

SFC Energy AG

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

Q1 figures

RATING
PRICE TARGET
 Return Potential
 Risk Rating

REDUCE
€ 9.40
 -4.0%
 High

Q1 IN LINE, Q2 WILL BE HIT BY LOW OIL PRICE AND PANDEMIC

SFC Energy has reported Q1 figures and held a conference call. Sales were only 2% below the prior year figure and 9% above our forecast due to a very strong Clean Energy & Mobility segment result. EBIT and the net result were in line with our expectation. EBIT was down €413k at €432k. The order backlog rose 16% y/y to €15.9m. This is a promising sign amid the unfolding recession. So far, SFC has not had any covid-19 cases. The company has been fully operational, and capacity utilisation has been high. Work flows have been adjusted to pandemic restrictions. Orders are coming in and product is being shipped. Given the very low oil price and the severe pandemic restrictions in many countries since March, we expect a very weak Q2. An updated DCF model still yields a €9.40 price target. Following the share price increase since the beginning of April we downgrade the stock from Add to Reduce.

Q1 EBIT in line Revenue declined 2% y/y to €16.1m (FBe: €14.8m). This is a very solid result given that the defence business was much weaker y/y. It was mainly driven by particularly strong Clean Energy & Mobility segment revenues which benefited from a large order from Singapore.

Gross profit was down 8% y/y at €5.2m (FBe: €5.0m) due to a lower margin product mix and significant gross margin declines in the oil & gas and the defence businesses. EBIT was in line with our forecasts and amounted to €-432k, which is €413k below the prior year figure. The net result was €-0.6m (FB: €-0.7m) versus €-0.3m in Q1/19 (see figure 1 overleaf).

No concrete guidance for 2020 In March, SFC withdrew guidance for 2020. Management reiterated that stable and sufficiently reliable guidance is still impossible due to the lack of visibility resulting from the pandemic and the negative oil price development. Management expects revenues and profitability to be significantly lower than in the previous year. The fundamental premise is the weakening of the effects of the pandemic after Q3/20.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	54.29	61.70	58.54	54.50	66.80	81.27
Y-o-y growth	23.3%	13.7%	-5.1%	-6.9%	22.6%	21.7%
EBIT (€m)	-0.88	1.33	-1.29	-2.18	0.43	3.41
EBIT margin	-1.6%	2.1%	-2.2%	-4.0%	0.6%	4.2%
Net income (€m)	-2.07	0.00	-1.93	-2.27	0.06	2.28
EPS (diluted) (€)	-0.23	0.00	-0.17	-0.17	0.00	0.17
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.36	-0.37	-4.95	3.60	-2.93	-0.51
Net gearing	37.7%	13.2%	-15.2%	-25.4%	-16.9%	-13.6%
Liquid assets (€m)	4.69	7.81	21.19	21.54	22.25	22.42

RISKS

The main risks are internationalisation, unfavourable 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 19 May 2020

Closing Price	€ 9.79
Shares outstanding	13.15m
Market Capitalisation	€ 128.78m
52-week Range	€ 7.64 / 13.91
Avg. Volume (12 Months)	48,598

Multiples	2019	2020E	2021E
P/E	n.a.	n.a.	2255.7
EV/Sales	2.1	2.2	1.8
EV/EBIT	n.a.	n.a.	284.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Mar 2020

Liquid Assets	€ 18.53m
Current Assets	€ 48.04m
Intangible Assets	€ 14.24m
Total Assets	€ 73.07m
Current Liabilities	€ 21.18m
Shareholders' Equity	€ 39.95m

SHAREHOLDERS

HPE	16.0%
Conduit Ventures	3.7%
Management	1.8%
Free Float	78.5%



SFC Energy AG continues to confirm its medium-term forecast and expects to achieve sales of over €100m with an adjusted EBITDA margin of well over 10% in the next three to four years.

