

March 21th, 2018

Europe | Germany | IT & Software

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

Target price: EUR 20.60

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. lg. 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%

* forecast

Chart : 1 year



DR. KALLIWODA RESEARCH on Bloomberg
Page: KALLAnalyst

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PSI AG

Sustainable profitability improvement expected in Q4/2017 and 2018.

- For 2017/Q4, which will be released coming Thursday, March 22nd, we see sales of €189.2 million and an Ebit of €14.5 million. Compared to our last update in January 2018, this is a small EBIT-reduction of € 0.3 million because we still expect burdens in infrastructure management for market entry projects. Nevertheless we see an EBIT improvement of over ca. 22% for 2017 compared to 2016. For 2018, we have adjusted our estimates slightly because we see headwinds, especially in the steel industry, due to Trump's trade tariffs. We estimate sales for 2018 at €199.6 million and the EBIT €15.9 million (old estimates of our last update in January have been €202.5 million and EBIT €16.8 million).
- The company is gaining both from a cyclical recovery at its Production Management business and a structural boost in demand at Energy Mgmt. Due to growth in industry and energy business, the group's sales increased by 4% to €1331m (9M/16: €127.9m), EBIT enhanced by 18% to €8.2m (9M/16: €6.9m), the group net income rose by 17% to €4.6m (9M/16: €3.9m).
- 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".
- We stick almost to our last estimates from January 2018. Our target price is EUR 20.60, with an upside of ca. 18% at the current share price.

Key Figures

in EURm	2014	2015	2016	2017E	2018E	2019E	2020E
Net sales	175,39	183,68	176,85	189,23	199,64	210,62	216,73
EBITDA	11,05	15,40	16,13	18,90	20,53	22,82	24,56
EBIT	7,17	11,11	11,84	14,49	15,87	17,90	19,51
Net income	4,10	7,46	8,55	10,81	11,83	13,35	14,58
EPS	0,26	0,48	0,54	0,69	0,75	0,85	0,93
BVPS	4,35	4,66	4,80	5,00	5,53	6,13	6,78
RoE	5,98%	10,55%	11,52%	14,06%	14,31%	14,60%	14,40%
EBIT margin	4,09 %	6,05 %	6,69 %	7,66 %	7,95 %	8,50 %	9,00 %
P/E	45,57	27,15	22,40	25,33	23,16	20,51	18,79
P/BVPS	2,74x	2,77x	2,54x	3,49x	3,16x	2,85x	2,58x
EV/EBITDA	31,80x	14,50x	13,30x	18,59x	17,12x	15,40x	14,31x

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

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1 Company profile

PSI is a group of companies with around 1,650 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 **€20.60**. Compared to current market level, this corresponds to an upside of around 18%.

WACC assumptions

Growth assumptions

Long-term growth rate	1%
Assimilation phase (from 2017)	5 years
Sales growth at the beginning	7%

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	189,23	199,64	210,62	216,73	222,15	227,57
(y-o-y change)	7,0%	5,5%	5,5%	2,9%	2,5%	2,4%
EBIT	14,49	15,87	17,90	19,51	20,44	21,16
(EBIT margin)	7,7%	8,0%	8,5%	9,0%	9,2%	9,3%
NOPLAT	11,45	12,54	14,14	15,41	16,15	16,72
+ Depreciation	4,42	4,66	4,91	5,06	5,18	5,31
= Net operating cash flow	15,86	17,20	19,06	20,47	21,33	22,03
- Total investments (Capex and WC)	-8,64	-12,46	-4,48	-6,50	-5,30	-6,03
Capital expenditure	-5,37	-5,54	-5,82	-5,78	-5,88	-6,01
Working capital	-3,27	-6,93	1,34	-0,72	0,58	-0,02
= Free cash flow (FCF)	7,22	4,73	14,58	13,97	16,03	16,00
PV of FCF's	7,31	4,52	13,14	11,88	12,86	12,11

PV of FCFs in explicit period	61,82
PV of FCFs in terminal period	218,35
Implied Enterprise value (EV)	280,16
+ Net cash / - net debt	24,73
+ Investments / - Minorities	0,00
Shareholder value	304,90
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)	19,42
Fair value per share in € (in 12 months)	20,59

