

SFC Energy AG

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

Preliminary
 2017 figures

RATING
PRICE TARGET
 Return Potential 13.3%
 Risk Rating High

ADD
€ 8.70

STRONG GROWTH AND PROFITABILITY AHEAD

On 8 February, SFC Energy presented preliminary 2017 figures which were above our forecast. Annual sales reached a record high at €54.3m (+23% y/y). Adjusted EBITDA was clearly positive at €1.5m (2016: €-2.7m). Strong demand from security & industry and oil & gas markets for SFC's products were the main revenue drivers. Strict cost control supported the earnings turnaround. A high oil price and continuing strong demand from defence customers look set to be the growth drivers for 2018E. This is supported by a significantly increased order backlog at the end of 2017 (€18.6m, +10% y/y). We forecast sales growth of 18% and EBIT of €2.5m for 2018E. Given SFC's strong competitive position in the markets for reliable and clean off-grid power solutions, we expect sustainable growth and increasing profitability in coming years. We increase our price target to €8.70 (previously: €7.70) and reiterate the Add rating.

Significant sales growth and positive EBITDA In 2017, revenues were up 23% at €54.3m (FBe: €53.3m). The main sales drivers were the oil & gas and the security & industry businesses. Adjusted EBITDA amounted to €1.5m (2016: €-2.7m, FBe: €0.4m). Economies of scale and strict cost discipline were mainly responsible for the €4.2m EBITDA swing (see figure 1 overleaf).

Strong defence business In December 2017, SFC received a €3.6m order from the German Army which will boost 2018 sales and earnings as delivery is slated for Q1/18. In recent years, SFC has successfully internationalised its defence business and is now active in Belgium, India, Israel, the UK, and the US. We believe that SFC increased its defence revenues by ca. 40% y/y in 2017 from €3.5m in 2016. For 2018, we forecast a similar rise which would result in defence-based revenues of more than €6m. As the defence business offers high margins compared to SFC's other business areas, we expect it to contribute significantly to our forecast rise in the group's gross margin from 33.0% in 2017E to 34.5% in 2018E.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	53.63	47.31	44.04	54.30	64.20	74.53
Y-o-y growth	65.5%	-11.8%	-6.9%	23.3%	18.2%	16.1%
EBIT (€m)	-4.27	-10.64	-4.90	-0.93	2.54	4.86
EBIT margin	-8.0%	-22.5%	-11.1%	-1.7%	4.0%	6.5%
Net income (€m)	-4.83	-10.67	-4.99	-2.13	1.50	3.60
EPS (diluted) (€)	-0.60	-1.24	-0.58	-0.23	0.15	0.36
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.19	-3.21	-6.15	-2.17	0.97	1.50
Net gearing	-4.9%	11.0%	53.5%	37.6%	22.7%	11.5%
Liquid assets (€m)	6.41	3.71	2.04	4.25	6.60	7.10

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 09 Feb 2018

Closing Price	€ 7.68
Shares outstanding	9.75m
Market Capitalisation	€ 74.88m
52-week Range	€ 2.88 / 9.30
Avg. Volume (12 Months)	17,782

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	49.8
EV/Sales	1.8	1.5	1.3
EV/EBIT	n.a.	n.a.	31.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 3.08m
Current Assets	€ 20.70m
Intangible Assets	€ 10.96m
Total Assets	€ 33.63m
Current Liabilities	€ 11.24m
Shareholders' Equity	€ 11.29m

SHAREHOLDERS

HPE	28.3%
DWS	7.2%
Havensight	7.9%
Other	11.2%
Free Float	45.5%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q4-17A	Q4-17E	Delta	Q4-16A	Delta	2017	2016	Delta
Sales	14.90	13.90	7.2%	12.68	17.5%	54.30	44.04	23.3%
EBITDA adjusted	1.50	0.40	275.0%	0.20	650.0%	1.50	-2.70	-
margin	10.1%	2.9%		1.6%		2.8%	-6.1%	

Source: First Berlin Equity Research, SFC Energy AG

Oil & Gas segment benefits from high oil price In 2017, the oil price (WTI) rose from 54 to 62 \$/barrel (+15%). Since the beginning of 2018, the oil price has been consistently above 60 \$/barrel. The oil & gas industry's strong demand for SFC's products stems both from investment in new projects and from maintenance investments in existing projects. We expect SFC to benefit significantly from the investment backlog stemming from the two year period of low oil prices, and increased investment budgets based on rising industry profitability.

