

SFC Energy AG

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

Bond placed

RATING	ADD
PRICE TARGET	€ 4.60
Return Potential	18.4%
Risk Rating	High

SFC RAISES €5M – PRICE TARGET INCREASED

SFC Energy raised €5m by issuing a fixed rate bond and an option bond with Harbert European Growth Capital Fund. The additional cash bolsters the cash position and will be used to repay debt and finance the international expansion. Having solved the financing problem SFC can now focus on growing its Security & Industry and Oil & Gas segments. In Q1, the company reported strong revenue growth and a significantly higher order backlog. We stick to our EBIT forecasts for 2017E and the following years and assume a positive EBIT in 2018E. As the financing has improved SFC's risk profile we lower our WACC and increase the price target to €4.60 (previously: €4.30). We confirm our Add rating.

€5m raised with bond and option bond combination The fix rate bond has a volume of almost €5m and will finally mature on 31 December 2018. A part of the funding will be used to repay a higher interest loan. In 2016, SFC closed a €2m loan agreement with a 13% interest rate. The option bond has a nominal amount of €2.5k, and a term until 2022. The options grant the right to acquire 204,700 SFC shares at a price of €3.6639. We assume that Harbert will exercise the option in 2018 which would result in a cash inflow of €750k for SFC.

Strong partner The bond & option bond were issued with a fund of Harbert Management Corporation (HMC), a US-based independent investment company with global reach. HMC has assets of ca. \$5.1bn under management. SFC thus gained a strong financing partner whose presence in the US might be helpful in the future regarding a further expansion in the North American market.

WACC lowered due to increased financial solidity SFC now has sufficient funds to finance its growth. We reflect the improved risk profile in a lower WACC of 11.0% (previously: 11.3%).

(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	-3.20	-1.06	1.23
EPS (diluted) (€)	-0.60	-1.24	-0.58	-0.35	-0.11	0.13
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.19	-3.21	-6.15	-3.21	-2.84	-0.78
Net gearing	-4.9%	11.0%	53.5%	94.3%	117.6%	111.7%
Liquid assets (€m)	6.41	3.71	2.04	2.92	1.46	1.68

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 04 Aug 2017

Closing Price	€ 3.89
Shares outstanding	9.21m
Market Capitalisation	€ 35.78m
52-week Range	€ 1.85 / 4.12
Avg. Volume (12 Months)	5,484

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.0	0.8	0.7
EV/EBIT	n.a.	n.a.	246.4
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 2.40m
Current Assets	€ 20.37m
Intangible Assets	€ 11.46m
Total Assets	€ 33.68m
Current Liabilities	€ 12.41m
Shareholders' Equity	€ 12.31m

SHAREHOLDERS

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



Q2 figures on 17 August We expect SFC's Q2 figures to be close to the Q1 numbers, which implies strong revenue growth and significantly improved earnings y/y. The significant increase of the Q1 order backlog (+59% y/y) to €16m supports our forecast.

EPS forecasts slightly reduced We stick to our revenue and EBIT forecasts, but have lowered EPS due to higher interest payments and a higher diluted share count (see figure 1).

Price target increased, rating confirmed An updated DCF model yields a new price target of €4.60 (previously: €4.30). We reiterate our Add rating. Upside: 18%.

Figure 1: 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	-2.02	-2.02	-	0.17	0.17	0.0%	2.41	2.41	0.0%
<i>margin</i>	-4.0%	-4.0%	-	0.3%	0.3%	-	3.7%	3.7%	-
Net income	-3.00	-3.20	-	-0.85	-1.06	-	1.35	1.23	-8.8%
<i>margin</i>	-6.0%	-6.4%	-	-1.5%	-1.8%	-	2.1%	1.9%	-8.8%
EPS (diluted) in €	-0.34	-0.35	-	-0.09	-0.11	-	0.15	0.13	-11.2%

