

## SBF AG<sup>\*5a;6a;7;11</sup>

### Rating: Buy

**Target price: € 5.10**  
(previously: € 3.85)

Current price: € 2.82  
20/08/2019 / Frankfurt  
(Closing price)  
Currency: EUR

### Master data:

ISIN: DE000A2AAE22  
WKN (German Securities Code): A2AAE2  
Ticker symbol: CY1k  
Number of shares<sup>3</sup>: 7.84  
Marketcap<sup>3</sup>: 22.11  
Enterprise value<sup>3</sup>: 22.78  
<sup>3</sup> in m / € million  
Freefloat: 22.67 %

Transparency level:  
m:access

Market segment:  
Open market

Accounting:  
HGB (German Commercial Code)

Financial year: 31/12/

Lead brokers:  
Baader Bank AG

### Analysts:

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\* Catalogue of potential conflicts of interest on page 10

Date (time) of completion:  
21/08/19 (08:53)

Date (time) of first distribution:  
21/08/19 (10:30)

Validity of the stock price target: 31/12/2020 at the last

### Corporate Profile

Segment: Operating holding company (holdings)

Core holding: SBF Spezialleuchten GmbH

Employees SBF-Group: approx. 130 (as at: August 2019)

Founded: 2002

Registered office: Leipzig

Management Board: Rudolf Witt, Robert Stöcklinger

SBF AG (SBF) is an operating holding company which focuses on medium-sized companies in German-speaking countries. SBF and its holdings operate in the mobility sector, particularly in the rolling stock industry. SBF acts as a holding company while its subsidiary SBF Spezialleuchten GmbH constitutes the operating side of the business and the material interest of the holding company.

SBF Spezialleuchten GmbH has a long history (first business activities around 1862) and a strong client base comprising well-known major clients. In recent years, the Group has received an eight-figure investment for development and the company has expanded to become the market leader in ceilings and lighting systems for rolling stock in Europe.



P&L in m EUR \ FY-end	31/12/2018	31/12/2019e	31/12/2020e	31/12/2021e
Revenue	14.70	17.70	19.70	24.10
EBITDA	2.21	2.81	3.13	3.94
EBIT	1.58	2.01	2.18	2.94
Consolidated result	1.39	1.70	1.81	2.45

### Key figures in EUR

Earnings per share	0.18	0.22	0.23	0.31
Dividend per share	0.00	0.00	0.00	0.00

### Key figures

EV/Revenue	1.55	1.29	1.16	0.95
EV/EBITDA	10.31	8.11	7.28	5.78
EV/EBIT	14.42	11.33	10.45	7.75
PE-Ratio	15.91	13.01	12.21	9.02
PB-Ratio	1.91			

### Financial dates

03/06/2019	General meeting
08/08/2019	Half-yearly report 2019
17/10/2019	m:access conference technology (Munich Stock Exchange)

### \*\*last research published by GBC:

Date: publication / price target in EUR / Rating

16/05/2019: RS / 3.85 / Buy

06/03/2019: RS / 3.62 / Buy

\*\* the research reports can be founded on our website [www.gbc-ag.de](http://www.gbc-ag.de) or can be requested at GBC AG, Halderstr. 27, D86150 Augsburg

Note on research as a "minor non-monetary benefit" under the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

## MARKET AND MARKET ENVIRONMENT

### The rail industry in general

SBF AG operates in the mobility sector with a focus on the European rail industry in particular. Its key sales region is its home market of Germany.

The global railway technology market is generally a growth market and is supported by strong, long-term influencing factors. Urbanisation in particular creates increasing demand for railway technology, especially in emerging markets. In addition to urbanisation, developed markets, such as the German or British railway technology market, are primarily driven by climate change and environmental concerns, as well as projects that aim to renovate and modernise the existing infrastructure and rolling stock. In addition, railway projects or investments in trains aim increasingly to help reduce traffic problems, particularly in cities and conurbations. The global trend towards rail has led to a real investment initiative in the local rail sector in some countries (e.g. the UK).