Figure 1: Reported group figures versus forecasts

All figures in €m	Q1-20A	Q1-20E	Delta	Q1-19A	Delta
Sales	16.12	14.80	8.9%	16.46	-2.1%
EBITDA	0.38	0.36	3.0%	0.78	-51.8%
margin	2.3%	2.5%		4.7%	
Adjusted EBITDA	0.82	0.37	119.3%	1.55	-47.2%
margin	5.1%	2.5%		9.4%	
EBIT	-0.43	-0.49	-	-0.02	-
margin	-2.7%	-3.3%		-0.1%	
Adjusted EBIT	0.01	-0.48	-	0.76	-98.3%
margin	0.1%	-3.3%		4.6%	
Net income	-0.63	-0.68	-	-0.32	-
margin	-3.9%	-4.6%		-1.9%	
EPS (diluted, in €)	-0.05	-0.05	-	-0.03	-

Source: First Berlin Equity Research, SFC Energy AG

Balance sheet remains stable and strong Equity was stable at ca. €40m, and the equity ratio still amounted to around 55%. Liabilities to banks fell slightly q/q from €6.5m to €6.2m. Leasing liabilities declined by €0.5m to €7.5m. The cash position was down q/q from €20.9m to €18.5m. As a result, the net cash position retreated from €6.4m to €4.8m. SFC thus still has a strong balance sheet to weather the recession.

Negative free cash flow Operating cash flow amounted to €-1.3m due mainly to higher receivables (€1.7m). Investments in intangible assets and PP&E of €1.1m resulted in free cash flow of €-2.4m. Financial cash flow of merely €26k led to net cash flow of €2.4m.

Oil & gas segment reported weak gross margin Oil & gas revenues were in line with our forecast and amounted to €6.1m (Q1/19: €6.2m). However, the gross margin retreated 5 PP to 24.3% due to a lower margin product mix and €350k in high margin revenue that was allocated to the Clean Energy & Mobility segment for the first time. The good news is that Simark made first inroads into the non-oil & gas sectors and the US. The EFOY fuel cell business in North America expanded further and Simark's EFOY sales share increased from 13% to 16% y/y. Segment gross profit declined from €1.8m to €1.5m (FBe: €1.8m, see figure 2 overleaf). Segment EBITDA fell from €0.5m to €0.1m.

The segment outlook is rather bleak. Oil & gas companies, which are SFC's customers, have announced cuts in their investment budgets of around 25-30%. Falling demand and a quarrel between Russia and Saudi Arabia regarding production cuts have resulted in a WTI oil price level of around 30 \$/bl. This is a 50% slump y/y. The situation for the Canadian oil industry is even worse. Pricing for Canadian oil, Western Canadian Select, recovered in May to 28 \$/bl., but in April, it was below 10 \$/bl. most of the time. SFC has reacted swiftly to the challenging environment and adjusted the work force to the expected lower business level.

Defence & Security as weak as expected In Q1/19, two large orders from India and Israel resulted in sales of €3m. This year, no large order was shipped and revenue thus fell to €0.8m (FBe: €0.6m). The gross margin fell from 433% to 31.6%. EBITDA was €-0.7m versus €-0.2m in Q1/19 (see figure 2 overleaf). Given that most administrations have been in covid-19 lockdown since March, we expect a delay of at least three months in governmental decision making and thus do not expect a recovery in the defence & security segment in Q2. We note that this business is traditionally a year-end business.


Figure 2: Reported segment figures versus forecasts

All figures in €m	Q1-20A	Q1-20E	Delta	Q1-19A	Delta
Oil & Gas					
Sales	6.14	6.20	-1.0%	6.23	-1.4%
Gross profit	1.49	1.80	-17.2%	1.83	-18.5%
margin	24.3%	29.0%		29.3%	
Defence & Security					
Sales	0.82	0.60	37.2%	2.96	-72.2%
Gross profit	0.26	0.29	-9.7%	1.28	-79.7%
margin	31.6%	48.0%		43.3%	
Clean Energy & Mobility					
Sales	5.13	4.00	28.2%	2.99	71.2%
Gross profit	2.26	1.72	31.5%	1.32	71.8%
margin	44.1%	43.0%		44.0%	
Industry					
Sales	4.03	4.00	0.8%	4.28	-5.8%
Gross profit	1.23	1.20	2.8%	1.29	-4.5%
margin	30.6%	30.0%		30.2%	
Group					
Sales	16.12	14.80	8.9%	16.46	-2.1%
Gross profit	5.25	5.01	4.8%	5.72	-8.2%
margin	32.5%	33.8%		34.7%	

Source: First Berlin Equity Research, SFC Energy AG

Industry segment met our forecasts Segment sales declined 6% y/y to €4.0m due primarily to supply chain problems caused by the pandemic. The gross profit retreated almost 5% y/y to €1.2m. Despite the revenue decline the gross margin increased slightly from 30.2% to 30.6%. EBITDA amounted to €222k (Q1/19: €351k). An annual revenue decline between 10-20% is still the most probable scenario.

