

July 24th, 2018

Europe | Germany | IT & Software

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

Target price: EUR 20.90

Industry: IT Services & Software
Country: Germany
ISIN: DE000A0Z1JH9
Reuters: PSAGn.DE
Bloomberg: PSAN GR
Website: www.psi.de

Last price: 17.45
High **Low**
Price 52 W.: 20.02 11.52
Market cap. (EURm) 273.91
Number of shares (m) 15.70
Avg. trading vol (shares) 1,000

Shareholders

innogy SE 17.8%
Harvinder Singh 8.1%
Invest. f. Ig. Inv. TGV 20.7%
Employee consortium 9.4%
Baden-Württ. Ärzte 5.2%
Free float 38.9%

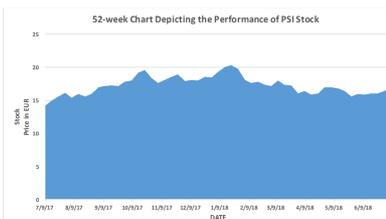
Performance

4 weeks 3.00%
26 weeks 23.70%
52 weeks 53.40%
3 years 48.40%

Dividend

	in EUR	in %
2012	0.30	1.95%
2013	0.00	0.00%
2014	0.00	0.00%
2015	0.21	1.63%
2016	0.22	1.85%
2017	*0.25	1.34%

Chart : 1 year



Analyst

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KALL

PSI AG

Sustainable profitability improvement expected in Q2/2018 and 2019.

- For Q2/2018 results, which will be released on the coming 26th of July, we foresee sales of €50.03 million, EBITDA of €4.28 million, EBIT of €3.2 million and Net Income of €1.56 million. Furthermore, our estimates for the 2018 consolidated financial figures are: Sales (€204.4 million), EBITDA (€19.25 million), EBIT (€1.00 million) and Net Income (€10.38 million). Both quarterly, and annual projections present top and bottom line growth when compared to last year's financial figures.
- Some optimistic news has come out of PSI over the first quarter. In the public transportation business, PSI won an important contract from the operator of the Berlin underground, BVG. The market launch of "PSI-penta ERP" and "POM" (Production Order Management), have been transferred to the PSI Java Platform. In addition, the MES (Manufacturing Execution System) that has been recently implemented based on group standard modules still requires resources. These are all positive advances that will rally future growth for PSI.
- Over the approaching years, we anticipate continuously raising sales and profit margins as a result of positive changes in energy and automobile industry (electrification of public transport).
- We hold our positive stance toward the Company's shares, continuing to view this exposure as a top pick among the European-listed energy control systems providers for the current year. The reasons for this continue to be five-fold : (i) growing business opportunities which the energy, electric mobility and heating transitions are creating for PSI, (ii) steady expansion in investment at its Production Management business unit and a structural boost in demand at Energy Management business unit, (iii) Southeast Asian utility entities privatizations could create prospects for growing Infrastructure Management business, (iv) booming in smart grids market is anticipated due to increasing demand for electricity from new markets (electric cars, cryptocurrency), (v) possible synergies from its three segments (divisions) of business due to the electrification of public transport, therefore we expect PSI's business segments to "grow together".
- We stick almost to our last estimates from January 2018. Our target price is EUR 20.90, with an upside of ca. 25% at the current share price.

Key Figures

in EURm	2014	2015	2016	2017E	2018E	2019E	2020E
Net sales	175.39	183.68	176.85	186.10	204.94	210.62	216.73
EBI TDA	11.05	15.40	16.13	17.72	20.78	22.33	24.06
EBIT	7.17	11.11	11.84	13.37	16.00	17.90	19.51
Net income	4.10	7.46	8.55	9.50	10.39	11.29	14.55
EPS	0.26	0.48	0.54	0.61	0.66	0.72	0.93
BVPS	4.35	4.66	4.80	4.98	5.44	5.94	6.59
RoE	5.98%	10.55%	11.52%	12.38%	12.71%	12.63%	14.79%
EBIT margin	4.09 %	6.05 %	6.69 %	7.18 %	7.81 %	8.50 %	9.00 %
P/E	45.57	27.15	22.40	28.84	26.37	24.27	18.83
P/BVPS	2.74x	2.77x	2.54x	3.51x	3.21x	2.94x	2.65x
EV/EBITDA	31.52x	14.50x	13.30x	19.66x	16.76x	15.60x	14.48x

Source: Dr. Kalliwoda Research GmbH © 2018 & PSI AG

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1 Company profile

PSI is a group of companies with around 1,700 employees, which develops and distributes software product solutions for process control. These solutions automate complex core processes of PSI's customers in the segments energy, production and infrastructure management. PSI, which was founded in 1969, operates at numerous German and international sites in Europe, Asia, North and Latin America. It develops software products and complete systems for the operation of large energy networks and complex production and logistics processes with the objective to design customers' value creation processes more efficiently. In the segment energy management systems, PSI provides solutions for operations' management, network utilization, pipeline management, leakage detection and localization, portfolio management, energy trading and distribution. The segment production management creates optimization and control-technical solutions for production, logistics, metals and mining. In the infrastructure segment, the company supplies solutions for traffic systems.

PSI History

2014	Takeover of the strongest competitor in the metals industry, Broner Metals.
2013	PSI subsidiary founded in Brazil.
2012	Strengthening of the energy business with the acquisition of the Time-steps AG.
2011	PSI subsidiary founded in North America.
2010	PSI develops first integrated mining control system.
2009	PSI celebrates its 40th anniversary. Since 1969, PSI develops and integrates software solutions and complete systems for utilities, manufacturers, logistics and infrastructure providers.
2008	Formation of a subsidiary and a joint venture in Russia. International expansion in the metals, production and energy industry.
2007	Process control system for efficient raw materials production; market entry into the Russian steel and electricity industry.
2006	Opening of representative office in Russia; new sales partnerships in Eastern Europe and Asia.
2005	First major orders from Chinese steel industry and expansion of the logistics division to Russia.
2004	PSI subsidiaries founded in Poland and China.
2003	PSI develops the first integrated control system for controlling complex manufacturing processes.
2002	Generation shift in top management; Restructure of PSI into an integrated control system enterprise.
2000	PSI acquires the gas management system division from debis Systems and starts internationalization of its energy business.
1998	Initial public offering (IPO) on August 31.
1996	Development of the first object-oriented ERP system PSIpena.
1994	The company is converted into a joint-stock corporation.
1986	Market launch of PIUSS-O, the company's first standard software product for production planning (PPS).
1976	The company wins its first large order from the energy supply sector.
1974	PSI is the first German company to introduce an employee stock option plan.
1969	PSI Gesellschaft für Prozesssteuerungs- und Informationssysteme GmbH is founded in Berlin. First order from the steel industry.

