segment sales			38.0%	39.5%
Gross profit - Consumer			0.39	0.62
as % of segment sales			30.7%	37.0%
EBITDA			-0.51	0.29
as % of sales			-4.0%	4.0%
EBITDA - Oil & Gas			-0.07	-0.36
as % of segment sales			-1.1%	-305.4%
EBITDA - Security & Industry			-0.38	0.46
as % of segment sales			-7.5%	8.4%
EBITDA - Consumer			-0.06	0.19
as % of segment sales			-4.5%	11.4%
Adjusted EBITDA			-0.24	0.11
as % of sales			-1.8%	1.6%
EBIT			-1.20	-0.18
as % of sales			-9.3%	-2.5%
Adjusted EBIT			-0.65	-0.36
as % of sales			-5.0%	-4.9%
Net income after minorities			-1.32	-0.21
as % of sales			-10.2%	-2.9%
Basic earnings per share (EUR)			-0.17	-0.03
Cash flow from operating activities			0.11	-3.44
Free cash flow (incl. interest received)			-0.96	-3.53

Source: SFC Energy AG, CBS Research AG

Profit and loss account

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
Sales			15.43	31.26	32.41	55.24	62.14	69.44
YoY growth			15.7%	102.6%	3.7%	70.4%	12.5%	11.7%
Cost of sales			-10.06	-18.50	-21.77	-38.88	-42.88	-47.12
as % of sales			-65.2%	-59.2%	-67.2%	-70.4%	-69.0%	-67.9%
Gross profit			5.37	12.76	10.64	16.37	19.26	22.32
as % of sales			34.8%	40.8%	32.8%	29.6%	31.0%	32.1%
Research and development expenses			-2.54	-4.26	-6.15	-7.18	-7.21	-7.41
as % of sales			-16.4%	-13.6%	-19.0%	-13.0%	-11.6%	-10.7%
Selling expenses			-4.90	-5.86	-8.23	-9.67	-10.50	-10.69
as % of sales			-31.7%	-18.8%	-25.4%	-17.5%	-16.9%	-15.4%
General and administrative expenses			-2.68	-3.55	-3.86	-4.20	-4.23	-4.44
as % of sales			-17.4%	-11.4%	-11.9%	-7.6%	-6.8%	-6.4%
Other operating income			0.20	0.75	1.04	0.55	0.62	0.69
as % of sales			1.3%	2.4%	3.2%	1.0%	1.0%	1.0%
Other operating expenses			-2.07	-0.36	-1.71	-0.83	-0.81	-0.90
as % of sales			-13.4%	-1.2%	-5.3%	-1.5%	-1.3%	-1.3%
Restructuring expenses			0.00	0.00	-0.57	0.00	0.00	0.00
as % of sales			0.0%	0.0%	-1.7%	0.0%	0.0%	0.0%
EBIT			-6.61	-0.52	-8.84	-4.96	-2.86	-0.44
as % of sales			-42.9%	-1.7%	-27.3%	-9.0%	-4.6%	-0.6%
Underlying EBIT			-4.08	-0.96	-4.22	-2.19	-0.29	0.64
as % of sales			-26.5%	-3.1%	-13.0%	-4.0%	-0.5%	0.9%
Net financial result			0.39	0.08	-0.13	-0.24	-0.28	-0.30
EBT (Earnings before income taxes)			-6.22	-0.44	-8.96	-5.20	-3.14	-0.74
as % of sales			-40.4%	-1.4%	-27.7%	-9.4%	-5.0%	-1.1%
Income taxes			0.01	0.02	0.05	-0.11	-0.26	-0.38
as % of EBT			-0.1%	-4.3%	-0.6%	2.1%	8.1%	52.0%
Group net income including minorities			-6.22	-0.43	-8.91	-5.30	-3.39	-1.12
as % of sales			-40.3%	-1.4%	-27.5%	-9.6%	-5.5%	-1.6%
Minority interests			0.00	0.00	0.00	0.00	0.00	0.00
Net income attributable to shareholders			-6.22	-0.43	-8.91	-5.30	-3.39	-1.12
Shares outstanding (m)			7.16	7.50	7.68	8.02	8.02	8.02
Basic earnings per share (EUR)			-0.87	-0.06	-1.16	-0.66	-0.42	-0.14

