

Recommendation:

BUY (BUY)

Risk:

HIGH (HIGH)

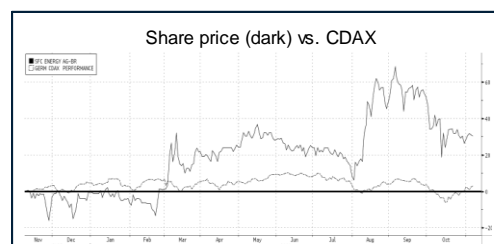
Price Target:

EUR 7.50 (6.30)

07 November 2014

Project postponements in 3Q will add to a strong 4Q

- 3Q figures:** The Group's sales jumped by 59.4% to EUR 11.2m in 3Q14 (3Q13: from EUR 7.0m). Sales in the newly formed Oil & Gas segment reached EUR 6.7m (entirely contributed by Simark), compared to EUR 1.8m in 3Q13 (first consolidation of Simark as from 1 September 2013). In the Security & Industry segment, revenue fell from EUR 4.3m in 3Q13 to EUR 3.7m in 2Q14, mainly due to the fact that two key projects were postponed. These projects will now be realised in 4Q14. This will reinforce SFC's usual seasonal trend (strong 4Q after a relatively weak 3Q). Sales in the Consumer segment were down 15% due to lower turnover in France and Germany. Adjusted EBITDA improved to EUR -0.8m (2Q13: -1.2m). Order backlog stood at EUR 14.6m at the end of 3Q14, 39 % higher than the prior year figure of EUR 10.5m and higher than at the end of 2Q14 (EUR 13.7m).
- Raised long-term estimates:** SFC confirmed its FY14 guidance, and we leave our FY14 estimates unchanged. We slightly raised our mid- and long-term sales growth assumptions as from 2016E, taking into account that SFC is facing increasing market opportunities in additional fields of fuel cell application (e.g. stationary / backup power solutions or systems for the telecom sector). We also expect a further stabilisation in the Consumer segment when the new 'EFOY GO!' Platform for outdoor applications will start to contribute to revenues. 'EFOY GO!' has been presented at all the major caravanning trade fairs throughout Europe, and SFC received positive and partly even enthusiastic feedback. Substantial sales are to be expected as from 2016E. We also revised our mid- and long-term margin assumptions for 2016E and the following years. Additionally to the significant decreases in the amortisation of assets from purchase price allocations (acquisitions of PBF and Simark) in 2016E and 2017E, we also expect increasing gross margins in the Oil & Gas as well as in the Security & Industry segments.
- Conclusion:** Our DCF model results in a new **price target of EUR 7.50** (old: EUR 6.30). **The high valuation level of other fuel cell companies tends to support a much higher price target, as can be seen on page 7 (median EV/Sales multiple 2014E: 3,2).** We nevertheless use this multiple-based valuation for SFC only as a rough indication, as 1) only EV/Sales multiples are applicable which can be rather misleading, and 2) a direct comparison with some peer group companies appears problematic (different technologies and target markets; different share of fuel cell sales in total sales). We confirm our **BUY** recommendation.



Source: CBS Research AG, Bloomberg, SFC Energy AG

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	-	56.3	-	64.2	75.0	72.0
EBIT	-	-1.0	-	1.0	3.8	3.5
EPS	-	-0.53	-	-0.31	0.01	-0.03

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 commercialised fuel cells for the Security & Industry, Oil & Gas, and Consumer 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):	5.149
Shares outstanding (m):	8.0
Market capitalisation (EUR m):	41.3
Enterprise value (EUR m):	42.8
Ø daily trading volume (6 m., no. of shares):	7,595

Performance data:

High 52 weeks (EUR):	6.65
Low 52 weeks (EUR):	3.30
Absolute performance (12 months):	26.2%
Relative performance vs. CDAX:	
1 month	-5.7%
3 months	8.9%
6 months	1.1%
12 months	22.3%

Shareholders:

HPE	24.05%
Conduit Ventures	9.49%
Havensight	9.56%
Mark Wheeler (President of Simark)	3.94%
SFC Management and Supervisory Board	3.45%
DWS	4.60%
Other free float	44.91%

Financial calendar:

DVFA Analysts' Conference: November 2014

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Y/E 31 Dec, EURm	2011	2012	2013	2014E	2015E	2016E
Sales revenues	15.4	31.3	32.4	56.3	64.2	75.0
Underlying EBITDA	-2.7	0.8	-2.2	0.2	2.2	3.8
EBITDA	-4.6	0.7	-4.5	-1.0	1.0	3.8
EBIT	-6.6	-0.5	-8.8	-3.9	-1.9	0.8
Net income/loss	-6.2	-0.4	-8.9	-4.3	-2.5	0.1
EPS	-0.87	-0.06	-1.16	-0.53	-0.31	0.01
Underl. EBITDA margin	-17.4%	2.7%	-6.8%	0.3%	3.5%	5.1%
EBITDA margin	-30.1%	2.3%	-13.8%	-1.7%	1.6%	5.1%
EBIT margin	-42.9%	-1.7%	-27.3%	-6.9%	-3.0%	1.1%
EV/Underlying EBITDA	neg.	51.6	neg.	n/m	19.3	11.3
EV/EBITDA	neg.	58.6	neg.	neg.	41.9	11.3

Source: SFC Energy AG; CBS Research

Quarterly key figures with YOY comparison

	IFRS	EURm	3Q 2014	3Q 2013	Change	9M 2014	9M 2013	Change
Total sales			11.16	7.00	59.4%	37.33	20.58	81.3%
YOY growth			59.4%	12.8%		81.3%	-2.8%	
Oil & Gas			6.68	1.83	264.9%	20.72	2.13	874.0%
as % of total sales			59.8%	26.1%		55.5%	10.3%	
Security & Industry			3.69	4.27	-13.7%	13.41	14.69	-8.7%
as % of total sales			33.0%	61.0%		35.9%	71.4%	
Consumer			0.80	0.94	-15.1%	3.19	3.19	0.0%
as % of total sales			7.2%	13.5%		8.6%	15.5%	
Sales by company								
SFC Energy			1.74	2.22	-21.5%	7.57	8.68	-12.8%
PBF			2.74	2.96	-7.2%	9.04	10.08	-10.3%
Simark (consolidated as of 1/9/2013)			6.68	1.83	265.9%	20.72	1.83	>1,000%
Gross profit			3.16	1.97	60.1%	10.83	6.72	61.3%
as % of sales			28.3%	28.2%		29.0%	32.6%	
Gross profit - Oil & Gas			1.73	0.29	495.2%	5.15	0.45	>1,000%
as % of segment sales			25.8%	15.8%		24.9%	21.3%	
Gross profit - Security & Industry			1.24	1.49	-16.8%	4.79	5.16	-7.3%
as % of segment sales			33.7%	34.9%		35.7%	35.1%	
Gross profit - Consumer			0.19	0.19	0.5%	0.89	1.10	-18.9%
as % of segment sales			24.2%	20.5%		28.0%	34.5%	
EBITDA			-1.08	-1.23	n/m	-2.14	-2.00	n/m
as % of sales			-9.6%	-17.6%		-5.7%	-9.7%	
Adjusted EBITDA			-0.77	-1.17	n/m	-1.27	-1.86	n/m
as % of sales			-6.9%	-16.7%		-3.4%	-9.1%	
EBIT			-1.75	-1.86	n/m	-4.18	-3.59	n/m
as % of sales			-15.7%	-26.6%		-11.2%	-17.4%	
Adjusted EBIT			-1.15	-1.66	n/m	-2.45	-3.30	n/m
as % of sales			-10.3%	-23.6%		-6.6%	-16.0%	
Net income after minorities			-1.84	-1.84	n/m	-4.52	-3.60	n/m
as % of sales			-16.5%	-26.3%		-12.1%	-17.5%	
EPS (EUR)			-0.23	-0.24	n/m	-0.56	-0.48	n/m
Cash flow from operating activities			-1.95	-6.79	n/m	-2.65	-11.48	n/m
Free cash flow (incl. interest received)			-2.16	-12.52	n/m	-4.11	-17.59	n/m