Source: The Company

2 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • PSI's focus on core competencies in process control technology with decades of experience, along with its innovation strength and a highly specialized workforce are important competitive advantages and create entry barriers. PSI's products are of high functionality, complexity and carry many unique features. PSI enjoys a first mover advantage and is the quality and volume leader in many of its key growth areas, namely energy smart grid infrastructure, gas & oil, metals, mining and infrastructure. • Pilot project approach: When entering new product and geographic markets the company works together with sector leaders on pilot projects. Performing the research and development decentralized at the location of demand translates into a close customer relationship, a gain of sector knowledge, lower market entry risk, as well as the mitigation of financial risk. 	<ul style="list-style-type: none"> • Buyers force: PSI main customers operate in capital intensive sectors which naturally consist of a few large players. PSI itself is a medium sized player resulting in an unfavorable negotiating position. However, a resulting pricing power of its customer is lessened by the facts that software expenditures should resemble a smaller portion of PSI customers overall budget, that PSI produces high-quality products that make a customer's operation more efficient translating in fast amortization, and PSI's complex products are mainly located in important parts of the value chain where quality is more important than price. • Business cycle risk: PSI's customers are mainly from very cyclical sectors. The exposure to business cycle risk is somewhat diminished by the fact that the company delivers products mainly related to efficiency and cost cutting gains.
Opportunities	Threats
<ul style="list-style-type: none"> • Energy segment: The „Energiewende“ gives PSI the potential to achieve scale effects by shifting its existing product portfolio from high voltage systems to lower network levels. Additionally, the demand for new software solutions such as volatility and resource software components, gas network control systems and software solutions for energy storage systems will increase. • Production segment: New sensor and network technology increases data availability in production processes. This opens up new markets for PSI software solutions, which make production processes more efficient. Recent market entries by PSI are PSI mining and solutions for the turbine manufacturing and aircraft maintenance sectors. In the automobile sector, new product developments should lead to more orders. • Takeover candidate for some downstream industrial conglomerates. Unique market position and products of PSI might raise interest in the one or the other downstream customer. • Export growth: PSI focuses on Eastern markets as it sees the greatest growth potential there while currently facing low competition locally. A positive effect besides larger revenues and scale effects is the diversification away from a sole dependency on the German market. Expansion takes place by winning key reference customers. 	<ul style="list-style-type: none"> • Increasing rivalry among competitors in the Energy Infrastructure market: Large hardware suppliers recently acquired PSI's software competitors. On the one hand, this permits them to differentiate themselves from fellow hardware suppliers. If on the other hand the intention was to gain control of the energy software market then rivalry will intensify e.g. by price competition or hardware suppliers locking their systems to alien software providers. Management note that PSI enjoys greater economic independence in acquiring software related contracts relative to its software competitors, which are now entangled in powerful hardware divisions. • A lack of qualified staff evoked from a current structural shortage of supply in the software labor sector would impede the seizure of the company's opportunities. PSI mitigates the risk by investing heavily in the training of its employees and collaborating with universities. Part of the routine software development has been moved to Eastern Europe and the technology platform enables an efficient knowledge transfer and standardization. These moves set free valuable engineering capacity.

Source: Company, Dr. Kalliwoda Research GmbH © Copyright 2018

3 Valuation

To value PSI, we used a traditional DCF model, which derives a 12-months target price for the stock of **€20.87**. Compared to current market level, this corresponds to an upside of around 25%.

WACC assumptions

Growth assumptions

Long-term growth rate	1%
Assimilation phase (from 2017)	5 years
Sales growth at the beginning	5%

Equity

Risk-free rate	2%
Market risk premium	6%
Beta	1.20

Equity costs 8.1%

Debt costs

Debt costs (before tax)	3%
Tax rate on interest	30%

Debt costs (after tax) 2.1%

Equity	65%
Debt	35%
Gearing	53.8%
WACC	6.00%

Discounted Cash Flow Model (Basis 09/2017), calculated on 20th of March 2018

in EURm	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	186.10	204.94	210.62	216.73	222.15	227.57
(y-o-y change)	5.2%	10.1%	2.8%	2.9%	2.5%	2.4%
EBIT	13.37	16.00	17.90	19.51	20.44	21.16
(EBIT margin)	7.2%	7.8%	8.5%	9.0%	9.2%	9.3%
NOPLAT	10.56	12.64	14.14	15.41	16.15	16.72
+ Depreciation	4.35	4.78	4.42	4.55	4.67	4.78
= Net operating cash flow	14.91	17.42	18.57	19.96	20.81	21.50
- Total investments (Capex and WC)	-9.88	-11.96	-3.29	-5.99	-4.78	-5.50
Capital expenditure	-5.18	-5.97	-5.13	-5.27	-5.36	-5.48
Working capital	-4.70	-5.99	1.84	-0.72	0.58	-0.02
= Free cash flow (FCF)	5.03	5.46	15.27	13.97	16.03	16.00
PV of FCF's	5.18	5.31	14.02	12.10	13.09	12.33

PV of FCFs in explicit period	62.03
PV of FCFs in terminal period	222.35
Implied Enterprise value (EV)	284.39
+ Net cash / - net debt	24.73
+ Investments / - Minorities	0.00
Shareholder value	309.12
Number of shares outstanding (m)	15.70

WACC	6.0%
Equity costs	8.1%
Debt costs before tax	3.0%
Tax rate	30.0%
Debt costs after tax	2.1%
Equity ratio	65.0%
Debt ratio	35.0%
Fair value per share in € (today)	19.69
Fair value per share in € (in 12 months)	20.87

Source: Dr. Kalliwoda Research GmbH © 2018

Sensitivity analysis		Terminal EBIT margin						
		6.3%	7.3%	8.3%	9.3%	10.3%	11.3%	12.3%
WACC	3.0%	34.57	39.33	44.09	48.85	53.61	58.37	63.13
	4.0%	24.19	27.23	30.27	33.31	36.35	39.39	42.43
	5.0%	18.99	21.17	23.36	25.54	27.72	29.91	32.09
	6.0%	15.85	17.53	19.20	20.87	22.55	24.22	25.90
	7.0%	13.75	15.09	16.43	17.76	19.10	20.44	21.78
	8.0%	12.24	13.34	14.44	15.54	16.64	17.74	18.84

4 3M/2018 results & Q2/2018 Estimates

3M/2018

Q1/2018 P&L Results:

-The financial figures located inside the parenthesis reflect PSI's Q1/2017 results-

The results for the quarter ended on the 31st of March 2018, were impressive. Throughout this quarter, PSI increased new orders by 19% totaling 93 million euros when compared to the (78 million orders attained in Q1/2017). In addition, the order book volume on 31 March 2018 was, with 174 million euros, about 7 % above the value recorded the previous year (31 March 2017: 163 million euros). Group sales improved primarily thanks to the growth in the field of electrical grids by around 5 % to 45.7 million euros in comparison to the 43.8 million euros accomplished during the business period ended on the 31st March 2017. EBIT increased by 7 % to 2.8 million euros (31 March 2017: 2.6 million euros), furthermore, the Group's "Net Result" improved by 8 % to 1.9 million euros (31 March 2017: 1.8 million euros). (Source: PSI Report on the 1st Quarter of 2018).

