

SFC Energy AG

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

Annual report

RATING
PRICE TARGET **ADD**
 Return Potential 17.4%
 Risk Rating High

€ 4.10

BACK ON THE GROWTH TRACK

On 6 April, SFC Energy published its 2016 Annual Report and held a conference call. Final 2016 figures corresponded to the preliminary figures. Although revenues declined 7% y/y to €44m, the operating loss narrowed to €-4.9m (2015: €-10.6m) due to lower depreciation & amortisation and significantly reduced operating costs. Increasing demand both from the Oil & Gas and the Security & Industry segment look set to generate double digit growth in 2017E and the following years. We expect SFC to reach operating break-even in 2018E. We have marginally adjusted our forecasts. We reiterate our ADD rating and the €4.10 price target.

Lower sales and better results Lower revenues in the oil & gas business (-26% y/y) were only partly compensated for by higher revenues from the Security & Industry segment (+20% y/y) and so group sales fell 7% y/y to €44m. An improved product mix—the Security & Industry segment is now the strongest revenue contributor—and improved segment gross margins increased the group gross margin to 30.1% from 28.0% in 2015. Gross profit thus remained stable at €13.2m. EBIT improved significantly to €-4.9m (2015: €-10.6m). The main reasons were lower D&A (€2.4m vs. €6.0m) and significantly lower operating costs (sales & marketing €9.1m vs. €12.5m, G&A €4.9m vs. €5.8m, and R&D €4.1m vs. €5.5m). Underlying EBIT, which takes one-off effects into account, improved slightly to €-4.1m (2015: €-4.4m). The net loss roughly halved to €-5.0m. Based on a slightly increased average share count of 8.67m, EPS amounted to €-0.58 (2015: €-1.24).

Guidance implies double-digit growth SFC is guiding towards €50-55m in revenues and a significantly improved operating result. This implies a y/y revenue growth of at least 14%.

Balance sheet burdened by higher financial debt and lower equity Liabilities to banks increased to €6.3m (2015: €4.2m), of which €4.3m were current. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	53.63	47.31	44.04	49.95	57.34	65.20
Y-o-y growth	65.5%	-11.8%	-6.9%	13.4%	14.8%	13.7%
EBIT (€m)	-4.27	-10.64	-4.90	-2.02	0.17	2.41
EBIT margin	-8.0%	-22.5%	-11.1%	-4.0%	0.3%	3.7%
Net income (€m)	-4.83	-10.67	-4.99	-3.00	-0.85	1.35
EPS (diluted) (€)	-0.60	-1.24	-0.58	-0.33	-0.09	0.15
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.19	-3.21	-6.15	-3.01	-2.63	-0.66
Net gearing	-4.9%	11.0%	53.5%	98.1%	134.5%	115.9%
Liquid assets (€m)	6.41	3.71	2.04	1.72	0.72	1.46

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 07 Apr 2017

Closing Price	€ 3.49
Shares outstanding	9.05m
Market Capitalisation	€ 31.58m
52-week Range	€ 1.85 / 4.16
Avg. Volume (12 Months)	5,254

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.9	0.8	0.7
EV/EBIT	n.a.	n.a.	223.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 1.76m
Current Assets	€ 20.06m
Intangible Assets	€ 11.86m
Total Assets	€ 33.79m
Current Liabilities	€ 13.34m
Shareholders' Equity	€ 13.34m

SHAREHOLDERS

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



The debt component of convertible bonds outstanding increased to €2.9m (2015: €1.3m). Total financial debt thus increased to €9.2m from €4.3m at the end of 2015. The net debt position amounted to €7.2m. In the prior year, net debt was only €0.6m. According to management, the cash position, which declined to €20m (including restricted cash) at the end of 2016, increased to €2.3m at the end of March. Due mainly to the net loss, equity fell from €16.6m to €13.3m y/y. The equity ratio declined y/y to 39.5% from 46.1%.

Operating cash flow remains negative Although net operating cash flow improved from €-4.3m to €-1.5m, higher working capital requirements resulted in an operating cash flow of €-5.2m (2015: €-1.8m). Due to CAPEX of €0.9m free cashflow was €-6.2m. The cash flow from financing activity amounted to €4.3m. Net cash outflow was €-1.5m.

