

SFC Energy AG

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

SFC enters hydrogen
 fuel cell market

RATING
BUY

PRICE TARGET
€ 11.20

Return Potential 39.7%
 Risk Rating High

DEVELOPMENT COOPERATION INCREASES GROWTH POTENTIAL

SFC is entering the hydrogen-based fuel cell market. So far, the company has focused on direct methanol fuel cells. Adding hydrogen-based fuel cells to its portfolio will open up new markets such as critical infrastructure and back-up solutions and increases SFC's growth potential. Hydrogen-based fuel cells have a much higher capacity than direct methanol fuel cells. Based on a development cooperation with adKor (formerly: Heliocentris, FutureE, P21), SFC will market adKor's existing "Jupiter" series fuel cell products. Furthermore, SFC and adKor will develop a new hydrogen fuel cell generation. As they can build on a proven technology, SFC Energy expects development time of only two years and significant development cost savings of ca. 50% compared to development from scratch. The entry into the hydrogen fuel cell market is an important strategic step for SFC. We believe that this move will enable SFC to penetrate new markets and applaud the widening of the company's technological base. We do not expect much sales impact in 2019E & 2020E, as business development takes time, but believe that in the long run, the hydrogen based fuel cell business may reach the same size as SFC's methanol-based fuel cell business. We have increased our CAPEX forecast to reflect higher R&D spending on new fuel cell and raised our forecasts from 2021E to reflect additional sales from hydrogen-based fuel cells. An updated DCF model yields a new price target of €11.20 (previously: €9.50) We upgrade the stock from Add to Buy.

Lucky deal for SFC The development cooperation with adKor gives SFC access to hydrogen-based fuel cell technology and opens up new markets. The joint development of a new hydrogen-based fuel-cell generation is much less costly than a pure in-house R&D program and builds upon adKor's vast hydrogen fuel cell know-how. SFC Energy has been granted a non-exclusive license to the IP rights of the former FutureE, P21, and Heliocentris. We have increased our CAPEX assumption by €1m for each of 2019E & 2020E to reflect higher R&D spending. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	47.31	44.04	54.29	61.20	74.53	85.70
Y-o-y growth	-11.8%	-6.9%	23.3%	12.7%	21.8%	15.0%
EBIT (€m)	-10.64	-4.90	-0.88	1.09	4.86	5.74
EBIT margin	-22.5%	-11.1%	-1.6%	1.8%	6.5%	6.7%
Net income (€m)	-10.67	-4.99	-2.07	0.21	3.71	4.29
EPS (diluted) (€)	-1.24	-0.58	-0.23	0.02	0.35	0.41
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-3.21	-6.15	0.36	-1.31	-0.52	0.79
Net gearing	11.0%	53.5%	37.7%	5.3%	6.7%	2.7%
Liquid assets (€m)	3.71	2.04	4.69	7.49	6.98	6.77

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 28 Nov 2018

Closing Price	€ 8.02
Shares outstanding	10.25m
Market Capitalisation	€ 82.20m
52-week Range	€ 5.85 / 9.46
Avg. Volume (12 Months)	19,190

Multiples	2017	2018E	2019E
P/E	n.a.	390.5	22.2
EV/Sales	1.6	1.4	1.2
EV/EBIT	n.a.	80.4	18.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 5.48m
Current Assets	€ 26.35m
Intangible Assets	€ 11.38m
Total Assets	€ 39.89m
Current Liabilities	€ 16.98m
Shareholders' Equity	€ 17.62m

SHAREHOLDERS

HPE	26.9%
Havensight	7.5%
Conduit Ventures	7.4%
Other	11.2%
Free Float	47.0%



Increased growth potential by opening up new markets The joint development of a new hydrogen fuel cell generation with embedded energy management is aimed at power-intensive industrial off-grid and back-up applications. The cooperation will give SFC Energy access to an existing hydrogen technology-based product portfolio which is a perfect complement to SFC Energy's own direct methanol fuel cell technology. The maximum capacity of SFC's direct methanol fuel cell technology is around 0.5 kW, whereas adKor's hydrogen fuel cells capacity starts at 0.5 kW and offers maximum power of up to 50 kW. In the midterm, SFC looks set to extend its power range to up to 100 kW. Hydrogen-based fuel cell technology will open up new markets for SFC and significantly increase the company's growth opportunity. Potential new markets are critical infrastructure, telecommunications, back-up power, and, in the long run, e-mobility and smart grids.

Low development risk for new hydrogen fuel cell generation As SFC and adKor are building on a proven technology, we think development risk is limited. Furthermore, development time looks set to be only two years.

