

S&T

Germany | IT software & services | MCAP EUR 1.2bn

04 April 2018

Buy

 (Under Review)

Target Price	EUR 21.50 (19.50)
Current Price	EUR 18.66
Up/downside	15.2%
Change in TP	10.3%
Change in EPS	17.1% 18E / 13.5% 19E

Unjustified correction - Buy

The share price drop in the wake of FY 2017 results was surprising, given the quality of the reported performance and outlook, as the group beat both our estimates and consensus. The outlook has not deteriorated; in fact, it is the opposite. We see an opportunity here; investors should take advantage of this weakness. We raise our estimates, lift our TP to EUR21.50, up from EUR19.5, and set a Buy rating after placing the stock Under Review.

Price correction not justified

The 10% share drop after the 2017 earnings release last week was unjustified, in our view. As a reminder, EBITDA of EUR68m exceeded both guidance and consensus, sales growth of 75% YOY met expectations and EPS was a record high (EUR0.43). The mid-term outlook remains solid, illustrated by S&T's ambition to double sales by 2023 to EUR2bn (half of expected growth is organic, the rest via M&A). In the short term, guidance of EUR80m for 2018 can be seen as conservative.

Investment case intact, EPS estimates increased by 15%

We raise estimates to factor in better-than-expected products (EPS 2018E and 2019E up by 17% and 13%). We stand by our underlying bullish assumptions. First, we factor in sustained growth ahead (11.5% organic CAGR over 2017-23E), primarily driven by robust demand for IoT solutions that combine hardware (Kontron) and software (S&T) expertise. Second, we see an improvement in gross margins as a result of better sourcing (Foxconn) and product mix (greatest share of technology, added-value recurring services and software). 2017 delivery indicated a YOY improvement of 2pp in gross margin to 35.7%, and we expect GM enhancement to continue to drive profitability next year and beyond (37% in 2018E, c. 40% in the medium run). Our view is that S&T is now an integrated player in the IoT field with a competitive edge in key areas (sourcing, products, and distribution).

Buying opportunity

We definitely see some upside to current share prices. We derive our target price of EUR21.50 through a DCF (9.5% WACC, 2% LT growth) and peers comparison. Value creation will show up in the ROIC progressing to above 20% at cruising speed (15.7% in 2017). Our sample of peers is composed of German and eastern European companies. Based on 2019E multiples (13x EBIT and 18x P/E.), S&T is trading at a 5% discount to peers but could easily deserve a premium, given the story of sustained growth and margin expansion.

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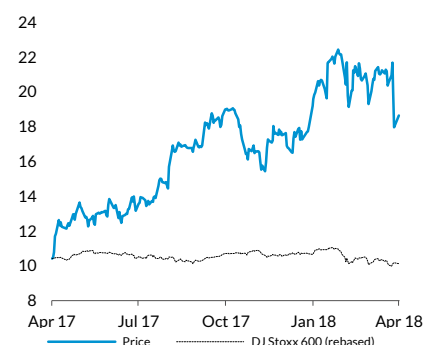
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Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	1,184
Free float	46%
No. of shares outstanding (m)	63
Avg. daily volume (EURm)	9.2
YTD abs performance	3.8%
52-week high/low (EUR)	22.46/10.48

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
Sales (m)	1,005.4	1,115.9	1,217.6
EBITDA adj (m)	86.4	105.0	120.4
EBIT adj (m)	61.2	78.3	92.4
Net profit adj (m)	49.1	64.4	77.1
Net fin. debt (m)	-120.3	-150.7	-189.9
FCF (m)	27.3	45.9	59.3
EPS adj. and fully dil.	0.77	1.02	1.22
Consensus EPS	0.68	0.91	1.37
Net dividend	0.23	0.30	0.36

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
P/E adj and ful. dil.	24.1	18.4	15.4
EV/EBITDA	12.3	9.8	8.3
EV/EBIT	17.4	13.2	10.8
FCF yield	2.3%	3.9%	5.0%
Dividend yield	1.2%	1.6%	2.0%
Net fin.debt/EBITDA	-1.4	-1.4	-1.6
Gearing	-32.1%	-35.4%	-39.1%
ROIC	21.7%	25.6%	28.1%
EV/IC	3.9	3.5	3.2