Conversion of convertible bond reduced debt and increased equity In December 2017 and January 2018, holders of the €3.3m convertible bond (conversion price: €6.10) exercised their conversion rights increasing the share capital by €0.54m.

Estimates largely unchanged Based on the preliminary figures, we have increased our 2017E estimates. We continue to forecast strong sales growth (+18% to €64.2m) and a significant improvement in earnings (EBIT of €2.5m) for 2018E. The bond conversion should reduce interest expense and increase EPS to €0.15. We believe that strong demand from both security & industry and oil & gas markets will continue in 2019E (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	53.27	54.30	1.9%	64.20	64.20	0.0%	74.53	74.53	0.0%
EBIT	-2.02	-0.93	-	2.54	2.54	0.0%	4.86	4.86	0.0%
margin	-3.8%	-1.7%		4.0%	4.0%		6.5%	6.5%	
Net income	-3.20	-2.13	-	1.21	1.50	23.7%	3.51	3.60	2.7%
margin	-6.0%	-3.9%		1.9%	2.3%		4.7%	4.8%	
EPS (diluted) in €	-0.35	-0.23	-	0.13	0.15	16.1%	0.36	0.36	0.5%

Source: First Berlin Equity Research

WACC lowered SFC has reached operating profitability (positive EBITDA), has strengthened its equity and lowered its financial debt (conversion of €3.3m convertible bond into shares). We expect positive free cash flows in 2018E and the following years. Based on the improvement in financial KPIs, we have lowered the WACC from 10.3% to 9.9%.

Add reiterated at higher price target An updated DCF model yields a new price target of €8.70 (previously: €7.70). 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	54,300	64,200	74,525	85,704	97,624	110,138	123,054	136,143
NOPLAT	-931	2,475	4,368	4,851	6,307	7,315	8,290	9,278
+ depreciation & amortisation	2,005	1,491	1,294	1,133	1,223	1,325	1,432	1,536
Net operating cash flow	1,074	3,966	5,662	5,984	7,530	8,641	9,722	10,815
- total investments (CAPEX and WC)	-2,048	-2,026	-3,392	-3,770	-4,059	-4,317	-4,525	-4,673
Capital expenditures	-923	-1,091	-1,267	-1,457	-1,597	-1,732	-1,857	-1,968
Working capital	-1,125	-934	-2,125	-2,313	-2,462	-2,585	-2,668	-2,705
Free cash flows (FCF)	-974	1,941	2,269	2,214	3,471	4,324	5,196	6,142
PV of FCF's	-974	1,786	1,900	1,686	2,405	2,727	2,982	3,206

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	40,344
PV of FCFs in terminal period	51,715
Enterprise value (EV)	92,058
+ Net cash / - net debt (pro forma)	-5,959
+ Investments / minority interests	0
Shareholder value	86,099

Fair value per share in EUR	8.70
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WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	11.2%	5.9%	19.23	20.85	22.95	25.77	29.76	35.86	46.32
Pre-tax cost of debt	7.0%	6.9%	14.73	15.62	16.73	18.11	19.90	22.30	25.71
Tax rate	30.0%	7.9%	11.70	12.23	12.87	13.63	14.57	15.75	17.28
After-tax cost of debt	4.9%	8.9%	9.53	9.87	10.26	10.72	11.26	11.91	12.71
Share of equity capital	80.0%	9.9%	7.92	8.14	8.39	8.68	9.01	9.40	9.87
Share of debt capital	20.0%	10.9%	6.67	6.82	6.99	7.18	7.40	7.64	7.93
		11.9%	5.70	5.80	5.92	6.04	6.19	6.35	6.53
Fair value per share in EUR	8.70	12.9%	4.91	4.98	5.06	5.15	5.25	5.36	5.48

