

# SFC Energy AG

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

Preliminary  
 2016 figures

**RATING**  
**PRICE TARGET** **ADD**  
 Return Potential 20.0%  
 Risk Rating High

## 2016 FIGURES ABOVE ESTIMATES – UPGRADE TO ADD

On 16 February, SFC Energy reported preliminary 2016 figures and held a conference call. Sales and EBITDA were above our forecasts. For 2017, SFC expects sustainable growth and increased profitability and will give concrete guidance on 6 April. The order backlog soared 40% y/y to €16.9m at the end of 2016. A significant revival of the oil & gas business and a strong security & industry business bode well for 2017E. We expect double digit sales growth to €50m and significantly improved profitability. As financing risks are now significantly lower we increase our price target to €4.10 (previously: €2.30). We upgrade the stock to Add from Reduce.

**Strong Q4** Q4 sales of €12.7m (+15% y/y) and positive EBITDA of €0.2m resulted in preliminary annual sales of €44.0m and EBITDA of €-2.5m. These were above our forecasts (FBe sales: €41.6m and EBITDA: €-3.6m). Cost reductions and an improved product mix (relatively more security & industry business) were the main EBITDA drivers.

**Outlook for 2017E confirmed** Based on a significant revival of the oil & gas business and a strong security & industry business we confirm our forecast of double digit sales growth to ca. €50m and a significant improvement in profitability. A much higher order backlog of €16.9m (+40% y/y) at the end of 2016 bodes well for the expected resumption of growth in 2017E.

**Oil & gas back in growth mode** In Canada, sales generated by SFC's EFOY Pro fuel cell business increased by 40% to CAD1.9m in 2016, whereas the overall business of SFC's subsidiary Simark probably decreased by ca. 25%. Large Canadian oil & gas and telecommunication customers appreciate the fuel cells as autonomous, reliable, flexible and easy to use power supply for off-grid applications. SFC's subsidiary Simark expects this business to continue to grow in Canada and the USA in 2017 and beyond. We believe that SFC's oil & gas business is poised for double digit growth this year. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	32.41	53.63	47.31	44.00	49.95	57.34
Y-o-y growth	3.7%	65.5%	-11.8%	-7.0%	13.5%	14.8%
EBIT (€m)	-8.84	-4.27	-10.64	-4.32	-2.22	0.17
EBIT margin	-27.3%	-8.0%	-22.5%	-9.8%	-4.4%	0.3%
Net income (€m)	-8.91	-4.83	-10.67	-4.93	-2.96	-0.53
EPS (diluted) (€)	-1.16	-0.60	-1.24	-0.52	-0.33	-0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.98	-4.19	-3.21	-4.55	-2.71	-1.40
Net gearing	-10.3%	-4.9%	3.0%	27.1%	61.6%	79.4%
Liquid assets (€m)	7.43	6.41	3.71	4.15	2.94	2.67

### 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.

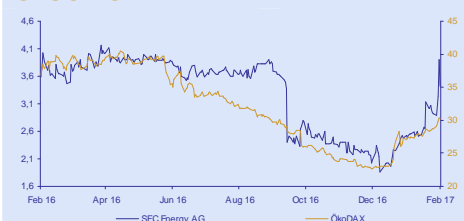
### MARKET DATA

As of 16 Feb 2017

Closing Price	€ 3.42
Shares outstanding	9.05m
Market Capitalisation	€ 30.92m
52-week Range	€ 1.85 / 4.16
Avg. Volume (12 Months)	4,717

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

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Sep 2016

Liquid Assets	€ 0.77m
Current Assets	€ 18.70m
Intangible Assets	€ 11.98m
Total Assets	€ 32.61m
Current Liabilities	€ 11.58m
Shareholders' Equity	€ 13.69m

### SHAREHOLDERS

HPE	26.5%
DWS	8.8%
Havensight	8.5%
Other	16.7%
Free Float	39.5%



The growth rate could be ca. 10-15%. Although SFC was hit by the low oil price, increasing demand for fuel cells in the oil & gas industry shows that SFC's strategy to enter this market was right.

**Security & industry business offers good growth perspectives** According to management, the defence area grew by ca. 30% in 2016 from ca. €2.7m in 2015, driven by orders from France, Belgium, India and an international defence force. SFC's current defence project pipeline could result in high single digit million Euro revenues in 2017E. We believe that the critical order from the German Army, which was postponed last year due to smaller technical insufficiencies of the product, could materialise in Q3. In our view, the value of this order alone could amount to €4-6m. An increasing share of the defence business would result in a higher group gross margin. We forecast a group gross margin of 34.5% for 2017E. The 2015 gross margin was 28.0% and for 2016E, we expect 29.7%.