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%	34,32	39,04	43,75	48,47	53,19	57,90	62,62
	4,0%	23,98	26,98	29,98	32,98	35,99	38,99	41,99
	5,0%	18,79	20,94	23,09	25,24	27,39	29,54	31,69
	6,0%	15,66	17,30	18,94	20,59	22,23	23,88	25,52
	7,0%	13,56	14,87	16,18	17,49	18,80	20,11	21,42
	8,0%	12,05	13,13	14,20	15,27	16,35	17,42	18,50

4 9M/2017 results & annual estimates 2017e resp. Q4/2017 Estimates

PSI Group has published 9M results which were better than we expected in terms of revenues and in line with our forecast in terms of bottom line figures. PSI Group enhanced its new order volume by 10% in the first nine month of 2017 to a new record value of €147m (9M/16 : €134m). The order backlog on 30.09.2017 amounted to €141m, 7% higher than the figure for the prior year (9M/16: €132m). The company is gaining both from a cyclical recovery at its Production Management business and a structural boost in demand at Energy Management. Due to growth in industry and energy business, the whole group's sales increased by 4% to €133.1m (9M/16: €127.9m), EBIT enhanced by 18% to €8.2m (9M/16: €6.9m), whilst the group net income increased by 17% to €4.6m (9M/16: €3.9m).

The cash flow from operating activities was affected by changes in working capital and lowered by €-0.6m (30 Sept 2016: €4.2m). The liquidity position of the company stays at the same level at 11%, with €39.8m (30 Sept 2016: €35.9m).

Energy Management segment continue to show good growth and posted higher revenue by 5% of €50.8m in the first nine months (9M/16: €48.3m). The EBIT for the segment increased by 21% to €4.2m in comparison to the prior year (9M/16: €3.5m). The sales were mainly backed solid development in the electrical grid business which carries on taking advantage of raising demand for energy transition-related software.

Sales in Production Management (raw materials, industry, logistics) was the main driver of the total revenues of the Group in the first 9 months, with €67.2m, amounted to 7% above the level for the prior year (9M/16: €63m). The EBIT rose by 6% to 5.5m (9M/16: €5.2m). The segment gained from incredibly solid expansion in the internet order logistics, the setting up further electric-vehicle production plants and the end of the investment backlog in the steel industry.

In Infrastructure Management (transportation and security), sales reduced by 9% to €15m (9M/16: €16.5m), while the EBIT increased to €-0.5m (9M/16: €-0.9m). The profitability was pressured by a fee of nearly €1m regarding the out-of-court settlement of collection of crucial payments from significant market entry projects. The segment still struggles due to the vulnerable economic circumstance of the general contractors in oil and gas-dependent countries of Southeast Asia (Thailand and Malaysia) and the Arab Gulf. However, the company has been cutting working capital employed in this segment.

Based on our calculations and the last orders - please see therefore our following chapter 5 Newest outstanding orders and contracts - we expect for Q4/2017 following results:

Energy management:	Sales Q4/2017: Over € 19 m;	EBIT Q4/2017: Almost € 2 m
Production management	Sales Q4/2017: Over € 27 m;	EBIT Q4/2017: Over€ 3 m
Infrastructure management	Sales Q4/2017: Over € 9,5 m;	EBIT Q4/2017 ca. €-0,1 m

Our expectations for the 2017 results are shown in following tables:

12M/17 vs. previous year

12M/17 vs. previous period level

in EURm	12M/17	12M/16	change y-o-y
Net sales	189,23	176,85	7,0%
EBITDA	18,90	16,13	17,2%
EBITDA margin	10,0%	9,1%	9,5%
EBIT	14,49	11,84	22,4%
EBIT margin	7,7%	6,7%	14,4%
Net income	10,81	8,55	26,5%
Net margin	5,7%	4,8%	18,2%

