

# SFC Energy AG

Germany / Energy  
 Primary exchange: Frankfurt  
 Bloomberg: F3C GR  
 ISIN: DE0007568578

Q1 figures

**RATING**  
**PRICE TARGET** **BUY**  
 Return Potential 34.1%  
 Risk Rating High

## IMPROVED PRODUCT MIX SUPPORTS EARNINGS

On 12 May, SFC Energy reported Q1 figures and held a conference call. Although sales of €10.3m were below our estimate, EBIT (€-1.0m) topped our forecast due to a better product mix. The order backlog was slightly higher y/y at €10.2m. We expect a strong H2 thanks to large defence orders and an upturn in the oil & gas business. We reiterate our Buy rating, but lower our price target slightly to €5.10 (previously: €5.30) due to the higher net debt position.

**Low sales – improved EBIT** Sales declined 18% y/y to €10.3m (FBe: €11.1m) due to a very weak oil & gas business, where revenues were down 44% y/y. Both other segments, Security & Industry and Consumer, showed double-digit growth (see figure 2 on page 3). Gross profit amounted to €3.2m (Q1/15: €3.6m, FBe €3.3m). The gross margin increased from 28.9% to 31.3% due to an improved product mix. EBIT was above our estimate (€-1.0m vs. Q1/15: €-1.5m, FBe: €-1.6m) as cost savings were higher than expected. Sales costs were reduced to €2.3m (FBe: €2.7m) from €2.9m in Q1/15. G&A costs were almost €0.3m lower compared to the previous year's figure. The net result was €-1.0m (Q1/15: €-1.6m, FBe: €-1.7m). Diluted EPS amounted to €-0.11 (Q1/15: €-0.18, FBe: €-0.19, see also figure 1 overleaf).

**Guidance reiterated** SFC still expects revenues of €50-52m and improved profitability. Given the improved profitability in Q1 and the expected increase in sales in H2 we believe that SFC will reach its guidance.

**Order backlog slightly higher** The order backlog at the end of Q1 amounted to €10.2m, an increase of 2.4% compared to the previous year's figure. We expect a large defence order in H2.

**Increased net debt position** The cash position at 31/03/2016 was €2.2m (31/12/2015: €3.7m), of which €0.4m had limitations on disposal. Short-term financial debt was slightly reduced to €2.1m, but long-term financial debt... (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	32.41	53.63	47.31	52.03	60.98	70.00
Y-o-y growth	3.7%	65.5%	-11.8%	10.0%	17.2%	14.8%
EBIT (€m)	-8.84	-4.27	-10.64	-1.02	0.45	2.45
EBIT margin	-27.3%	-8.0%	-22.5%	-2.0%	0.7%	3.5%
Net income (€m)	-8.91	-4.83	-10.67	-1.40	0.06	1.96
EPS (diluted) (€)	-1.16	-0.60	-1.24	-0.16	0.01	0.22
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.98	-4.19	-3.21	-2.29	-2.69	-1.26
Net gearing	-10.3%	-4.9%	3.0%	18.4%	36.0%	27.0%
Liquid assets (€m)	7.43	6.41	3.71	3.71	3.02	3.05

### RISKS

The main risks are financing, internationalisation, unfavourable EUR/CAD exchange rate changes, technological innovations, and increasing competition.

### COMPANY PROFILE

SFC Energy AG is a leading provider of integrated power solutions for mobile and stationary off-grid applications. The company is a pioneer in developing and commercialising fuel cells which provide reliable, efficient, and clean power for its energy solutions. Main markets are oil & gas, security & industry, and leisure. SFC is headquartered near Munich in Germany.