There is also visible progress being made by the German Green Party (Die Grünen) and other environmental parties around the world which will promote the industry as a result. In addition, a clear trend towards increased environmental protection can be identified in EU environmental policy and this has far-reaching consequences. For example, this has affected the automotive industry through the tightening of EU exhaust emission limits. The EU environmental policy measures are aimed at transitioning to a resource-efficient, environmentally friendly and competitive low-carbon economy, as well as protecting European citizens from environmental impacts, health risks and adverse effects on their quality of life.

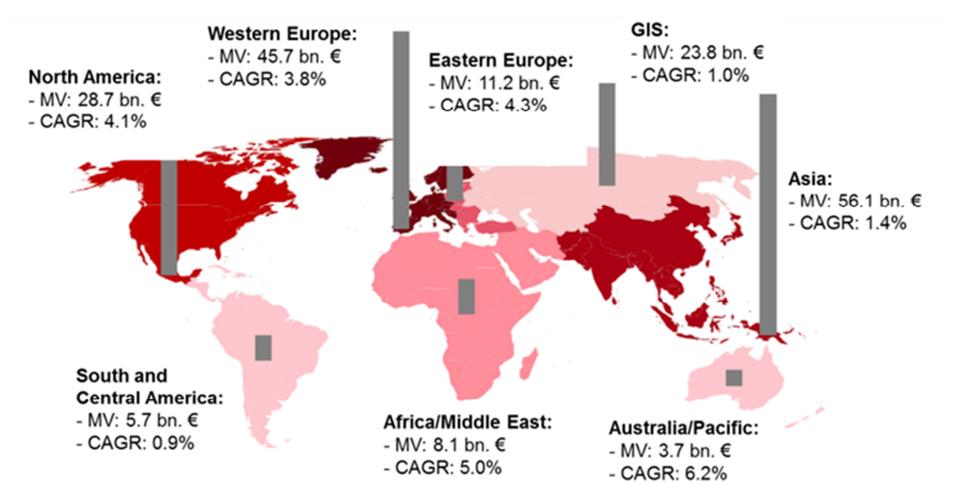
The new rail policy of the German CDU–SPD coalition government, which aims to strengthen rail transport, should give the German rail industry additional momentum. As part of its coalition agreement, the German Federal Government is working to shift transport onto the railways. The main purpose of these efforts is to achieve European environmental and climate change targets. Failing to meet these EU targets carries the threat of huge financial penalties. According to the environmental organisation Greenpeace, Germany should anticipate additional costs of up to EUR 36.0 billion if the climate change targets are not met (Greenpeace, March 2019).

### Rail transport and the global rail industry

Increased investments in railway technology are being observed against a backdrop of strong growth in the global rail sector over the last few years, and this upward trend is appearing to continue. As a result, revenues in global rail transport are expected to increase by 28.4% to EUR 122.0 billion by 2021 compared to 2007 (EUR 95.0 billion) according to forecasts by Alstom and UNIFE. For the period 2019-2021, industry experts expect a growth rate of around 11.0% compared to the period 2016-2018, reaching EUR 122.0 billion which is a significant increase in volume. One reason for this is increasing urbanisation.

This positive trend was also confirmed by a study conducted by SCI Verkehr which stated that the market volume of the global rail industry is expected to increase by 2.8% (CAGR) annually between 2018 and 2022. The study gave the regions of Western/Eastern Europe, North America, Africa/Middle East and Australia/Pacific a particularly high growth potential which is significantly above the average growth forecast.