Source: Dr. Kalliwoda Research GmbH © 2018

Segment total sales and EBIT margins according to segments 12M/17 vs 12M/16

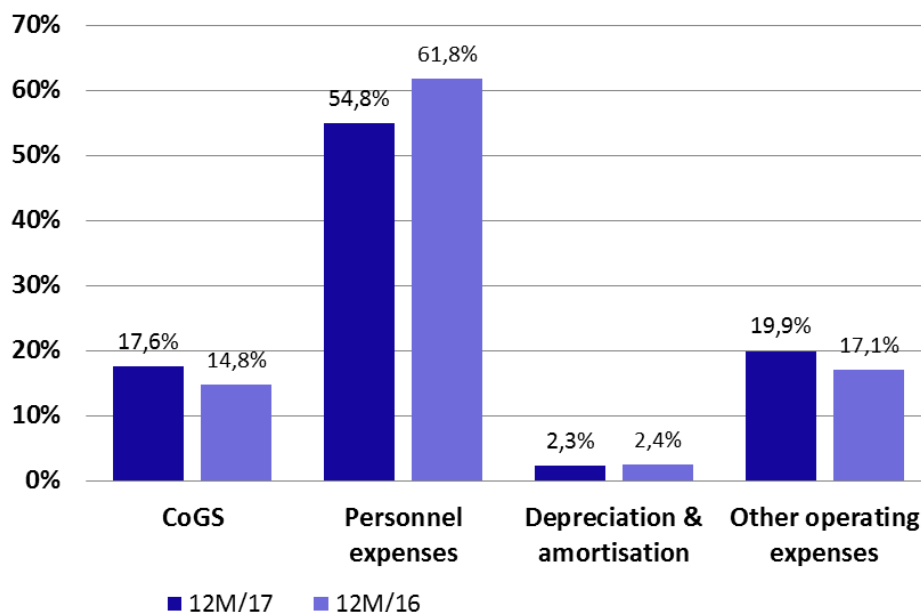
Segment Sales and EBIT margins according to segments 12M/17 vs. 12M/16

	12M/17	12M/16		12M/17	12M/16
Energy management			Infrastructure management		
Sales €m	70,00	69,2	Sales €m	24,7	23,5
Share in total sales	37,0%	39,1%	Share in total sales	13,0%	13,3%
EBIT €m	6,16	5,8	EBIT €m	-0,37	0,1
EBIT margin	8,8%	8,4%	EBIT margin	-1,5%	0,6%
Production management			Group		
Sales €m	94,6	84,2	Total Sales	189,2	176,9
Share in total sales	50,0%	47,6%	change y-o-y	7,0%	
EBIT €m	8,7	7,1			
EBIT margin	9,2%	8,4%			

Source: Dr. Kalliwoda Research GmbH © 2018

Profitability

Share in total sales 12M/17 vs 12M/16



Source: Dr. Kalliwoda Research GmbH © Copyright 2018

We adjusted our forecasts:

Changes to our forecasts 2017e – 2019e

Our forecasts 2017E - 2019E						
in EURm	2017E		2018E		2019E	
	new	old	new	old	new	old
Net sales	189,23	189,23	199,64	202,48	210,62	214,63
EBITDA	18,90	19,18	20,53	21,53	22,82	24,32
EBITDA margin	10,0%	10,1%	10,3%	10,6%	10,8%	11,3%
EBIT	14,49	14,76	15,87	16,81	17,90	19,32
EBIT margin	7,7%	7,8%	8,0%	8,3%	8,5%	9,0%
Net income	10,81	11,03	11,83	12,57	13,35	14,47
Net margin	5,7%	5,8%	5,9%	6,2%	6,3%	6,7%

Source: Dr. Kalliwoda Research GmbH © 2018

5 Newest outstanding orders and contracts

On 17.07.17 PSI announced the ERP partnership with e.Go Mobile Ag. By joining the RWTH Aachen Campus, PSI already accompanied the company during the first prototypes. PSI sees itself well equipped with its software for upcoming tasks of the partnership, such as internationalization. The connection between e.Go Mobile and the RWTH Aachen Campus shows the importance of research for the company. The goal of the startup e.Go Mobile, founded in 2015, is the production of an electric city car, which can be pre-ordered since May 2017.

On 12.12.17 the PSI subsidiary PSI Polska announced the cooperation with Empik. The entire Empik group now receives the Warehouse Management Systems PSIWms, which strengthens the main sales channels E-Commerce, Retail and B2B. By introducing, the company continues its growth strategy. It is expected that the project will be realized step by step within 2 years. With more than 200 shops, Empik is the company with the largest distribution network for cultural, scientific and entertainment goods in Poland. Thereby u.a. (Multimedia) games, music CDs, movies, books, arts & crafts and stationery, as well as event tickets offered. With about 1.6 million products, Empik is one of the largest Polish online shops.

On 20.12.17, PSI received the order for the Rhine energy for an upgrade of the cross-network system for the operation of the sections electricity (medium and low voltage), gas, water and district heating. Furthermore, the first stage of the system RheinSchiene should be realized. The control systems of the cities of Cologne, Düsseldorf and Duisburg are being standardized. Westnetz GmbH, whose parent company RWE is a shareholder of Rheinenergie, will receive an extension of its systems in the area of external network connection from PSI. Together, Rheinenergie and Westnetz, which is a subsidiary of

the Innogy Group and thus a subsidiary of RWE's second largest electricity supplier in Germany, has more than 8,000 employees.

