

# SFC Energy AG

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

Q1 figures

**RATING**  
**PRICE TARGET** **SELL**  
**€ 11.30**  
 Return Potential -22.1%  
 Risk Rating High

## SURPRISINGLY STRONG Q1 REVENUES

SFC Energy reported Q1 figures and held a conference call. Q1 revenues of €16.5m topped our forecast and almost matched the previous year's figure despite the €3.6m order from the German Army in Q1/18. A less profitable product mix however resulted in lower EBIT (€0.0m versus €0.7m in Q1/18). The order backlog declined from €16.9m at the end of Q1/18 to €13.7m at the end of Q1/19. This suggests Q2 will be relatively weak, before growth resumes in H2 based on strong defence & security business. Management reiterated guidance (sales €67-74m, adjusted EBITDA €4.5-7.0m, adjusted EBIT €3.5-6.0m). An updated DCF model yields a slightly higher price target of €11.30 (previously: €11.20). Following the strong share price increase in recent days, we downgrade the stock from Add to Sell.

**Strong sales; EBIT in line** Sales were down only 2% y/y at €16.5m despite the €3.6m German Army order in Q1/18. Surprisingly strong international defence & security sales, which quadrupled to €2.6m, and strong growth in clean energy & e-mobility sales (+27% y/y) were the main reasons why SFC exceeded our sales forecast by more than 10% (see figures 1 & 2 overleaf). Gross profit declined 3% y/y to €5.7m, and the gross margin was down 50 basis points, but nevertheless remained at a high level at 34.7%. EBITDA of €0.8m (Q1/18: €1.0m, FBe: €0.4m) benefited from the new IFRS 16 rule, which increased EBITDA by €560k due chiefly to higher depreciation. EBITDA adjusted for one-off costs (virtual stock option program (SAR) expenses: €0.8m) was €1.6m (Q1/18: €1.8m). EBIT came in as expected at €0.0m and underlying EBIT (before SAR expenses) was €0.8m versus €1.6m in Q1/18. The main cost driver was higher sales costs (€3.4m versus €2.7m in Q1/18). The net result amounted to €-0.3m and EPS was €-0.03.

**Balance sheet impacted by new IFRS 16 rule** The balance sheet total increased from €42m to €51m due mainly to the initial recognition of lease assets and liabilities. Property, plant & equipment increased by €9.0m to €10.6m and liabilities from finance leases (short- and long-term) by a similar amount.

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	44.04	54.29	61.70	70.20	81.10	96.51
Y-o-y growth	-6.9%	23.3%	13.7%	13.8%	15.5%	19.0%
EBIT (€m)	-4.90	-0.88	1.33	3.66	5.62	7.72
EBIT margin	-11.1%	-1.6%	2.1%	5.2%	6.9%	8.0%
Net income (€m)	-4.99	-2.07	0.00	2.50	4.19	5.92
EPS (diluted) (€)	-0.58	-0.23	0.00	0.24	0.40	0.57
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-6.15	0.36	-0.37	2.15	0.80	2.40
Net gearing	53.5%	37.7%	13.5%	4.0%	1.7%	-5.8%
Liquid assets (€m)	2.04	4.69	7.81	5.22	4.64	10.83

### 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 23 May 2019

Closing Price	€ 14.50
Shares outstanding	10.25m
Market Capitalisation	€ 148.62m
52-week Range	€ 6.00 / 14.50
Avg. Volume (12 Months)	17,243

Multiples	2018	2019E	2020E
P/E	n.a.	59.5	35.5
EV/Sales	2.5	2.2	1.9
EV/EBIT	114.2	41.4	27.0
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 4.80m
Current Assets	€ 27.50m
Intangible Assets	€ 12.07m
Total Assets	€ 50.99m
Current Liabilities	€ 20.20m
Shareholders' Equity	€ 18.07m

### SHAREHOLDERS

HPE	26.9%
DWS	8.4%
Havensight	7.5%
Other	12.5%
Free Float	44.7%



Although the cash position declined from €7.5m to €45m, it is still sufficient to finance growth. Liabilities to banks increased slightly to €6.5m. Despite a stable equity position of €18.1m, the equity ratio fell from 43.3% to 35.4% due to the higher balance sheet total.