Source: CBS Research AG, SFC Energy AG

Balance sheet

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
Assets								
Current assets			33.93	33.60	25.93	25.81	26.55	29.14
as % of total assets			68.5%	70.6%	54.4%	58.9%	63.2%	68.7%
Inventories and prepayments			4.91	5.81	7.71	8.12	8.95	9.72
Trade accounts receivable			4.47	3.70	9.26	10.22	11.24	12.37
Other assets incl. tax and PoC receivables			1.82	1.18	1.54	1.69	1.95	2.14
Cash and cash equivalents			22.44	22.63	7.14	5.68	4.31	4.82
Cash and cash equival. with limitation on disposal			0.29	0.29	0.29	0.10	0.10	0.10
Noncurrent assets			15.61	14.02	21.72	18.00	15.44	13.25
as % of total assets			31.5%	29.4%	45.6%	41.1%	36.8%	31.3%
Intangible assets excl. goodwill			4.89	4.86	7.26	3.84	0.46	-2.08
Goodwill			6.14	6.14	11.80	11.80	11.80	11.80
Property, plant and equipment			2.75	2.40	2.30	1.99	1.70	1.47
Other non-current assets			0.05	0.00	0.00	0.00	0.00	0.00
Deferred taxes			1.77	0.62	0.37	0.37	1.48	2.06
Total assets			49.54	47.62	47.65	43.81	41.99	42.39
Shareholders' equity and liabilities								
Current liabilities			7.49	7.66	12.67	13.80	15.07	16.32
as % of total equity and liabilities			15.1%	16.1%	26.6%	31.5%	35.9%	38.5%
Provisions			1.58	1.00	0.80	0.99	1.12	1.25
Advance payments received			0.20	0.01	0.01	0.06	0.24	0.28
Trade accounts payable			3.17	3.03	5.09	5.75	6.26	6.74
Financial debt			0.56	0.37	2.19	2.20	2.20	2.20
Other liabilities			1.98	3.24	4.58	4.80	5.25	5.85
Noncurrent liabilities			5.26	3.56	5.92	6.25	6.55	6.83
as % of total equity and liabilities			10.6%	7.5%	12.4%	14.3%	15.6%	16.1%
Other noncurrent provisions			1.41	1.39	1.80	2.10	2.36	2.64
Financial debt			0.20	0.00	2.31	2.31	2.31	2.31
Other noncurrent liabilities			1.46	1.04	0.07	0.10	0.14	0.14
Deferred tax liabilities			2.19	1.13	1.73	1.73	1.73	1.73
Shareholders' equity			36.79	36.39	29.06	23.76	20.37	19.25
as % of total equity and liabilities			74.3%	76.4%	61.0%	54.2%	48.5%	45.4%
Subscribed capital			7.50	7.50	8.02	8.02	8.02	8.02
Capital reserve			67.88	67.88	69.57	69.57	69.57	69.57
Other changes in equity not effecting profit or loss			-0.07	-0.04	-0.66	-0.66	-0.66	-0.66
Accumulated loss brought forward			-32.31	-38.53	-38.95	-47.86	-53.17	-56.56
Net result of the year			-6.22	-0.43	-8.91	-5.30	-3.39	-1.12
Total equity and liabilities			49.54	47.62	47.65	43.81	41.99	42.39