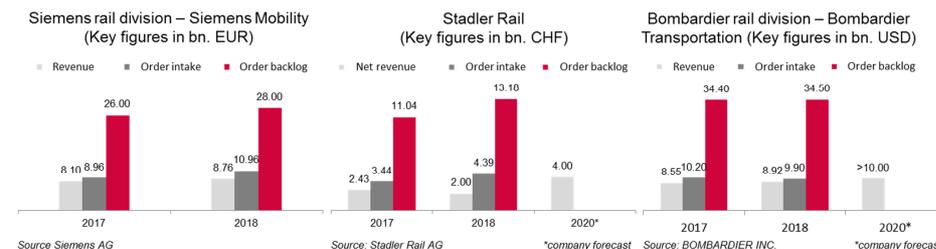
### Current market volume of the global rail industry and market development up to 2022 (CAGR in %)



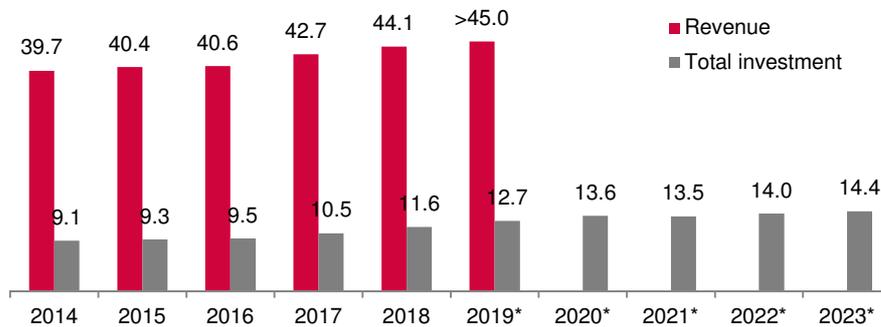
Sources: SCI Verkehr; GBC AG      MV = Average market volume 2016-2018

### Economic development of significant SBF customers

SBF AG’s top three customers include Europe’s leading railway manufacturers Siemens (Siemens Mobility), Bombardier (Bombardier Transportation) and Stadler (Stadler Rail). These industrial companies traditionally account for over 50.0% of the SBF Group’s revenues. As the largest passenger carrier in German-speaking countries, Deutsche Bahn is also a major SBF customer for modernisation projects (“retrofit/refurbishment projects”). It should be noted here that, as well as the trend towards new rolling stock acquisitions, there has also been increased demand in the rail industry for retrofit projects, as they allow faster use to be made of urgently needed capacity compared to new acquisitions. The economic development of these companies is discussed below including their development’s potential impact on SBF.



In the last few years, the Siemens and Bombardier train divisions and train manufacturer Stadler have recorded long-term growth. Siemens Mobility and Bombardier Transportation increased their revenues significantly in the 2018 financial year compared to the previous year. Only Stadler Rail suffered a decline in revenues in the last financial year of 2018 compared to the previous year, but this was primarily for accounting reasons. The Swiss train manufacturer expects revenues to double by 2020 due to its extensive order backlog at the end of the 2018 financial year. Siemens Mobility and Bombardier Transportation also recorded a high volume of orders in the last financial year, and their order books are “completely full”.

**Development of consolidated revenues and investments by Deutsche Bahn (in € billions)**


Sources: Deutsche Bahn AG; Handelsblatt

\*Forecasts

Deutsche Bahn AG also enjoyed long-term growth in the past. At the same time as the number of passengers and business volume have increased, the railway company's overall capital expenditures also increased noticeably. Deutsche Bahn expects record revenue of more than EUR 45.0 billion for the current financial year 2019.

In the summer of this year, Deutsche Bahn's Management Board presented a new rail strategy (its "DB umbrella strategy"). This growth-oriented strategy is also intended to address the German Federal Government's desire to shift transport onto the railways. According to media reports, the group's new DB umbrella strategy aims to double the number of passengers on its long-distance trains to more than 260.0 million in the coming years. To achieve this target, there is a need for huge investments over the next few years, in around 100,000 new employees as well as the expansion of the long-distance fleet to up to 600 trains. In addition, a 30.0% increase in capacity in the rail infrastructure is expected (tagesschau.de, June 2019). At the end of the 2018 financial year, Deutsche Bahn reported an ICE fleet of around 290 trains, used primarily for long-distance transport. In view of the target growth plans, Deutsche Bahn alone expects to require 200 additional ICE trains by 2024 (tagesschau.de, June 2019).