**On a roll in recent months** Large and strategically important orders have generated very positive newsflow since November 2016. In that month, SFC's distributor AG Group delivered portable SFC Energy Networks including JENNY 600S fuel cells to the Belgian Army. The order generated revenues of ca. €0.2m. Today, numerous international NATO defence organisations use SFC Energy fuel cell products. SFC has been cooperating closely with the German Army and the U.S. Army for over 10 years. SFC fuel cell and accessory products carry a NATO stock number.

In January, SFC Energy's long-term Singaporean partner Oneberry won a large, multi-year tender and placed a large order for EFOY Pro 2400 Duo fuel cell systems to be delivered in Q1/2017. The order is particularly attractive as replacement fuel cells need to be delivered over the lifetime of the tender. The systems will provide reliable off-grid power to surveillance systems in Singapore. We believe that the order value is above €1m and reflects a major breakthrough in Asia.

Also in January, SFC and its Indian partner received an order from the Indian Ministry of Home Affairs for more than 80 power systems consisting of EMILY 3000, JENNY 600S, Power Manager and Methanol Cartridge Refill stations. An Indian paramilitary border protection force will be using the systems to reliably power border protection equipment, electrical equipment and, especially, critical communication systems at border outposts, most of which are very remote locations with harsh climate conditions. The main reason for selecting SFC's products was their superior efficiency and significantly easier logistics compared to generators and batteries. This order marks SFC's entry into the Indian market and is thus of strategic importance for SFC.

In the same month, SFC reported the delivery of fuel cell systems to an international defence force. The value of the delivery was €0.6m. The systems are based on SFC Energy's EMILY fuel cell platform and have been modified for underground use. They will reliably deliver autonomous power to electrical systems for a total of 5 years.

**Estimates for 2017E & 2018E largely unchanged** We stick to our 2017E & 2018E sales and EBIT forecasts which suggest revenue growth of 13.8% in 2017E and 14.8% in 2018E along with improving profitability. We anticipate operating break-even in 2018E (see figure 1 overleaf).

**Upgrade to Add at increased price target** An updated DCF model, which reflects a reduced financing risk (WACC lowered from 13.2% to 11.5%), yields a new price target of €4.10 (previously: €2.30). We upgrade the stock to Add from Reduce.



Figure 1: Revisions to forecasts

All figures in €m	2016E			2017E			2018E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	41.62	44.00	5.7%	49.95	49.95	0.0%	57.34	57.34	0.0%
EBIT	-5.40	-4.32	-	-2.22	-2.22	-	0.17	0.17	0.0%
<i>margin</i>	-13.0%	-9.8%	-	-4.4%	-4.4%	-	0.3%	0.3%	-
Net income	-6.10	-4.93	-	-3.16	-2.96	-	-0.55	-0.53	-
<i>margin</i>	-14.7%	-11.2%	-	-6.3%	-5.9%	-	-1.0%	-0.9%	-
EPS (diluted)	-0.65	-0.52	-	-0.35	-0.33	-	-0.06	-0.06	-

Source: First Berlin Equity Research



## VALUATION MODEL

DCF valuation model									
All figures in EUR '000									
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	
Net sales	49,949	57,341	65,197	73,495	82,134	90,990	99,915	108,744	
NOPLAT	-2,218	172	2,206	3,634	4,466	5,237	5,972	6,709	
+ depreciation & amortisation	715	439	472	511	557	607	661	719	
Net operating cash flow	-1,503	611	2,677	4,146	5,023	5,844	6,633	7,429	
- total investments (CAPEX and WC)	-464	-1,306	-1,959	-2,338	-2,494	-2,629	-2,737	-2,813	
Capital expenditures	-649	-688	-782	-875	-971	-1,067	-1,163	-1,255	
Working capital	186	-617	-1,176	-1,463	-1,523	-1,562	-1,574	-1,557	
Free cash flows (FCF)	-1,967	-694	719	1,807	2,529	3,215	3,897	4,616	
<b>PV of FCF's</b>	<b>-1,789</b>	<b>-566</b>	<b>526</b>	<b>1,185</b>	<b>1,487</b>	<b>1,695</b>	<b>1,842</b>	<b>1,957</b>	

