

SFC Energy AG

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

Preliminary
 2018 figures

RATING
PRICE TARGET **ADD**
€ 11.20
 Return Potential 5.7%
 Risk Rating High

POISED FOR FURTHER GROWTH

SFC Energy reported preliminary 2018 figures that were slightly ahead of our forecasts. Revenue grew 14% y/y to €61.7m and adjusted EBIT increased to €2.6m (2017: €0.2m). SFC is guiding towards revenue growth of 9-20% (€67-74m) in 2019. Adjusted EBITDA is to increase to €4.5-7.0m and adjusted EBIT to €3.5-6.0m. This corresponds to an adjusted EBIT margin range of 5-8%. SFC is preparing strategic options to finance further growth to exploit the enormous global market potential. These options could range from gaining a new strategic investor to a capital increase. Given the difficulties the Canadian oil & gas market has faced in recent months, we lower our segment forecast for 2019E resulting in a lower forecast for the current year. Following the recent share price increase, the stock is now almost fairly valued in our view. We thus downgrade the rating from Buy to Add. The price target remains unchanged at €11.20.

Best year and quarter in the history of the company In 2018, SFC reached record sales and adjusted EBIT. The revenue increase of 14% to €61.7m was mainly driven by the defence business which roughly doubled sales. The gross margin increased to 34.2% (FBe: 33.7%) from 32.6% in the previous year due mainly to the strong high-margin defence business. Adjusted EBITDA (without one-off costs) more than doubled from €1.5m to €3.7m (FBe: €3.5m). Adjusted EBIT climbed to €2.6m (FBe: €2.3m) from €0.2m in the previous year. Even considering one-off costs (caused by restructuring costs and stock appreciation rights) of ca. €1.2m, EBITDA and EBIT showed significant improvement. EBITDA was ca. €2.5m (2017: €0.9m), and EBIT ca. €1.3m (2017: €0.9m), which corresponds to an EBIT margin of ca. 2.2% (FBe: 1.8%). EPS were zero (see figure 1 overleaf).

Q4 was the best quarter in the history of the company. Sales climbed 17% y/y to €17.4m (FBe: €16.9m), and adjusted EBIT rose 16% y/y to €1.4m. SFC is now a profitable company with excellent growth prospects.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	47.31	44.04	54.29	61.70	70.20	81.10
Y-o-y growth	-11.8%	-6.9%	23.3%	13.6%	13.8%	15.5%
EBIT (€m)	-10.64	-4.90	-0.88	1.33	3.66	5.62
EBIT margin	-22.5%	-11.1%	-1.6%	2.2%	5.2%	6.9%
Net income (€m)	-10.67	-4.99	-2.07	0.00	2.53	4.15
EPS (diluted) (€)	-1.24	-0.58	-0.23	0.00	0.24	0.40
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-3.21	-6.15	0.36	0.53	-3.07	0.86
Net gearing	11.0%	53.5%	37.7%	-4.1%	10.3%	5.4%
Liquid assets (€m)	3.71	2.04	4.69	7.52	4.45	4.31

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.

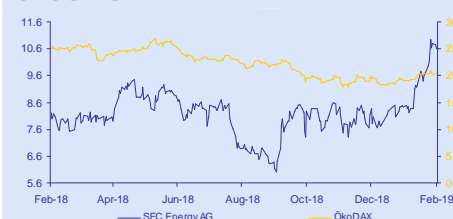
MARKET DATA

As of 12 Feb 2019

Closing Price	€ 10.60
Shares outstanding	10.25m
Market Capitalisation	€ 108.65m
52-week Range	€ 6.00 / 10.95
Avg. Volume (12 Months)	16,364

Multiples	2017	2018E	2019E
P/E	n.a.	n.a.	43.0
EV/Sales	2.1	1.9	1.6
EV/EBIT	n.a.	85.7	31.2
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%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q4-18A	Q4-18E	Delta	Q4-17A	Delta	2018	2017	Delta
Sales	17.44	16.93	3.0%	14.93	16.8%	61.70	54.29	13.6%
Adjusted EBITDA	1.69	1.48	14.2%	1.48	14.0%	3.71	1.45	155.9%
margin	9.7%	8.7%		9.9%		6.0%	2.7%	
Adjusted EBIT	1.37	1.11	23.4%	1.18	15.9%	2.55	0.18	1316.7%
margin	7.9%	6.6%		7.9%		4.1%	0.3%	
EPS (diluted, in €)	0.08	0.10	-20.0%	0.04	100.0%	0.00	-0.23	-

Source: First Berlin Equity Research, SFC Energy AG

Guidance for 2019: profitable growth SFC is guiding towards sales of €67-74m, which corresponds to a growth corridor of 9-20%. The company forecasts adjusted EBITDA of €4.5-7.0m, and adjusted EBIT of €3.5-6.0m. The adjusted EBIT range corresponds to an adjusted EBIT margin range of 5-8%.