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	56.30	64.20	75.00
YoY growth			15.7%	102.6%	3.7%	73.7%	14.0%	16.8%
Cost of sales			-10.06	-18.50	-21.77	-38.85	-43.72	-50.78
as % of sales			-65.2%	-59.2%	-67.2%	-69.0%	-68.1%	-67.7%
Gross profit			5.37	12.76	10.64	17.45	20.48	24.23
as % of sales			34.8%	40.8%	32.8%	31.0%	31.9%	32.3%
Research and development expenses			-2.54	-4.26	-6.15	-6.16	-6.23	-6.30
as % of sales			-16.4%	-13.6%	-19.0%	-11.0%	-9.7%	-8.4%
Selling expenses			-4.90	-5.86	-8.23	-10.25	-10.91	-11.59
as % of sales			-31.7%	-18.8%	-25.4%	-18.2%	-17.0%	-15.5%
General and administrative expenses			-2.68	-3.55	-3.86	-5.32	-5.49	-5.78
as % of sales			-17.4%	-11.4%	-11.9%	-9.5%	-8.6%	-7.7%
Other operating income			0.20	0.75	1.04	0.51	0.35	0.38
as % of sales			1.3%	2.4%	3.2%	0.9%	0.5%	0.5%
Other operating expenses			-2.07	-0.36	-1.71	-0.12	-0.13	-0.15
as % of sales			-13.4%	-1.2%	-5.3%	-0.2%	-0.2%	-0.2%
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	-3.89	-1.94	0.79
as % of sales			-42.9%	-1.7%	-27.3%	-6.9%	-3.0%	1.1%
Underlying EBIT			-4.08	-0.96	-4.22	-1.58	0.33	1.86
as % of sales			-26.5%	-3.1%	-13.0%	-2.8%	0.5%	2.5%
Net financial result			0.39	0.08	-0.13	-0.28	-0.30	-0.30
EBT (Earnings before income taxes)			-6.22	-0.44	-8.96	-4.17	-2.24	0.49
as % of sales			-40.4%	-1.4%	-27.7%	-7.4%	-3.5%	0.7%
Income taxes			0.01	0.02	0.05	-0.11	-0.26	-0.38
as % of EBT			-0.1%	-4.3%	-0.6%	2.6%	11.4%	-78.5%
Group net income including minorities			-6.22	-0.43	-8.91	-4.28	-2.49	0.11
as % of sales			-40.3%	-1.4%	-27.5%	-7.6%	-3.9%	0.1%
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	-4.28	-2.49	0.11
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	-0.53	-0.31	0.01
Underlying EBITDA			-2.69	0.83	-2.20	0.16	2.22	3.79
as % of sales			-17.4%	2.7%	-6.8%	0.3%	3.5%	5.1%
EBITDA			-4.64	0.73	-4.47	-0.98	1.02	3.79
as % of sales			-30.1%	2.3%	-13.8%	-1.7%	1.6%	5.1%

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	23.10	23.21	26.75
as % of total assets			68.5%	70.6%	54.4%	54.2%	56.0%	61.8%
Inventories and prepayments			4.91	5.81	7.71	7.88	8.35	9.45
Trade accounts receivable			4.47	3.70	9.26	9.56	11.08	12.95
Other assets incl. tax and PoC receivables			1.82	1.18	1.54	1.25	1.39	1.60
Cash and cash equivalents			22.44	22.63	7.14	4.31	2.29	2.66
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	19.51	18.27	16.57
as % of total assets			31.5%	29.4%	45.6%	45.8%	44.0%	38.2%
Intangible assets excl. goodwill			4.89	4.86	7.26	5.48	3.83	2.26
Goodwill			6.14	6.14	11.80	11.80	11.80	11.80
Property, plant and equipment			2.75	2.40	2.30	1.86	1.41	1.03
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	1.23	1.48
Total assets			49.54	47.62	47.65	42.61	41.48	43.32
Shareholders' equity and liabilities								
Current liabilities			7.49	7.66	12.67	11.75	12.77	14.10
as % of total equity and liabilities			15.1%	16.1%	26.6%	27.6%	30.8%	32.5%
Provisions			1.58	1.00	0.80	0.84	1.03	1.20
Advance payments received			0.20	0.01	0.01	0.06	0.24	0.28
Trade accounts payable			3.17	3.03	5.09	5.79	6.38	7.26
Financial debt			0.56	0.37	2.19	2.20	2.20	2.20
Other liabilities			1.98	3.24	4.58	2.86	2.92	3.16
Noncurrent liabilities			5.26	3.56	5.92	6.07	6.41	6.82
as % of total equity and liabilities			10.6%	7.5%	12.4%	14.3%	15.5%	15.8%
Other noncurrent provisions			1.41	1.39	1.80	2.14	2.44	2.85
Financial debt			0.20	0.00	2.31	2.10	2.10	2.10
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	24.78	22.29	22.40
as % of total equity and liabilities			74.3%	76.4%	61.0%	58.2%	53.7%	51.7%
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	-52.14	-54.63
Net result of the year			-6.22	-0.43	-8.91	-4.28	-2.49	0.11
Total equity and liabilities			49.54	47.62	47.65	42.61	41.48	43.32

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	-3.89	-1.94	0.79
Amortisation of intangible assets incl. assets from PPA			1.46	0.59	3.60	2.07	2.06	2.05
Depreciation of PP&E			0.51	0.66	0.76	0.83	0.90	0.96
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	-0.19	-2.12	-3.17
Increase/decrease in trade accounts payable and other liabilities			1.10	-0.37	-1.14	0.64	1.36	1.74
Cash taxes paid			-0.03	-0.01	-0.03	-0.11	-1.12	-0.63
Cash flow from operating activities			-4.32	1.26	-7.31	-0.64	-0.86	1.73
Net cash outflows from the purchase and retirement of noncurrent assets			-1.13	-0.88	-0.67	-0.70	-0.85	-1.06
Bank balances released/pledged			0.29	0.00	0.00	0.19	0.00	0.00
Interests received			0.43	0.22	0.08	0.02	0.03	0.03
Purchase of consolidated companies			-6.00	0.00	-6.00	-1.20	0.00	0.00
Cash flow from investing activities			-6.42	-0.66	-6.59	-1.70	-0.82	-1.03
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	-0.20	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	-0.50	-0.33	-0.33
Total change in cash and cash equivalents			-11.14	0.18	-15.47	-2.84	-2.01	0.37
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	4.31	2.29
Cash and cash equiv. at the end of the period			22.44	22.63	7.14	4.31	2.29	2.66