To support Deutsche Bahn's growth plans, media reports indicate that the German Federal Government has reached an agreement with the DB Group on a comprehensive programme of modernisation for the railways, launching a record investment initiative into the German rail network. This initiative provides for investments of EUR 86.0 billion into the rail network in the next ten years, with the German Federal Government providing the majority of the investment sum (manager-magazin.de, June 2019).

Against the background of the expected further increase in investment in the global rail sector and the already high order backlog of major SBF large customers and a manageable number of competitors, should the future order situation and thus also the economic and financial situation of SBF, in our opinion, inevitably develop positively.

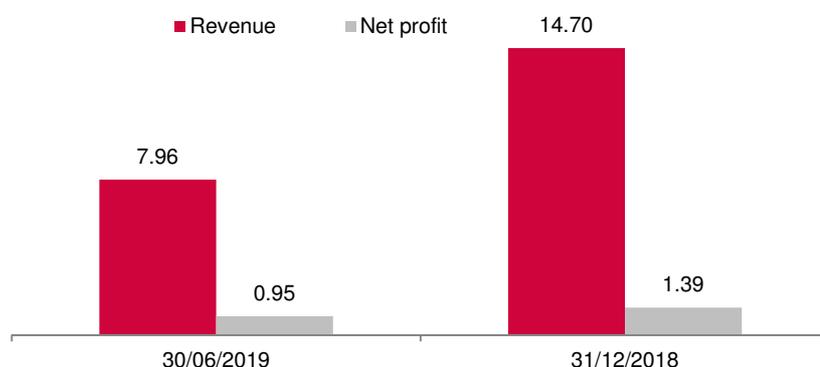
## SBF GROUP IN PROFITABLE GROWTH MODE – INCREASE IN PROFITABLE FORECASTS – NEW STOCK PRICE TARGET: 5.10 € - BUY-RATING CONFIRMED

P&L (in € million)	FY 2018	FY 2019e (New)	FY 2019e (Old)	FY 2020e (New)	FY 2020e (Old)	FY 2021e (New)	FY 2021e (Old)
Revenue	14.70	17.70	17.70	19.70	19.50	24.10	22.40
EBITDA	2.21	2.81	2.42	3.13	2.78	3.94	3.55
EBIT	1.58	2.01	1.67	2.18	1.93	2.94	2.55
Consolidated result	1.39	1.70	1.43	1.81	1.60	2.45	2.13

Sources: SBF AG; GBC AG

SBF AG published its half-year figures for the 2019 financial year on 08/08/2019. According to the published figures, SBF generated EUR 7.96 million in revenue in the first six months of the current financial year, approximately 55.0% of the revenue generated in the previous year of 2018 (EUR 14.70 million). The SBF Group is therefore back on a growth path again. As part of its growth strategy, the company also decided to make significant investments of up to EUR 4.5 million in its machinery in the first half of the current financial year. As at the balance sheet date, around EUR 2.0 million of this amount had already been released.

### Development of revenues and net result (in € million)



Source: SBF AG

SBF also reported highly positive performance in terms of net earnings. In the first six months of the current financial year, the company generated EUR 0.95 million in after-tax profit, around 68.0% of the consolidated annual result (EUR 1.39 million) of the previous financial year of 2018. This disproportionately high earnings performance was possible thanks to scaling effects.

In addition, as at the balance sheet date of 30/06/2019, SBF reported an order backlog of EUR 32.0 million and pending offers (relating to tenders) of over EUR 100.0 million. In view of the current positive business development of the SBF Group and current order levels, SBF's management confirmed the corporate guidance it had issued for the current financial year of 2019. The company also anticipates further revenue of approximately EUR 17.0 million and EBIT of approximately EUR 2.0 million from its subsidiary SBF Spezialleuchten GmbH, which is also the Group's core holding.

