SFC Energy

(CDAX, Industrial Goods & Services)

WARBURG RESEARCH

Hold	
EUR 5.90	
Price	EUR 6.70
Downside	**-11.9 %**

Value Indicators:	EUR
DCF:	5.90
FCF-Value Potential:	4.00

Share data:	
Bloomberg:	F3C GR
Reuters:	F3CG
ISIN:	DE0007568578

Description:

Leading provider of DMFC fuel cells for autark energy supply

Market Snapshot:	EUR m
Market cap:	50.3
No. of shares (m):	7.5
EV:	29.9
Freefloat MC (ord.):	25.7
Ø Trad. Vol. (ord./30d):	40.71 th

Shareholders:	
Freefloat	51.2 %
HPE	25.7 %
Havensight	10.2 %
Conduit Ventures	10.2 %
DWS (in freefloat)	*4.9 %*

Risk Profile (WRe):	2012e
Beta:	1.6
Price / Book:	1.4
Net Gearing:	-57 %
Debt / Equity:	37 %
Net debt / EBITDA:	-98.4 x

Preview: Consolidation of PBF and higher gross margin drive earnings improvement

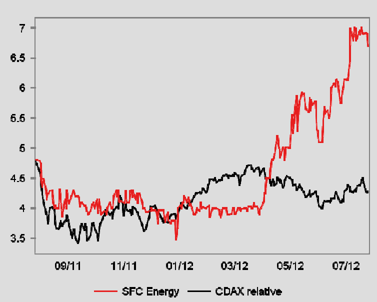
in € m	Q2 2012e	Q2 2011	Δ in %	6M 2012e	6M 2011	Δ in %
Group P&L						
Sales	7.0	4.1	72.6	14.6	7.8	87.2
Gross profit	2.9	1.4	110.1	5.9	2.4	143.4
EBITDA	0.0	-0.6	n.m.	0.4	-1.6	n.m.
EBIT	-0.4	-0.9	n.m.	-0.1	-2.2	n.m.
EPS (€)	-0.06	-0.12	n.m.	-0.01	-0.28	n.m.

SFC Energy's Q2 revenues are expected to surge strongly in comparison to the previous year's period. However, this can be attributed to the consolidation of the acquired PBF group.

The core business fuel cells is expected to have remained stable. However, WR expects that sales to industrial customers have further increased offsetting somewhat lower sales in the volatile defence area.

Earnings figures are expected to have improved clearly, with EBITDA at break-even level. This is driven by both the profitable PBF business as well as an improving gross margin, which should have jumped by ca. 7pp.

SFC is expected to guide for a weak Q3 due to a typically weak seasonality but to reiterate its forecast of EUR 30m in revenues and a positive EBITDA in H2. Obviously, SFC is already expected to achieve a positive EBITDA in H1, which, however, is likely to turn negative after nine months.



Rel. Performance vs CDAX:	
1 month:	12.1 %
6 months:	67.9 %
Year to date:	58.1 %
Trailing 12 months:	51.0 %