Defence segment was the main sales and margin driver in 2018 Segment sales more than doubled y/y to almost €10.1m. Assuming a segment gross margin of ca. 50%, the segment accounted for ca. one quarter of the group's gross profit, and contributed substantially to the group's gross margin increase to 34.2%. Both follow-up orders from the German army and international orders (UK, India, Israel) contributed to this excellent result.

Oil & gas business grew ca. 7% y/y With more than €26m in sales, the segment showed solid high single-digit growth. This was due mainly to an exceptional Q4, which exhibited sales growth of ca. 20% y/y due mainly to strong sales of fuel cells and SCADA systems.

Solid 7% growth of Industry segment Sales of the Industry segment's PBF subsidiary also increased by ca. 7% y/y. In 2018, PBF implemented the first substantial projects with its new modular product platform which enables fast and cost-effective highly dynamic power supply solutions for demanding high-tech applications such as laser technologies. PBF won three new prototype first series orders for laser tool applications in the amount of €0.7-€1.0m each. After successful qualification of the prototypes, we expect series sales from the follow-up orders from 2020 onwards. We believe that this platform will be a major segment growth driver.

Clean Energy and Mobility segment sales declined almost 5% The only reason for the sales decline is the one-off effect of the major Singapore order in 2017. Adjusted for this one-off, the segment showed strong double-digit growth.

Strong operating cash flow despite growth Operating cash flow increased from €1.7m in 2017 to €2.0m (FBe: €0.2m) in 2018. We believe that this improvement was due to a more efficient working capital management. Net cash flow was €2.8m resulting in a cash position of €7.5m.

Segment forecasts adjusted to recent developments In the Industry, Clean Energy & Mobility, and Defence segments, we have adjusted our forecasts only slightly and continue to expect double-digit growth and healthy gross margins. But we have slashed our sales growth forecast for the oil & gas business from almost 19% to below 4% due to the turmoil in the Canadian oil market. In Q4 2018, Canadian oil prices went into freefall with the benchmark Western Canadian Select ("WCS") heavy oil price dropping to lows of \$11/bbl, down from recent peaks achieved in 2018 of more than \$50/bbl. The main reasons were weakening global energy prices, and continued pipeline uncertainties. The Premier of the Canadian oil province Alberta imposed a temporary daily 325,000 bbl curtailment on larger producers to bring WCS supply into line with demand again and to clear the buildup of oil



inventory stuck behind pipe. This action was taken after a commitment by the Government of Alberta to acquire as many as 7,000 rail cars to assist in easing the medium term glut while pipelines are built. The curtailment resulted in a strong price recovery to above \$40/bbl and WCS/WTI differentials returning to normal levels. Despite the price recovery, we believe that Canadian oil & gas companies will now be more cautious regarding capital expenditure, thereby impeding the growth of SFC's Simark subsidiary. We nevertheless see further growth potential for SFC due to regional expansion. The company has opened an office in Eastern Canada and started the rollout to the US with three regional partners in the US oil & gas regions.

Forecasts adjusted Given the uncertainty in the Canadian oil market, we have lowered our forecasts for the group. We now expect group sales growth of 14% y/y in 2019E and an (unadjusted) EBIT margin of 5.2%. For 2020E, we expect stronger growth of 15% y/y and a 6.9% EBIT margin. SFC's guidance refers to adjusted EBIT. The main source for adjustment looks set to be the virtual stock option program. A higher the share price results in a higher EBIT burden, which could amount to a six-digit sum. The adjusted EBIT margin should thus be slightly higher than the unadjusted EBIT margin.

Figure 2: Revisions to forecasts

All figures in €m	2018E			2019E			2020E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	61.70	61.70	0.0%	74.53	70.20	-5.8%	85.70	81.10	-5.4%
EBIT	1.33	1.33	0.0%	4.86	3.66	-24.7%	5.74	5.62	-2.2%
margin	2.2%	2.2%		6.5%	5.2%		6.7%	6.9%	
Net income	0.00	0.00	-	3.71	2.53	-31.9%	4.29	4.15	-3.2%
margin	-	-		5.0%	3.6%		5.0%	5.1%	
EPS (diluted) in €	0.00	0.00	-	0.35	0.24	-31.9%	0.41	0.40	-3.2%

Source: First Berlin Equity Research

Hydrogen fuel cells a major growth driver from 2020E on As stated in our report of 29 November 2018, SFC has entered the hydrogen-based fuel cell market. It plans to start its own hydrogen fuel cell production in Q2 and first sales in Q3. The cooperation with adKor gives SFC access to an existing hydrogen technology-based product portfolio which is a perfect complement to SFC'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.