### MARKET DATA

As of 13 May 2016

Closing Price	€ 3.80
Shares outstanding	8.61m
Market Capitalisation	€ 32.76m
52-week Range	€ 3.47 / 5.19
Avg. Volume (12 Months)	3,237

Multiples	2015	2016E	2017E
P/E	n.a.	n.a.	548.0
EV/Sales	0.8	0.7	0.6
EV/EBIT	n.a.	n.a.	78.8
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2015

Liquid Assets	€ 2.20m
Current Assets	€ 21.22m
Intangible Assets	€ 12.69m
Total Assets	€ 36.02m
Current Liabilities	€ 12.66m
Shareholders' Equity	€ 15.76m

### SHAREHOLDERS

HPE	24.5%
DWS	9.2%
Havensight	8.9%
Other	17.6%
Free Float	39.8%



...increased to €2.8m from €2.0m at the end of 2015. The net debt position thus increased to €2.8m from €0.6m at 31/12/2015.

**Free cash flow still negative** Operating cash flow amounted to €-3.2m, which was mainly attributable to the net loss of €-1.0m and increased receivables (€-1.5m). CAPEX of €0.4m resulted in a free cash flow of €-3.6m (Q1/15: €-20m). This was partly financed by new liabilities, especially the convertible bond (€1.5m) and partly from cash. The net cash outflow was €-1.5m.

**Disparate segment development** The Oil & Gas segment suffered from the low oil price and tight CAPEX budgets of customers. Sales fell 44% to €4.0m from €7.2m in Q1/15. To adjust to the new low oil price environment, SFC implemented further cost saving measures in January and March.

Security & Industry segment revenue increased more than 17% to €5.0m. This increase is mainly attributable to strong growth in the defence business. SFC delivered 42 Jenny 1200 portable fuel cells to an international defence force. Thanks to the strong and high-margin defence business, the gross margin increased to 38.2% from 36.6%.

Consumer segment sales rose 10% to €1.3m due mainly to strong demand in the German and Swedish markets. The segment gross margin increased from 25.2% to 29.5% (see figure 2 overleaf).

**Buy reiterated at slightly lower price target** Based on unchanged estimates and the higher net debt position, an updated DCF model yields a new price target of €5.10 (previously: €5.30). We reiterate our Buy rating.

**Figure 1: Reported figures vs. forecasts**

All figures in €m	Q1-16A	Q1-16E	Delta	Q1-15	Delta
Sales	10.30	11.10	-7.2%	12.61	-18.3%
EBITDA	-0.45	-1.18	-	-0.90	-
<i>margin</i>	-4.4%	-10.6%	-	-7.1%	-
EBITDA adjusted	-0.54	-1.06	-	-0.58	-
<i>margin</i>	-5.3%	-9.5%	-	-4.6%	-
EBIT	-1.00	-1.57	-	-1.51	-
<i>margin</i>	-9.7%	-14.1%	-	-12.0%	-
EBIT adjusted	-0.84	-1.32	-	0.91	-
<i>margin</i>	-8.1%	-11.9%	-	7.2%	-
Net income	-1.02	-1.67	-	-1.57	-
<i>margin</i>	-9.9%	-15.0%	-	-12.5%	-
EPS (diluted, in €)	-0.11	-0.19	-	-0.18	-

Source: First Berlin Equity Research, SFC Energy AG



**Figure 2: Reported segment figures vs. forecasts**

All figures in €m	Q1-16A	Q1-16E	Delta	Q1-15	Delta
<b>Oil &amp; Gas</b>					
Sales	4.02	4.65	-13.5%	7.19	-44.1%
Gross profit	0.94	1.05	-10.8%	1.79	-47.7%
<i>margin</i>	23.3%	22.6%		24.9%	
<b>Security &amp; Industry</b>					
Sales	4.98	5.10	-2.4%	4.24	17.5%
Gross profit	1.90	1.90	0.0%	1.55	22.6%
<i>margin</i>	38.2%	37.3%		36.6%	
<b>Consumer</b>					
Sales	1.30	1.35	-3.7%	1.18	10.2%
Gross profit	0.38	0.35	9.4%	0.30	29.0%
<i>margin</i>	29.5%	25.9%		25.2%	
<b>Group</b>					
Sales	10.30	11.10	-7.2%	12.61	-18.3%
Gross profit	3.22	3.30	-2.4%	3.64	-11.5%
<i>margin</i>	31.3%	29.7%		28.8%	