As a result of current business performance exceeding our expectations, as well as the highly positive order situation and the renewed improvements in the market environment, we have adjusted our previous forecast for the SBF Group's profit expectations upwards.

For the current 2019 financial year, we continue to expect revenue of EUR 17.70 million and new increased Group earnings of EUR 1.70 million (previously: EUR 1.43 million). For the subsequent financial years of 2020 and 2021, we anticipate revenue of EUR 19.70 million (previously: EUR 19.50 million) and EUR 24.10 million (previously: EUR 22.40 million). On a net basis, it should be possible to generate Group earnings of EUR 1.81 million (previously: EUR 1.60 million) and EUR 2.45 million (previously: EUR 2.13 million).

**On the basis of our increased estimates for the current financial year and subsequent years, we have valued SBF AG using our DCF model and arrived at a fair value of EUR 5.10 per share (previously: EUR 3.85 per share), thereby raising the stock price target. In view of the current share price level, we are expecting high price potential and have again awarded the shares a “Buy” rating. Overall, we consider the SBF Group, with its strong market position in niche segments of the burgeoning rail industry, to be very well placed to benefit from the expected global increase in investments in the rail sector. In this context, the SBF Group’s positive customer image as a preferred Tier 1 supplier to leading rail vehicle manufacturers should be a particular advantage.**

## VALUATION

### Model assumptions

We rated SBF AG using a three-stage DCF model. We started with the detailed estimates for the years 2019 to 2021 in phase 1 and for the years 2022 to 2026 in phase 2. We have looked at the tax rate based on the existing loss carry forwards at 8.3% to 13.7% (minimum taxation) in phases 1 and 2. Additionally, at the end of the forecast horizon, a residual value is determined in the third phase using a perpetual annuity along with a long-term tax rate of 30.0%. As the final value, we assume a growth rate of 2.0%.

### Determining capital costs

The weighted average cost of capital (WACC) of SBF AG is calculated from the equity costs and the borrowing costs. The fair market premium, the company-specific beta and the risk-free interest rate must be determined in order to calculate equity costs.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations of the German Special Committee for Business Valuation and Business Management (Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft, FAUB) of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V.). This is based on the zero-bond interest rate published by the German Bundesbank which is calculated using the Svensson Method. In order to compensate for short-term market fluctuations, average returns for the previous three months are used and earnings are rounded up to the nearest 0.25 basis points. **The value currently used for the risk-free interest rate is 1.00%.**

We set the historical market premium of 5.50% as a reasonable expectation of the market premium. This is supported by historical analyses of stock market returns. The market premium reflects how many more per cent return can be expected from stock markets compared to low-risk government bonds.

According to GBC estimation methods, a beta of 1.29 currently applies.

A cost of equity of 8.07% (beta multiplied by the risk premium plus risk-free interest rate) was calculated using the assumptions made. Since we are assuming a sustainable weighting of the cost of equity of 100.0%, the resulting weighted average cost of capital (WACC) amounts to 8.07%.

### Valuation result

Discounting of future cash flows is based on the entity approach. We have calculated the corresponding weighted average cost of capital (WACC) to be 8.07%. The resulting fair value per share at the end of the 2020 financial year corresponds to the stock price target of EUR 5.10 (previously: EUR 3.85). Our stock price target increase is primarily based on the boost to our forecast as a result of the half-year figures for 2019 exceeding expectations, as well as current order levels and the renewed improvement in the market environment. We have also calculated the updated stock target price to the end of the 2020 financial year (previously 2019), which typically leads to a technical stock price target increase (roll-over effect).