In the new quarter Q1 /18, PSI has already reported some success in the incoming orders.

On 09.01.18 PSI published the delivery of Banedanmark. The PSIcontrol network control system will in future visualize, monitor and control the entire Danish railway power grid. Another important point is the exchange of data with Trafikverket, which is responsible for the Swedish network and also owns a PSI system. To improve customer service, PSI has set up another location in Roskilde. Banedanmark is responsible for much of the Danish rail infrastructure.

On 22.01.18 PSI announced the order from Vallourec to implement its PSImetals, which is already being used in other European Vallourec plants, as a new production management system in Mülheim. This should be the starting signal for a Europe-wide harmonization of the Vallourec-werke with the PSI software. As a result, Vallourec aims to achieve greater transparency in its production progress while facilitating cross-site collaboration. With just over 20,000 employees, Vallourec produces seamless steel tubes and specific pipe applications, which are particularly used in the energy sector.

On 23.01.18, PSI announced the strategic cooperation with Capula Ltd in the UK in the energy market. Through a wider port foil Capula promises a better solution. For PSI, the entire software portfolio in the electrical energy sector is represented by Capula. In particular, PSI intends to combine its network control systems capabilities (SCADA / EMS / ADMS) for transmission, distribution and smart grid technologies, as well as renewable energy, with the brand presence of Capula in the United Kingdom.

On 05.02.18 PSI announced the cooperation with the Fiege Group. PSI has been commissioned to deliver its Warehouse Management System (PSIwms). The first project was the Burgwedel distribution center, but this is only the starting point for a long-term cooperation. Headquartered in Greven in North Rhine-Westphalia, the Fiege Group is one of the leading contract logistics providers in Europe. The fifth-generation family-owned company has more than 12,000 employees in 15 countries and 178 locations worldwide.

On 08.02.18, PSI has already published details about its appearance at LogiMAT (13.-15.03). A live cloud-based IoT application for warehousing will be presented and also the integration of Alexa from Amazon will be demonstrated. Furthermore, there will be a practice-oriented AutoID application demonstration, which should ensure better material and replenishment management.

On 26.02.18, PSI announced that they had been commissioned by Schiepek Maschinen- und Werkzeugbau GmbH to implement their ERP system. In addition, the modules SCM, BDE / PZ, Cost Accounting and Smart Planning & Analytics are used. The Bavarian Schiepek Maschinen- und Werkzeugbau GmbH is a producer of special machines and tools, which also acts as a supplier to the automotive industry and employs approximately 100 people.

For Q4, which will be released next Thursday, March 22nd, we see sales of €189.23 million and an Ebit of €13.90 million. Compared to our last update in January 2018, this is a small EBIT-reduction of €08 million because we still expect burdens in infrastructure management for market entry projects. For

2018, we have adjusted our estimates slightly because we see headwinds, especially in the steel industry, due to Trump's trade tariffs. We estimate sales for 2018 at €199.6 million and the EBIT €15.7 million (old estimates of our last update in January have been €202.48 million and EBIT €16.81 million).

6 Outlook

For 2017/Q4, which will be released coming Thursday, March 22nd, we see sales of €189.2 million and an Ebit of €14.5 million. Compared to our last update in January 2018, this is a small EBIT-reduction of €0.3 million because we still expect burdens in infrastructure management for market entry projects. Nevertheless we see an EBIT improvement of over ca. 22% for 2017 compared to 2016. For 2018, we have adjusted our estimates slightly because we see headwinds, especially in the steel industry, due to Trump's trade tariffs. We estimate sales for 2018 at €199.6 million and the EBIT €15.9 million (old estimates of our last update in January have been €202.5 million and EBIT €16.8 million).

During the Q3/17 and afterwards several positive announcements has been released by the Company. Trans Adriatic Pipeline (TAP) AG has picked PSI Software AG as the supplier of the Commercial Dispatching Software (CDS). The PSI software 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.

Overall, 9M/2017 figures came in strong, with top line being in line with our expectations. We expect the Company's profit yoy 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".

