

# S&T

Germany | IT software & services | MCAP EUR 242.8m

29 February 2016

**Buy** (Buy)

**Target Price** EUR 7.00  
**Current Price** EUR 5.6  
**Up/downside** 25.1%  
**Change in TP** 4.48%  
**Change in EPS** -1.4% 2015E

## London roadshow feedback

We come out of the London roadshow with greater visibility on the smart energy business. TP raised from EUR6.70 to EUR7.0.

### Structuration of Smart Grid business will be beneficial

S&T has taken the necessary steps towards a more structured organisation for its smart energy business. Refocusing will be implemented at different levels: 1) technology: S&T intends to participate in smaller projects (“microgrids”) worth EUR1-10m in potential revenues; 2) project profile: microgrids are developed at the local level (office park, university, commercial and industrial area, etc.) rather than at regional or country levels; 3) geographic scope: S&T is now 100% focused on its core eastern European market after it sold its interests in the US and disengaged from projects in the Middle-East. We see several potential benefits from this, including lower competition and working capital requirements as well as a better chance of winning contracts. The Smart Grid division should turn profitable in 2016E (EUR2m in EBITDA targeted). Growth prospects remain solid with +30% growth expected in 2016E (EUR70m), according to group guidance.

### High confidence in IT security appliances

M. Niederhauser displays high confidence in the IT security appliances business, S&T’s cash cow (13% of sales-mix, 37% of EBITDA-mix). Driven by robust momentum in the “Internet of Things”, S&T recorded significant wins last year, including big names in the field of medical, car diagnostic and video displays (+32% in sales after 9M). Management’s 2016 guidance indicates EUR100m in revenues, another year of strong growth (>30%). Longer term, the CEO thinks the division can sustain an EBITDA margin in of 15-17%, thanks to a focus on: 1) low volume niche vertical markets to limit direct competition with global IT firms; and 2) high unit value machines requiring high level of customisation and engineering.

### Uncompromising approach to value, TP raised to EUR7.0.

The roadshow confirmed our belief that S&T will not compromise on value creation. In this respect, the Smart Energy business is better set-up to capture the underlying structural growth of the industry while keeping operating cash consumption under control. The rapid shift in the product-mix, from traditional IT services towards appliances solutions, provides room for considerable profitability gains. We made several minor changes to our DCF and updated our peers’ valuation model, which leads us to a new target price of EUR7.0 (EUR6.70 previously). Full-year earnings to be announced on 30 March.

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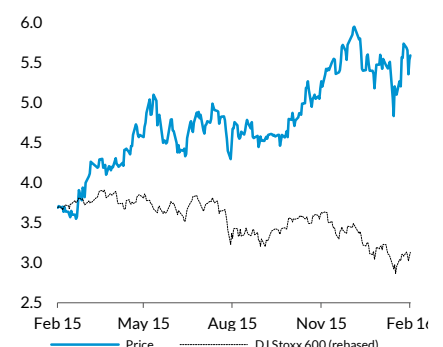
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#### Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	243
Free float	66%
No. of shares outstanding (m)	43
Avg. daily volume('000)	25
YTD abs performance	-6.0%
52-week high/low (EUR)	5.95/3.55

FY to 31/12 (EUR)	12/15E	12/16E	12/17E
Sales (m)	465.6	512.5	551.0
EBITDA adj (m)	26.9	32.3	36.0
EBIT adj (m)	19.4	24.1	27.2
Net profit adj (m)	15.1	18.0	21.8
Net fin. debt (m)	1.5	-5.9	-18.5
FCF (m)	2.1	12.0	18.2
EPS adj. and fully dil.	0.34	0.41	0.50
Consensus EPS	0.33	0.40	0.47
Net dividend	0.08	0.11	0.13

FY to 31/12 (EUR)	12/15E	12/16E	12/17E
P/E adj and ful. dil.	16.3	13.7	11.3
EV/EBITDA	9.2	7.4	6.3
EV/EBIT	12.7	9.9	8.3
FCF yield	0.9%	5.0%	7.5%
Dividend yield	1.4%	1.9%	2.3%
Net fin.debt/EBITDA	0.1	-0.2	-0.5
Gearing	1.5%	-5.0%	-13.4%
ROIC	14.9%	16.5%	-5.8%
EV/IC	2.4	2.1	1.9