As a side note, PSI has changed its reporting structure from three segments to two segments during Q1/18. The past Infrastructure Management Segment's Southeast Asian and Public Transportation businesses are now part of Energy Management. Furthermore, PSI's Polish business has been consolidated into the Production Management segment. Both enduring segments (Energy Management & Production Management) are approximately equal in size. However, the former Infrastructure management segment, now consolidated into the remaining two, accounted for 13% of last year's sales.

Q1/2018 Balance Sheet Results:

PSI's balance sheet is to some degree unchanged from its Q1/2017 results. The Group's cash only balance has slightly decreased throughout the past 5 quarters. Moreover, it has recuperated from (34.6 million euros in Q2/17) to (39.2 million in Q1/18). However, cash position recorded at the end of Q1/2017 totaled 42 million. Secondly, total accounts receivable has decreased from (69.4 million euro in Q1/2017) to (62.6 million in Q1/2018) thus, representing a -8.15% decline.

PSI's total current liabilities have decreased from 62.8 million in Q1/17 to 50.5 million in Q1/18. This decrease in the current liabilities section of the balance is a result of the 12 million drop in miscellaneous current liabilities. Overall, total liabilities have decreased 11 million during these past four quarters from (130.7 million in Q1/17 to 119.7 million in Q1/18). In addition, total shareholders' equity has increased from (76.5 million in Q1/17 to 82.2 million in Q1/18). Overall, we can appreciate PSI's positive progression from Q1/17 to Q1/18.

Segment Specific Q1/Results:Energy Management:

Energy Management, which, as of the first quarter of 2018 consisted of energy grids, energy trading, public transportation as well as the South-Asian business generated 22.4 million euros in revenues, which reflects an 11% growth when compared to the 20.2 million euros in revenues achieved in Q1/2017.

EBIT for the business also improved from 0.9 million euros (Q1/2017) to 1.1 million euros reached this past quarter. This growth can be attributed to the strong increase in new orders for Electrical Grids, in particular due to the rollout of the GLDPM module (Generation and Load Data Provision Methodology). This module facilitates, “the data exchange between the distribution grid operators and the transmission grid operators, also provides the basis for distribution grid autopilots” (Source: PSI Report on the 1st Quarter of 2018).

The company’s gas and oil business operation saw a decrease in the backlog of demand coming from oil producing nations due to the upsurge in oil prices. In Russia, however, the awarding of some contracts for gas networks and metals production has been delayed as a result of sanctions. On a more positive note, in Southeast Asia, PSI has had a significant recovery in sales and net income. Regarding its public transportation business, PSI won an important contract from the operator of the Berlin underground, BVG. (Source: PSI Report on the 1st Quarter of 2018)

Production Management:

Sales in Production Management (raw materials, industry, logistics), totaled, 23.3 million euros, just short of the 23.5 million euros achieved during Q1/2017. The market launch of “PSIpenta ERP” and “POM” (Production Order Management), have been transferred to the PSI Java Platform. In addition, the MES (Manufacturing Execution System) that has been recently implemented based on group standard modules still requires resources. The company foresees that business should be heading for growth with regular customers as well as new customers starting in the summer. The EBIT for the segment was improved by 4 % to 2.1 million euros (31 March 2017: 2.0 million euros) (Source: PSI Report on the 1st Quarter of 2018).

6M/2018 Estimates

We believe that the positive results exhibited in Q1/2018 will also be seen in Q2/2018. More specifically, we have estimated that total sales for Q2/2018E will reach €50.03 million. EBITDA will be of €4.28 million which equates to an EBITDA margin of 8.5%. Furthermore, EBIT will reach €3.62 million which results in a 7.2% EBIT margin. Lastly, we estimate that the company's net income will reach €1.56 million resulting in a 3.1% net profit margin. Even though our Q2/2018 estimates regarding the company's bottom line are not as impressive as the ones displayed in Q1/2018, we believe that the accounting period ending in the 12M/2018, will be one of bottom and top line growth.

With the increase in business volume in both the Energy and Production Management divisions we estimate that Q2/2018, as well as the overall consolidated results for 2018 will be better than the ones achieved in 2017. In the past four accounting periods (depicted in our Profit & Loss section) Net Sales have never reached the €200 million echelon. If the "electrical grid" business keeps growing at a similar rate that we have seen in the past few quarters, and if the demand for oil & gas related software recoups, PSI will be poised for a very profitable year.

5 Financial Figures

Comparison of 3M/17 & 3M/18 Quarterly Figures:

3M/17 & 3M/18			
in EURm	3M/17	3M/18	change y-o-y
Net sales	43.78	45.75	4.5%
EBITDA	3.64	3.85	5.7%
EBITDA margin	8.3%	8.4%	1.2%
EBIT	2.61	2.79	6.9%
EBIT margin	6.0%	6.1%	2.3%
Net income	1.775	1.92	8.2%
Net margin	4.1%	4.2%	3.6%

Comparison of 6M/17 & our forecasted 6M/2018E:

6M/17 & 6M/2018E Comparison			
in EURm	6M/17	6M/18E	change y-o-y
Net sales	43.78	50.03	14.3%
EBITDA	4.13	4.28	3.6%
EBITDA margin	9.4%	8.6%	-9.3%
EBIT	3.08	3.62	17.6%
EBIT margin	7.0%	7.2%	3.0%
Net income	1.268	1.56	23.0%
Net margin	2.9%	3.1%	7.7%

Whole year projections for 2018 & 2019:

2018E & 2019E Projections			
in EURm	2018E	2019E	change y-o-y
Net sales	204.94	210.62	2.8%
EBITDA	19.25	20.59	7.0%
EBITDA margin 	9.4%	9.8%	4.1%
EBIT	16.00	17.90	11.9%
EBIT margin 	7.8%	8.5%	8.9%
Net income	10.38	11.29	8.7%
Net margin	5.1%	5.4%	5.8%