Company events:	
07/31/12	Q2
10/31/12	Q3

FY End: 31.12. in EUR m	CAGR (11-14e)	2008	2009	2010	2011	2012e	2013e	2014e
Sales	34.5 %	14.6	11.7	13.3	15.4	29.9	33.6	37.5
Change Sales yoy		1.4 %	-19.7 %	14.1 %	15.7 %	93.7 %	12.5 %	11.6 %
Gross profit margin		*18.5 %*	*27.3 %*	*30.3 %*	*34.8 %*	*37.8 %*	*41.0 %*	*41.5 %*
EBITDA	-	-3.7	-3.6	-3.5	-4.6	0.2	1.3	2.4
Margin		*-25.4 %*	*-30.8 %*	*-26.2 %*	*-30.1 %*	*0.7 %*	*4.0 %*	*6.5 %*
EBIT	-	-4.5	-4.5	-4.5	-6.6	-1.3	-0.3	0.7
Margin		*-30.9 %*	*-38.6 %*	*-33.8 %*	*-42.9 %*	*-4.3 %*	*-0.7 %*	*2.0 %*
Net income	-	-2.4	-3.8	-4.1	-6.2	-1.3	-0.3	0.7
EPS	-	-0.33	-0.53	-0.58	-0.87	-0.17	-0.04	0.10
EPS adj.	-	-0.33	-0.53	-0.58	-0.87	-0.17	-0.04	0.10
DPS	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
FCFPS		-0.68	-0.70	-0.91	-0.82	-0.21	-0.06	-0.02
EV / Sales		1.8 x	0.5 x	0.4 x	0.7 x	1.0 x	0.9 x	0.7 x
EV / EBITDA		-7.0 x	-1.5 x	-1.6 x	-2.2 x	144.1 x	23.5 x	10.7 x
EV / EBIT		-5.7 x	-1.2 x	-1.2 x	-1.5 x	-23.1 x	-125.6 x	35.7 x
P / E		-30.4 x	-12.1 x	-9.6 x	-5.2 x	-39.4 x	-167.5 x	59.4 x
P / E adj.		-30.4 x	-12.1 x	-9.6 x	-5.2 x	-39.4 x	-167.5 x	59.4 x
FCF Yield Potential		-16.3 %	-80.4 %	-74.5 %	-52.9 %	-2.7 %	1.0 %	5.3 %
Net Debt		-45.5	-40.6	-34.1	-22.0	-20.4	-18.6	-18.4
ROE		-4.6 %	-7.9 %	-9.4 %	-15.9 %	-3.5 %	-0.8 %	2.0 %
ROCE		-8.6 %	-9.4 %	-10.3 %	-16.7 %	-4.6 %	2.4 %	1.3 %
Guidance:	EBITDA Break even in H2							

Malte Schaumann
mschaumann@warburg-research.com
+49 (0)40-309537-170

LEGAL DISCLAIMER

This research report was prepared by the Warburg Research GmbH, a subsidiary of the M.M.Warburg & CO KGaA and is passed on by the M.M.Warburg & CO KGaA. It contains selected information and does not purport to be complete. The report is based on publicly available information and data ("the information") believed to be accurate and complete. Warburg Research GmbH neither does examine the information to be accurate and complete, nor guarantees its accuracy and completeness. Possible errors or incompleteness of the information do not constitute grounds for liability of M.M.Warburg & CO KGaA or Warburg Research GmbH for damages of any kind whatsoever, and M.M.Warburg & CO KGaA and Warburg Research GmbH are not liable for indirect and/or direct and/or consequential damages. In particular, neither M.M.Warburg & CO KGaA nor Warburg Research GmbH are liable for the statements, plans or other details contained in these analyses concerning the examined companies, their affiliated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling this research report, it cannot be excluded that it is incomplete or contains errors. M.M.Warburg & CO KGaA and Warburg Research GmbH, their shareholders and employees are not liable for the accuracy and completeness of the statements, estimations and the conclusions derived from the information contained in this document. Provided a research report is being transmitted in connection with an existing contractual relationship, i.e. financial advisory or similar services, the liability of M.M.Warburg & CO KGaA and Warburg Research GmbH shall be restricted to gross negligence and wilful misconduct. In case of failure in essential tasks, M.M.Warburg & CO KGaA and Warburg Research GmbH are liable for normal negligence. In any case, the liability of M.M.Warburg & CO KGaA and Warburg Research GmbH is limited to typical, expectable damages. This research report does not constitute an offer or a solicitation of an offer for the purchase or sale of any security. Partners, directors or employees of M.M.Warburg & CO KGaA, Warburg Research GmbH or affiliated companies may serve in a position of responsibility, i.e. on the board of directors of companies mentioned in the report. Opinions expressed in this report are subject to change without notice.

COPYRIGHT NOTICE

DISCLOSURE ACCORDING TO § 34B OF THE GERMAN SECURITIES TRADING ACT AND FINANV

The valuation underlying the rating of the company analysed in this report is based on generally accepted and widely used methods of fundamental valuation, such as the DCF model, Free Cash Flow Value Potential, peer group comparison and – where applicable – a sum-of-the-parts model.

M.M.Warburg & CO KGaA and Warburg Research GmbH have set up internal organisational and administrative arrangements to prevent and avoid possible conflicts of interest and, where applicable, to disclose them.

Valuations, ratings and price targets for the companies analysed by Warburg Research GmbH are subject to constant reviews and may therefore change, if any of the fundamental factors underlying these items do change.

All share prices given in this equity analysis are closing prices on the date given in the analysis, except where stated otherwise.