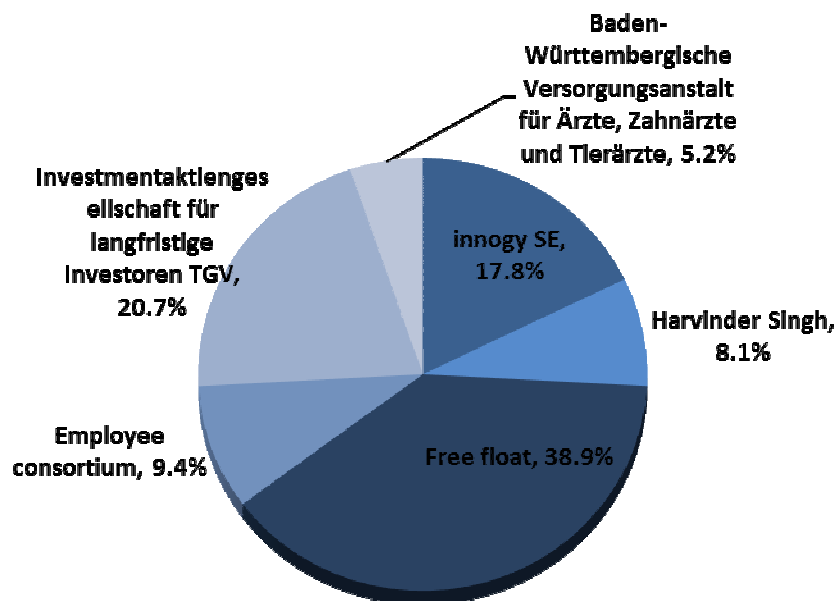
All in all, we do not change our forecasts. We predict a more pronounced revenue expansion in Q4 because of early-bird orders at the end of 2017 for the arriving regulatory base year and additional rollout orders from framework agreements with key electricity and gas network operators (including clients 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 9M/2017 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 20.60**, with upside of 18% 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	2017E	2018E	2019E	2020E	2021E	2022E
Sales split									
Energy management	64,15	67,23	69,22	70,00	72,73	76,65	78,76	81,17	82,89
Production management	79,61	86,39	84,17	94,56	94,72	101,01	104,44	107,50	109,22
Infrastructure management	31,64	30,06	23,47	24,68	32,20	32,96	33,53	33,48	35,46
Net sales	175,39	183,68	176,85	189,23	199,64	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	189,23	199,64	210,62	216,73	222,15	227,57
Cost of goods sold	-33,10	-31,60	-26,21	-33,23	-34,18	-36,00	-37,40	-38,11	-39,07
Gross profit	142,29	152,09	150,64	156,01	165,46	174,62	179,33	184,04	188,50
Other operating income	8,42	5,49	5,02	3,78	3,99	4,21	4,33	4,44	4,55
Personnel costs	-103,60	-106,82	-109,27	-103,79	-107,36	-116,80	-119,76	-122,30	-124,83
Depreciation & Amortization	-3,88	-4,29	-4,29	-4,42	-4,66	-4,91	-5,06	-5,18	-5,31
Other operating expenses	-36,05	-35,36	-30,26	-37,10	-41,56	-39,21	-39,35	-40,55	-41,74
EBIT	7,17	11,11	11,84	14,49	15,87	17,90	19,51	20,44	21,16
Net financial results	-1,50	-1,67	-0,60	-0,80	-0,90	-1,00	-1,05	-1,10	-1,00
EBT	5,66	9,44	11,23	13,69	14,97	16,90	18,46	19,34	20,16
Income taxes	-1,57	-1,98	-2,68	-2,87	-3,14	-3,55	-3,88	-4,06	-4,23
Minority interests	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Net income / Loss	4,10	7,46	8,55	10,81	11,83	13,35	14,58	15,28	15,93
EPS	0,26	0,48	0,54	0,69	0,75	0,85	0,93	0,97	1,01
DPS	0,30	0,30	0,27	0,34	0,38	0,43	0,46	0,49	0,51
Change y-o-y									
Net sales	-0,54%	4,73%	-3,72%	7,00%	5,50%	5,50%	2,90%	2,50%	2,44%
Total Output	-0,54%	4,73%	-3,72%	7,00%	5,50%	5,50%	2,90%	2,50%	2,44%
Cost of goods sold	-4,84%	-4,55%	-17,05%	26,77%	2,87%	5,33%	3,89%	1,90%	2,51%
Gross profit	0,52%	6,89%	-0,95%	3,56%	6,06%	5,53%	2,70%	2,62%	2,42%
Other operating income	44,01%	-34,77%	-8,62%	-24,56%	5,50%	5,50%	2,90%	2,50%	2,44%
Personnel costs	-0,61%	3,10%	2,29%	-5,02%	3,45%	8,79%	2,53%	2,13%	2,07%
Depreciation & Amortization	1,62%	10,41%	0,19%	2,83%	5,50%	5,50%	2,90%	2,50%	2,44%
Other operating expenses	2,53%	-1,90%	-14,42%	22,59%	12,03%	-5,65%	0,33%	3,07%	2,93%
EBIT	71,94%	54,98%	6,54%	22,43%	9,54%	12,80%	8,95%	4,78%	3,55%
Net financial results	36,85%	11,10%	-63,97%	32,89%	12,50%	11,11%	5,00%	4,76%	-9,09%
EBT	84,50%	66,63%	19,02%	21,87%	9,37%	12,90%	9,19%	4,78%	4,27%
Income taxes	-42,02%	26,45%	35,52%	7,19%	9,37%	12,90%	9,19%	4,78%	4,27%
Minority interests	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Net income / Loss	1004,85%	81,97%	14,64%	26,47%	9,37%	12,90%	9,19%	4,78%	4,27%
EPS	1004,85%	81,97%	14,64%	26,47%	9,37%	12,90%	9,19%	4,78%	4,27%
DPS	n.a	0,00%	-9,21%	26,47%	9,37%	12,90%	9,19%	4,78%	4,27%
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 %	-17,56 %	-17,12 %	-17,09 %	-17,26 %	-17,16 %	-17,17 %
Gross profit	81,13 %	82,80 %	85,18 %	82,44 %	82,88 %	82,91 %	82,74 %	82,84 %	82,83 %
Other operating income	4,80 %	2,99 %	2,84 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %
Personnel costs	-59,07 %	-58,15 %	-61,78 %	-54,85 %	-53,78 %	-55,46 %	-55,26 %	-55,06 %	-54,86 %
Depreciation & Amortization	-2,21 %	-2,33 %	-2,43 %	-2,33 %	-2,33 %	-2,33 %	-2,33 %	-2,33 %	-2,33 %
Other operating expenses	-20,55 %	-19,25 %	-17,11 %	-19,60 %	-20,82 %	-18,62 %	-18,15 %	-18,25 %	-18,34 %
EBIT	4,09 %	6,05 %	6,69 %	7,66 %	7,95 %	8,50 %	9,00 %	9,20 %	9,30 %
Net financial results	-0,86 %	-0,91 %	-0,34 %	-0,42 %	-0,45 %	-0,47 %	-0,48 %	-0,50 %	-0,44 %
EBT	3,23 %	5,14 %	6,35 %	7,23 %	7,50 %	8,03 %	8,52 %	8,70 %	8,86 %
Income taxes	-0,89 %	-1,08 %	-1,52 %	-1,52 %	-1,57 %	-1,69 %	-1,79 %	-1,83 %	-1,86 %
Net income / Loss	2,34 %	4,06 %	4,84 %	5,71 %	5,92 %	6,34 %	6,73 %	6,88 %	7,00 %

