

SFC Energy AG

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

Q1 figures

RATING
PRICE TARGET **ADD**
 Return Potential 8.0%
 Risk Rating High

€ 9.50

SALES GROWTH 28% - NET PROFIT IN Q1

SFC Energy reported Q1 figures and held a conference call. Sales grew 28% due mainly to the delivery of a large German army contract. EBIT was positive at €0.7m (Q1/17: €-0.8m). The net result amounted to €0.3m. Given the strong Q1 results and the high order backlog (€16.9m, +5% y/y), we see SFC well on track to reach its 2018 guidance of €60-64m sales and significantly improved EBIT. An updated DCF model yields a slightly higher price target of €9.50 (previously: €9.40). We reiterate our Add rating.

Very strong Q1 due to German army contract Sales rose 28% to €16.8m (FBe: €17.4m) due to defence segment sales increasing from €0.5m to €4.3m. Gross profit jumped from €3.6m to €5.9m (+62% y/y) due to the increased weight of the defence segment, which is a high-margin business. The gross margin rose to 35.2% (Q1/17: 27.8%, FBe: 34.2%), a remarkable 7.4 PP improvement. EBIT of €0.7m (Q1/17: €-0.8m) was below our estimate (€1.0m) due mainly to €0.4m in restructuring costs for the relocation of production capacity from the Netherlands to Romania. Underlying EBIT (adjusted for one-offs) amounted to €1.6m. Apart from the above mentioned restructuring costs, the stock appreciation right (SAR) program produced €450k in expenses due to the increased share price. The net result amounted to €0.3m (FBe: €0.7m) versus €-1.0m in Q1/17. This is equivalent to EPS of €0.03 (Q1/17: €-0.11, FBe: €0.07).

Guidance reiterated Management reiterated its €60-64m sales guidance and significantly improved EBIT. Given the strong Q1 and the high order backlog of €16.9m at the end of the quarter, we expect the company to reach the guidance.

Higher equity The conversion of a convertible bond increased the subscribed capital slightly to €9.75m. Total equity rose to €14.5m from €13.9m at the end of 2017. The equity ratio fell almost 2 PP to 38.3% as the balance sheet total increased by 9%. Financial debt was largely stable at €10.3m. Net debt increased to €8.7m from €5.6m as the cash position declined from €4.4m to...

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	47.31	44.04	54.29	64.20	74.53	85.70
Y-o-y growth	-11.8%	-6.9%	23.3%	18.2%	16.1%	15.0%
EBIT (€m)	-10.64	-4.90	-0.88	2.54	4.86	5.74
EBIT margin	-22.5%	-11.1%	-1.6%	4.0%	6.5%	6.7%
Net income (€m)	-10.67	-4.99	-2.07	1.50	3.64	4.29
EPS (diluted) (€)	-1.24	-0.58	-0.23	0.15	0.37	0.43
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-3.21	-6.15	0.36	-0.52	1.59	1.84
Net gearing	11.0%	53.5%	37.7%	31.0%	17.3%	6.6%
Liquid assets (€m)	3.71	2.04	4.69	4.52	5.11	5.95

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, defence & security, industry, and clean energy & mobility. SFC is headquartered near Munich in Germany.

MARKET DATA

As of 07 May 2018

Closing Price	€ 8.80
Shares outstanding	9.75m
Market Capitalisation	€ 85.80m
52-week Range	€ 3.49 / 9.46
Avg. Volume (12 Months)	20,335

Multiples	2017	2018E	2019E
P/E	n.a.	57.4	23.6
EV/Sales	1.7	1.4	1.2
EV/EBIT	n.a.	36.0	18.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2018

Liquid Assets	€ 1.99m
Current Assets	€ 25.27m
Intangible Assets	€ 10.75m
Total Assets	€ 37.77m
Current Liabilities	€ 20.67m
Shareholders' Equity	€ 14.47m

SHAREHOLDERS

HPE	28.3%
Havensight	7.9%
Conduit Ventures	7.8%
Other	10.5%
Free Float	45.5%



...€1.7m. At the end of April, however, the cash position was higher than at the beginning of the year and amounted to ca. €5.0m. The reason for the increase is the payment of the German Army for the fuel cell deliveries in Q1. Receivables, which reached a very high €14.6m (Q4/17: €7.8m) at the end of Q1, should thus have fallen by ca. €4.3m in April.