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	56.3	64.2	75.0	84.0	94.1	105.4	115.9	127.5	133.9	137.3	
Sales growth	73.7%	14.0%	16.8%	12.0%	12.0%	12.0%	10.0%	10.0%	5.0%	2.5%	
EBIT	-3.9	-1.9	0.8	3.6	5.6	7.9	8.7	9.6	10.0	10.3	
EBIT margin	-6.9%	-3.0%	1.1%	4.3%	5.9%	7.5%	7.5%	7.5%	7.5%	7.5%	
Cash taxes on EBIT	-0.2	-0.3	-0.4	-0.7	-0.9	-1.2	-2.3	-2.4	-2.5	-2.6	
Depreciation and amortisation	2.9	3.0	3.0	2.0	1.6	1.4	1.2	1.2	1.2	1.1	
Change in long-term provisions	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
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	0.5	-0.8	-1.4	-0.9	-1.0	-1.2	-1.1	-1.2	-0.7	-0.4	
Net capital expenditure	-0.7	-0.9	-1.1	-1.5	-1.7	-1.6	-1.9	-1.0	-1.1	-1.1	
Purchase of consolidated companies	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	-2.2	-0.5	1.3	2.9	3.9	5.7	5.1	6.5	7.4	7.8	
Present values	-2.2	-0.5	1.1	2.1	2.6	3.4	2.8	3.2	3.3	3.1	43.1
Present value Phase 1	-1.6										
Present value Phase 2	20.5										
Present value Phase 3	43.1										
Total present value	61.9										
+ Liquid funds	3.1										
- Financial debt	-4.6										
- Minority interest	0.0										
Fair value of equity	60.4										
Number of shares (m)	8.0										
Fair value per share (EUR)	7.53										

Risk free rate:*	3.0%	Target equity ratio:	80.0%
Equity risk premium:	6.0%	Fundamental beta:	1.4
Debt risk premium:	2.0%	WACC:	10.0%
Tax shield:	25.0%	Terminal growth:	2.5%

Sensitivity analysis					
	Terminal growth (Phase 3)				
	1.5%	2.0%	2.5%	3.0%	3.5%
8.97%	8.16	8.61	9.13	9.74	10.46
9.47%	7.46	7.84	8.27	8.77	9.36
WACC 9.97%	6.85	7.17	7.53	7.95	8.43
10.47%	6.31	6.58	6.89	7.24	7.63
10.97%	5.83	6.06	6.32	6.62	6.95

Source: CBS Research AG

EV / Sales valuation

Company name	EV / Sales		
	2014E	2015E	2016E
SFC Energy AG (based on estimates by CBSR)	0.8	0.7	0.6
BALLARD POWER SYSTEMS INC	4.7	3.7	2.8
CERAMIC FUEL CELLS LTD	1.9	0.7	n.a.
FUELCELL ENERGY INC	3.0	2.4	1.9
HELIOCENTRIS ENERGY SOLUTION	2.3	1.0	0.7
HYDROGENICS CORP	3.2	2.3	1.8
INTELLIGENT ENERGY HOLDIN	29.1	3.3	1.3
PLUG POWER INC	9.2	5.5	3.3
Average	7.6	2.7	2.0
Median	3.2	2.4	1.8

EURm, except EPS (EUR)	Sales		
	2014E	2015E	2016E
SFC Energy AG (CBSR estimates)	56.30	64.20	75.00
Applied multiples (peer group median)	3.2	2.4	1.8
Fair Enterprise Value	178.5	152.5	138.3
+ Liquid funds	3.1		
- Financial debt	-4.6		
- Minority interests	0.0		
Fair value of equity from each multiple	177.1	151.0	136.8
Average of derived fair values	154.9		
Premium (discount) vs. peer group companies	0%		
Fair value of equity	154.9		
Number of shares outstanding (m)	8.0		
Fair value per share (EUR)	19.32		

Source: CBS Research AG, Bloomberg

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
7 November 2014	BUY	EUR 5.149	EUR 7.50
5 August 2014	BUY	EUR 4.579	EUR 6.30
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

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