

S&T

Germany | IT software & services | MCAP EUR 1.3bn

29 March 2018

Under Review

Target Price	EUR 19.50 (19.50)
Current Price	EUR 20.06
Up/downside	-2.8%
Change in TP	none
Change in EPS	-7.0% 18E / -7.0% 19E

Gives bullish long-term guidance

S&T matched 2017 sales guidance and exceeded EBITDA target quite significantly. Bullish 2018 outlook is confirmed on the back of a strong backlog. More importantly, S&T provided a very bullish target in the long term (doubling sales by 2023 to EUR2bn).

EBITDA exceeds guidance

S&T achieved sales of EUR882m (previous year: EUR503.7m) above guidance of "at least EUR860m" and EBITDA came to EUR68.1 (previous year: EUR34.4m) and above the guidance of EUR60m. It is above our estimates too. All business segments did positively. Reported double- and triple digit growth in IoT Solutions and embedded systems obviously benefited from the contribution of Kontron this year. No organic growth was disclosed as changes in scope are too large.

S&T provides very bullish short- and long-term outlook

On top of the already-announced EUR1bn sales guidance and confirmed for 2018 (i.e. +13% YOY), S&T plans on achieving an higher rise in profits, with EBITDA set to reach EUR80m, suggesting 8% EBITDA margin (+1pp vs. 2017). This is slightly above our estimates but not fundamentally different (EUR987m in sales, EUR77m in EBITDA, 7.9% EBITDA margin). More importantly, S&T does not foresee growth cooling off over the long-term and we plan on doubling our sales to EUR2bn by 2023 on the back of strong underlying market growth for the IoT industry (16% annually) with a corresponding increase in margins. We assume this includes some additional acquisitions. S&T mentions that it envisions additional acquisitions in the software sector to bring some important know-how.

TP placed under review

We are in the process of reviewing our numbers and valuation model and move the stock from Buy to Under Review. Given the good visibility on backlog and company's good track record in delivering on guidance, the shares should react positively to the news.

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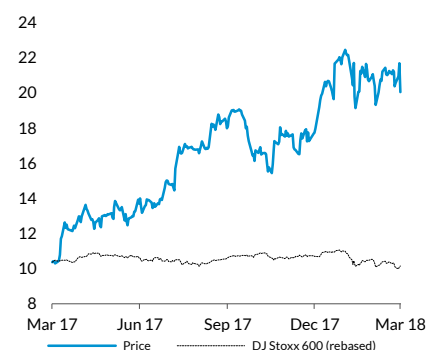
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Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	1,273
Free float	46%
No. of shares outstanding (m)	63
Avg. daily volume (EURm)	8.0
YTD abs performance	11.5%
52-week high/low (EUR)	22.46/10.30

FY to 31/12 (EUR)	12/17	12/18E	12/19E
Sales (m)	873.0	987.8	1,085.4
EBITDA adj (m)	60.0	77.6	93.4
EBIT adj (m)	35.6	52.9	68.9
Net profit adj (m)	23.3	41.9	56.7
Net fin. debt (m)	-15.7	-35.5	-73.8
FCF (m)	-10.1	28.2	47.1
EPS adj. and fully dil.	0.43	0.66	0.89
Consensus EPS	0.46	0.70	0.91
Net dividend	0.13	0.13	0.18

FY to 31/12 (EUR)	12/17	12/18E	12/19E
P/E adj and ful. dil.	32.0	30.4	22.4
EV/EBITDA	12.2	15.9	12.8
EV/EBIT	20.5	23.4	17.4
FCF yield	-1.4%	2.2%	3.7%
Dividend yield	0.9%	0.7%	0.9%
Net fin.debt/EBITDA	-0.3	-0.5	-0.8
Gearing	-6.0%	-11.9%	-21.2%
ROIC	13.3%	17.9%	22.1%
EV/IC	2.7	4.4	4.1



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Key financials

FY to 31/12 (EUR)	2012	2013	2014	2015	2016	2017	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	60.0	77.6	93.4
EBITDA margin (%)	4.9%	6.0%	5.9%	6.1%	6.8%	6.9%	7.9%	8.6%
EBIT adjusted	11.1	14.4	16.6	20.6	24.1	35.6	52.9	68.9
EBIT margin (%)	3.3%	4.2%	4.3%	4.4%	4.8%	4.1%	5.4%	6.4%
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	-3.1	-4.9	-6.5
Net profit from continuing operations	9.4	12.0	14.0	17.6	20.4	27.8	43.9	58.7
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	27.8	43.9	58.7
Net profit reported	7.3	11.8	12.9	15.8	14.6	23.3	41.9	56.7
Net profit adjusted	7.3	11.8	12.9	17.6	14.6	23.3	41.9	56.7
Cash Flow Statement (EURm)								
Cash flow from operating activities	11.1	9.9	18.2	24.3	57.5	14.3	52.9	71.5
Capex	-3.2	-5.8	-5.8	-9.5	-9.3	-24.4	-24.7	-24.4
Free cash flow	7.9	4.1	12.4	14.8	48.2	-10.1	28.2	47.1
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	-8.3	-8.8
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	-16.3	19.8	38.3
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	262.7	298.3	348.2
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	-15.7	-35.5	-73.8
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	0.43	0.66	0.89
EPS adj and fully diluted	0.26	0.30	0.32	0.40	0.32	0.43	0.66	0.89
% Change	-11.8%	17.0%	4.9%	26.7%	-19.5%	34.7%	52.2%	35.4%
EPS reported	0.26	0.30	0.32	0.36	0.33	0.43	0.66	0.89
Cash flow per share	0.39	0.25	0.44	0.56	1.31	0.27	0.83	1.13
Book value per share	2.16	1.76	2.12	2.29	3.50	4.84	4.66	5.45
Dividend per share	0.00	0.06	0.07	0.08	0.10	0.13	0.13	0.18
Number of shares, YE (m)	28.28	39.20	41.00	43.51	44.00	53.72	63.44	63.44
Ratios								
ROE (%)	13.2%	18.1%	16.6%	18.9%	11.5%	11.3%	15.1%	17.7%
ROIC (%)	14.0%	17.7%	18.3%	21.3%	14.0%	13.3%	17.9%	22.1%
Net fin. debt / EBITDA (x)	0.9	0.5	0.1	-0.3	-0.9	-0.3	-0.5	-0.8
Gearing (%)	23.6%	13.1%	1.6%	-9.2%	-13.3%	-6.0%	-11.9%	-21.2%
Valuation								
P/E adjusted	8.9	7.9	9.0	11.0	22.8	32.0	30.4	22.4
P/E adjusted and fully diluted	8.9	7.9	9.0	11.1	23.4	32.0	30.4	22.4
P/BV	1.1	1.4	1.3	1.9	2.2	2.9	4.3	3.7
P/CF	5.9	9.5	6.4	8.0	5.8	52.1	24.1	17.8
Dividend yield (%)	0.0%	2.5%	2.5%	1.8%	1.3%	0.9%	0.7%	0.9%
FCF yield (%)	12.2%	4.4%	10.6%	7.6%	14.5%	-1.4%	2.2%	3.7%
EV/Sales	0.2	0.3	0.3	0.4	0.8	0.8	1.3	1.1
EV/EBITDA	5.0	5.2	5.3	6.6	11.3	12.2	15.9	12.8
EV/EBIT	7.4	7.3	7.3	9.1	16.1	20.5	23.4	17.4

