

S&T

Germany | IT software & services | MCAP EUR 744.7m

04 August 2017

Buy

Target Price	EUR 18.00 (14.00)
Current Price	EUR 14.46
Up/downside	24.5%
Change in TP	28.6%
Change in EPS	-3.9% 17E / 15.4% 18E

All about profitable growth

S&T beats expectations in Q2. We raise our TP from EUR14 to EUR18.0.

S&T beat expectations in Q2, guidance confirmed

Q2 sales and earnings came strong and above our estimates. Sales in Q2 doubled to EUR199m compared to EUR100m a year ago (KECH: EUR187m, +87%). Further down in the P&L, EBITDA performed even stronger to EUR15m while we expected EUR12m. S&T confirms FY sales guidance of EUR860-890m and once again stated it was very confident in fulfilling its EUR50m forecast in 2017.

About to deliver outstanding growth in the next 18 months

S&T is entering a powerful sequence of growth that could lead to it reaching the EUR1bn mark in 2018E (2x 2016 reported sales). Top-line growth will be driven by: 1) massive cross-selling opportunities in IoT solutions and embedded systems segments (launch of higher added-value embedded systems as of H2, upgrade of Kontron's huge installed base, leveraging of Kontron's large customer base); and 2) fast-growing underlying market in embedded systems (estimated at 8% a year) and IoT (estimated at 15% a year) conducive to sound organic growth (an 11.5% CAGR over 2016-18E).

We are talking about profitable growth

Earnings will also continue to improve strongly, as the share of technology and added-value recurring services will keep accounting for a higher share of the product mix. It is already reflecting in the gross margin that has appreciated by 3pp to 38% in H1. S&T is now attacking the second phase of the integration of Kontron. The earnings boosting programme entails the realisation of synergies in the administration and IT areas (EUR8m expected savings) and the exploitation of technology-based synergies.

The investment case is rock -solid

The shaping of the Ennoconn-Kontron-S&T triumvirate makes S&T an integrated player in the IoT field (hardware, embedded systems, IoT solutions) while providing it with a serious competitive edge in key areas (sourcing, products, distribution). We raise our estimates significantly from 2018 to reflect stronger-than-expected value creation. The shares trade at 9x EBITDA 2019E, in line with German peers. We believe that S&T deserves a premium considering its unique growth story. This is confirmed by our DCF. Buy, TP up from EUR14 to EUR18.

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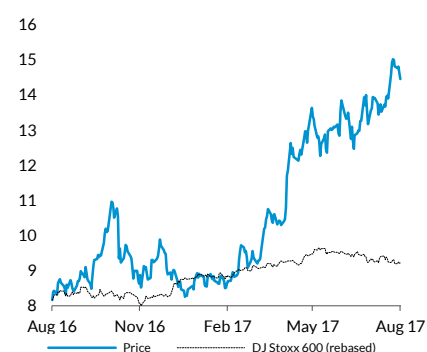
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Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	745
Free float	46%
No. of shares outstanding (m)	51
Avg. daily volume (EURm)	4.0
YTD abs performance	66.2%
52-week high/low (EUR)	15.02/8.25

FY to 31/12 (EUR)	12/17E	12/18E	12/19E
Sales (m)	873.0	987.8	1,085.4
EBITDA adj (m)	56.1	73.7	85.4
EBIT adj (m)	33.4	51.5	63.7
Net profit adj (m)	21.4	40.8	52.2
Net fin. debt (m)	-13.7	-32.8	-64.5
FCF (m)	-12.1	26.9	42.4
EPS adj. and fully dil.	0.42	0.69	0.88
Consensus EPS	0.43	0.59	0.73
Net dividend	0.12	0.17	0.18

FY to 31/12 (EUR)	12/17E	12/18E	12/19E
P/E adj and ful. dil.	34.8	20.9	16.3
EV/EBITDA	13.0	11.1	9.2
EV/EBIT	21.9	15.9	12.4
FCF yield	-1.6%	3.1%	5.0%
Dividend yield	0.9%	1.2%	1.2%
Net fin.debt/EBITDA	-0.2	-0.4	-0.8
Gearing	-5.3%	-11.1%	-19.0%
ROIC	12.5%	17.4%	20.5%
EV/IC	2.7	2.9	2.7