Neither Warburg Research GmbH's analysts nor M.M.Warburg & CO KGaA's analysts do receive any payments directly or indirectly from any investment banking activity of M.M.Warburg Bank or an affiliated company.

M.M.Warburg & CO KGaA and Warburg Research GmbH are under supervision of the BaFin – German Federal Financial Supervisory Authority.

SOURCES

All data and consensus estimates have been obtained from FactSet except where stated otherwise.

Section 34b of the German Securities Trading Act in combination with the FinAnV requires an enterprise preparing a securities analysis to point out possible conflicts of interest with respect to the company that is the subject of the analysis. A conflict of interest is assumed, in particular, when the enterprise preparing the analysis …

-1-	… or companies affiliated with this enterprise **holds 5%** or more of the share capital of the analysed company
-2-	… or companies affiliated with this enterprise was a member in a **consortium** which acquired the shares of the analysed company within the last twelve months
-3-	… or companies affiliated with this enterprise **manages** the **securities** of the analysed company on the basis of an existing contract
-4-	… or companies affiliated with this enterprise over the previous 12 months has been providing **investment banking services** for the analysed company for which a compensation has been or will be paid
-5-	… effected an **agreement** with the analysed company **for the preparation of the financial analysis**
-6-	… or companies affiliated with this enterprise **regularly trade** in shares or derivatives of the analysed company
-7-	… or the analyst responsible for this company has **other important financial interests** in relation to the analysed company such as e.g. the performance of mandates for the analysed company

Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
SFC Energy	5	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0007568578.htm

INVESTMENT RECOMMENDATION

Investment recommendation: expected direction of the share price development of the financial instrument up to the given price target in the opinion of the analyst who covers this financial instrument.

-B-	**Buy:**	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	**Hold:**	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	**Sell:**	The price of the analysed financial instrument is expected to fall over the next 12 months.
"-"	**Rating suspended:**	The available information currently does not permit an evaluation of the company.

WARBURG RESEARCH GMBH – RESEARCH UNIVERSE BY RATING

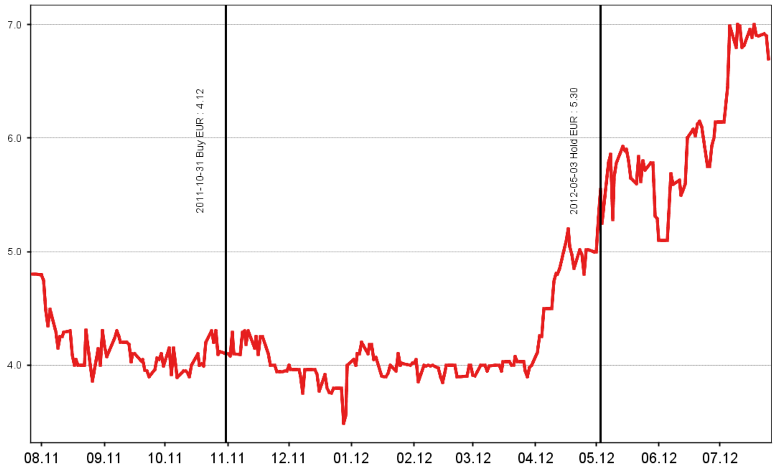
Rating	Number of stocks	% of Universe
Buy	117	62
Hold	59	31
Sell	9	5
Rating suspended	4	2
Total	**189**	**100**

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING …

… Looking only at companies for which a disclosure according to § 34b of the Germany Securities Trading Act and the FinAnV has to be made.

Rating	Number of stocks	% of Universe
Buy	107	67
Hold	44	28
Sell	6	4
Rating suspended	3	2
Total	**160**	**100**

PRICE AND RATING HISTORY SFC ENERGY AS OF 26.07.2012



The chart has markings if Warburg Research GmbH changed its rating in the last 12 months. Every marking represents the date and closing price on the day of the rating change.