2018 Quarterly Estimates:

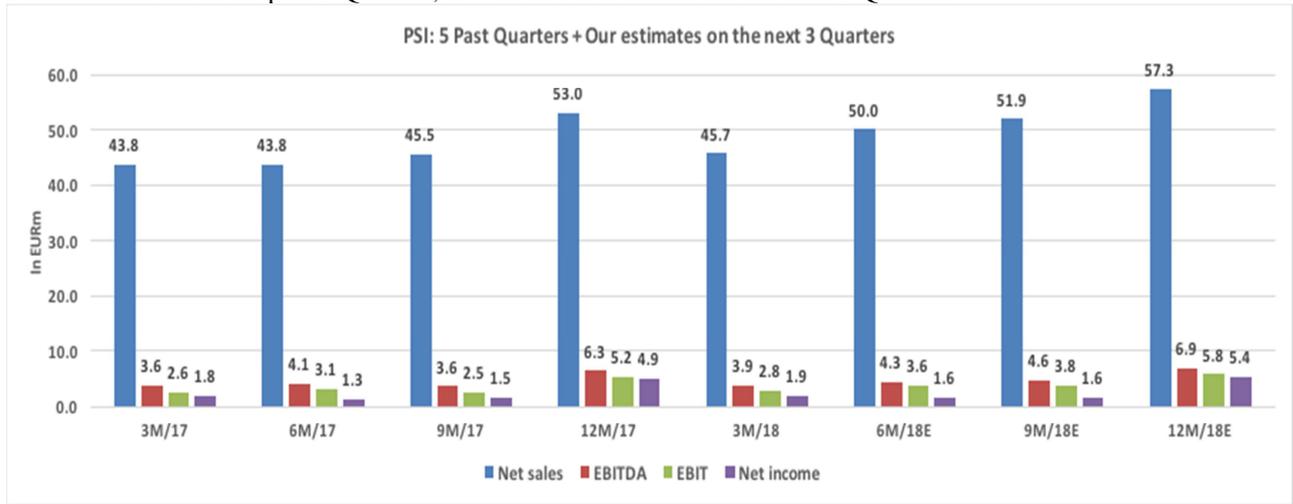
2018 Estimates				
in EURm	3M/18	6M/18E	9M/18E	12M/18E
Net sales	45.75	50.03	51.88	57.29
EBITDA	3.85	4.28	4.59	6.53
EBITDA margin	8.4%	8.5%	8.8%	11.4%
EBIT	2.79	3.62	3.83	5.76
EBIT margin	6.1%	7.2%	7.4%	10.1%
Net income	1.92	1.56	1.63	5.28
Net margin	4.2%	3.1%	3.1%	9.2%

Financial Results & Margins of the past 5-Quarters, as well as our estimates for the next 3-Quarters:

5 Quarter Charts

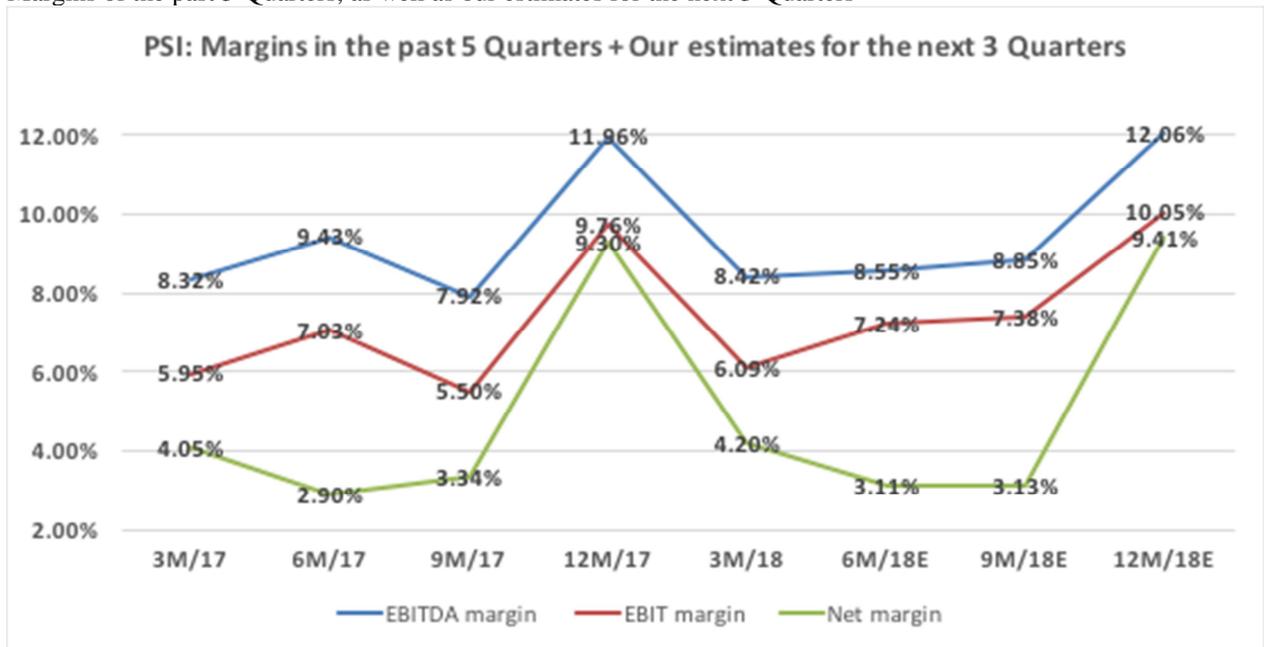
In EURm	3M/17	6M/17	9M/17	12M/17	3M/18	6M/18E	9M/18E	12M/18E
Net sales	43.78	43.78	45.48	53.04	45.75	50.03	51.88	57.29
EBITDA	3.64	4.13	3.60	6.34	3.85	4.28	4.59	6.91
EBIT	2.61	3.08	2.50	5.18	2.79	3.62	3.83	5.76
Net income	1.78	1.27	1.52	4.93	1.92	1.56	1.63	5.39
EBITDA margin	8.3%	9.4%	7.9%	12.0%	8.4%	8.5%	8.8%	12.1%
EBIT margin	6.0%	7.0%	5.5%	9.8%	6.1%	7.2%	7.4%	10.1%
Net margin	4.1%	2.9%	3.3%	9.3%	4.2%	3.1%	3.1%	9.4%

Financial Results of the past 5-Quarters, as well as our estimates for the next 3-Quarters