Clean Energy & Mobility with outstanding figures High demand from industrial customers (+121% y/y), the shipment of the first hydrogen fuel cells, and a large Singaporean order resulted in a 71% revenue increase y/y to €5.1m (FBe: €4.0m). The gross profit jumped 72% to €2.3m (FBe: €1.7m). The gross margin remained on a high level of 44%. EBITDA rose from €0.1m to €0.8m. Industrial demand keeps growing and consumer demand is picking up again after dealerships have reopened their businesses. Despite pandemic and recession we thus expect double-digit segment growth this year.

Order backlog rose 16% y/y Given that many countries have been in lockdown since mid March we see the strong order backlog increase from €13.7m in Q1/19 to €15.9m as an encouraging sign. So far, management has reported only minimal cancellations.

Protection measures against pandemic and preparations for the aftermath Management adopted more than 80 measures to make the company crisis-proof and at the same time prepare it for the aftermath of the pandemic. The main measures are massive online advertising campaigns, acceleration and finalisation of development projects, cost reductions, and a hiring freeze.



New CFO At the end of April, the Supervisory Board of SFC Energy AG appointed Daniel Saxena as new CFO. He will assume responsibility from Gerhard Inninger on 1 July. Mr Saxena has many years of experience in management positions in the field of finance and corporate development. Most recently, he was a Partner for portfolio development and investment management at a German/Swiss private equity fund since 2010. He has known SFC Energy AG since then and advised the company on various strategic- and capital market transactions.

Unchanged forecasts For the time being, we leave our forecasts unchanged. We note that visibility remains very low as the development of the pandemic and the severity of the recession are difficult to predict.

Downgrade to Reduce at unchanged price target An updated DCF model still yields a €9.40 price target. We downgrade the stock from Add to Reduce following the share price increase since our last publication at the beginning of April.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	54,500	66,800	81,273	93,301	106,109	119,537	133,381	147,398
NOPLAT	-2,181	414	2,697	4,636	6,235	7,372	8,485	9,591
+ depreciation & amortisation	3,392	3,495	3,816	3,685	3,616	3,666	3,800	3,991
Net operating cash flow	1,211	3,909	6,513	8,321	9,850	11,038	12,285	13,582
- total investments (CAPEX and WC)	1,823	-6,844	-7,028	-6,434	-6,995	-7,497	-7,933	-8,282
Capital expenditures	-3,270	-3,540	-3,657	-3,639	-4,003	-4,358	-4,693	-4,998
Working capital	5,093	-3,303	-3,371	-2,796	-2,991	-3,139	-3,240	-3,284
Free cash flows (FCF)	3,034	-2,935	-515	1,887	2,856	3,541	4,352	5,299
PV of FCF's	2,884	-2,572	-416	1,405	1,959	2,238	2,536	2,846

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	37,555
PV of FCFs in terminal period	79,433
Enterprise value (EV)	116,988
+ Net cash / - net debt	6,360
+ Investments / minority interests	0
Shareholder value	123,349
Diluted number of shares	13,154
Fair value per share in EUR	9.38

WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	10.0%	4.5%	24.76	28.41	33.88	43.00	61.22	115.74	30159.13
Pre-tax cost of debt	7.0%	5.5%	17.39	19.03	21.23	24.30	28.90	36.57	51.89
Tax rate	30.0%	6.5%	13.06	13.93	15.00	16.39	18.23	20.81	24.69
After-tax cost of debt	4.9%	7.5%	10.26	10.75	11.34	12.07	12.97	14.14	15.69
Share of equity capital	70.0%	8.5%	8.31	8.61	8.96	9.38	9.88	10.49	11.25
Share of debt capital	30.0%	9.5%	6.89	7.08	7.30	7.56	7.85	8.20	8.62
		10.5%	5.82	5.95	6.09	6.26	6.44	6.65	6.90
		11.5%	5.00	5.08	5.18	5.29	5.41	5.54	5.70
Price target in EUR	9.40								