Marketing of existing "Jupiter" series fuels cell should generate sales in 2019E & 2020E SFC and adKor will market the existing "Jupiter" series fuel cells, which should generate first sales in 2019E and 2020E. However, given the lead times for business development, we have not increased our sales forecasts for the next two years.

Participation in ongoing tenders with hydrogen fuel cells Ongoing public tenders for emergency power systems and federal incentive programs in Germany are an attractive entry market for the existing "Jupiter" product generation. SFC and adKor will first targets will be critical infrastructure, telecommunications, and back-up scenarios. adKor has decades of experience as an integrator and general contractor for public customers.

Medium-term forecasts increased to capture hydrogen fuel cell growth potential We maintain our 2019E and 2020E revenue & earnings forecasts, but have raised our projections from 2021E on.

Upgrade to Buy at higher price target An updated DCF model yields a new price target of €11.20 (previously: €9.50). We upgrade the stock from Add to Buy as the upside potential is now above 25%.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	61,200	74,525	85,704	101,130	117,955	135,970	154,882	174,313
NOPLAT	946	4,354	4,839	6,460	8,171	9,595	10,955	12,371
+ depreciation & amortisation	1,208	1,286	1,661	1,934	1,960	2,054	2,195	2,364
Net operating cash flow	2,154	5,640	6,500	8,394	10,131	11,650	13,150	14,735
- total investments (CAPEX and WC)	-2,730	-5,511	-5,152	-5,268	-5,951	-6,495	-6,972	-7,351
Capital expenditures	-1,469	-2,534	-2,571	-2,023	-2,273	-2,522	-2,760	-2,979
Working capital	-1,261	-2,977	-2,581	-3,245	-3,678	-3,974	-4,212	-4,372
Free cash flows (FCF)	-576	129	1,348	3,127	4,180	5,154	6,178	7,384
PV of FCF's	-570	116	1,105	2,332	2,837	3,183	3,471	3,775

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	47,551
PV of FCFs in terminal period	68,766
Enterprise value (EV)	116,316
+ Net cash / - net debt (pro forma)	171
+ Investments / minority interests	0
Shareholder value	116,487
Diluted number of shares	10,434
Fair value per share in EUR	11.16

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
5.9%	24.72	26.76	29.39	32.93	37.94	45.60	58.72	
6.9%	18.94	20.06	21.43	23.15	25.37	28.37	32.61	
7.9%	15.06	15.72	16.50	17.45	18.60	20.06	21.94	
8.9%	12.29	12.71	13.18	13.74	14.41	15.20	16.18	
9.9%	10.24	10.51	10.81	11.16	11.57	12.04	12.60	
10.9%	8.67	8.85	9.05	9.28	9.54	9.83	10.17	
11.9%	7.43	7.56	7.70	7.85	8.02	8.21	8.43	
12.9%	6.45	6.53	6.63	6.73	6.85	6.98	7.12	

* 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	61,200	74,525	85,704
Cost of goods sold	37,970	34,083	30,795	36,566	40,565	48,516	56,393
Gross profit	15,661	13,227	13,247	17,726	20,635	26,009	29,311
S&M	10,540	12,499	9,126	9,786	10,707	11,400	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	3,552	4,350	5,142
Other operating income	170	142	96	277	490	224	257
Other operating expenses	159	161	83	194	612	224	257
Operating income (EBIT)	-4,269	-10,644	-4,898	-885	1,092	4,859	5,742
Net financial result	-298	-315	-475	-1,150	-736	-645	-554
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-2,035	357	4,214	5,188
Income taxes	259	-290	-380	37	146	506	903
Minority interests	0	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-2,072	210	3,708	4,285
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.23	0.02	0.35	0.41
EBITDA	-1,177	-4,650	-2,508	862	2,301	6,146	7,403
Ratios							
Gross margin	29.2%	28.0%	30.1%	32.6%	33.7%	34.9%	34.2%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	1.6%	3.8%	8.2%	8.6%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-1.6%	1.8%	6.5%	6.7%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-3.8%	0.3%	5.0%	5.0%
Tax rate	-5.7%	2.6%	7.1%	-1.8%	41.0%	12.0%	17.4%
Expenses as % of revenues							
S&M	19.7%	26.4%	20.7%	18.0%	17.5%	15.3%	14.5%
G&A	9.1%	11.7%	11.1%	9.2%	8.4%	7.2%	7.0%
R&D	8.4%	12.3%	9.4%	7.2%	5.8%	5.8%	6.0%
Other operating expenses	0.3%	0.3%	0.2%	0.4%	1.0%	0.3%	0.3%
Y-Y Growth							
Revenues	65.5%	-11.8%	-6.9%	23.3%	12.7%	21.8%	15.0%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	344.8%	18.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	1661.9%	15.6%