All figures in thousands	
PV of FCFs in explicit period (2017E-2030E)	18,694
PV of FCFs in terminal period	24,021
Enterprise value (EV)	42,715
+ Net cash / - net debt	-5,376
+ Investments / minority interests	0
Shareholder value	37,339

Fair value per share in EUR 4.10

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.5%	Cost of equity	8.88	9.34	9.90	10.58	11.42	12.51	13.96
8.5%	Pre-tax cost of debt	7.01	7.29	7.62	8.01	8.48	9.05	9.76
9.5%	Tax rate	5.65	5.83	6.03	6.27	6.54	6.87	7.26
10.5%	After-tax cost of debt	4.61	4.73	4.86	5.01	5.18	5.38	5.61
11.5%	Share of equity capital	3.81	3.89	3.98	4.07	4.18	4.31	4.45
12.5%	Share of debt capital	3.17	3.22	3.28	3.35	3.42	3.50	3.60
13.5%		2.65	2.69	2.73	2.78	2.83	2.88	2.94
14.5%		2.23	2.25	2.28	2.31	2.35	2.39	2.43

\* for layout purposes the model shows numbers only to 2024, 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>44,000</b>	<b>49,949</b>	<b>57,341</b>
Cost of goods sold	18,497	21,773	37,970	34,083	30,932	32,717	37,559
<b>Gross profit</b>	<b>12,763</b>	<b>10,640</b>	<b>15,661</b>	<b>13,227</b>	<b>13,068</b>	<b>17,232</b>	<b>19,783</b>
S&M	5,862	8,233	10,540	12,499	9,014	10,200	10,321
G&A	3,555	3,860	4,872	5,806	4,478	5,220	5,275
R&D	4,257	6,149	4,530	5,546	3,900	4,030	4,014
Other operating income	749	1,041	170	142	132	150	172
Other operating expenses	362	2,275	159	161	132	150	172
<b>Operating income (EBIT)</b>	<b>-524</b>	<b>-8,836</b>	<b>-4,269</b>	<b>-10,645</b>	<b>-4,324</b>	<b>-2,218</b>	<b>172</b>
Net financial result	80	-128	-298	-315	-655	-770	-725
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>-4,979</b>	<b>-2,988</b>	<b>-553</b>
Income taxes	-19	-52	259	-290	-50	-30	-22
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>-4,929</b>	<b>-2,958</b>	<b>-531</b>
<b>Diluted EPS (in €)</b>	<b>-0.06</b>	<b>-1.16</b>	<b>-0.60</b>	<b>-1.24</b>	<b>-0.52</b>	<b>-0.33</b>	<b>-0.06</b>
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-1,177</b>	<b>-4,651</b>	<b>-2,498</b>	<b>-1,503</b>	<b>611</b>
<b>Ratios</b>							
Gross margin	40.8%	32.8%	29.2%	28.0%	29.7%	34.5%	34.5%
EBIT margin on revenues	-1.7%	-27.3%	-8.0%	-22.5%	-9.8%	-4.4%	0.3%
EBITDA margin on revenues	2.3%	-13.8%	-2.2%	-9.8%	-5.7%	-3.0%	1.1%
Net margin on revenues	-1.4%	-27.5%	-9.0%	-22.6%	-11.2%	-5.9%	-0.9%
Tax rate	4.3%	0.6%	-5.7%	2.6%	1.0%	1.0%	4.0%
<b>Expenses as % of revenues</b>							
S&M	18.8%	25.4%	19.7%	26.4%	20.5%	20.4%	18.0%
G&A	11.4%	11.9%	9.1%	12.3%	10.2%	10.5%	9.2%
R&D	13.6%	19.0%	8.4%	11.7%	8.9%	8.1%	7.0%
Other operating expenses	1.2%	7.0%	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Y-Y Growth</b>							
Revenues	n.a.	3.7%	65.5%	-11.8%	-7.0%	13.5%	14.8%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