**Figure 1: Reported Q1 figures versus forecasts**

All figures in €m	Q1-19A	Q1-19E	Delta	Q1-18A	Delta
Sales	16.46	14.90	10.4%	16.76	-1.8%
EBITDA	0.78	0.35	121.0%	0.97	-20.0%
margin	4.7%	2.4%		5.8%	
Adjusted EBITDA	1.55	0.65	138.9%	1.82	-14.6%
margin	9.4%	4.4%		10.8%	
EBIT	-0.02	-0.07	-	0.71	-
margin	-0.1%	-0.5%		4.2%	
Adjusted EBIT	0.76	0.23	228.7%	1.55	-51.2%
margin	4.6%	1.5%		9.2%	
Net income	-0.32	-0.25	-	0.33	-
margin	-1.9%	-1.7%		1.9%	
EPS (diluted, in €)	-0.03	-0.02	-	0.03	-

Source: First Berlin Equity Research, SFC Energy AG

**Operating cash flow improved y/y** Operating cash flow amounted to €-1.7m (Q1/18: €-2.7m), and free cash flow was €-2.3m. Repayment of financial debt was the main reason for negative financial cash flow of €-0.7m. Net cash flow was €-3.0m.

**Oil & gas business shows resilience** Despite the high volatility of Canadian oil prices in Q4/18, segment sales and gross profit remained stable y/y (see figure 2). The EBIT contribution of €0.3m was the highest of all four segments. First orders from the US show that SFC's business is gaining traction in this large market.

**Figure 2: Reported segment figures versus forecasts**

All figures in €m	Q1-19A	Q1-19E	Delta	Q1-18A	Delta
<b>Oil &amp; Gas</b>					
Sales	6.23	6.00	3.8%	6.16	1.0%
Gross profit	1.83	1.71	6.8%	1.80	1.3%
margin	29.3%	28.5%		29.3%	
<b>Defence &amp; Security</b>					
Sales	2.96	2.00	47.9%	4.33	-31.7%
Gross profit	1.28	1.00	28.0%	2.14	-40.2%
margin	43.3%	50.0%		49.5%	
<b>Clean Energy &amp; Mobility</b>					
Sales	2.99	2.50	19.8%	2.35	27.3%
Gross profit	1.32	0.98	35.1%	0.91	44.9%
margin	44.0%	39.0%		38.6%	
<b>Industry</b>					
Sales	4.28	4.40	-2.8%	3.92	9.3%
Gross profit	1.29	1.36	-5.3%	1.05	22.6%
margin	30.2%	31.0%		26.9%	
<b>Group</b>					
Sales	16.46	14.90	10.4%	16.76	-1.8%
Gross profit	5.72	5.05	13.2%	5.91	-3.2%
margin	34.7%	33.9%		35.2%	

Source: First Berlin Equity Research, SFC Energy AG



**Defence & Security surprisingly strong** Segment sales amounted to €3.0m and thus significantly exceeded our forecast of €2.0m. International business quadrupled in Q1 to €2.6m, which partly compensated the €3.6m German Army order in Q1/18 and demonstrated that the internationalisation strategy is bearing fruit. Gross profit was down 40% at €1.3m, and the gross margin fell from 49.5% to 43.3% as gross margins in the international business are lower (see figure 2 on page 2). Segment EBIT was €-0.3m versus €1.0m in Q1/18.

**Clean Energy & Mobility showed strong growth and higher gross margin** Segment sales rose 27% y/y to €3.0m and the gross margin climbed from 38.6% to 44.0%. Segment EBIT approaches break-even (€-122k versus €-221k in Q1/18). We welcome the broad basis of this growth with additional business both in Germany and internationally. Security technology and wind energy markets were particularly strong drivers.

**Industry segment showed sales and gross margin growth** Segment sales were up 9% y/y, and the gross margin climbed 3.3 PP to 30.2%. EBIT improved significantly y/y and reached positive territory (€134k versus €-420k in Q1/18, which was affected by €395k in restructuring costs). As expected, the new product platform for customers in the laser industry was a key growth driver.

**Hydrogen fuel cell development on track** Following extensive tests at DLR (Deutsches Zentrum für Luft- und Raumfahrt / German Space Agency), the Jupiter hydrogen fuel cell-based power solution developed by SFC Energy and adKor was recently certified for outdoor use in telecom and BOS digital radio systems. This is an important milestone for SFC and adKor, as the certification is a prerequisite for entry to the telecoms market. The hydrogen fuel cell-based power solution is taking part in German government tenders (Bavaria and Baden-Württemberg). Following the production ramp-up in Q2 and Q3, first systems could be built for pilots in Q3.