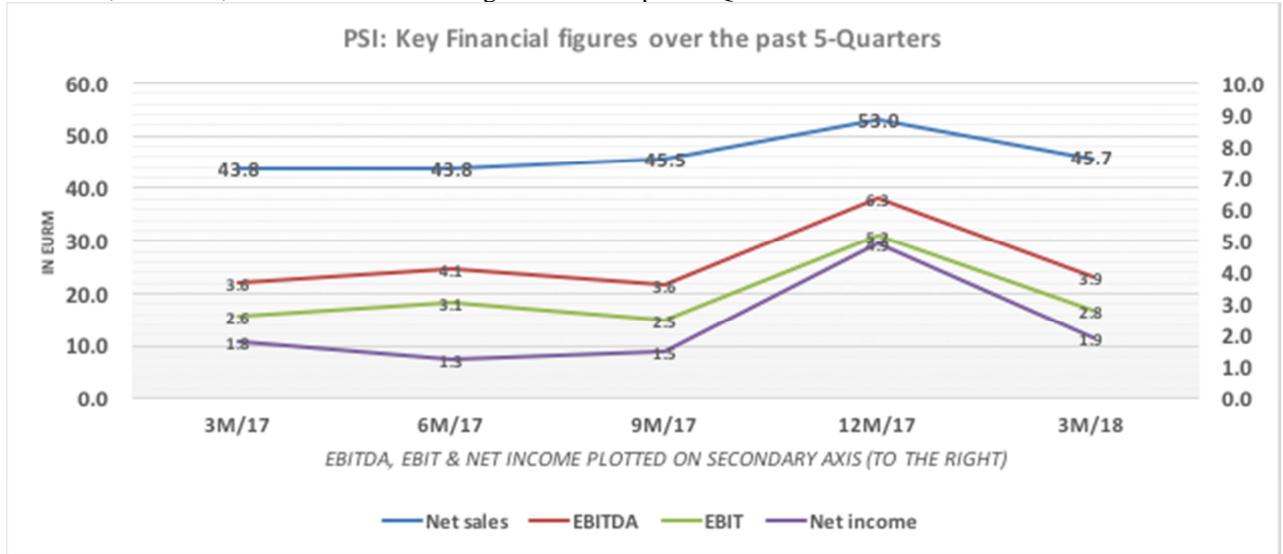
The chart above depicts top and bottom line financial results over the past 5-quarters as well as our estimates for the next three quarters. As can be seen, 3M/18 figures are less than those published in 12M/2017, moreover, the results are greater than those posted in 3M/17. We believe that this trend will carry forward to the next three quarters.

Margins of the past 5-Quarters, as well as our estimates for the next 3-Quarters

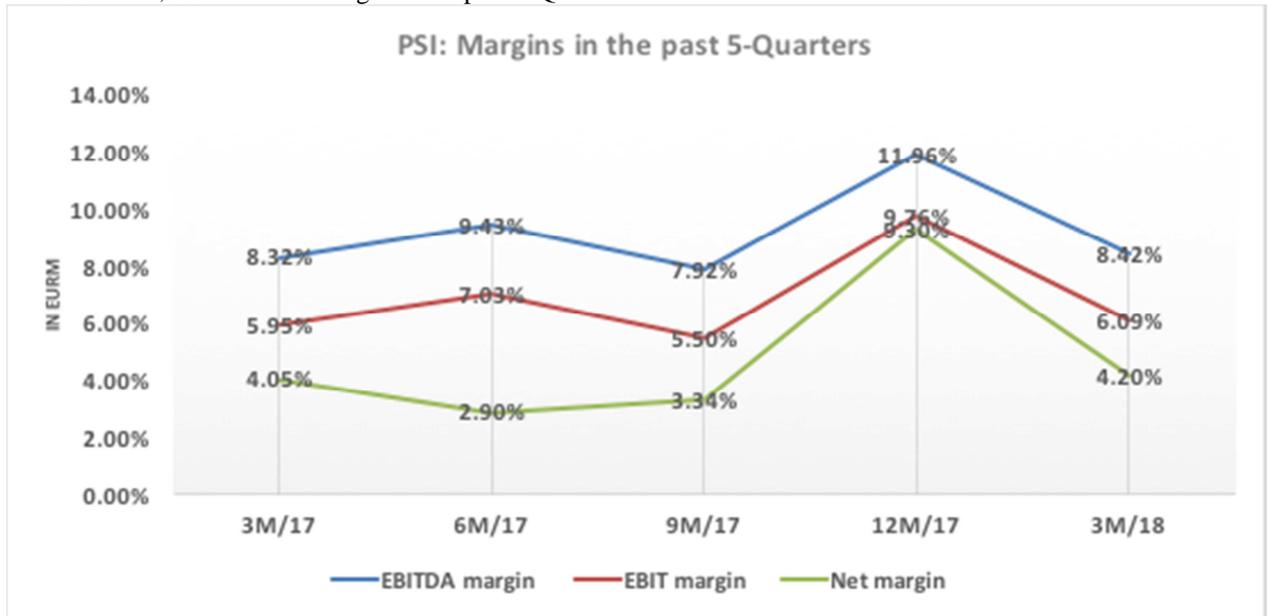


The chart above portrays PSI's P&L Margins over the past 5-quarters as well as our estimates for the next three quarters. For PSI the greatest quarterly results usually come on the fourth quarter. Furthermore, margins for out estimated 12M/18 will post better results than those recorded in 12M/17.

Net Sales, EBITDA, EBIT & Net Income Figures over the past 5-Quarters



PSI: EBITDA, EBIT & Net Margin in the past 5-Quarters



6 Outlook

For Q2/2018 results, which will be released on the coming 29th of July, we foresee sales of €50.03 million, EBITDA of €4.28 million, EBIT of €3.62 million and Net Income of €1.56 million. Furthermore, our estimates for the 2018 consolidated financial figures are: Sales (€204.4 million), EBITDA (€19.25 million), EBIT (€16.00 million) and Net Income (€10.38 million). Both quarterly, and annual projections present top and bottom line growth when compared to last year's financial figures.

Financially-speaking, 2017 was a strong year for PSI. Key contracts such as: supplying the Commercial Dispatching Software (CDS) to the Trans Adriatic Pipeline (TAP) AG will allow TAP to execute its commercial dispatching actions for the transport of natural gas. Moreover, PSI Logistics GmbH has started official cooperation with Hamburg Airport by supplying the new PSIairport/BRS 3.5 baggage reconciliation system for the controlling and documentation of the process sequences for baggage handling ground transportation at the airport.

Some optimistic news has come out of PSI over the first quarter. In the public transportation business, PSI won an important contract from the operator of the Berlin underground, BVG. The market launch of "PSI₅ ERP" and "POM" (Production Order Management), have been transferred to the PSI Java Platform. In addition, the MES (Manufacturing Execution System) that has been recently implemented based on group standard modules still requires resources. These are all positive advances that will rally future growth for PSI.