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Key financials

FY to 31/12 (EUR)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Income Statement (EURm)								
Sales	339.5	338.0	385.5	468.2	503.6	873.0	987.8	1,085.4
% Change	121.6%	-0.4%	14.1%	21.5%	7.6%	73.4%	13.1%	9.9%
EBITDA adjusted	16.6	20.1	22.8	28.4	34.4	56.1	73.7	85.4
EBITDA margin (%)	4.9%	6.0%	5.9%	6.1%	6.8%	6.4%	7.5%	7.9%
EBIT adjusted	11.1	14.4	16.6	20.6	24.1	33.4	51.5	63.7
EBIT margin (%)	3.3%	4.2%	4.3%	4.4%	4.8%	3.8%	5.2%	5.9%
Net financial items & associates	-1.4	-2.2	-1.8	-2.2	-4.0	-4.7	-4.2	-3.7
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-0.3	-0.1	-0.8	-0.8	0.3	-2.9	-4.7	-6.0
Net profit from continuing operations	9.4	12.0	14.0	17.6	20.4	25.9	42.6	54.0
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	9.4	12.0	14.0	17.6	20.4	25.9	42.6	54.0
Net profit reported	7.3	11.8	12.9	15.8	14.6	21.4	40.8	52.2
Net profit adjusted	7.3	11.8	12.9	17.6	14.6	21.4	40.8	52.2
Cash Flow Statement (EURm)								
Cash flow from operating activities	11.1	9.9	18.2	24.3	57.5	10.6	49.1	64.1
Capex	-3.2	-5.8	-5.8	-9.5	-9.3	-22.7	-22.2	-21.7
Free cash flow	7.9	4.1	12.4	14.8	48.2	-12.1	26.9	42.4
Acquisitions & Divestments	0.4	5.3	-3.0	-0.4	-64.5	0.0	0.0	0.0
Dividend paid	-0.3	-0.3	-3.8	-4.1	-7.8	-6.2	-7.8	-10.6
Others	-2.3	-4.4	8.5	-1.0	44.0	0.0	0.0	0.0
Change in net financial debt	5.8	4.7	14.0	9.2	19.7	-18.2	19.1	31.7
Balance Sheet (EURm)								
Intangible assets	38.8	44.8	57.1	72.8	183.2	183.2	183.2	183.2
Tangible assets	9.9	9.0	11.4	15.2	27.5	27.5	27.5	27.5
Financial & other non-current assets	13.7	13.9	17.4	33.1	37.5	37.5	37.5	37.5
Total shareholders' equity	63.1	71.2	89.7	102.2	241.1	260.8	295.6	339.0
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	150.0	148.9	183.3	216.8	427.7	470.4	488.2	501.3
Net financial debt	14.9	9.3	1.5	-9.4	-32.0	-13.7	-32.8	-64.5
Working capital requirement	24.3	23.9	22.3	1.6	19.3	57.2	72.9	84.6
Invested Capital	73.1	77.6	90.8	89.5	230.0	267.9	283.7	295.3
Per share data								
EPS adjusted	0.26	0.30	0.32	0.41	0.33	0.42	0.69	0.88
EPS adj and fully diluted	0.26	0.30	0.32	0.40	0.32	0.42	0.69	0.88
% Change	-11.8%	17.0%	4.9%	26.7%	-19.5%	28.9%	66.4%	28.0%
EPS reported	0.26	0.30	0.32	0.36	0.33	0.42	0.69	0.88
Cash flow per share	0.39	0.25	0.44	0.56	1.31	0.21	0.83	1.09
Book value per share	2.16	1.76	2.12	2.29	3.50	5.02	4.97	5.70
Dividend per share	0.00	0.06	0.07	0.08	0.10	0.12	0.17	0.18
Number of shares, YE (m)	28.28	39.20	41.00	43.51	44.00	51.50	59.00	59.00
Ratios								
ROE (%)	13.2%	18.1%	16.6%	18.9%	11.5%	10.4%	14.8%	16.6%
ROIC (%)	14.0%	17.7%	18.3%	21.3%	14.0%	12.5%	17.4%	20.5%
Net fin. debt / EBITDA (x)	0.9	0.5	0.1	-0.3	-0.9	-0.2	-0.4	-0.8
Gearing (%)	23.6%	13.1%	1.6%	-9.2%	-13.3%	-5.3%	-11.1%	-19.0%
Valuation								
P/E adjusted	8.9	7.9	9.0	11.0	22.8	34.8	20.9	16.3
P/E adjusted and fully diluted	8.9	7.9	9.0	11.1	23.4	34.8	20.9	16.3
P/BV	1.1	1.4	1.3	1.9	2.2	2.9	2.9	2.5
P/CF	5.9	9.5	6.4	8.0	5.8	70.0	17.4	13.3
Dividend yield (%)	0.0%	2.5%	2.5%	1.8%	1.3%	0.9%	1.2%	1.2%
FCF yield (%)	12.2%	4.4%	10.6%	7.6%	14.5%	-1.6%	3.1%	5.0%
EV/Sales	0.2	0.3	0.3	0.4	0.8	0.8	0.8	0.7
EV/EBITDA	5.0	5.2	5.3	6.6	11.3	13.0	11.1	9.2
EV/EBIT	7.4	7.3	7.3	9.1	16.1	21.9	15.9	12.4