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# Key financials

FY to 31/12 (EUR)	2010	2011	2012	2013	2014	2015E	2016E	2017E
<b>Per share data</b>								
EPS adjusted	0.19	0.29	0.26	0.30	0.32	0.35	0.41	0.50
EPS adj and fully diluted	0.19	0.29	0.26	0.30	0.32	0.34	0.41	0.50
% Change	high	54.6%	-11.8%	17.0%	5.2%	8.5%	18.9%	21.2%
EPS reported	0.19	0.29	0.26	0.30	0.32	0.31	0.41	0.50
Cash flow per share	-0.16	0.06	0.43	0.28	0.50	0.28	0.52	0.66
Book value per share	1.67	2.09	2.16	1.76	2.12	2.30	2.67	3.12
Dividend per share	0.00	0.00	0.00	0.06	0.07	0.08	0.11	0.13
Number of shares, YE (m)	19.63	23.54	28.28	39.20	41.00	43.41	43.41	43.41
<b>Valuation</b>								
P/E adjusted	11.4	8.2	8.9	7.9	9.0	16.1	13.5	11.2
P/E adjusted and fully diluted	11.4	8.2	8.9	7.9	9.0	16.3	13.7	11.3
P/BV	1.3	1.1	1.1	1.4	1.3	2.4	2.1	1.8
P/CF	na	39.5	5.3	8.4	5.7	19.7	10.7	8.5
Dividend yield (%)	0.0%	0.0%	0.0%	2.5%	2.5%	1.4%	1.9%	2.3%
FCF yield (%)	-9.7%	-2.5%	14.0%	5.7%	12.7%	0.9%	5.0%	7.5%
EV/Sales	0.5	0.6	0.2	0.3	0.3	0.5	0.5	0.4
EV/EBITDA	8.2	7.0	5.0	5.2	5.3	9.2	7.4	6.3
EV/EBIT	11.6	9.0	7.4	7.3	7.3	12.7	9.9	8.3
<b>Income Statement (EURm)</b>								
Sales	80.7	153.2	339.5	338.0	385.6	465.6	512.5	551.0
% Change	34.8%	89.8%	121.6%	-0.4%	14.1%	20.8%	10.1%	7.5%
EBITDA adjusted	4.5	12.2	16.6	20.1	22.9	26.9	32.3	36.0
EBITDA margin (%)	5.6%	8.0%	4.9%	6.0%	5.9%	5.8%	6.3%	6.5%
EBIT adjusted	3.2	9.5	11.1	14.4	16.7	19.4	24.1	27.2
EBIT margin (%)	4.0%	6.2%	3.3%	4.2%	4.3%	4.2%	4.7%	4.9%
Net financial items & associates	-0.4	-1.0	-1.4	-2.2	-1.8	-3.2	-3.2	-2.2
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	1.2	-0.3	-0.3	-0.1	-0.8	-1.1	-1.5	-1.8
Net profit from continuing operations	4.0	8.1	9.4	12.0	14.1	15.1	19.5	23.3
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	4.0	8.1	9.4	12.0	14.1	15.1	19.5	23.3
Net profit reported	3.7	6.9	7.3	11.8	13.0	13.6	18.0	21.8
Net profit adjusted	3.7	6.9	7.3	11.8	13.0	15.1	18.0	21.8
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	-3.1	1.4	12.3	11.2	20.6	12.4	22.8	28.6
Capex	-1.0	-2.8	-3.2	-5.8	-5.8	-10.2	-10.8	-10.5
Free cash flow	-4.1	-1.4	9.1	5.4	14.9	2.1	12.0	18.2
Acquisitions & Divestments	-1.2	-11.6	0.4	5.5	-2.9	1.0	0.0	0.0
Dividend paid	0.0	-0.1	-0.3	-0.3	-3.8	-3.5	-4.6	-5.6
Others	3.7	1.4	0.0	-3.1	7.7	1.3	0.0	0.0
Change in net financial debt	-1.6	-11.6	9.3	7.4	15.9	0.9	7.4	12.6
<b>Balance Sheet (EURm)</b>								
Intangible assets	20.6	40.9	38.8	44.8	57.1	58.5	59.8	60.6
Tangible assets	2.7	11.1	9.9	9.0	11.4	12.8	14.1	14.9
Financial & other non-current assets	3.0	13.6	13.7	13.9	17.4	16.1	16.1	16.1
Total shareholders' equity	33.4	54.6	63.1	71.2	89.7	102.5	118.8	138.3
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	31.5	172.5	150.0	148.9	183.3	209.3	218.4	225.9
Net debt	-5.7	23.6	14.9	9.3	1.5	1.5	-5.9	-18.5
Working capital requirement	6.1	23.2	24.3	23.9	22.3	33.6	39.9	45.1
Invested Capital	29.4	75.2	73.1	77.6	90.8	104.9	113.8	120.7
<b>Ratios</b>								
ROE (%)	14.5%	16.7%	13.2%	18.1%	16.7%	16.2%	16.6%	17.3%
ROIC (%)	12.8%	13.6%	11.3%	14.3%	14.8%	14.9%	16.5%	-5.8%
Net fin. debt / EBITDA (x)	-1.3	1.9	0.9	0.5	0.1	0.1	-0.2	-0.5
Gearing (%)	-17.0%	43.2%	23.6%	13.1%	1.6%	1.5%	-5.0%	-13.4%