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9 Balance Sheets

Balance sheet - PSI AG							
in EURm	Fiscal year						
	2014	2015	2016	2017E	2018E	2019E	2020E
Assets							
Cash and cash equivalents	29,31	38,83	43,01	43,04	41,34	51,33	58,41
Inventories	3,47	4,18	6,42	7,40	4,53	4,77	4,95
Trade accounts and notes receivables	33,71	36,17	27,47	28,23	37,67	39,17	39,71
Receivables from long-term manufacturing	39,87	36,37	38,18	36,25	43,32	45,49	46,60
Other current assets	5,66	5,19	5,63	5,68	5,99	6,32	6,50
Current assets	112,02	120,74	120,71	120,59	132,85	147,08	156,17
Property, plant and equipment	12,95	12,21	12,15	12,65	13,15	13,65	14,15
Goodwill and intangibles assets	61,50	59,42	57,75	60,64	63,67	66,85	70,20
Shares in associated companies	0,15	0,15	0,15	0,15	0,16	0,17	0,18
Deferred tax assets	5,66	7,00	8,66	6,47	6,96	7,11	7,43
Non-current assets	80,26	78,78	78,72	79,92	83,94	87,79	91,95
Total assets	192,27	199,52	199,43	200,51	216,80	234,87	248,12
Liabilities							
Trade payables	15,11	14,93	12,55	11,62	14,86	15,45	15,85
Other liabilities	29,49	30,22	30,92	34,47	26,63	29,89	29,83
Liabilities from long-term manufacturing	26,01	28,82	25,73	19,69	31,32	33,05	34,00
Financial liabilities	5,08	3,37	0,00	0,00	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	65,78	72,81	78,39	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	52,19	55,06	58,08	59,77
Deferred tax liabilities	1,02	1,96	2,92	4,02	2,13	2,25	2,32
Long-term liabilities	48,28	49,03	54,95	56,21	57,19	60,33	62,08
Total liabilities	123,98	126,37	124,15	121,99	130,00	138,72	141,77
Shareholders equity	68,29	73,15	75,27	78,52	86,80	96,15	106,35
Minority interests	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total equity and liabilities	192,27	199,52	199,43	200,51	216,80	234,87	248,12