Security & Industry now the strongest segment Segment revenues increased 20% y/y to €21.1m. Gross profit was €7.8m (2015: €6.5m). The gross profit margin edged higher to 36.9% (see figure 1). The operating loss was significantly reduced to €2.3m from €6.9m. All subsegments grew substantially (PBF: +15%, Industrial Fuel Cells: +27%, Defence: +29%). Defence not only showed the strongest growth; SFC also successfully internationalised this business with contracts in France, Belgium, India, an international defence force, and a UK pilot project. This reduces SFC's dependence on the German defence market. Increasing national defence budgets (NATO target for all members: 2% of national GDP) look set to support increasing demand for SFC's defence products.

Positive trend in oil & gas continuing in Q1/17 Although segment revenues declined 26% to €19.3m, EBIT improved to €-1.5m (2015: €-2.3m) At oil prices of around \$50/barrel, the recovery of the oil & gas sector, which began in Q4/16, is continuing. Q4 was the strongest quarter for the segment in 2017 with €5.3m in revenues and gross profit of €1.5m. Both replacement CAPEX and CAPEX for new wells—the latter was non-existent in the last two years—result in increasing business for SFC's subsidiary Simark.

Consumer segment remained weak Segment revenues fell slightly to €3.6m (2015: €3.8m). Segment EBIT, however, improved y/y to €-1.1m from €-1.4m. Stronger demand from Germany could not completely compensate for declining demand from France and Norway.

Figure 1: Segment figures

All figures in €m	Q4-16A	Q4-15	Delta	2016	2015	Delta
Oil & Gas						
Sales	5.33	5.90	-9.8%	19.30	25.98	-25.7%
Gross profit	1.48	1.31	12.9%	4.41	5.80	-24.1%
margin	27.8%	22.2%		22.8%	22.3%	
Security & Industry						
Sales	6.56	4.31	52.2%	21.10	17.57	20.1%
Gross profit	2.48	1.58	56.5%	7.78	6.46	20.5%
margin	37.8%	36.8%		36.9%	36.8%	
Consumer						
Sales	0.80	0.77	3.8%	3.65	3.76	-3.1%
Gross profit	0.29	0.21	42.7%	1.06	0.97	10.1%
margin	37.0%	26.9%		29.1%	25.6%	
Group						
Sales	12.68	10.98	15.5%	44.04	47.31	-6.9%
Gross profit	4.25	3.10	37.2%	13.25	13.23	0.2%
margin	33.5%	28.2%		30.1%	28.0%	

Source: First Berlin Equity Research, SFC Energy AG



Financing future growth is management's top priority Rising demand in SFC's core markets puts growth financing back on the agenda. Investments in tapping new market segments and regions, in increasing market share in existing market segments, and in product development will have to be financed.

High order backlog suggests a strong start into 2017 The order backlog increased 43% y/y to €16.9m from €11.8m. This jump is mainly due to the increased order backlog at PBF (€11.4m vs. €6.3m in the prior year). The order backlog at SFC's Canadian subsidiary Simark (oil & gas) also increased y/y to €3.1m from €2.5m. The higher order backlog is a good basis for improved Q1 results and underpins that SFC is benefitting from rising demand in its core markets. At the end of February, order backlog increased to €17.4m.

Changes in the Management Board The current CFO, Steffen Schneider, will leave the Management Board prematurely on 17 May after the annual general meeting to pursue a personal career opportunity. In terms of his functional duties, his position will be taken on by Mr Gerhard Inninger who will report to CEO Dr Peter Podesser, who will assume responsibility for finance at Management Board level. Mr Inninger was CFO at SFC Energy AG between 2011 and 2014 and thus knows the company very well.

Forecasts only marginally changed We have marginally adjusted our forecasts. We expect double-digit revenue growth driven by increasing demand from both Oil & Gas and Industry & Security. We believe that SFC will reach operating break-even in 2018E (see figure 2).