RESEARCH

Christian Bruns Head of Research	+49 40 309537-253 cbruns@warburg-research.com	**Henner Rüschmeier** Head of Research	+49 40 309537-270 hrueschmeier@warburg-research.com
Christian Cohrs Engineering, Logistics	+49 40 309537-175 ccohrs@warburg-research.com	**Roland Rapelius** Engineering, Logistics	+49 40 309537-220 rrapelius@warburg-research.com
Felix Ellmann Software, IT	+49 40 309537-120 fellmann@warburg-research.com	**Jochen Reichert** Telco, Internet, Media	+49 40 309537-130 jreichert@warburg-research.com
Jörg Philipp Frey Retail, Consumer Goods	+49 40 309537-258 jfrey@warburg-research.com	**Christopher Rodler** Utilities	+49 40 309537-290 crodler@warburg-research.com
Ulrich Huwald Health Care, Pharma	+49 40 309537-255 uhuwald@warburg-research.com	**Malte Schaumann** Technology	+49 40 309537-170 mschaumann@warburg-research.com
Thilo Kleibauer Retail, Consumer Goods	+49 40 309537-257 tkleibauer@warburg-research.com	**Susanne Schwartze** Telco, Internet, Media	+49 40 309537-155 sschwartze@warburg-research.com
Torsten Klingner Real Estate	+49 40 309537-260 tklingner@warburg-research.com	**Oliver Schwarz** Chemicals	+49 40 309537-250 oschwarz@warburg-research.com
Eggert Kuls Engineering	+49 40 309537-256 ekuls@warburg-research.com	**Marc-René Tonn** Automobiles, Car Suppliers	+49 40 309537-259 mtonn@warburg-research.com
Frank Laser Construction, Industrials	+49 40 309537-235 flaser@warburg-research.com	**Björn Voss** Car Suppliers, Steel	+49 40 309537-254 bvoss@warburg-research.com
Andreas Pläsier Banks, Financial Services	+49 40 309537-246 aplaesier@warburg-research.com	**Andreas Wolf** Software, IT	+49 40 309537-140 awolf@warburg-research.com
Malte Räther Technology	+49 40 309537-185 mraether@warburg-research.com	**Stephan Wulf** Utilities	+49 40 309537-150 swulf@warburg-research.com

SALES

Holger Nass Head of Equity Sales	+49 40 3282-2669 hnass@mmwarburg.com
Klaus Schilling Deputy Head of Equity Sales	+49 40 3282-2664 kschilling@mmwarburg.com
Christian Alisch Scandinavia	+49 40 3282-2667 calisch@mmwarburg.com
Robert Conredel Germany	+49 40 3282-2633 rconredel@mmwarburg.com
Matthias Fritsch United Kingdom	+49 40 3282-2696 mfritsch@mmwarburg.com
Michael Kriszun United Kingdom	+49 40 3282-2695 mkriszun@mmwarburg.com
Marc Niemann Germany	+49 40 3282-2660 mniemann@mmwarburg.com
Dirk Rosenfelder Austria, Switzerland	+49 40 3282-2692 drosenfelder@mmwarburg.com
Julian Straube Germany	+49 40 3282-2666 jstraube@mmwarburg.com
Philipp Stumpfegger Australia	+49 40 3282-2635 pstumpfegger@mmwarburg.com

SALES TRADING

Oliver Merckel Head of Sales Trading	+49 40 3282-2634 omerckel@mmwarburg.com
Gudrun Bolsen Sales Trading	+49 40 3282-2679 gbolsen@mmwarburg.com
Bastian Quast Sales Trading	+49 40 3282-2701 bquast@mmwarburg.com
Patrick Schepelmann Sales Trading	+49 40 3282-2700 pschepelmann@mmwarburg.com
Thekla Struve Sales Trading	+49 40 3282-2668 tstruve@mmwarburg.com
Jörg Treptow Sales Trading	+49 40 3262-2658 jtreptow@mmwarburg.com

Support

Katharina Bruns Roadshow/Marketing	+49 40 3282-2694 kbruns@mmwarburg.com

MACRO RESEARCH

Carsten Klude Macro Research	+49 40 3282-2572 cklude@mmwarburg.com
Matthias Thiel Macro Research	+49 40 3282-2401 mthiel@mmwarburg.com
Dr. Christian Jasperneite Investment Strategy	+49 40 3282-2439 cjasperneite@mmwarburg.com

Our research can be found under:

Warburg Research	research.mmwarburg.com/en/index.html	Thomson	www.thomson.com
Bloomberg	MMWA GO	Reuters	www.knowledge.reuters.com
FactSet	www.factset.com	Capital IQ	www.capitaliq.com

For access please contact:

Andrea Carstensen Sales Assistance	+49 40 3282-2632 acarstensen@mmwarburg.com	**Kerstin Muthig** Sales Assistance	+49 40 3282-2703 kmuthig@mmwarburg.com