Figure 1: Reported Q1 figures versus forecasts

All figures in €m	Q1-18A	Q1-18E	Delta	Q1-17A	Delta
Sales	16.76	17.39	-3.6%	13.11	27.8%
EBITDA	0.97	1.41	-30.8%	-0.33	-
margin	5.8%	8.1%		-2.5%	
EBITDA underlying	1.82	2.06	-11.7%	-0.31	-
margin	10.8%	11.8%		-2.4%	
EBIT	0.70	1.00	-29.7%	-0.82	-
margin	4.2%	5.7%		-6.2%	
EBIT underlying	1.55	1.65	-6.1%	-0.61	-
margin	9.2%	9.5%		-4.7%	
Net income	0.33	0.72	-54.7%	-0.99	-
margin	1.9%	4.1%		-7.6%	
EPS (diluted, in €)	0.03	0.07	-57.1%	-0.11	-

Source: First Berlin Equity Research, SFC Energy AG

Cash flow burdened by higher receivables Operating cash flow amounted to €-2.7m due mainly to a €7.0m increase in receivables. As the German Army paid in April, we expect a positive impact on H1 cash flow. Free cash flow was €-3.1m due to CAPEX of €0.4m. Financing cash flow amounted to €0.4m, which resulted in a net cash outflow of €2.7m.

Oil & Gas business grew profitably Segment sales increased 6% to €6.2m (see figure 2 overleaf). Growth was slightly subdued by a negative CAD/EUR exchange rate effect. Gross profit grew significantly to €1.8m (+46% y/y) due to an improved product mix. Underlying EBIT was positive at €0.4m (Q1/17: €-0.1m). Given the high oil price (WTI: 70 \$/barrel), the level of investment activity in the oil and gas industry looks set to remain high.

Defence & Security was the Q1 game changer A nine-fold increase in sales to €4.3m resulted in gross profit of €2.1m (see figure 2 overleaf) and underlying EBIT of €1.3m (Q1/17: €-0.4m). The delivery of the €3.6m German Army contract, but also of the final part for the Indian security forces contract, and a further German order contributed to the very high sales figure. Although the gross margin was below the previous year's figure (49.5% versus 56.7%), the segment generated by far the highest gross margin and contributed 36% to the group's gross profit. In Q2, we do not expect delivery of another large contract and thus assume Q2 sales will fall back to ca. €0.8m.

Clean Energy & E-Mobility with lower sales Segment sales fell by 27% to €2.4m as SFC could not compensate for the €1.1m Singapore contract, which drove Q1/17 figures. Gross profit was however only slightly lower (€0.91m vs. €0.95m in Q1/17) as the gross margin climbed from 29.4% to 38.7%. Underlying EBIT improved from €-175k to €-85k. We believe that regional expansion (Scandinavia, partnership agreement with Chinese company in April) will generate further demand for SFC's fuel cells.



Figure 2: Reported segment Q1 figures versus forecasts

All figures in €m	Q1-18A	Q1-18E	Delta	Q1-17A	Delta
Oil & Gas					
Sales	6.16	6.40	-3.7%	5.82	5.9%
Gross profit	1.80	1.47	22.6%	1.24	45.9%
margin	29.3%	23.0%		21.2%	
Defence & Security					
Sales	4.33	3.90	11.0%	0.48	796.1%
Gross profit	2.14	2.25	-4.6%	0.27	681.4%
margin	49.5%	57.6%		56.7%	
Clean Energy & Mobility					
Sales	2.35	3.13	-24.9%	3.21	-26.7%
Gross profit	0.91	0.92	-1.4%	0.95	-3.8%
margin	38.7%	29.5%		29.4%	
Industry					
Sales	3.92	3.96	-1.2%	3.60	8.7%
Gross profit	1.05	1.31	-19.4%	1.19	-11.4%
margin	26.9%	33.0%		33.0%	
Group					
Sales	16.76	17.39	-3.6%	13.11	27.8%
Gross profit	5.91	5.95	-0.7%	3.64	62.1%
margin	35.2%	34.2%		27.8%	

Source: First Berlin Equity Research, SFC Energy AG

Industry segment with higher sales, but lower gross margin Segment sales grew 9% to €3.9m due chiefly to strong demand for analytical equipment. The gross profit margin fell 6 PP to 26.9%. In Q1, SFC concluded the relocation of production capacity from the Netherlands to Romania, which resulted in restructuring costs of €0.4m. Underlying EBIT (before restructuring costs) fell to €-25k (Q1/17: €109k) due to temporary duplication of costs during the relocation process and an altered cost allocation. We believe that the production relocation will reduce operating costs permanently without any loss in quality. SFC expects the relocation to pay for itself in 12 -18 months.

Forecasts unchanged Following the expected very strong Q1 figures and the high order backlog of €16.9m, we see SFC well on track to reach our 2018E forecasts and thus leave them unchanged.