Source: CBS Research AG, SFC Energy AG

Cash flow statement

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
Income/loss before interest and taxes			-6.61	-0.52	-8.84	-4.96	-2.86	-0.44
Amortisation of intangible assets incl. assets from PPA			1.46	0.59	3.60	3.85	3.98	3.30
Depreciation of PP&E			0.51	0.66	0.76	0.88	0.99	1.03
Other expenses / income with no effect on liquidity			0.25	0.45	-0.62	0.00	0.00	0.00
Increase/decrease in inventories, trade receivables, and other assets			-0.99	0.45	-1.05	-1.52	-2.11	-2.08
Increase/decrease in trade accounts payable and other liabilities			1.10	-0.37	-1.14	1.45	1.57	1.52
Cash taxes paid			-0.03	-0.01	-0.03	-0.11	-1.37	-0.97
Cash flow from operating activities			-4.32	1.26	-7.31	-0.40	0.21	2.37
Net cash outflows from the purchase and retirement of noncurrent assets			-1.13	-0.88	-0.67	-1.01	-1.30	-1.56
Bank balances released/pledged			0.29	0.00	0.00	0.19	0.00	0.00
Interests received			0.43	0.22	0.08	0.06	0.05	0.03
Purchase of consolidated companies			-6.00	0.00	-6.00	0.00	0.00	0.00
Cash flow from investing activities			-6.42	-0.66	-6.59	-0.77	-1.25	-1.53
Net cash inflow from capital stock increases deducting expenses			-0.05	0.00	0.00	0.00	0.00	0.00
Net cash flow from financial debt incl. leasing			-0.35	-0.39	-1.47	0.01	0.00	0.00
Interests paid			0.00	-0.03	-0.10	-0.30	-0.33	-0.33
Cash flow from financing activities			-0.40	-0.42	-1.57	-0.29	-0.33	-0.33
Total change in cash and cash equivalents			-11.14	0.18	-15.47	-1.46	-1.37	0.51
Currency effects on cash and cash equivalents			0.01	0.00	-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	5.68	4.31
Cash and cash equiv. at the end of the period			22.44	22.63	7.14	5.68	4.31	4.82

Source: CBS Research AG, SFC Energy AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	∞
Sales	55.2	62.1	69.4	76.4	84.1	92.5	100.0	106.0	111.3	114.1	
Sales growth	70.4%	12.5%	11.7%	10.0%	10.0%	10.0%	8.0%	6.0%	5.0%	2.5%	
EBIT	-5.0	-2.9	-0.4	1.1	2.3	3.2	4.3	5.0	5.6	5.9	
EBIT margin	-9.0%	-4.6%	-0.6%	1.4%	2.7%	3.4%	4.3%	4.7%	5.0%	5.1%	
Cash taxes on EBIT	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5	-1.1	-1.3	-1.4	-1.5	
Depreciation and amortisation	4.7	5.0	4.3	2.1	1.6	1.4	1.2	1.2	1.2	1.1	
Change in long-term provisions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-0.1	-0.5	-0.6	-0.4	-0.4	-0.5	-0.4	-0.4	-0.3	-0.2	
Net capital expenditure	-1.0	-1.3	-1.6	-1.5	-1.5	-1.5	-1.5	-1.6	-1.2	-1.1	
Purchase of consolidated companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	-1.2	0.3	1.7	1.2	1.8	2.4	2.7	3.3	4.2	4.5	
Present values	-1.1	0.2	1.3	0.9	1.2	1.5	1.5	1.7	2.0	2.0	32.5
Present value Phase 1	0.5										
Present value Phase 2	10.7										
Present value Phase 3	32.5										
Total present value	43.7										
+ Liquid funds	5.9										
- Financial debt	-3.9										
- Minority interest	0.0										
Fair value of equity	45.8										
Number of shares (m)	8.0										
Fair value per share (EUR)	5.71										

Risk free rate:	3.5%	Target equity ratio:	80.0%
Equity risk premium:	6.0%	Beta:	1.1
Debt risk premium:	2.0%	WACC:	8.7%
Tax shield:	25.0%	Terminal growth:	2.5%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.5%	2.0%	2.5%	3.0%	3.5%
	7.67%	6.18	6.59	7.09	7.69	8.44
	8.17%	5.60	5.94	6.33	6.81	7.38
WACC	8.67%	5.11	5.38	5.71	6.09	6.54
	9.17%	4.68	4.91	5.18	5.49	5.85
	9.67%	4.31	4.50	4.72	4.98	5.28

Source: CBS Research AG

Research



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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
13 May 2014	BUY	EUR 5.101	EUR 5.70
28 March 2014	HOLD	EUR 4.889	EUR 5.00
5 February 2014	BUY	EUR 3.868	EUR 5.90
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

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