Strategic options to spur growth To exploit the enormous global growth potential, SFC has begun to prepare possible strategic options to finance regional expansion with a particular focus on the USA and China (including possible acquisitions), as well as the rapid development of the hydrogen fuel cell business. The options include attracting strategically oriented investors and capital measures.

Rating downgraded to Add following recent share price rise An updated DCF model still yields a €11.20 price target. Following the strong share price appreciation in recent weeks, we believe that the stock is currently almost fairly valued and downgrade it from Buy to Add.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	61,700	70,200	81,100	96,509	113,442	131,696	150,971	170,872
NOPLAT	663	3,029	4,578	6,146	7,845	9,283	10,693	12,147
+ depreciation & amortisation	1,160	1,304	1,671	1,973	2,047	2,185	2,366	2,574
Net operating cash flow	1,824	4,333	6,249	8,119	9,892	11,468	13,059	14,722
- total investments (CAPEX and WC)	-631	-6,902	-4,963	-5,505	-6,210	-6,820	-7,360	-7,795
Capital expenditures	-1,481	-2,527	-2,676	-2,220	-2,506	-2,790	-3,061	-3,309
Working capital	850	-4,374	-2,287	-3,285	-3,704	-4,031	-4,299	-4,486
Free cash flows (FCF)	1,193	-2,568	1,286	2,614	3,682	4,648	5,700	6,927
PV of FCF's	1,193	-2,362	1,076	1,991	2,553	2,933	3,273	3,621

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	45,761
PV of FCFs in terminal period	71,189
Enterprise value (EV)	116,950
+ Net cash / - net debt (pro forma)	178
+ Investments / minority interests	0
Shareholder value	117,128
Diluted number of shares	10,438
Fair value per share in EUR	11.22

WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	11.1%	5.9%	25.02	27.14	29.90	33.63	38.93	47.08	61.22
Pre-tax cost of debt	7.0%	6.9%	19.11	20.27	21.70	23.51	25.85	29.01	33.50
Tax rate	30.0%	7.9%	15.15	15.84	16.66	17.65	18.86	20.39	22.38
After-tax cost of debt	4.9%	8.9%	12.34	12.77	13.27	13.85	14.55	15.39	16.42
Share of equity capital	80.0%	9.9%	10.25	10.53	10.85	11.22	11.65	12.14	12.73
Share of debt capital	20.0%	10.9%	8.66	8.85	9.06	9.30	9.57	9.88	10.24
		11.9%	7.41	7.54	7.69	7.85	8.03	8.23	8.46
Price target in EUR	11.20	12.9%	6.41	6.50	6.60	6.71	6.84	6.97	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	61,700	70,200	81,100
Cost of goods sold	37,970	34,083	30,795	36,566	40,599	45,490	52,715
Gross profit	15,661	13,227	13,247	17,726	21,101	24,710	28,385
S&M	10,540	12,499	9,126	9,786	10,782	11,400	12,200
G&A	4,872	5,546	4,883	5,016	5,261	5,400	5,700
R&D	4,530	5,806	4,148	3,892	3,602	4,250	4,870
Other operating income	170	142	96	277	494	211	243
Other operating expenses	159	161	83	194	617	211	243
Operating income (EBIT)	-4,269	-10,644	-4,898	-885	1,333	3,660	5,615
Net financial result	-298	-315	-475	-1,150	-663	-502	-430
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	-4,567	-10,959	-5,373	-2,035	670	3,158	5,185
Income taxes	259	-290	-380	37	670	632	1,037
Minority interests	0	0	0	0	0	0	0
Net income / loss	-4,826	-10,669	-4,993	-2,072	0	2,526	4,148
Diluted EPS (in €)	-0.60	-1.24	-0.58	-0.23	0.00	0.24	0.40
EBITDA	-1,177	-4,650	-2,508	862	2,493	4,965	7,286
Ratios							
Gross margin	29.2%	28.0%	30.1%	32.6%	34.2%	35.2%	35.0%
EBITDA margin on revenues	-2.2%	-9.8%	-5.7%	1.6%	4.0%	7.1%	9.0%
EBIT margin on revenues	-8.0%	-22.5%	-11.1%	-1.6%	2.2%	5.2%	6.9%
Net margin on revenues	-9.0%	-22.6%	-11.3%	-3.8%	0.0%	3.6%	5.1%
Tax rate	-5.7%	2.6%	7.1%	-1.8%	100.0%	20.0%	20.0%
Expenses as % of revenues							
S&M	19.7%	26.4%	20.7%	18.0%	17.5%	16.2%	15.0%
G&A	9.1%	11.7%	11.1%	9.2%	8.5%	7.7%	7.0%
R&D	8.4%	12.3%	9.4%	7.2%	5.8%	6.1%	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%	13.6%	13.8%	15.5%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	174.6%	53.4%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	64.2%