We expect the Company's profit momentum to remain positive for the coming quarters. Over the approaching years, we anticipate continuously raising profit margins due to positive changes in energy and automobile industry (electrification of public transport).

We hold our positive stance toward the Company's shares, continuing to view this exposure as a top pick among the European-listed energy control systems providers for the current year. The reasons for this continue to be five-fold : (i) growing business opportunities which the energy, electric mobility and heating transitions are creating for PSI, (ii) steady expansion in investment at its Production Management business unit and a structural boost in demand at Energy Management business unit, (iii) Southeast Asian utility entities privatizations could create prospects for growing Infrastructure Management business, (iv) booming in smart grids market is anticipated due to increasing demand for electricity from new markets (electric cars, cryptocurrency), (v) possible synergies from its three segments (divisions) of business due to the electrification of public transport, therefore we expect PSI's business segments to "grow together".

All in all, we do not change our forecasts. We predict a more pronounced revenue expansion in Q2 because of early-bird orders at the end of 2017 and beginning of 2018, for the arriving regulatory base year and additional rollout orders from framework agreements with key electricity and gas network operators (including clients from US market), steel companies and vehicle producers (electrical cars),

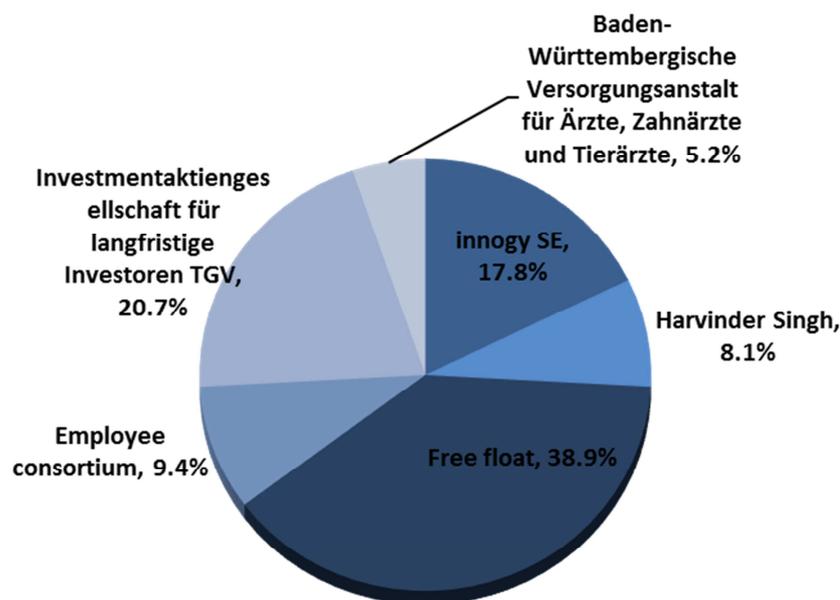
which should accelerate the development and expansion of teams to implement new technology for customers and partners.

Given a significant upside to the Company's current share market price, we stick to our Buy LT fundamental recommendation and an Overweight market-relative bias vs. the Company's shares. Strong 3M/2018 financials, positive momentum in German economic indicators, increasing share of energy from renewable sources in EU and opportunity in SE Asia and US – should constitute a positive trigger and help the Company to close the significant valuation gap.

In our opinion, the company's sales growth (higher backlog in 2017 by 10%), deliberate and well-knit long-term strategy related to entering foreign markets, high liquidity ratios, strong and stable operating cash-flow are sufficient support for good direction of stable development of the company.

Based on our valuation framework, we increase our target price, setting a **12-month target price at EUR 20.90**, with upside of 25% at the current price.