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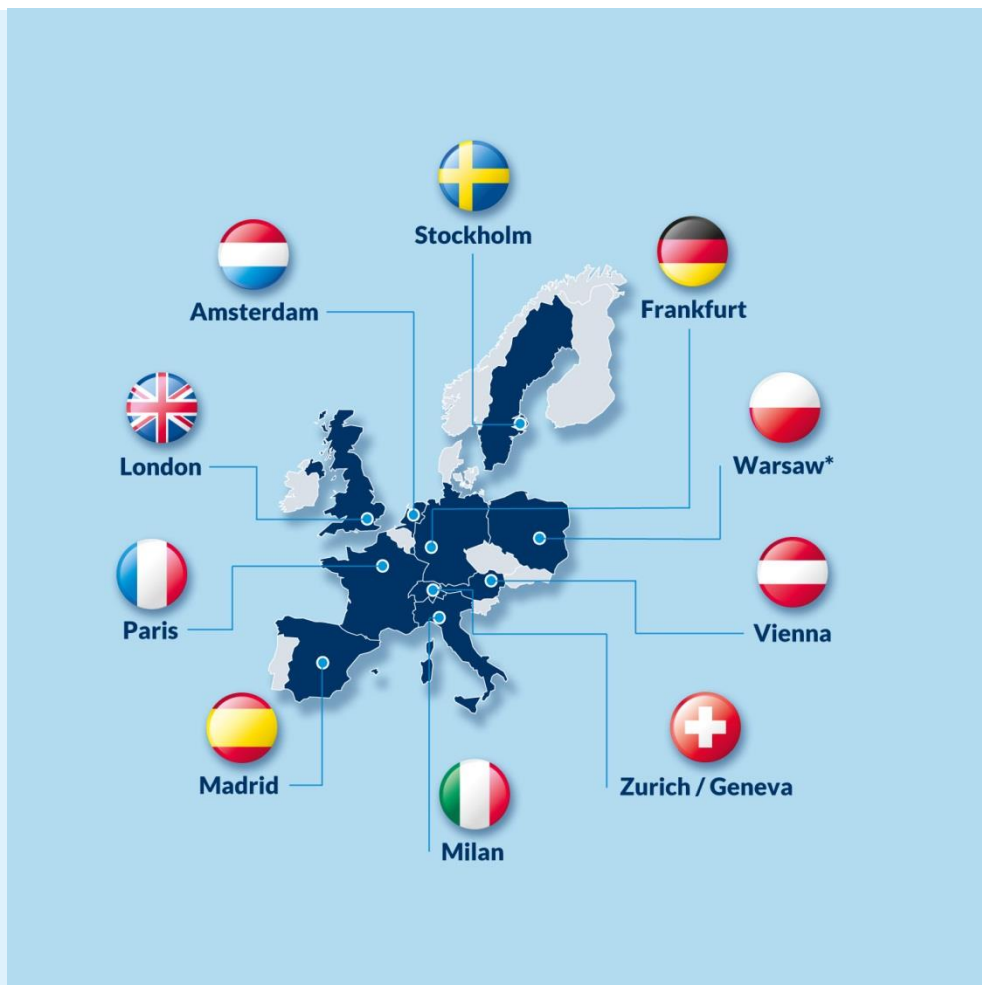
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