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10 Cash Flow Statements

Cash flow statement - PSI AG							
in EURm	Fiscal year						
	2014	2015	2016	2017E	2018E	2019E	2020E
Net income / loss	4,10	7,46	8,55	10,81	11,83	13,35	14,58
Depreciation & Amortization	3,88	4,29	4,29	4,42	4,66	4,91	5,06
Change of working capital	13,67	4,15	-0,56	-3,27	-6,93	1,34	-0,72
Others	2,422	-1,882	1,050	3,30	-2,37	-0,04	-0,25
Net operating cash flow	24,07	14,01	13,34	15,26	7,19	19,57	18,67
Cash flow from investment	-14,34	-2,23	-2,91	-5,37	-5,54	-5,82	-5,78
Free cash flow	9,73	11,78	10,42	9,89	1,65	13,76	12,89
Cash flow from financing	-1,71	-2,11	-6,73	-9,86	-3,34	-3,77	-5,81
Change of cash	7,51	9,52	4,18	0,03	-1,69	9,99	7,08
Cash at the beginning of the period	21,80	29,31	38,83	43,01	43,04	41,34	51,33
Cash at the end of the period	29,31	38,83	43,01	43,04	41,34	51,33	58,41

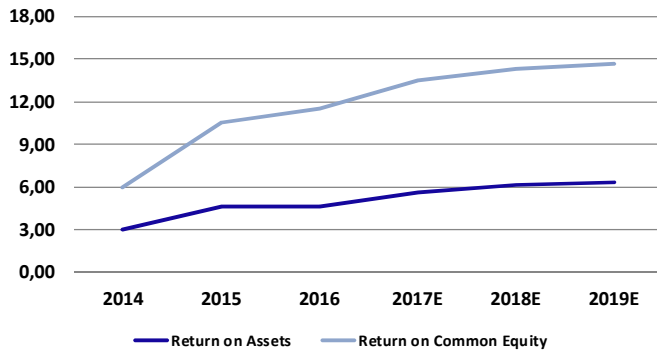
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11 Financial Ratios

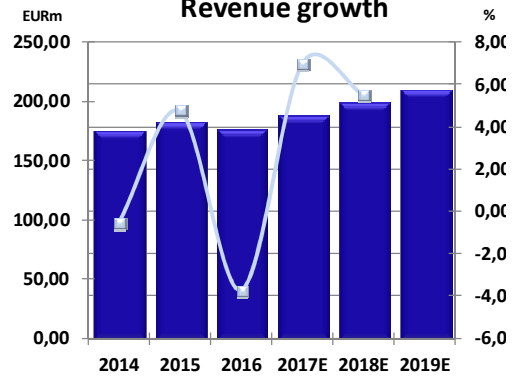
Fiscal year	2014	2015	2016	2017E	2018E	2019E	2020E
Gross margin	81,1%	82,8%	85,2%	82,4%	82,9%	82,9%	82,7%
EBITDA margin	6,3%	8,4%	9,1%	10,0%	10,3%	10,8%	11,3%
EBIT margin	4,1%	6,0%	6,0%	7,7%	8,0%	8,5%	9,0%
Net margin	2,3%	4,1%	4,8%	5,7%	5,9%	6,3%	6,7%
Return on equity (ROE)	6,0%	10,5%	11,5%	14,1%	14,3%	14,6%	14,4%
Return on assets (ROA)	3,0%	4,7%	4,6%	5,8%	6,1%	6,4%	6,5%
Return on capital employed (ROCE)	4,4%	7,2%	7,2%	8,5%	8,7%	9,0%	9,1%
Net debt (in EURm)	23,04	11,61	9,03	9,15	13,71	6,75	1,36
Net gearing	33,7%	15,9%	12,0%	11,7%	15,8%	7,0%	1,3%
Equity ratio	35,5%	36,7%	37,7%	39,2%	40,0%	40,9%	42,9%
Current ratio	1,48	1,56	1,74	1,83	1,82	1,88	1,96
Quick ratio	0,91	1,04	1,10	1,17	1,17	1,24	1,31
Net interest cover	4,77	6,65	19,66	18,11	17,64	17,90	18,58
Net debt/EBITDA	2,08	0,75	0,56	0,48	0,67	0,30	0,06
Tangible BVPS	1,10	1,50	1,64	1,84	2,37	2,97	3,62
Capex/Sales	-8,0%	-0,8%	-0,4%	-2,8%	-2,8%	-2,8%	-2,7%
Working capital/Sales	6,9%	4,3%	4,8%	6,2%	9,4%	8,2%	8,3%
EV/Sales	2,00	1,91	1,99	1,86	1,76	1,67	1,62
EV/EBITDA	31,80	14,50	13,30	18,59	17,12	15,40	14,31
EV/EBIT	49,03	31,63	29,69	24,25	22,14	19,63	18,02
P/Tangible BVPS	15,84	11,61	10,65	9,46	7,36	5,88	4,82
P/E	45,57	27,15	22,40	25,33	23,16	20,51	18,79