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Companies mentioned

Stock	ISIN	Currency	Price
S&T	AT0000A0E9W5	EUR	20.06

Source: Factset closing prices of 28/03/2018

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Rating Breakdown	A	B
Buy	46%	42%
Hold	35%	37%
Reduce	17%	13%
Not Rated/Under Review/Accept Offer	2%	8%
Total	100%	100%

Source: KEPLER CHEUVREUX

A: % of all research recommendations

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

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
S&T (EUR)	07/04/2017 08:04	Equity Research	Buy	14.00	11.70
	04/08/2017 08:25	Equity Research	Buy	18.00	14.46
	10/11/2017 09:02	Equity Research	Buy	19.50	15.54

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

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Hold: The analyst has a stable credit fundamental opinion on the issuer and/or performances of the debt securities over a 6 months period.

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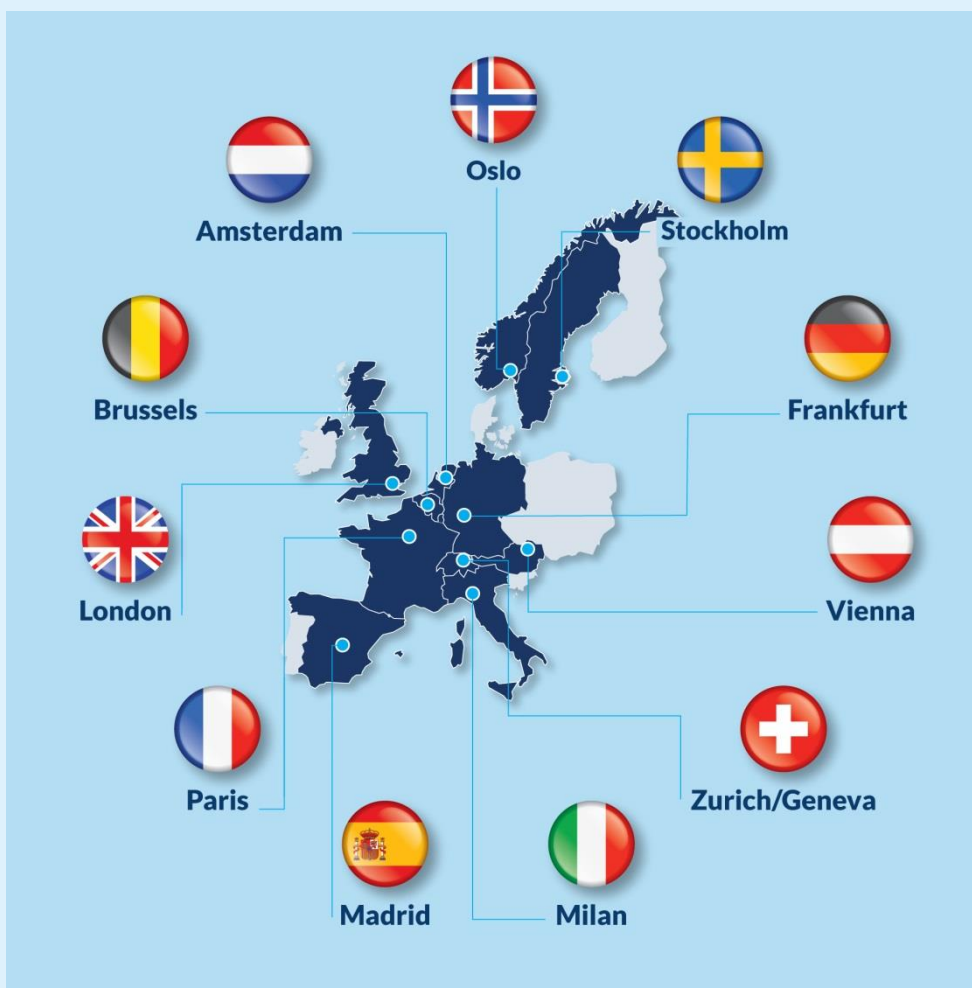
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