7 Shareholder Structure with details



Source: Company data, Dr. Kalliwoda Research GmbH © Copyright 2018

8 Profit and Loss Statements

Profit and loss statement - PSI AG									
in EURm	Fiscal year								
	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Sales split									
Energy management	64.15	67.23	69.22	68.84	74.66	76.65	78.76	81.17	82.89
Production management	79.61	86.39	84.17	92.99	97.23	101.01	104.44	107.50	109.22
Infrastructure management	31.64	30.06	23.47	24.27	33.05	32.96	33.53	33.48	35.46
Net sales	175.39	183.68	176.85	186.10	204.94	210.62	216.73	222.15	227.57
Change in inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Output	175.39	183.68	176.85	186.10	204.94	210.62	216.73	222.15	227.57
Cost of goods sold	-33.10	-31.60	-26.21	-27.23	-35.09	-36.00	-37.40	-38.11	-39.07
Gross profit	142.29	152.09	150.64	158.87	169.86	174.62	179.33	184.03	188.50
Other operating income	8.42	5.49	5.02	4.21	4.10	4.21	4.33	4.44	4.55
Personnel costs	-103.60	-106.82	-109.27	-112.34	-110.22	-118.91	-121.92	-124.53	-127.11
Depreciation & Amortization	-3.88	-4.29	-4.29	-4.35	-4.78	-4.42	-4.55	-4.67	-4.78
Other operating expenses	-36.05	-35.36	-30.26	-33.02	-42.96	-37.60	-37.68	-38.85	-40.00
EBIT	7.17	11.11	11.84	13.37	16.01	17.90	19.51	20.44	21.16
Net financial results	-1.50	-1.67	-0.60	-0.84	-0.94	-1.04	-1.09	-1.14	-1.04
EBT	5.66	9.44	11.23	12.52	15.07	16.86	18.41	19.30	20.12
Income taxes	-1.57	-1.98	-2.68	-3.03	-3.16	-3.54	-3.87	-4.05	-4.23
Minority interests	0.00	0.00	0.00	0.00	-1.51	-2.04	0.00	0.00	0.00
Net income / Loss	4.10	7.46	8.55	9.50	10.40	11.29	14.55	15.24	15.90
EPS	0.26	0.48	0.54	0.61	0.66	0.72	0.93	0.97	1.01
DPS	0.30	0.30	0.27	0.30	0.33	0.36	0.46	0.49	0.51
Change y-o-y									
Net sales	-0.54%	4.73%	-3.72%	5.23%	10.13%	2.77%	2.90%	2.50%	2.44%
Total Output	-0.54%	4.73%	-3.72%	5.23%	10.13%	2.77%	2.90%	2.50%	2.44%
Cost of goods sold	-4.84%	-4.55%	-17.05%	3.88%	28.86%	2.61%	3.89%	1.90%	2.51%
Gross profit	0.52%	6.89%	-0.95%	5.46%	6.92%	2.80%	2.70%	2.62%	2.42%
Other operating income	44.01%	-34.77%	-8.62%	-16.15%	-2.57%	2.77%	2.90%	2.50%	2.44%
Personnel costs	-0.61%	3.10%	2.29%	2.81%	-1.89%	7.89%	2.54%	2.14%	2.07%
Depreciation & Amortization	1.62%	10.41%	0.19%	1.33%	9.91%	-7.51%	2.90%	2.50%	2.44%
Other operating expenses	2.53%	-1.90%	-14.42%	9.10%	30.10%	-12.47%	0.22%	3.09%	2.95%
EBIT	71.94%	54.98%	6.54%	12.93%	19.80%	11.81%	8.95%	4.78%	3.55%
Net financial results	36.85%	11.10%	-63.97%	39.70%	11.89%	10.63%	4.80%	4.58%	-8.76%
EBT	84.50%	66.63%	19.02%	11.49%	20.34%	11.88%	9.21%	4.79%	4.28%
Income taxes	-42.02%	26.45%	35.52%	12.86%	4.49%	11.96%	9.21%	4.79%	4.28%
Minority interests	n.a								
Net income / Loss	1004.85%	81.97%	14.64%	11.06%	9.49%	8.54%	28.90%	4.79%	4.28%
EPS	1004.85%	81.97%	14.64%	11.06%	9.38%	8.64%	28.90%	4.79%	4.28%
DPS	n.a	0.00%	-9.21%	11.06%	9.38%	8.64%	28.90%	4.79%	4.28%
Share in total sales									
Total Output	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-18.87 %	-17.20 %	-14.82 %	-14.63 %	-17.12 %	-17.09 %	-17.26 %	-17.16 %	-17.17 %
Gross profit	81.13 %	82.80 %	85.18 %	85.37 %	82.88 %	82.91 %	82.74 %	82.84 %	82.83 %
Other operating income	4.80 %	2.99 %	2.84 %	2.26 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Personnel costs	-59.07 %	-58.15 %	-61.78 %	-60.37 %	-53.78 %	-56.46 %	-56.26 %	-56.06 %	-55.86 %
Depreciation & Amortization	-2.21 %	-2.33 %	-2.43 %	-2.34 %	-2.33 %	-2.10 %	-2.10 %	-2.10 %	-2.10 %
Other operating expenses	-20.55 %	-19.25 %	-17.11 %	-17.74 %	-20.96 %	-17.85 %	-17.39 %	-17.49 %	-17.58 %
EBIT	4.09 %	6.05 %	6.69 %	7.18 %	7.81 %	8.50 %	9.00 %	9.20 %	9.30 %
Net financial results	-0.86 %	-0.91 %	-0.34 %	-0.45 %	-0.46 %	-0.49 %	-0.50 %	-0.51 %	-0.46 %
EBT	3.23 %	5.14 %	6.35 %	6.73 %	7.35 %	8.01 %	8.50 %	8.69 %	8.84 %
Income taxes	-0.89 %	-1.08 %	-1.52 %	-1.63 %	-1.54 %	-1.68 %	-1.78 %	-1.82 %	-1.86 %
Net income / Loss	2.34 %	4.06 %	4.84 %	5.10 %	5.07 %	5.36 %	6.71 %	6.86 %	6.99 %

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9 Balance Sheets

Balance sheet - PSI AG							
in EURm	Fiscal year						
	2014	2015	2016	2017	2018E	2019E	2020E
Assets							
Cash and cash equivalents	29.31	38.83	43.01	38.13	40.77	48.48	55.53
Inventories	3.47	4.18	6.42	7.82	4.65	4.77	4.95
Trade accounts and notes receivables	33.71	36.17	27.47	31.61	38.67	39.17	39.71
Receivables from long-term manufacturing	39.87	36.37	38.18	33.12	44.47	45.49	46.60
Other current assets	5.66	5.19	5.63	5.78	6.15	6.32	6.50
Current assets	112.02	120.74	120.71	116.46	134.71	144.23	153.29
Property, plant and equipment	12.95	12.21	12.15	12.53	13.15	13.65	14.15
Goodwill and intangibles assets	61.50	59.42	57.75	56.49	63.67	66.85	70.20
Shares in associated companies	0.15	0.15	0.15	0.19	0.17	0.17	0.18
Deferred tax assets	5.66	7.00	8.66	8.34	7.14	7.11	7.43
Non-current assets	80.26	78.78	78.72	77.55	84.13	87.79	91.95
Total assets	192.27	199.52	199.43	194.01	218.84	232.01	245.25
Liabilities							
Trade payables	15.11	14.93	12.55	14.56	15.25	15.45	15.85
Other liabilities	29.49	30.22	30.92	29.21	27.34	29.89	29.83
Liabilities from long-term manufacturing	26.01	28.82	25.73	13.29	32.15	33.05	34.00
Financial liabilities	5.08	3.37	0.00	2.62	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current liabilities	75.70	77.34	69.20	59.68	74.74	78.38	79.68
Long-term bank debt	0.19	0.08	0.00	0.00	0.00	0.00	0.00
Pension provisions	47.08	46.98	52.04	50.54	56.52	58.08	59.77
Deferred tax liabilities	1.02	1.96	2.92	3.49	2.19	2.25	2.32
Long-term liabilities	48.28	49.03	54.95	54.03	58.71	60.33	62.08
Total liabilities	123.98	126.37	124.15	113.71	133.45	138.72	141.77
Shareholders equity	68.29	73.15	75.27	78.12	85.40	93.30	103.48
Minority interests	0.00	0.00	0.00	2.17	0.00	0.00	0.00
Total equity and liabilities	192.27	199.52	199.43	194.01	218.84	232.01	245.25

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10 Cash Flow Statements

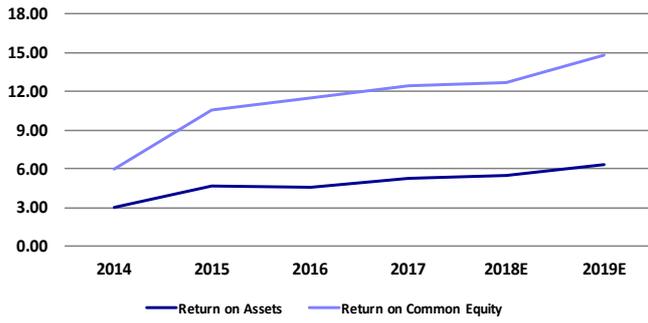
Cash flow statement - PSI AG							
in EURm	Fiscal year						
	2014	2015	2016	2017	2018E	2019E	2020E
Net income / loss	4.10	7.46	8.55	9.50	10.39	11.29	14.55
Depreciation & Amortization	3.88	4.29	4.29	4.35	4.78	4.42	4.55
Change of working capital	13.67	4.15	-0.56	-4.70	-5.99	1.84	-0.72
Others	2.422	-1.882	1.050	3.37	-2.58	0.09	-0.25
Net operating cash flow	24.07	14.01	13.34	12.52	6.60	17.64	18.13
Cash flow from investment	-14.34	-2.23	-2.91	-5.18	-5.97	-5.13	-5.27
Free cash flow	9.73	11.78	10.42	7.34	0.63	12.51	12.86
Cash flow from financing	-1.71	-2.11	-6.73	-9.92	-0.28	-4.80	-5.80
Change of cash	7.51	9.52	4.18	-2.59	0.35	7.71	7.05
Cash at the beginning of the period	21.80	29.31	38.83	43.01	40.42	40.77	48.48
Cash at the end of the period	29.31	38.83	43.01	40.42	40.77	48.48	55.53