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	73,477	82,161	91,146	100,311	109,512
NOPLAT	-2,018	172	2,244	3,689	4,947	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	3,123	4,615	5,932	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	237	1,492	2,632	3,311	3,987	4,667
PV of FCF's	-1,943	-1,388	184	1,046	1,663	1,884	2,045	2,156

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	21,587
PV of FCFs in terminal period	28,368
Enterprise value (EV)	49,955
+ Net cash / - net debt (pro forma)	-6,606
+ Investments / minority interests	0
Shareholder value	43,349

Fair value per share in EUR	4.60
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WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
7.0%	10.48	11.15	11.96	12.98	14.30	16.06	18.52	
8.0%	8.13	8.53	9.00	9.56	10.26	11.12	12.24	
9.0%	6.45	6.70	6.99	7.33	7.73	8.21	8.79	
10.0%	5.20	5.37	5.55	5.77	6.01	6.30	6.63	
11.0%	4.25	4.36	4.48	4.62	4.78	4.96	5.16	
12.0%	3.49	3.57	3.65	3.75	3.85	3.97	4.10	
13.0%	2.89	2.94	3.00	3.07	3.14	3.22	3.31	
14.0%	2.40	2.44	2.48	2.52	2.57	2.63	2.69	

* 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	-1,212	-1,274	-1,014
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-3,230	-1,102	1,398
Income taxes	259	-290	-380	-32	-44	168
Minority interests	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-3,197	-1,058	1,231
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.35	-0.11	0.13
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%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	-2.3%	1.8%	5.0%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-4.0%	0.3%	3.7%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-6.4%	-1.8%	1.9%
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	21,433	22,561	25,623
Cash and cash equivalents	6,407	3,712	2,041	2,917	1,459	1,682
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	35,164	36,413	39,705
Shareholders' equity & debt						
Current liabilities, total	13,371	13,041	13,335	16,874	15,432	16,494
Short-term debt	2,013	2,014	4,317	7,371	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	10,541	10,233	11,464
Share capital	8,611	8,611	9,047	9,209	9,413	9,413
Capital reserve	71,955	72,017	73,132	73,371	73,916	73,916
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	-71,548	-72,606	-71,376
Total consolidated equity and debt	47,256	35,889	33,793	35,164	36,413	39,705
Ratios						
Current ratio (x)	2.06	1.62	1.50	1.27	1.46	1.55
Quick ratio (x)	1.49	0.95	0.93	0.82	0.90	0.95
Net cash	1,349	-1,821	-7,135	-9,942	-12,029	-12,806
Net gearing	-4.9%	11.0%	53.5%	94.3%	117.6%	111.7%
Book value per share (€)	3.44	1.92	1.54	1.15	1.09	1.22
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-30.3%	-10.3%	10.7%
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	-10,644	-4,898	-2,018	172	2,412
Depreciation and amortisation	3,093	5,994	2,390	856	853	878
EBITDA	-1,177	-4,650	-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	-1,180	-1,230	-1,182
Operating cash flow	-3,553	-1,863	-5,231	-2,358	-1,862	332
CAPEX	-181	-294	-301	-350	-401	-456
Investments in intangibles	-452	-1,055	-619	-499	-573	-652
Free cash flow	-4,186	-3,212	-6,151	-3,207	-2,837	-777
Debt financing, net	826	699	2,834	3,683	629	1,000
Equity financing, net	3,263	0	1,500	400	750	0
Other changes in cash	-923	-332	296	0	0	0
Net cash flows	-1,020	-2,845	-1,521	876	-1,458	223
Cash, start of the year	7,143	6,407	3,276	2,041	2,917	1,459
Cash, end of the year	6,123	3,563	1,756	2,917	1,459	1,682
EBITDA/share (in €)	-0.15	-0.54	-0.29	-0.13	0.11	0.35
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...21	↓	↓	↓	↓
22	10 April 2017	€3.49	Add	€4.10
23	12 May 2017	€3.67	Add	€4.20
24	21 July 2017	€3.88	Add	€4.30
25	Today	€3.89	Add	€4.60

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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