## 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>21,727</b>	<b>20,352</b>	<b>21,670</b>
Cash and cash equivalents	22,911	7,428	6,407	3,712	4,149	2,942	2,674
Short-term investments	0	0	0	0	0	0	0
Receivables	3,696	9,258	12,766	7,490	7,595	8,621	10,211
Inventories	5,815	7,713	7,653	8,782	8,814	7,619	7,615
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>13,482</b>	<b>13,417</b>	<b>13,666</b>
Property, plant & equipment	2,400	2,296	1,601	1,390	1,237	1,339	1,473
Goodwill & other intangibles	11,000	19,054	17,813	12,768	11,667	11,500	11,615
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>35,209</b>	<b>33,769</b>	<b>35,336</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>12,789</b>	<b>13,678</b>	<b>13,776</b>
Short-term debt	372	2,139	2,013	2,014	2,500	3,371	2,500
Accounts payable	3,033	5,087	6,872	7,263	6,525	6,543	7,512
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>9,291</b>	<b>9,920</b>	<b>11,920</b>
Long-term debt	0	2,282	3,045	2,203	5,203	5,832	7,832
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>13,129</b>	<b>10,171</b>	<b>9,640</b>
Share capital	7,503	8,020	8,611	8,611	9,047	9,047	9,047
Capital reserve	67,879	69,570	71,955	72,017	73,081	73,081	73,081
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	-68,287	-71,245	-71,775
<b>Total consolidated equity and debt</b>	<b>47,617</b>	<b>47,650</b>	<b>47,256</b>	<b>35,889</b>	<b>35,209</b>	<b>33,769</b>	<b>35,336</b>
<b>Ratios</b>							
Current ratio (x)	4.39	2.05	2.06	1.62	1.70	1.49	1.57
Quick ratio (x)	3.63	1.44	1.49	0.95	1.01	0.93	1.02
Net cash	22,539	3,007	1,349	-505	-3,554	-6,261	-7,658
Net gearing	-61.9%	-10.3%	-4.9%	3.0%	27.1%	61.6%	0.0%
Book value per share (€)	4.85	3.79	3.44	1.92	1.50	1.12	1.07
Return on equity (ROE)	-1.2%	-30.7%	-17.5%	-64.4%	-37.5%	-29.1%	-5.5%
Days of sales outstanding (DSO)	43.2	104.3	86.9	57.8	63.0	63.0	65.0
Days of inventory turnover	114.7	129.3	73.6	94.0	104.0	85.0	74.0
Days in payables (DIP)	59.9	85.3	66.1	77.8	77.0	73.0	73.0



## 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>-4,324</b>	<b>-2,218</b>	<b>172</b>
Depreciation and amortisation	1,255	4,362	3,093	5,994	1,825	715	439
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-1,177</b>	<b>-4,651</b>	<b>-2,498</b>	<b>-1,503</b>	<b>611</b>
Changes in working capital	85	-2,188	-2,015	3,216	-874	186	-617
Other adjustments	443	-649	-361	-429	-605	-740	-703
<b>Operating cash flow</b>	<b>1,258</b>	<b>-7,311</b>	<b>-3,553</b>	<b>-1,864</b>	<b>-3,977</b>	<b>-2,058</b>	<b>-709</b>
CAPEX	-561	-345	-181	-294	-264	-350	-401
Investments in intangibles	-318	-327	-452	-1,055	-308	-300	-287
<b>Free cash flow</b>	<b>380</b>	<b>-7,984</b>	<b>-4,186</b>	<b>-3,213</b>	<b>-4,549</b>	<b>-2,707</b>	<b>-1,397</b>
<b>Debt financing, net</b>	<b>-388</b>	<b>-1,469</b>	<b>826</b>	<b>699</b>	<b>3,486</b>	<b>1,500</b>	<b>1,129</b>
<b>Equity financing, net</b>	<b>0</b>	<b>0</b>	<b>3,263</b>	<b>0</b>	<b>1,500</b>	<b>0</b>	<b>0</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>437</b>	<b>-1,207</b>	<b>-268</b>
Cash, start of the year	0	22,911	7,143	6,407	3,712	4,149	2,942
<b>Cash, end of the year</b>	<b>183</b>	<b>7,428</b>	<b>6,123</b>	<b>3,562</b>	<b>4,149</b>	<b>2,942</b>	<b>2,674</b>
<b>EBITDA/share (in €)</b>	<b>0.10</b>	<b>-0.58</b>	<b>-0.15</b>	<b>-0.54</b>	<b>-0.28</b>	<b>-0.17</b>	<b>0.07</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.	n.m.	n.m.

**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...17	↓	↓	↓	↓
18	6 October 2016	€2.48	Reduce	€2.20
19	20 October 2016	€2.66	Reduce	€2.30
20	9 November 2016	€2.38	Reduce	€2.30
21	Today	€3.42	Add	€4.10

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