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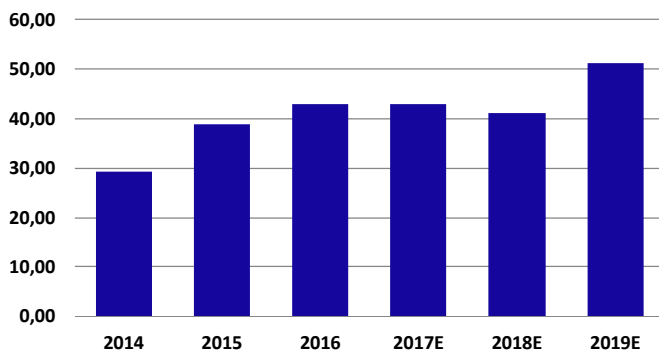
Profitability (%)



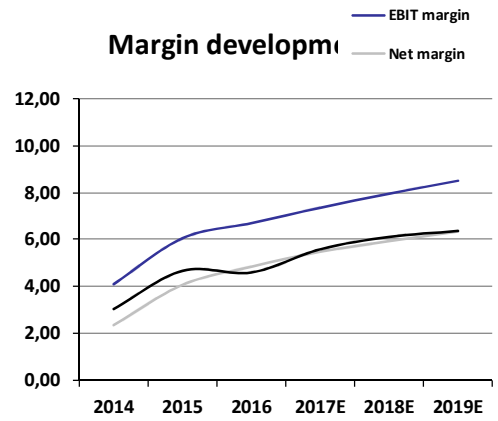
Revenue growth



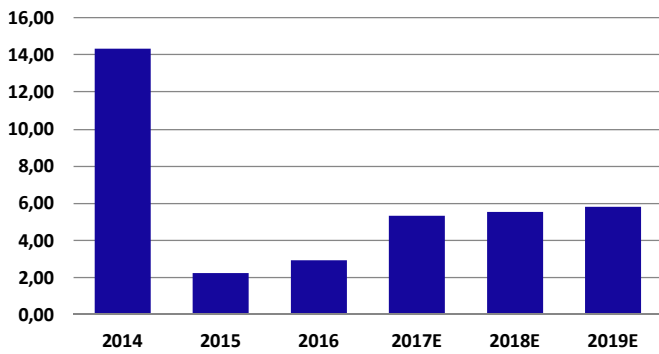
Liquid funds (EURm)



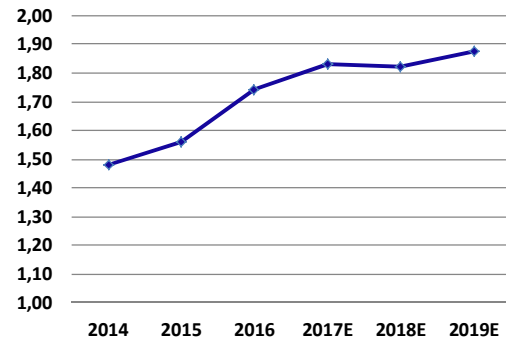
Margin development



CAPEX (EURm)



Current ratio



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12 Contact

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