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	26,502	30,161	33,723
Cash and cash equivalents	6,407	3,712	2,041	4,694	7,493	6,977	6,770
Short-term investments	0	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	8,712	9,725	12,047	14,088
Inventories	7,653	8,782	7,718	7,939	8,780	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	12,945	14,192	15,103
Property, plant & equipment	1,601	1,390	1,205	1,197	1,389	1,568	1,698
Goodwill & other intangibles	17,813	12,768	11,855	10,950	11,019	12,087	12,868
Other assets	300	578	678	537	537	537	537
Total assets	47,256	35,889	33,793	34,534	39,447	44,353	48,826
Shareholders' equity & debt							
Current liabilities, total	13,371	13,041	13,335	18,563	12,746	13,944	14,131
Short-term debt	2,013	2,014	4,317	9,410	3,000	3,000	2,000
Accounts payable	6,872	7,263	5,790	5,520	6,113	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	19,625	23,334	27,619
Share capital	8,611	8,611	9,047	9,659	10,454	10,454	10,454
Capital reserve	71,955	72,017	73,132	75,475	80,200	80,200	80,200
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	-70,212	-66,504	-62,219
Total consolidated equity and debt	47,256	35,889	33,793	34,534	39,447	44,353	48,826
Ratios							
Current ratio (x)	2.06	1.62	1.50	1.18	2.08	2.16	2.39
Quick ratio (x)	1.49	0.95	0.93	0.75	1.39	1.40	1.51
Net cash	1,349	-1,821	-7,135	-5,245	-1,036	-1,552	-759
Net gearing	-4.9%	11.0%	53.5%	37.7%	5.3%	6.7%	2.7%
Book value per share (€)	3.44	1.92	1.54	1.51	1.93	2.23	2.64
Equity ratio	58.4%	46.1%	39.5%	40.2%	49.8%	52.6%	56.6%
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-14.9%	1.1%	15.9%	15.5%
Return on investment (ROI)	-10.2%	-29.7%	-14.8%	-6.0%	0.5%	8.4%	8.8%
Return on assets (ROA)	-9.6%	-28.8%	-12.7%	-2.6%	2.4%	9.9%	10.0%
Return on capital employed (ROCE)	-14.4%	-42.0%	-22.3%	-4.1%	5.1%	20.0%	20.4%
Days of sales outstanding (DSO)	86.9	57.8	76.7	58.6	58.0	59.0	60.0
Days of inventory turnover	73.6	94.0	91.5	79.3	79.0	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	1,092	4,859	5,742
Depreciation and amortisation	3,093	5,994	2,390	1,747	1,208	1,286	1,661
EBITDA	-1,177	-4,650	-2,508	862	2,301	6,146	7,403
Changes in working capital	-2,015	3,216	-3,541	1,362	-1,261	-2,977	-2,581
Other adjustments	-361	-429	818	-519	-882	-1,151	-1,457
Operating cash flow	-3,553	-1,863	-5,231	1,704	158	2,018	3,365
CAPEX	-181	-294	-301	-497	-551	-596	-600
Investments in intangibles	-452	-1,055	-619	-844	-918	-1,938	-1,971
Free cash flow	-4,186	-3,212	-6,151	363	-1,311	-516	794
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	-1,469	-2,534	-2,571
Debt financing, net	826	699	2,834	2,252	-1,410	0	-1,000
Equity financing, net	3,263	0	1,500	400	5,520	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	4,110	0	-1,000
Forex & other effects	8	4	1	-2	0	0	0
Net cash flows	-1,020	-2,845	-1,521	2,653	2,799	-516	-206
Cash, start of the year	7,143	6,123	3,277	1,756	4,694	7,493	6,977
Cash, end of the year	6,123	3,277	1,756	4,409	7,493	6,977	6,770
EBITDA/share (in €)	-0.15	-0.54	-0.29	0.09	0.23	0.59	0.71
Y-Y Growth							
Operating cash flow	n.m.	n.m.	n.m.	n.m.	-90.8%	1180.1%	66.8%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	141.8%	159.4%	20.5%

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...30	↓	↓	↓	↓
31	19 June 2018	€7.92	Add	€9.50
32	27 August 2018	€6.80	Buy	€9.50
33	14 November 2018	€8.12	Add	€9.50
34	Today	€8.02	Buy	€11.20

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First Berlin notes that it has concluded a contract with the issuer to prepare financial analyses and is paid for that by the issuer. First Berlin makes the financial analysis simultaneously available for all interested security financial services companies. First Berlin thus believes that it fulfils the requirements of section 64 WpHG for minor non-monetary benefits.

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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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.

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

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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