Source: First Berlin Equity Research, SFC Energy AG



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	52,030	60,979	70,004	79,595	89,725	100,272	111,083	121,979
NOPLAT	-1,021	450	2,347	4,364	5,923	6,747	7,511	8,239
+ depreciation & amortisation	1,591	762	478	526	582	643	709	779
Net operating cash flow	569	1,212	2,825	4,890	6,505	7,389	8,219	9,018
- total investments (CAPEX and WC)	-2,472	-3,511	-3,691	-4,290	-3,578	-3,798	-3,982	-4,120
Capital expenditures	-676	-793	-840	-955	-1,069	-1,185	-1,303	-1,419
Working capital	-1,796	-2,718	-2,851	-3,335	-2,510	-2,613	-2,679	-2,700
Free cash flows (FCF)	-1,903	-2,298	-865	600	2,927	3,591	4,238	4,898
<b>PV of FCF's</b>	<b>-1,780</b>	<b>-1,934</b>	<b>-655</b>	<b>409</b>	<b>1,795</b>	<b>1,982</b>	<b>2,104</b>	<b>2,189</b>

All figures in thousands	
PV of FCFs in explicit period (2016E-2030E)	20,038
PV of FCFs in terminal period	27,519
Enterprise value (EV)	47,557
+ Net cash / - net debt	-2,773
+ Investments / minority interests	0
Shareholder value	44,784

Fair value per share in EUR 5.10

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.1%	11.48	12.07	12.78	13.66	14.78	16.27	18.32	
8.1%	8.98	9.31	9.71	10.18	10.76	11.47	12.39	
9.1%	7.18	7.38	7.61	7.89	8.21	8.59	9.05	
10.1%	5.84	5.96	6.11	6.27	6.46	6.68	6.93	
11.1%	4.81	4.89	4.98	5.08	5.19	5.32	5.47	
12.1%	4.00	4.05	4.11	4.17	4.24	4.32	4.41	
13.1%	3.35	3.39	3.42	3.46	3.51	3.56	3.61	
14.1%	2.82	2.85	2.87	2.90	2.93	2.96	2.99	

\* for layout purposes the model shows numbers only to 2023, but runs until 2030



## INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
<b>Revenues</b>	<b>31,260</b>	<b>32,413</b>	<b>53,631</b>	<b>47,310</b>	<b>52,030</b>	<b>60,979</b>	<b>70,004</b>
Cost of goods sold	18,497	21,773	37,970	34,083	33,507	40,246	46,973
<b>Gross profit</b>	<b>12,763</b>	<b>10,640</b>	<b>15,661</b>	<b>13,227</b>	<b>18,523</b>	<b>20,733</b>	<b>23,031</b>
S&M	5,862	8,233	10,540	12,499	10,720	11,010	11,201
G&A	3,555	3,860	4,872	5,806	4,820	5,020	5,040
R&D	4,257	6,149	4,530	5,546	3,900	4,130	4,200
Other operating income	749	1,041	170	142	156	183	210
Other operating expenses	362	2,275	159	161	260	305	350
<b>Operating income (EBIT)</b>	<b>-524</b>	<b>-8,836</b>	<b>-4,269</b>	<b>-10,645</b>	<b>-1,021</b>	<b>451</b>	<b>2,450</b>
Net financial result	80	-128	-298	-315	-397	-391	-390
Non-operating expenses	0	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-445</b>	<b>-8,964</b>	<b>-4,567</b>	<b>-10,959</b>	<b>-1,418</b>	<b>60</b>	<b>2,060</b>
Income taxes	-19	-52	259	-290	-14	1	103
Minority interests	0	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-426</b>	<b>-8,912</b>	<b>-4,826</b>	<b>-10,669</b>	<b>-1,404</b>	<b>60</b>	<b>1,957</b>
<b>Diluted EPS (in €)</b>	<b>-0.06</b>	<b>-1.16</b>	<b>-0.60</b>	<b>-1.24</b>	<b>-0.16</b>	<b>0.01</b>	<b>0.22</b>
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-1,177</b>	<b>-4,651</b>	<b>569</b>	<b>1,213</b>	<b>2,928</b>
<b>Ratios</b>							
Gross margin	40.8%	32.8%	29.2%	28.0%	35.6%	34.0%	32.9%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-22.5%	-2.0%	0.7%	3.5%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	-9.8%	1.1%	2.0%	4.2%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-22.6%	-2.7%	0.1%	2.8%
Tax rate	4.3%	0.6%	-5.7%	2.6%	1.0%	1.0%	5.0%
<b>Expenses as % of revenues</b>							
S&M	18.8%	25.4%	19.7%	26.4%	20.6%	18.1%	16.0%
G&A	11.4%	11.9%	9.1%	12.3%	9.3%	8.2%	7.2%
R&D	13.6%	19.0%	8.4%	11.7%	7.5%	6.8%	6.0%
Other operating expenses	1.2%	7.0%	0.3%	0.3%	0.5%	0.5%	0.5%
<b>Y-Y Growth</b>							
Revenues	n.a.	3.7%	65.5%	-11.8%	10.0%	17.2%	14.8%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	443.3%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	3173.7%



## BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
<b>Assets</b>							
<b>Current assets, total</b>	<b>33,598</b>	<b>25,934</b>	<b>27,542</b>	<b>21,154</b>	<b>21,746</b>	<b>24,994</b>	<b>29,084</b>
Cash and cash equivalents	22,911	7,428	6,407	3,712	3,713	3,024	3,047
Short-term investments	0	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	7,490	9,978	12,530	15,343
Inventories	5,815	7,713	7,653	8,782	6,885	8,270	9,523
Other current assets	1,118	1,426	711	742	742	742	742
<b>Non-current assets, total</b>	<b>14,020</b>	<b>21,715</b>	<b>19,714</b>	<b>14,736</b>	<b>13,821</b>	<b>13,852</b>	<b>14,214</b>
Property, plant & equipment	2,400	2,296	1,601	1,390	1,285	1,455	1,654
Goodwill & other intangibles	11,000	19,054	17,813	12,768	11,958	11,819	11,982
Other assets	619	365	300	578	578	578	578
<b>Total assets</b>	<b>47,617</b>	<b>47,650</b>	<b>47,256</b>	<b>35,889</b>	<b>35,568</b>	<b>38,846</b>	<b>43,298</b>
<b>Shareholders' equity &amp; debt</b>							
<b>Current liabilities, total</b>	<b>7,662</b>	<b>12,669</b>	<b>13,371</b>	<b>13,041</b>	<b>13,123</b>	<b>15,712</b>	<b>14,558</b>
Short-term debt	372	2,139	2,013	2,014	3,300	4,671	2,300
Accounts payable	3,033	5,087	6,872	7,263	6,059	7,277	8,494
Current provisions	999	802	686	667	667	667	667
Other current liabilities	3,258	4,641	3,800	3,097	3,097	3,097	3,097
<b>Long-term liabilities, total</b>	<b>3,562</b>	<b>5,918</b>	<b>6,296</b>	<b>6,291</b>	<b>7,291</b>	<b>7,920</b>	<b>9,920</b>
Long-term debt	0	2,282	3,045	2,203	3,203	3,832	5,832
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	3,562	3,636	3,251	4,088	4,088	4,088	4,088
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>36,394</b>	<b>29,063</b>	<b>27,589</b>	<b>16,558</b>	<b>15,154</b>	<b>15,214</b>	<b>18,821</b>
Share capital	7,503	8,020	8,611	8,611	8,611	8,611	8,882
Capital reserve	67,879	69,570	71,955	72,017	72,017	72,017	73,397
Other reserves	0	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0	0
Loss carryforward / retained earnings	-38,951	-47,863	-52,689	-63,358	-64,762	-64,702	-62,745
<b>Total consolidated equity and debt</b>	<b>47,617</b>	<b>47,650</b>	<b>47,256</b>	<b>35,889</b>	<b>35,568</b>	<b>38,846</b>	<b>43,298</b>
<b>Ratios</b>							
Current ratio (x)	4.39	2.05	2.06	1.62	1.66	1.59	2.00
Quick ratio (x)	3.63	1.44	1.49	0.95	1.13	1.06	1.34
Net cash	22,539	3,007	1,349	-505	-2,790	-5,479	-5,084
Net gearing	-61.9%	-10.3%	-4.9%	3.0%	18.4%	36.0%	0.0%
Book value per share (€)	4.85	3.79	3.44	1.92	1.76	1.77	2.12
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-64.4%	-9.3%	0.4%	10.4%
Days of sales outstanding (DSO)	43.2	104.3	86.9	57.8	70.0	75.0	80.0
Days of inventory turnover	114.7	129.3	73.6	94.0	75.0	75.0	74.0
Days in payables (DIP)	59.9	85.3	66.1	77.8	66.0	66.0	66.0



## CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
<b>EBIT</b>	<b>-524</b>	<b>-8,836</b>	<b>-4,269</b>	<b>-10,645</b>	<b>-1,021</b>	<b>451</b>	<b>2,450</b>
Depreciation and amortisation	1,255	4,362	3,093	5,994	1,591	762	478
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-1,177</b>	<b>-4,651</b>	<b>569</b>	<b>1,213</b>	<b>2,928</b>
Changes in working capital	85	-2,188	-2,015	3,216	-1,796	-2,718	-2,851
Other adjustments	443	-649	-361	-429	-383	-391	-493
<b>Operating cash flow</b>	<b>1,258</b>	<b>-7,311</b>	<b>-3,553</b>	<b>-1,864</b>	<b>-1,609</b>	<b>-1,896</b>	<b>-415</b>
CAPEX	-561	-345	-181	-294	-312	-427	-490
Investments in intangibles	-318	-327	-452	-1,055	-364	-366	-350
<b>Free cash flow</b>	<b>380</b>	<b>-7,984</b>	<b>-4,186</b>	<b>-3,213</b>	<b>-2,286</b>	<b>-2,689</b>	<b>-1,255</b>
<b>Debt financing, net</b>	<b>-388</b>	<b>-1,469</b>	<b>826</b>	<b>699</b>	<b>2,286</b>	<b>2,000</b>	<b>-371</b>
<b>Equity financing, net</b>	<b>0</b>	<b>0</b>	<b>3,263</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,650</b>
Other changes in cash	191	-6,029	-923	-332	0	0	0
<b>Net cash flows</b>	<b>183</b>	<b>-15,482</b>	<b>-1,020</b>	<b>-2,845</b>	<b>0</b>	<b>-689</b>	<b>24</b>
Cash, start of the year	0	22,911	7,143	6,407	3,712	3,713	3,024
<b>Cash, end of the year</b>	<b>183</b>	<b>7,428</b>	<b>6,123</b>	<b>3,562</b>	<b>3,713</b>	<b>3,024</b>	<b>3,047</b>
<b>EBITDA/share (in €)</b>	<b>0.10</b>	<b>-0.58</b>	<b>-0.15</b>	<b>-0.54</b>	<b>0.07</b>	<b>0.14</b>	<b>0.33</b>
<b>Y-Y Growth</b>							
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	n.m.	113.1%	134.1%

### FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 June 2014	€4.84	Buy	€7.40
2...11	↓	↓	↓	↓
12	21 December 2015	€4.60	Buy	€6.10
13	8 March 2016	€3.53	Buy	€5.30
14	3 May 2016	€3.93	Buy	€5.30
15	Today	€3.80	Buy	€5.10

**Authored by: Dr. Karsten von Blumenthal, Analyst**

**Company responsible for preparation:**

**First Berlin Equity Research GmbH**

Mohrenstraße 34  
10117 Berlin

Tel. +49 (0)30 - 80 93 96 85 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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