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Key financials

FY to 31/12 (EUR)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Income Statement (EURm)								
Sales	338.0	385.5	468.2	503.6	882.0	1,005.4	1,115.9	1,217.6
% Change	-0.4%	14.1%	21.5%	7.6%	75.1%	14.0%	11.0%	9.1%
EBITDA adjusted	20.1	22.8	28.4	34.4	68.1	86.4	105.0	120.4
EBITDA margin (%)	6.0%	5.9%	6.1%	6.8%	7.7%	8.6%	9.4%	9.9%
EBIT adjusted	14.4	16.6	20.6	24.1	41.8	61.2	78.3	92.4
EBIT margin (%)	4.2%	4.3%	4.4%	4.8%	4.7%	6.1%	7.0%	7.6%
Net financial items & associates	-2.2	-1.8	-2.2	-4.0	-6.4	-3.9	-3.9	-3.9
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-0.1	-0.8	-0.8	0.3	-6.0	-5.7	-7.4	-8.8
Net profit from continuing operations	12.0	14.0	17.7	20.4	29.4	51.6	66.9	79.6
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	12.0	14.0	17.7	20.4	29.4	51.6	66.9	79.6
Net profit reported	11.8	12.9	15.8	14.6	22.5	49.1	64.4	77.1
Net profit adjusted	11.8	12.9	17.7	14.6	22.5	49.1	64.4	77.1
Cash Flow Statement (EURm)								
Cash flow from operating activities	9.9	18.2	24.3	57.5	39.2	57.5	78.2	93.4
Capex	-5.8	-5.8	-9.5	-9.3	-23.0	-30.2	-32.4	-34.1
Free cash flow	4.1	12.4	14.8	48.2	16.2	27.3	45.9	59.3
Acquisitions & Divestments	5.3	-3.0	-0.4	-64.5	-16.2	0.0	0.0	0.0
Dividend paid	-0.3	-3.8	-4.1	-7.8	-7.0	-8.8	-15.5	-20.1
Others	-4.4	8.5	-1.0	44.0	86.9	0.0	0.0	0.0
Change in net financial debt	4.7	14.0	9.2	19.7	79.9	18.5	30.4	39.2
Balance Sheet (EURm)								
Intangible assets	44.8	57.1	72.8	183.2	189.9	194.0	198.4	203.3
Tangible assets	9.0	11.4	15.2	27.5	31.9	32.9	34.0	35.2
Financial & other non-current assets	13.9	17.4	33.1	37.5	46.2	46.2	46.2	46.2
Total shareholders' equity	71.2	89.7	102.2	241.1	331.9	374.6	426.0	485.6
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	148.9	183.3	216.8	427.7	473.0	497.5	517.2	535.3
Net financial debt	9.3	1.5	-9.4	-32.0	-101.8	-120.3	-150.7	-189.9
Working capital requirement	23.9	22.3	1.6	19.3	28.0	47.2	62.6	76.9
Invested Capital	77.6	90.8	89.5	230.0	249.8	274.0	295.0	315.4
Per share data								
EPS adjusted	0.30	0.32	0.41	0.33	0.43	0.77	1.02	1.22
EPS adj and fully diluted	0.30	0.32	0.40	0.32	0.43	0.77	1.02	1.22
% Change	17.0%	4.9%	26.8%	-19.5%	34.7%	78.1%	31.3%	19.7%
EPS reported	0.30	0.32	0.36	0.33	0.43	0.77	1.02	1.22
Cash flow per share	0.25	0.44	0.56	1.31	0.76	0.91	1.23	1.47
Book value per share	1.76	2.12	2.29	3.50	5.88	5.48	6.29	7.23
Dividend per share	0.06	0.07	0.08	0.10	0.13	0.23	0.30	0.36
Number of shares, YE (m)	39.20	41.00	43.51	44.00	51.93	63.44	63.44	63.44
Ratios								
ROE (%)	18.1%	16.6%	18.9%	11.5%	9.8%	15.0%	17.2%	18.0%
ROIC (%)	17.7%	18.3%	21.3%	14.0%	16.2%	21.7%	25.6%	28.1%
Net fin. debt / EBITDA (x)	0.5	0.1	-0.3	-0.9	-1.5	-1.4	-1.4	-1.6
Gearing (%)	13.1%	1.6%	-9.2%	-13.3%	-30.7%	-32.1%	-35.4%	-39.1%
Valuation								
P/E adjusted	7.9	9.0	11.0	22.8	32.0	24.1	18.4	15.4
P/E adjusted and fully diluted	7.9	9.0	11.1	23.4	32.0	24.1	18.4	15.4
P/BV	1.4	1.3	1.9	2.2	2.4	3.4	3.0	2.6
P/CF	9.5	6.4	8.0	5.8	18.4	20.6	15.1	12.7
Dividend yield (%)	2.5%	2.5%	1.8%	1.3%	0.9%	1.2%	1.6%	2.0%
FCF yield (%)	4.4%	10.6%	7.6%	14.5%	2.2%	2.3%	3.9%	5.0%
EV/Sales	0.3	0.3	0.4	0.8	0.7	1.1	0.9	0.8
EV/EBITDA	5.2	5.3	6.6	11.3	9.1	12.3	9.8	8.3
EV/EBIT	7.3	7.3	9.1	16.1	14.8	17.4	13.2	10.8

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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	18.66

Source: Factset closing prices of 03/04/2018

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Name of the Research Analyst(s): Baptiste de Leudeville

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Rating ratio Kepler Cheuvreux Q4 2017

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
	29/03/2018 08:52	Equity Research	Under Review	19.50	20.06

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.

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

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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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