**We expect Q2 to be slightly weaker than Q1, but confirm full year forecasts** We assume that Q2 figures will be slightly weaker than Q1 figures due mainly to lower defence & security sales. Given the well-filled defence project pipeline, we anticipate much stronger segment sales in Q3 and especially in Q4, which should drive group sales and profitability. Forecasts for 2019E remain unchanged with one exception. We have increased our 2019E EBITDA forecast as the initial recognition of lease assets (IFRS 16) should increase depreciation by ca. €2m this year.

**Stock downgraded to Sell at slightly increased price target** An updated DCF model yields a slightly higher price target of €11.30 (previously: €11.20). Following the share price increase in recent days, we downgrade the stock from Add to Sell (downside: 22%). Both the 2020E P/E ratio (36x) and the 2020E EV/EBIT (27x) indicate a high valuation.



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	70,200	81,100	96,509	110,985	126,422	142,627	159,354	176,303
NOPLAT	3,035	4,569	6,128	8,203	9,655	10,898	12,134	13,352
+ depreciation & amortisation	3,744	1,442	1,837	1,952	2,099	2,272	2,462	2,658
Net operating cash flow	6,779	6,011	7,965	10,155	11,753	13,171	14,596	16,010
- total investments (CAPEX and WC)	-4,630	-5,208	-5,565	-5,680	-6,180	-6,620	-6,993	-7,280
Capital expenditures	-2,668	-2,757	-2,220	-2,442	-2,678	-2,904	-3,115	-3,302
Working capital	-1,963	-2,451	-3,345	-3,238	-3,502	-3,716	-3,879	-3,978
Free cash flows (FCF)	2,149	803	2,400	4,475	5,573	6,550	7,603	8,730
<b>PV of FCF's</b>	<b>2,026</b>	<b>688</b>	<b>1,874</b>	<b>3,180</b>	<b>3,606</b>	<b>3,856</b>	<b>4,074</b>	<b>4,258</b>

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	54,897
PV of FCFs in terminal period	65,010
Enterprise value (EV)	119,906
+ Net cash / - net debt (pro forma)	-2,081
+ Investments / minority interests	0
Shareholder value	117,825
Diluted number of shares	10,443
<b>Fair value per share in EUR</b>	<b>11.28</b>

WACC		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
5.9%	24.80	26.79	29.37	32.85	37.81	45.44	58.67	
6.9%	19.05	20.13	21.46	23.13	25.31	28.24	32.41	
7.9%	15.19	15.83	16.58	17.49	18.61	20.02	21.85	
8.9%	12.44	12.84	13.30	13.83	14.47	15.23	16.17	
9.9%	10.40	10.66	10.95	11.28	11.67	12.12	12.65	
10.9%	8.84	9.01	9.20	9.42	9.66	9.94	10.27	
11.9%	7.61	7.73	7.86	8.00	8.16	8.34	8.55	
12.9%	6.63	6.71	6.80	6.89	7.00	7.12	7.26	