Add reiterated at slightly increased price target An updated DCF model yields a slightly increased price target of €9.50 (previously: €9.40) We confirm our Add rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	64,200	74,525	85,704	97,617	110,218	123,354	136,833	150,429
NOPLAT	2,476	4,363	4,839	6,239	7,644	8,720	9,690	10,688
+ depreciation & amortisation	1,575	1,431	1,391	1,372	1,440	1,531	1,632	1,734
Net operating cash flow	4,051	5,794	6,231	7,612	9,084	10,251	11,322	12,422
- total investments (CAPEX and WC)	-3,587	-3,482	-3,834	-4,168	-4,458	-4,710	-4,910	-5,048
Capital expenditures	-1,284	-1,341	-1,457	-1,659	-1,804	-1,940	-2,065	-2,174
Working capital	-2,303	-2,140	-2,377	-2,509	-2,655	-2,770	-2,845	-2,873
Free cash flows (FCF)	464	2,313	2,397	3,444	4,626	5,541	6,411	7,374
PV of FCF's	437	1,979	1,866	2,439	2,981	3,249	3,420	3,580

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	45,997
PV of FCFs in terminal period	53,188
Enterprise value (EV)	99,185
+ Net cash / - net debt (pro forma)	-4,915
+ Investments / minority interests	0
Shareholder value	94,270

Fair value per share in EUR	9.50
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WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
5.9%	Cost of equity	21.02	22.73	24.95	27.94	32.17	38.63	49.70
6.9%	Pre-tax cost of debt	16.12	17.06	18.22	19.67	21.55	24.08	27.66
7.9%	Tax rate	12.82	13.38	14.04	14.84	15.82	17.05	18.64
8.9%	After-tax cost of debt	10.46	10.82	11.22	11.69	12.26	12.93	13.76
9.9%	Share of equity capital	8.71	8.94	9.20	9.50	9.84	10.24	10.72
10.9%	Share of debt capital	7.37	7.52	7.69	7.89	8.11	8.36	8.65
11.9%		6.31	6.41	6.53	6.66	6.81	6.97	7.16
12.9%		5.46	5.53	5.61	5.70	5.80	5.91	6.04

* for layout purposes the model shows numbers only to 2025, but runs until 2032



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Revenues	53,631	47,310	44,041	54,292	64,200	74,525	85,704
Cost of goods sold	37,970	34,083	30,795	36,566	42,051	48,516	56,393
Gross profit	15,661	13,227	13,247	17,726	22,149	26,009	29,311
S&M	10,540	12,499	9,126	9,786	10,207	11,200	12,427
G&A	4,872	5,546	4,883	5,016	5,161	5,400	5,999
R&D	4,530	5,806	4,148	3,892	4,243	4,550	5,142
Other operating income	170	142	96	277	193	224	257
Other operating expenses	159	161	83	194	193	224	257
Operating income (EBIT)	-4,269	-10,644	-4,898	-885	2,538	4,859	5,742
Net financial result	-298	-315	-475	-1,150	-981	-725	-554
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-2,035	1,557	4,134	5,188
Income taxes	259	-290	-380	37	62	496	903
Minority interests	0	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-2,072	1,495	3,638	4,285
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.23	0.15	0.37	0.43
EBITDA	-1,177	-4,650	-2,508	862	4,113	6,290	7,134
Ratios							
Gross margin	29.2%	28.0%	30.1%	32.6%	34.5%	34.9%	34.2%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	1.6%	6.4%	8.4%	8.3%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-1.6%	4.0%	6.5%	6.7%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-3.8%	2.3%	4.9%	5.0%
Tax rate	-5.7%	2.6%	7.1%	-1.8%	4.0%	12.0%	17.4%
Expenses as % of revenues							
S&M	19.7%	26.4%	20.7%	18.0%	15.9%	15.0%	14.5%
G&A	9.1%	11.7%	11.1%	9.2%	8.0%	7.2%	7.0%
R&D	8.4%	12.3%	9.4%	7.2%	6.6%	6.1%	6.0%
Other operating expenses	0.3%	0.3%	0.2%	0.4%	0.3%	0.3%	0.3%
Y-Y Growth							
Revenues	65.5%	-11.8%	-6.9%	23.3%	18.2%	16.1%	15.0%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	91.5%	18.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	143.4%	17.8%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Assets							
Current assets, total	27,542	21,154	20,056	21,849	24,792	28,494	32,901
Cash and cash equivalents	6,407	3,712	2,041	4,694	4,517	5,105	5,948
Short-term investments	0	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	8,712	10,553	12,251	14,088
Inventories	7,653	8,782	7,718	7,939	9,217	10,634	12,360
Other current assets	715	1,170	1,044	504	504	504	504
Non-current assets, total	19,714	14,736	13,737	12,684	12,393	12,303	12,369
Property, plant & equipment	1,601	1,390	1,205	1,197	1,268	1,346	1,475
Goodwill & other intangibles	17,813	12,768	11,855	10,950	10,589	10,421	10,358
Other assets	300	578	678	537	537	537	537
Total assets	47,256	35,889	33,793	34,534	37,185	40,797	45,270
Shareholders' equity & debt							
Current liabilities, total	13,371	13,041	13,335	18,563	13,970	13,944	14,131
Short-term debt	2,013	2,014	4,317	9,410	4,000	3,000	2,000
Accounts payable	6,872	7,263	5,790	5,520	6,336	7,311	8,498
Current provisions	686	667	646	800	800	800	800
Other current liabilities	3,800	3,097	2,583	2,833	2,833	2,833	2,833
Long-term liabilities, total	6,296	6,291	7,119	2,076	7,076	7,076	7,076
Long-term debt	3,045	3,520	4,860	529	5,529	5,529	5,529
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	3,251	2,772	2,259	1,547	1,547	1,547	1,547
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	27,589	16,558	13,339	13,895	16,139	19,777	24,063
Share capital	8,611	8,611	9,047	9,659	9,864	9,864	9,864
Capital reserve	71,955	72,017	73,132	75,475	76,020	76,020	76,020
Other reserves	0	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0	0
Loss carryforward / retained earnings	-52,689	-63,358	-68,351	-70,423	-68,928	-65,290	-61,005
Total consolidated equity and debt	47,256	35,889	33,793	34,534	37,185	40,797	45,270
Ratios							
Current ratio (x)	2.06	1.62	1.50	1.18	1.77	2.04	2.33
Quick ratio (x)	1.49	0.95	0.93	0.75	1.11	1.28	1.45
Net cash	1,349	-1,821	-7,135	-5,245	-5,011	-3,424	-1,581
Net gearing	-4.9%	11.0%	53.5%	37.7%	31.1%	17.3%	6.6%
Book value per share (€)	3.44	1.92	1.54	1.51	1.64	1.99	2.42
Equity ratio	58.4%	46.1%	39.5%	40.2%	43.4%	48.5%	53.2%
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-14.9%	9.3%	18.4%	17.8%
Return on investment (ROI)	-10.2%	-29.7%	-14.8%	-6.0%	4.0%	8.9%	9.5%
Return on assets (ROA)	-9.6%	-28.8%	-12.7%	-2.6%	6.7%	10.8%	10.8%
Return on capital employed (ROCE)	-14.4%	-42.0%	-22.3%	-4.1%	11.7%	20.5%	22.1%
Days of sales outstanding (DSO)	86.9	57.8	76.7	58.6	60.0	60.0	60.0
Days of inventory turnover	73.6	94.0	91.5	79.3	80.0	80.0	80.0
Days in payables (DIP)	66.1	77.8	68.6	55.1	55.0	55.0	55.0