* for layout purposes the model shows numbers only to 2027, but runs until 2034



INCOME STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	54,292	61,704	58,538	54,500	66,800	81,273
Cost of goods sold	36,566	40,623	38,410	35,481	44,070	53,721
Gross profit	17,726	21,082	20,128	19,019	22,730	27,552
S&M	9,786	10,792	12,438	11,400	12,100	13,410
G&A	5,016	5,230	5,994	5,400	5,700	6,014
R&D	3,892	3,525	3,104	4,400	4,500	4,714
Other operating income	277	320	178	164	200	244
Other operating expenses	194	529	57	164	200	244
Operating income (EBIT)	-885	1,325	-1,288	-2,181	430	3,413
Net financial result	-1,150	-737	-752	-651	-357	-416
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-2,035	588	-2,040	-2,832	72	2,997
Income taxes	37	589	-113	-566	15	716
Minority interests	0	0	0	0	0	0
Net income / loss	-2,072	-1	-1,927	-2,266	57	2,281
Diluted EPS (in €)	-0.23	0.00	-0.17	-0.17	0.00	0.17
EBITDA	862	2,478	2,042	1,211	3,924	7,229
One-off costs / earnings	592	1,227	1,589	0	0	0
Underlying EBITDA	1,454	3,705	3,631	1,211	3,924	7,229
Underlying EBIT	177	2,553	301	-2,181	430	3,413
Ratios						
Gross margin	32.6%	34.2%	34.4%	34.9%	34.0%	33.9%
EBITDA margin on revenues	1.6%	4.0%	3.5%	2.2%	5.9%	8.9%
EBIT margin on revenues	-1.6%	2.1%	-2.2%	-4.0%	0.6%	4.2%
Net margin on revenues	-3.8%	0.0%	-3.3%	-4.2%	0.1%	2.8%
Tax rate	-1.8%	100.1%	5.5%	20.0%	21.2%	23.9%
Expenses as % of revenues						
S&M	18.0%	17.5%	21.2%	20.9%	18.1%	16.5%
G&A	9.2%	8.5%	10.2%	9.9%	8.5%	7.4%
R&D	7.2%	5.7%	5.3%	8.1%	6.7%	5.8%
Other operating expenses	0.4%	0.9%	0.1%	0.3%	0.3%	0.3%
Y-Y Growth						
Revenues	23.3%	13.7%	-5.1%	-6.9%	22.6%	21.7%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	694.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	3894.9%