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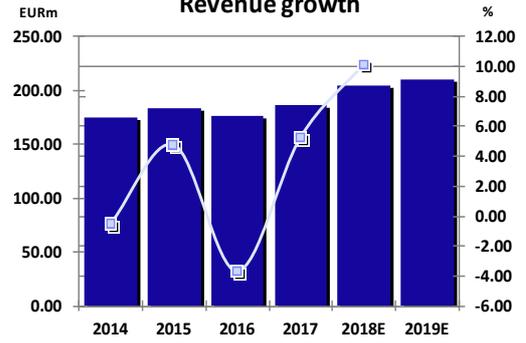
11 Financial Ratios

Fiscal year	2014	2015	2016	2017	2018E	2019E	2020E
Gross margin	81.1%	82.8%	85.2%	85.4%	82.9%	82.9%	82.7%
EBITDA margin	6.3%	8.4%	9.1%	9.5%	10.1%	10.6%	11.1%
EBIT margin	4.1%	6.0%	6.0%	7.2%	7.8%	8.5%	9.0%
Net margin	2.3%	4.1%	4.8%	5.1%	5.1%	5.4%	6.7%
Return on equity (ROE)	6.0%	10.5%	11.5%	12.4%	12.7%	12.6%	14.8%
Return on assets (ROA)	3.0%	4.7%	4.6%	5.2%	5.5%	5.5%	6.6%
Return on capital employed (ROCE)	4.4%	7.2%	7.2%	7.9%	8.8%	9.2%	9.3%
Net debt (in EURm)	23.04	11.61	9.03	10.90	15.74	9.60	4.23
Net gearing	33.7%	15.9%	12.0%	14.0%	18.4%	10.3%	4.1%
Equity ratio	35.5%	36.7%	37.7%	39.9%	39.0%	40.2%	42.2%
Current ratio	1.48	1.56	1.74	1.86	1.80	1.84	1.92
Quick ratio	0.91	1.04	1.10	1.18	1.15	1.20	1.28
Net interest cover	4.77	6.65	19.66	15.89	17.01	17.20	17.88
Net debt/EBITDA	2.08	0.75	0.56	0.62	0.76	0.43	0.18
Tangible BVPS	1.10	1.50	1.64	1.82	2.28	2.79	3.44
Capex/Sales	-8.0%	-0.8%	-0.4%	-2.8%	-2.9%	-2.4%	-2.4%
Working capital/Sales	6.9%	4.3%	4.8%	7.1%	9.4%	8.2%	8.3%
EV/Sales	1.99	1.90	1.97	1.87	1.70	1.65	1.61
EV/EBITDA	31.52	14.50	13.30	19.66	16.76	15.60	14.48
EV/EBIT	48.59	31.36	29.43	26.06	21.77	19.46	17.86
P/Tangible BVPS	15.84	11.61	10.65	9.59	7.64	6.26	5.08
P/E	45.57	27.15	22.40	28.84	26.37	24.27	18.83

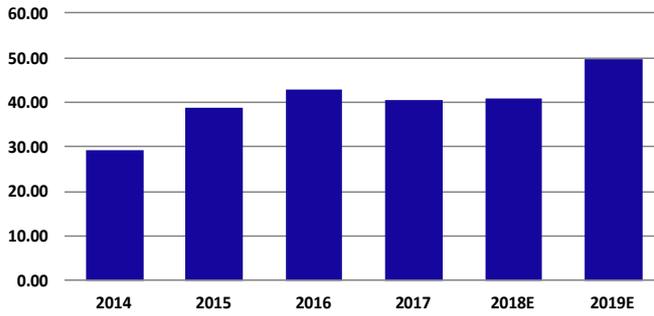
Profitability (%)



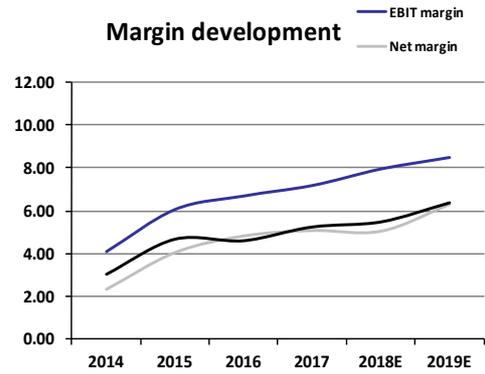
Revenue growth



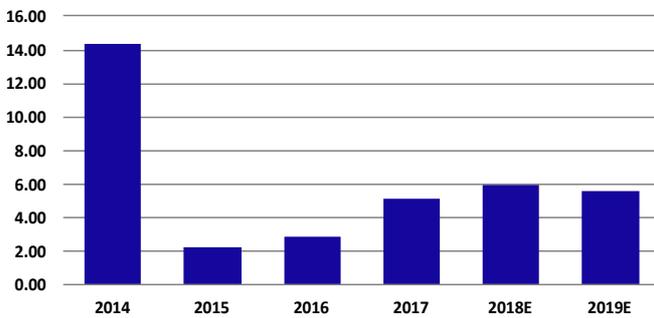
Liquid funds (EURm)



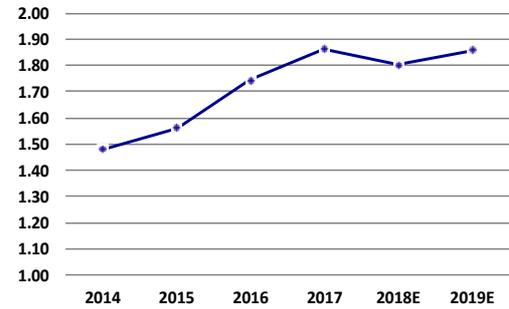
Margin development



CAPEX (EURm)



Current ratio



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12 Contact

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