* 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	54,300	64,200	74,525
Cost of goods sold	37,970	34,083	30,795	36,381	42,051	48,516
Gross profit	15,661	13,227	13,247	17,919	22,149	26,009
S&M	10,540	12,499	9,126	9,900	10,207	11,200
G&A	4,872	5,546	4,883	4,850	5,161	5,400
R&D	4,530	5,806	4,148	4,100	4,243	4,550
Other operating income	170	142	96	163	193	224
Other operating expenses	159	161	83	163	193	224
Operating income (EBIT)	-4,269	-10,644	-4,898	-931	2,538	4,859
Net financial result	-298	-315	-475	-1,218	-973	-765
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-2,149	1,565	4,095
Income taxes	259	-290	-380	-21	63	491
Minority interests	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-2,128	1,502	3,603
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.23	0.15	0.36
EBITDA	-1,177	-4,650	-2,508	1,074	4,029	6,153
Ratios						
Gross margin	29.2%	28.0%	30.1%	33.0%	34.5%	34.9%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	2.0%	6.3%	8.3%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-1.7%	4.0%	6.5%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-3.9%	2.3%	4.8%
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%	18.2%	15.9%	15.0%
G&A	9.1%	11.7%	11.1%	8.9%	8.0%	7.2%
R&D	8.4%	12.3%	9.4%	7.6%	6.6%	6.1%
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%	23.3%	18.2%	16.1%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	91.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	139.9%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	27,542	21,154	20,056	24,580	28,948	32,818
Cash and cash equivalents	6,407	3,712	2,041	4,253	6,599	7,104
Short-term investments	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	10,711	12,664	14,701
Inventories	7,653	8,782	7,718	8,572	8,641	9,969
Other current assets	711	742	888	888	888	888
Non-current assets, total	19,714	14,736	13,737	12,656	12,256	12,229
Property, plant & equipment	1,601	1,390	1,205	1,163	1,206	1,305
Goodwill & other intangibles	17,813	12,768	11,855	10,814	10,373	10,246
Other assets	300	578	678	678	678	678
Total assets	47,256	35,889	33,793	37,235	41,204	45,047
Shareholders' equity & debt						
Current liabilities, total	13,371	13,041	13,335	14,577	16,293	16,533
Short-term debt	2,013	2,014	4,317	4,371	5,000	4,000
Accounts payable	6,872	7,263	5,790	6,977	8,065	9,304
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	7,748	7,748
Long-term debt	3,045	3,520	4,860	5,488	5,488	5,488
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	14,910	17,163	20,766
Share capital	8,611	8,611	9,047	9,750	9,954	9,954
Capital reserve	71,955	72,017	73,132	76,129	76,675	76,675
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	-70,478	-68,976	-65,373
Total consolidated equity and debt	47,256	35,889	33,793	37,235	41,204	45,047
Ratios						
Current ratio (x)	2.06	1.62	1.50	1.69	1.78	1.98
Quick ratio (x)	1.49	0.95	0.93	1.10	1.25	1.38
Net cash	1,349	-1,821	-7,135	-5,607	-3,889	-2,384
Net gearing	-4.9%	11.0%	53.5%	37.6%	22.7%	11.5%
Book value per share (€)	3.44	1.92	1.54	1.62	1.72	2.09
Equity ratio	58.4%	46.1%	39.5%	40.0%	41.7%	46.1%
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-14.3%	8.8%	17.4%
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	86.0	75.0	75.0
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	-931	2,538	4,859
Depreciation and amortisation	3,093	5,994	2,390	2,005	1,491	1,294
EBITDA	-1,177	-4,650	-2,508	1,074	4,029	6,153
Changes in working capital	-2,015	3,216	-3,541	-1,125	-934	-2,125
Other adjustments	-361	-429	818	-1,197	-1,036	-1,256
Operating cash flow	-3,553	-1,863	-5,231	-1,248	2,059	2,772
CAPEX	-181	-294	-301	-380	-449	-522
Investments in intangibles	-452	-1,055	-619	-543	-642	-745
Free cash flow	-4,186	-3,212	-6,151	-2,171	968	1,505
Debt financing, net	826	699	2,834	683	629	-1,000
Equity financing, net	3,263	0	1,500	3,700	750	0
Other changes in cash	-923	-332	296	0	0	0
Net cash flows	-1,020	-2,845	-1,521	2,212	2,347	505
Cash, start of the year	7,143	6,123	3,278	2,041	4,253	6,599
Cash, end of the year	6,123	3,278	1,757	4,253	6,599	7,104
EBITDA/share (in €)	-0.15	-0.54	-0.29	0.12	0.40	0.62
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	34.6%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	55.5%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	246.5%	52.7%

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...24	↓	↓	↓	↓
25	7 August 2017	€3.89	Add	€4.60
26	18 August 2017	€3.75	Add	€4.60
27	15 December 2017	€6.18	Add	€7.70
28	Today	€7.68	Add	€8.70

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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

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

- 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/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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