Figure 2: Revisions to forecasts

All figures in €m	2017E			2018E			2019E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	49.95	49.95	0.0%	57.34	57.34	0.0%	65.20	65.20	0.0%
EBIT	-2.22	-2.02	-	0.17	0.17	1.2%	2.41	2.41	0.0%
<i>margin</i>	-4.4%	-4.0%	-	0.3%	0.3%	-	3.7%	3.7%	-
Net income	-2.96	-3.00	-	-0.53	-0.85	-	1.35	1.35	0.0%
<i>margin</i>	-5.9%	-6.0%	-	-0.9%	-1.5%	-	2.1%	2.1%	-
EPS (diluted) in €	-0.33	-0.33	-	-0.06	-0.09	-	0.15	0.15	0.0%

Source: First Berlin Equity Research

ADD rating and price target reiterated An updated DCF model still yields a €4.10 price target. We reiterate our ADD rating.



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	73,477	82,161	91,146	100,311	109,512
NOPLAT	-2,018	172	2,228	3,664	4,920	5,717	6,446	7,134
+ depreciation & amortisation	856	853	878	925	985	1,050	1,119	1,190
Net operating cash flow	-1,161	1,025	3,106	4,590	5,905	6,768	7,565	8,324
- total investments (CAPEX and WC)	-866	-2,632	-2,886	-3,122	-3,299	-3,457	-3,579	-3,657
Capital expenditures	-849	-975	-1,108	-1,249	-1,344	-1,433	-1,514	-1,583
Working capital	-17	-1,657	-1,777	-1,873	-1,955	-2,024	-2,065	-2,074
Free cash flows (FCF)	-2,027	-1,607	221	1,467	2,606	3,311	3,987	4,667
PV of FCF's	-1,875	-1,335	165	983	1,568	1,789	1,935	2,034

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	20,103
PV of FCFs in terminal period	25,012
Enterprise value (EV)	45,115
+ Net cash / - net debt	-7,199
+ Investments / minority interests	0
Shareholder value	37,916

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%
7.3%	Cost of equity	9.45	10.00	10.66	11.48	12.50	13.84	15.64
8.3%	Pre-tax cost of debt	7.36	7.69	8.08	8.54	9.10	9.79	10.66
9.3%	Tax rate	5.84	6.05	6.29	6.58	6.91	7.30	7.77
10.3%	After-tax cost of debt	4.70	4.84	5.00	5.18	5.38	5.62	5.90
11.3%	Share of equity capital	3.82	3.91	4.02	4.14	4.27	4.42	4.60
12.3%	Share of debt capital	3.12	3.19	3.26	3.34	3.43	3.53	3.64
13.3%		2.56	2.60	2.66	2.71	2.77	2.84	2.92
14.3%	Fair value per share in EUR	2.10	2.13	2.17	2.21	2.25	2.30	2.35