\* for layout purposes the model shows numbers only to 2026, but runs until 2033



## INCOME STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
<b>Revenues</b>	<b>44,041</b>	<b>54,292</b>	<b>61,704</b>	<b>70,200</b>	<b>81,100</b>	<b>96,509</b>
Cost of goods sold	30,795	36,566	40,623	45,490	52,715	63,696
<b>Gross profit</b>	<b>13,247</b>	<b>17,726</b>	<b>21,082</b>	<b>24,710</b>	<b>28,385</b>	<b>32,813</b>
S&M	9,126	9,786	10,792	11,400	12,200	12,932
G&A	4,883	5,016	5,230	5,400	5,700	6,370
R&D	4,148	3,892	3,525	4,250	4,870	5,791
Other operating income	96	277	320	211	243	290
Other operating expenses	83	194	529	211	243	290
<b>Operating income (EBIT)</b>	<b>-4,898</b>	<b>-885</b>	<b>1,325</b>	<b>3,660</b>	<b>5,615</b>	<b>7,721</b>
Net financial result	-475	-1,150	-737	-536	-383	-207
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-5,373</b>	<b>-2,035</b>	<b>588</b>	<b>3,125</b>	<b>5,232</b>	<b>7,514</b>
Income taxes	-380	37	589	625	1,046	1,593
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-4,993</b>	<b>-2,072</b>	<b>-1</b>	<b>2,500</b>	<b>4,185</b>	<b>5,921</b>
<b>Diluted EPS (in €)</b>	<b>-0.58</b>	<b>-0.23</b>	<b>0.00</b>	<b>0.24</b>	<b>0.40</b>	<b>0.57</b>
<b>EBITDA</b>	<b>-2,508</b>	<b>862</b>	<b>2,478</b>	<b>7,404</b>	<b>7,057</b>	<b>9,557</b>
<b>Ratios</b>						
Gross margin	30.1%	32.6%	34.2%	35.2%	35.0%	34.0%
EBITDA margin on revenues	-5.7%	1.6%	4.0%	10.5%	8.7%	9.9%
EBIT margin on revenues	-11.1%	-1.6%	2.1%	5.2%	6.9%	8.0%
Net margin on revenues	-11.3%	-3.8%	0.0%	3.6%	5.2%	6.1%
Tax rate	7.1%	-1.8%	100.1%	20.0%	20.0%	21.2%
<b>Expenses as % of revenues</b>						
S&M	20.7%	18.0%	17.5%	16.2%	15.0%	13.4%
G&A	11.1%	9.2%	8.5%	7.7%	7.0%	6.6%
R&D	9.4%	7.2%	5.7%	6.1%	6.0%	6.0%
Other operating expenses	0.2%	0.4%	0.9%	0.3%	0.3%	0.3%
<b>Y-Y Growth</b>						
Revenues	-6.9%	23.3%	13.7%	13.8%	15.5%	19.0%
Operating income	n.m.	n.m.	n.m.	176.2%	53.4%	37.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	67.4%	41.5%



## BALANCE SHEET

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
<b>Assets</b>						
<b>Current assets, total</b>	<b>20,056</b>	<b>21,849</b>	<b>28,289</b>	<b>27,927</b>	<b>30,387</b>	<b>41,580</b>
Cash and cash equivalents	2,041	4,694	7,805	5,221	4,640	10,833
Short-term investments	0	0	0	0	0	0
Receivables	9,253	8,712	10,158	11,540	13,332	15,864
Inventories	7,718	7,939	9,753	10,593	11,843	14,310
Other current assets	1,044	504	573	573	573	573
<b>Non-current assets, total</b>	<b>13,737</b>	<b>12,684</b>	<b>13,776</b>	<b>13,121</b>	<b>14,437</b>	<b>14,820</b>
Property, plant & equipment	1,205	1,197	1,596	1,486	1,932	2,318
Goodwill & other intangibles	11,855	10,950	11,497	10,952	11,821	11,819
Other assets	678	537	684	684	684	684
<b>Total assets</b>	<b>33,793</b>	<b>34,534</b>	<b>42,065</b>	<b>41,048</b>	<b>44,824</b>	<b>56,399</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>13,335</b>	<b>18,563</b>	<b>18,865</b>	<b>14,927</b>	<b>14,517</b>	<b>21,072</b>
Short-term debt	4,317	9,410	7,198	3,000	2,000	6,900
Accounts payable	5,790	5,520	7,093	7,353	7,943	9,598
Current provisions	646	800	972	972	972	972
Other current liabilities	2,583	2,833	3,602	3,602	3,602	3,602
<b>Long-term liabilities, total</b>	<b>7,119</b>	<b>2,076</b>	<b>4,996</b>	<b>5,417</b>	<b>5,417</b>	<b>4,517</b>
Long-term debt	4,860	529	3,056	3,056	3,056	2,156
Deferred revenue	0	0	0	0	0	0
Other liabilities	2,259	1,547	1,940	2,361	2,361	2,361
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>13,339</b>	<b>13,895</b>	<b>18,204</b>	<b>20,704</b>	<b>24,890</b>	<b>30,810</b>
Share capital	9,047	9,659	10,250	10,250	10,250	10,250
Capital reserve	73,132	75,475	79,498	79,498	79,498	79,498
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-68,351	-70,423	-70,520	-68,020	-63,835	-57,914
<b>Total consolidated equity and debt</b>	<b>33,793</b>	<b>34,534</b>	<b>42,065</b>	<b>41,048</b>	<b>44,824</b>	<b>56,399</b>
<b>Ratios</b>						
Current ratio (x)	1.50	1.18	1.50	1.87	2.09	1.97
Quick ratio (x)	0.93	0.75	0.98	1.16	1.28	1.29
Net cash	-7,135	-5,245	-2,449	-836	-416	1,776
Net gearing	53.5%	37.7%	13.5%	4.0%	1.7%	-5.8%
Book value per share (€)	1.54	1.51	1.79	1.98	2.38	2.95
Equity ratio	39.5%	40.2%	43.3%	50.4%	55.5%	54.6%
Return on equity (ROE)	-37.4%	-14.9%	0.0%	12.1%	16.8%	19.2%
Return on investment (ROI)	-14.8%	-6.0%	0.0%	6.1%	9.3%	10.5%
Return on assets (ROA)	-12.7%	-2.6%	1.8%	7.5%	10.3%	11.0%
Return on capital employed (ROCE)	-22.3%	-4.1%	6.1%	15.7%	21.8%	26.1%
Days of sales outstanding (DSO)	76.7	58.6	60.1	60.0	60.0	60.0
Days of inventory turnover	91.5	79.3	87.6	85.0	82.0	82.0
Days in payables (DIP)	68.6	55.1	63.7	59.0	55.0	55.0



## CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
<b>EBIT</b>	<b>-4,898</b>	<b>-885</b>	<b>1,325</b>	<b>3,660</b>	<b>5,615</b>	<b>7,721</b>
Depreciation and amortisation	2,390	1,747	1,153	3,744	1,442	1,837
<b>EBITDA</b>	<b>-2,508</b>	<b>862</b>	<b>2,478</b>	<b>7,404</b>	<b>7,057</b>	<b>9,557</b>
Changes in working capital	-3,541	1,362	-1,417	-1,963	-2,451	-3,345
Other adjustments	818	-519	945	-625	-1,046	-1,593
<b>Operating cash flow</b>	<b>-5,231</b>	<b>1,704</b>	<b>2,005</b>	<b>4,817</b>	<b>3,560</b>	<b>4,619</b>
CAPEX	-301	-497	-928	-842	-892	-965
Investments in intangibles	-619	-844	-1,445	-1,825	-1,865	-1,255
<b>Free cash flow</b>	<b>-6,151</b>	<b>363</b>	<b>-368</b>	<b>2,149</b>	<b>803</b>	<b>2,400</b>
Acquisitions & disposals, net	205	33	0	0	0	0
Other investments	150	0	0	0	0	0
<b>Investing cash flow</b>	<b>-565</b>	<b>-1,308</b>	<b>-2,373</b>	<b>-2,668</b>	<b>-2,757</b>	<b>-2,220</b>
Debt financing, net	2,834	2,252	-1,786	-4,198	-1,000	4,000
Equity financing, net	1,500	400	4,220	0	0	0
Dividend paid	0	0	0	0	0	0
Other financing	-60	-394	1,045	-536	-383	-207
<b>Financing cash flow</b>	<b>4,274</b>	<b>2,258</b>	<b>3,479</b>	<b>-4,733</b>	<b>-1,383</b>	<b>3,793</b>
Forex & other effects	1	-2	0	0	0	0
<b>Net cash flows</b>	<b>-1,521</b>	<b>2,653</b>	<b>3,111</b>	<b>-2,584</b>	<b>-581</b>	<b>6,193</b>
Cash, start of the year	3,277	1,756	4,409	7,805	5,221	4,640
<b>Cash, end of the year</b>	<b>1,756</b>	<b>4,409</b>	<b>7,520</b>	<b>5,221</b>	<b>4,640</b>	<b>10,833</b>
<b>EBITDA/share (in €)</b>	<b>-0.29</b>	<b>0.09</b>	<b>0.24</b>	<b>0.71</b>	<b>0.68</b>	<b>0.91</b>

### Y-Y Growth

Operating cash flow	n.m.	n.m.	17.7%	140.2%	-26.1%	29.8%
Free cash flow	n.m.	n.m.	n.m.	n.m.	-62.7%	199.0%
EBITDA/share	n.m.	n.m.	160.5%	190.2%	-4.7%	35.4%

**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...33	↓	↓	↓	↓
34	29 November 2018	€8.02	Buy	€11.20
35	13 February 2019	€10.60	Add	€11.20
36	27 March 2019	€9.90	Add	€11.20
37	Today	€14.50	Sell	€11.30

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	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%

<sup>1</sup> 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.

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

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