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Prices in this report are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

Companies mentioned

Stock	ISIN	Currency	Price
S&T	AT0000A0E9W5	EUR	14.46

Source: Factset closing prices of 03/08/2017

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Rating ratio Kepler Cheuvreux Q2 2017

Rating Breakdown	A	B
Buy	45%	50%
Hold	35%	35%
Reduce	17%	9%
Not Rated/Under Review/Accept Offer	3%	6%
Total	100%	100%

Source: KEPLER CHEUVREUX

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

12 months rating history

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
S&T (EUR)	04/08/2016 08:28	Equity Research	Buy	9.30	8.16
	30/09/2016 08:33	Equity Research	Hold	10.50	10.10
	04/01/2017 09:29	Equity Research	Buy	10.50	8.80
	07/04/2017 08:04	Equity Research	Buy	14.00	11.70

Credit research does not issue target prices. Left intentionally blank.

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Hold: The expected upside is below 10% (the expected upside could be higher in light of the company's risk profile).

Reduce: There is an expected downside.

Accept offer: In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offer price is considered to be fairly valuing the shares.

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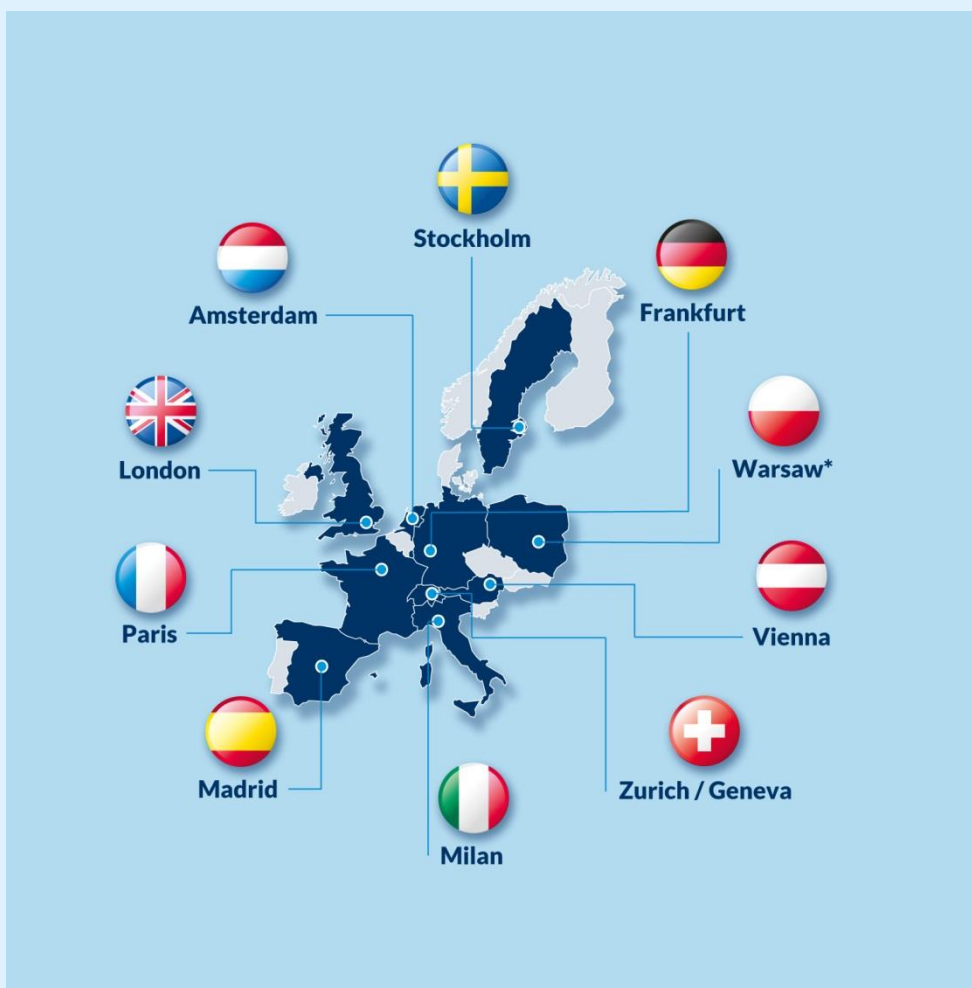
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