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	24,538	26,467	29,699
Cash and cash equivalents	6,407	3,712	2,041	4,694	7,524	4,453	4,309
Short-term investments	0	0	0	0	0	0	0
Receivables	12,766	7,490	9,253	8,712	8,613	11,540	13,332
Inventories	7,653	8,782	7,718	7,939	7,897	9,970	11,554
Other current assets	715	1,170	1,044	504	504	504	504
Non-current assets, total	19,714	14,736	13,737	12,684	13,005	14,228	15,233
Property, plant & equipment	1,601	1,390	1,205	1,197	1,441	1,711	2,009
Goodwill & other intangibles	17,813	12,768	11,855	10,950	11,027	11,980	12,687
Other assets	300	578	678	537	537	537	537
Total assets	47,256	35,889	33,793	34,534	37,543	40,695	44,932
Shareholders' equity & debt							
Current liabilities, total	13,371	13,041	13,335	18,563	12,862	13,488	13,577
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	6,229	6,855	7,943
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	5,266	5,266	5,266
Long-term debt	3,045	3,520	4,860	529	3,719	3,719	3,719
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	19,415	21,941	26,089
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	-70,423	-67,897	-63,748
Total consolidated equity and debt	47,256	35,889	33,793	34,534	37,543	40,695	44,932
Ratios							
Current ratio (x)	2.06	1.62	1.50	1.18	1.91	1.96	2.19
Quick ratio (x)	1.49	0.95	0.93	0.75	1.29	1.22	1.34
Net cash	1,349	-1,821	-7,135	-5,245	805	-2,266	-1,409
Net gearing	-4.9%	11.0%	53.5%	37.7%	-4.1%	10.3%	5.4%
Book value per share (€)	3.44	1.92	1.54	1.51	1.91	2.10	2.50
Equity ratio	58.4%	46.1%	39.5%	40.2%	51.7%	53.9%	58.1%
Return on equity (ROE)	-17.5%	-64.4%	-37.4%	-14.9%	0.0%	11.5%	15.9%
Return on investment (ROI)	-10.2%	-29.7%	-14.8%	-6.0%	0.0%	6.2%	9.2%
Return on assets (ROA)	-9.6%	-28.8%	-12.7%	-2.6%	1.8%	7.5%	10.3%
Return on capital employed (ROCE)	-14.4%	-42.0%	-22.3%	-4.1%	6.5%	15.9%	20.5%
Days of sales outstanding (DSO)	86.9	57.8	76.7	58.6	51.0	60.0	60.0
Days of inventory turnover	73.6	94.0	91.5	79.3	71.0	80.0	80.0
Days in payables (DIP)	66.1	77.8	68.6	55.1	56.0	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	1,333	3,660	5,615
Depreciation and amortisation	3,093	5,994	2,390	1,747	1,160	1,304	1,671
EBITDA	-1,177	-4,650	-2,508	862	2,493	4,965	7,286
Changes in working capital	-2,015	3,216	-3,541	1,362	850	-4,374	-2,287
Other adjustments	-361	-429	818	-519	-1,333	-1,134	-1,467
Operating cash flow	-3,553	-1,863	-5,231	1,704	2,010	-544	3,533
CAPEX	-181	-294	-301	-497	-555	-702	-811
Investments in intangibles	-452	-1,055	-619	-844	-926	-1,825	-1,865
Free cash flow	-4,186	-3,212	-6,151	363	530	-3,071	856
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	-1,481	-2,527	-2,676
Debt financing, net	826	699	2,834	2,252	-3,220	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	2,300	0	-1,000
Forex & other effects	8	4	1	-2	0	0	0
Net cash flows	-1,020	-2,845	-1,521	2,653	2,830	-3,071	-144
Cash, start of the year	7,143	6,123	3,277	1,756	4,694	7,524	4,453
Cash, end of the year	6,123	3,277	1,756	4,409	7,524	4,453	4,309
EBITDA/share (in €)	-0.15	-0.54	-0.29	0.09	0.25	0.47	0.70
Y-Y Growth							
Operating cash flow	n.m.	n.m.	n.m.	n.m.	18.0%	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	45.9%	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	162.1%	93.4%	46.8%

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...31	↓	↓	↓	↓
32	27 August 2018	€6.80	Buy	€9.50
33	14 November 2018	€8.12	Add	€9.50
34	29 November 2018	€8.02	Buy	€11.20
35	Today	€10.60	Add	€11.20

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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.

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