## DCF-Model

### SBF AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase		final - phase	
Revenue growth	5.0%	Eternal growth rate	2.0%
EBITDA margin	16.5%	Eternal EBITA margin	13.5%
Depreciation to fixed assets	8.5%	Effective tax rate in final phase	30.0%
Working Capital to revenue	24.0%		

### Three phase DCF-model:

phase	estimate			consistency					final value
	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	
in mEUR									
Revenue	17.70	19.70	24.10	25.31	26.57	27.90	29.29	30.76	
Revenue change	20.4%	11.3%	22.3%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	1.80	1.81	2.32	2.41	2.50	2.61	2.71	2.83	
EBITDA	2.81	3.13	3.94	4.18	4.38	4.60	4.83	5.08	
EBITDA margin	15.9%	15.9%	16.4%	16.5%	16.5%	16.5%	16.5%	16.5%	
EBITA	2.01	2.18	2.94	3.29	3.49	3.70	3.92	4.16	
EBITA margin	11.3%	11.1%	12.2%	13.0%	13.1%	13.3%	13.4%	13.5%	13.5%
Taxes on EBITA	-0.17	-0.19	-0.35	-0.41	-0.45	-0.49	-0.53	-0.57	
Taxes to EBITA	8.3%	8.9%	11.9%	12.5%	12.8%	13.1%	13.4%	13.7%	30.0%
EBI (NOPLAT)	1.84	1.98	2.59	2.88	3.04	3.22	3.40	3.59	
Return on capital	13.4%	13.8%	16.4%	17.8%	18.4%	18.9%	19.5%	20.1%	16.3%
Working Capital (WC)	4.51	4.93	5.78	6.07	6.38	6.70	7.03	7.38	
WC to revenue	25.5%	25.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	
Investment in WC	1.10	-0.41	-0.86	-0.29	-0.30	-0.32	-0.33	-0.35	
Operating fixed assets (OAV)	9.83	10.88	10.38	10.50	10.61	10.71	10.80	10.88	
Depreciation on OAV	-0.80	-0.95	-1.00	-0.88	-0.89	-0.90	-0.91	-0.92	
Depreciation to OAV	8.1%	8.7%	9.6%	8.5%	8.5%	8.5%	8.5%	8.5%	
Investment in OAV	-2.50	-2.00	-0.50	-1.00	-1.00	-1.00	-1.00	-1.00	
Capital employment	14.35	15.81	16.17	16.57	16.98	17.40	17.83	18.26	
EBITDA	2.81	3.13	3.94	4.18	4.38	4.60	4.83	5.08	
Taxes on EBITA	-0.17	-0.19	-0.35	-0.41	-0.45	-0.49	-0.53	-0.57	
Total investment	-1.40	-2.41	-1.36	-1.29	-1.30	-1.32	-1.33	-1.35	
Investment in OAV	-2.50	-2.00	-0.50	-1.00	-1.00	-1.00	-1.00	-1.00	
Investment in WC	1.10	-0.41	-0.86	-0.29	-0.30	-0.32	-0.33	-0.35	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	1.24	0.52	2.23	2.47	2.63	2.80	2.97	3.16	42.89

Value operating business (due date)	36.79	39.24
Net present value explicit free cashflows	11.88	12.32
Net present value of terminal value	24.91	26.92
Net debt	-0.42	-0.76
Value of equity	37.21	39.99
Minority interests	0.00	0.00
Value of share capital	37.21	39.99
Outstanding shares in m	7.84	7.84
Fair value per share in €	4.75	5.10

### Cost of capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.29
Cost of equity	8.1%
Target weight	100.0%
Cost of debt	6.9%
Target weight	0.0%
Taxshield	28.7%
WACC	8.1%

Return on Capital	WACC				
	7.5%	7.8%	8.1%	8.4%	8.7%
15.8%	5.47	5.21	4.98	4.77	4.58
16.0%	5.54	5.28	5.04	4.83	4.64
16.3%	5.61	5.34	5.10	4.89	4.69
16.5%	5.68	5.40	5.16	4.94	4.74
16.8%	5.75	5.47	5.22	5.00	4.80

## ANNEX

### I.

#### **Research under MiFID II**

1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

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**The recommendations/ classifications/ ratings are linked to the following expectations:**

BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $\geq + 10\%$ .
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$ .
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is $\leq - 10\%$ .

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**In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (5a, 6a, 7, 11)**
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