BALANCE SHEET

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	21,849	28,289	47,818	40,815	46,238	51,364
Cash and cash equivalents	4,694	7,805	21,192	21,539	22,247	22,416
Short-term investments	0	0	0	0	0	0
Receivables	8,712	10,158	13,773	9,705	11,896	14,473
Inventories	7,939	9,753	12,032	8,749	10,867	13,246
Other current assets	504	573	822	822	1,229	1,229
Non-current assets, total	12,684	13,776	25,040	24,919	24,965	24,806
Property, plant & equipment	1,197	1,596	9,869	8,471	7,355	6,368
Goodwill & other intangibles	10,950	11,497	13,921	15,198	16,359	17,188
Other assets	537	684	1,250	1,250	1,250	1,250
Total assets	34,534	42,065	72,859	65,734	71,203	76,170
Shareholders' equity & debt						
Current liabilities, total	18,563	18,865	20,514	14,904	21,216	20,039
Short-term debt	9,410	7,154	5,352	2,000	6,900	4,137
Accounts payable	5,520	7,093	8,090	5,832	7,244	8,831
Current provisions	800	972	1,263	1,263	1,263	1,263
Liabilities under finance leases	0	44	2,278	2,278	2,278	2,278
Other current liabilities	2,833	3,602	3,531	3,531	3,531	3,531
Long-term liabilities, total	2,076	4,996	12,085	12,085	11,184	15,048
Long-term debt	529	3,056	3,953	3,953	3,053	6,916
Liabilities under finance leases	0	54	5,755	5,755	5,755	5,755
Other liabilities	1,547	1,886	2,376	2,376	2,376	2,376
Minority interests	0	0	0	0	0	0
Shareholders' equity	13,895	18,204	40,260	38,745	38,802	41,083
Share capital	9,659	10,250	12,950	13,154	13,154	13,154
Capital reserve	75,475	79,498	100,417	100,962	100,962	100,962
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-70,423	-70,520	-72,447	-74,713	-74,656	-72,375
Total consolidated equity and debt	34,534	42,065	72,859	65,734	71,203	76,170
Ratios						
Current ratio (x)	1.18	1.50	2.33	2.74	2.18	2.56
Quick ratio (x)	0.75	0.98	1.74	2.15	1.67	1.90
Net cash	-5,245	-2,405	6,132	9,831	6,539	5,607
Net gearing	37.7%	13.2%	-15.2%	-25.4%	-16.9%	-13.6%
Book value per share (€)	1.51	1.79	3.50	2.95	2.95	3.12
Equity ratio	40.2%	43.3%	55.3%	58.9%	54.5%	53.9%
Return on equity (ROE)	-14.9%	0.0%	-4.8%	-5.8%	0.1%	5.6%
Return on investment (ROI)	-6.0%	0.0%	-2.6%	-3.4%	0.1%	3.0%
Return on assets (ROA)	-2.6%	1.8%	-1.6%	-2.5%	0.6%	3.6%
Return on capital employed (ROCE)	-4.1%	6.1%	-4.2%	-6.0%	1.2%	8.9%
Days of sales outstanding (DSO)	58.6	60.1	85.9	65.0	65.0	65.0
Days of inventory turnover	79.3	87.6	114.3	90.0	90.0	90.0
Days in payables (DIP)	55.1	63.7	76.9	60.0	60.0	60.0



CASH FLOW STATEMENT

All figures in EUR '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	-885	1,325	-1,288	-2,181	430	3,413
Depreciation and amortisation	1,747	1,153	3,330	3,392	3,495	3,816
EBITDA	862	2,478	2,042	1,211	3,924	7,229
Changes in working capital	1,362	-1,417	-5,026	5,093	-3,303	-3,371
Other adjustments	-519	945	1,723	566	-15	-716
Operating cash flow	1,704	2,005	-1,261	6,870	606	3,142
Investments in PP&E	-497	-928	-1,110	-872	-1,002	-1,219
Investments in intangibles	-844	-1,445	-2,582	-2,398	-2,538	-2,438
Free cash flow	363	-368	-4,952	3,600	-2,935	-515
Acquisitions & disposals, net	33	0	64	0	0	0
Other investments	0	0	0	0	0	0
Investing cash flow	-1,308	-2,373	-3,628	-3,270	-3,540	-3,657
Debt financing, net	2,252	-1,786	-5,258	-3,352	4,000	1,100
Equity financing, net	400	4,220	27,000	750	0	0
Dividend paid	0	0	0	0	0	0
Other financing	-394	1,045	-3,467	-651	-357	-416
Financing cash flow	2,258	3,479	18,275	-3,253	3,643	684
Forex & other effects	-2	0	0	0	0	0
Net cash flows	2,653	3,111	13,387	347	708	169
Cash, start of the year	1,756	4,409	7,520	21,192	21,539	22,247
Cash, end of the year	4,409	7,520	20,907	21,539	22,247	22,416
EBITDA/share (in €)	0.09	0.24	0.18	0.09	0.30	0.55

Y-Y Growth

Operating cash flow	n.m.	17.7%	n.m.	n.m.	-91.2%	418.9%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	160.5%	-27.2%	-48.2%	224.1%	84.2%

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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.

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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...36	↓	↓	↓	↓
37	24 May 2019	€14.50	SELL	€11.30
38	16 July 2019	€12.50	ADD	€12.60
39	29 August 2019	€10.10	ADD	€11.90
40	18 November 2019	€9.22	Add	€10.00
41	13 February 2020	€12.20	Reduce	€11.40
42	23 March 2020	€9.00	Add	€9.40
43	2 April 2020	€9.02	Add	€9.40
44	Today	€9.79	Reduce	€9.40

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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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