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
EBIT	-4,269	-10,644	-4,898	-885	2,538	4,859	5,742
Depreciation and amortisation	3,093	5,994	2,390	1,747	1,575	1,431	1,391
EBITDA	-1,177	-4,650	-2,508	862	4,113	6,290	7,134
Changes in working capital	-2,015	3,216	-3,541	1,362	-2,303	-2,140	-2,377
Other adjustments	-361	-429	818	-519	-1,043	-1,221	-1,457
Operating cash flow	-3,553	-1,863	-5,231	1,704	767	2,929	3,300
CAPEX	-181	-294	-301	-497	-514	-522	-600
Investments in intangibles	-452	-1,055	-619	-844	-770	-820	-857
Free cash flow	-4,186	-3,212	-6,151	363	-517	1,588	1,843
Acquisitions & disposals, net	1	12	205	33	0	0	0
Other investments	14	-146	150	0	0	0	0
Investing cash flow	-618	-1,483	-565	-1,308	-1,284	-1,341	-1,457
Debt financing, net	826	699	2,834	2,252	-410	-1,000	-1,000
Equity financing, net	3,263	0	1,500	400	750	0	0
Dividend paid	0	0	0	0	0	0	0
Other financing	-946	-201	-60	-394	0	0	0
Financing cash flow	3,143	498	4,274	2,258	340	-1,000	-1,000
Forex & other effects	8	4	1	-2	0	0	0
Net cash flows	-1,020	-2,845	-1,521	2,653	-177	588	843
Cash, start of the year	7,143	6,123	3,277	1,756	4,694	4,517	5,105
Cash, end of the year	6,123	3,277	1,756	4,409	4,517	5,105	5,948
EBITDA/share (in €)	-0.15	-0.54	-0.29	0.09	0.42	0.63	0.72
Y-Y Growth							
Operating cash flow	n.m.	n.m.	n.m.	n.m.	-55.0%	281.8%	12.6%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	16.0%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	346.7%	51.0%	13.4%

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...26	↓	↓	↓	↓
27	15 December 2017	€6.18	Add	€7.70
28	12 February 2018	€7.68	Add	€8.70
29	16 April 2018	€8.36	Add	€9.40
30	Today	€8.80	Add	€9.50

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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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%.

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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

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