* for layout purposes the model shows numbers only to 2024, but runs until 2031



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Revenues	53,631	47,310	44,041	49,949	57,341	65,197
Cost of goods sold	37,970	34,083	30,795	32,717	37,559	43,095
Gross profit	15,661	13,227	13,247	17,232	19,783	22,102
S&M	10,540	12,499	9,126	9,900	10,207	10,236
G&A	4,872	5,546	4,883	5,120	5,161	5,216
R&D	4,530	5,806	4,148	4,230	4,243	4,238
Other operating income	170	142	96	150	172	196
Other operating expenses	159	161	83	150	172	196
Operating income (EBIT)	-4,269	-10,644	-4,898	-2,018	172	2,412
Net financial result	-298	-315	-475	-1,009	-1,056	-879
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-3,027	-884	1,533
Income taxes	259	-290	-380	-30	-35	184
Minority interests	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-2,997	-849	1,349
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.33	-0.09	0.15
EBITDA	-1,177	-4,650	-2,508	-1,161	1,025	3,290
Ratios						
Gross margin	29.2%	28.0%	30.1%	34.5%	34.5%	33.9%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-4.0%	0.3%	3.7%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	-2.3%	1.8%	5.0%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-6.0%	-1.5%	2.1%
Tax rate	-5.7%	2.6%	7.1%	1.0%	4.0%	12.0%
Expenses as % of revenues						
S&M	19.7%	26.4%	20.7%	19.8%	17.8%	15.7%
G&A	9.1%	11.7%	11.1%	10.3%	9.0%	8.0%
R&D	8.4%	12.3%	9.4%	8.5%	7.4%	6.5%
Other operating expenses	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%
Y-Y Growth						
Revenues	65.5%	-11.8%	-6.9%	13.4%	14.8%	13.7%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	1302.3%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	27,542	21,154	20,056	20,234	21,821	25,402
Cash and cash equivalents	6,407	3,712	2,041	1,718	720	1,461
Short-term investments	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	9,853	11,311	12,861
Inventories	7,653	8,782	7,718	7,619	8,747	10,036
Other current assets	711	742	888	888	888	888
Non-current assets, total	19,714	14,736	13,737	13,730	13,852	14,082
Property, plant & equipment	1,601	1,390	1,205	1,193	1,237	1,322
Goodwill & other intangibles	17,813	12,768	11,855	11,859	11,937	12,082
Other assets	300	578	678	678	678	678
Total assets	47,256	35,889	33,793	33,964	35,673	39,484
Shareholders' equity & debt						
Current liabilities, total	13,371	13,041	13,335	15,874	15,432	16,494
Short-term debt	2,013	2,014	4,317	6,371	5,000	5,000
Accounts payable	6,872	7,263	5,790	6,274	7,203	8,265
Current provisions	686	667	646	646	646	646
Other current liabilities	3,800	3,097	2,583	2,583	2,583	2,583
Long-term liabilities, total	6,296	6,291	7,119	7,748	10,748	11,748
Long-term debt	3,045	3,520	4,860	5,488	8,488	9,488
Deferred revenue	0	0	0	0	0	0
Other liabilities	3,251	2,772	2,259	2,259	2,259	2,259
Minority interests	0	0	0	0	0	0
Shareholders' equity	27,589	16,558	13,339	10,342	9,493	11,243
Share capital	8,611	8,611	9,047	9,047	9,047	9,209
Capital reserve	71,955	72,017	73,132	73,132	73,132	73,371
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-52,689	-63,358	-68,351	-71,347	-72,196	-70,847
Total consolidated equity and debt	47,256	35,889	33,793	33,964	35,673	39,484
Ratios						
Current ratio (x)	2.06	1.62	1.50	1.27	1.41	1.54
Quick ratio (x)	1.49	0.95	0.93	0.79	0.85	0.93
Net cash	1,349	-1,821	-7,135	-10,142	-12,769	-13,027
Net gearing	-4.9%	11.0%	53.5%	98.1%	134.5%	115.9%
Book value per share (€)	3.44	1.92	1.54	1.13	1.04	1.23
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-29.0%	-8.9%	12.0%
Days of sales outstanding (DSO)	86.9	57.8	76.7	72.0	72.0	72.0
Days of inventory turnover	73.6	94.0	91.5	85.0	85.0	85.0
Days in payables (DIP)	66.1	77.8	68.6	70.0	70.0	70.0



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
EBIT	-4,269	-10,645	-4,898	-2,018	172	2,412
Depreciation and amortisation	3,093	5,994	2,390	856	853	878
EBITDA	-1,177	-4,651	-2,508	-1,161	1,025	3,290
Changes in working capital	-2,015	3,216	-3,541	-17	-1,657	-1,777
Other adjustments	-361	-429	818	-979	-1,021	-1,063
Operating cash flow	-3,553	-1,864	-5,231	-2,157	-1,652	450
CAPEX	-181	-294	-301	-350	-401	-456
Investments in intangibles	-452	-1,055	-619	-499	-573	-652
Free cash flow	-4,186	-3,213	-6,151	-3,006	-2,627	-658
Debt financing, net	826	699	2,834	2,683	1,629	1,000
Equity financing, net	3,263	0	1,500	0	0	400
Other changes in cash	-923	-332	296	0	0	0
Net cash flows	-1,020	-2,845	-1,521	-323	-998	742
Cash, start of the year	7,143	6,407	3,276	2,041	1,718	720
Cash, end of the year	6,123	3,562	1,756	1,718	720	1,461
EBITDA/share (in €)	-0.15	-0.54	-0.29	-0.13	0.11	0.36
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	220.9%

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...18	↓	↓	↓	↓
19	20 October 2016	€2.66	Reduce	€2.30
20	9 November 2016	€2.38	Reduce	€2.30
21	17 February 2017	€3.42	Add	€4.10
22	Today	€3.49	Add	€4.10

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INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

RISK ASSESSMENT

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