

H&A FIRST TAKE

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21-November-18

Positive mid-day RS feedback

On roadshow in London with CEO Niederhauser **who is giving a confident presentation** focusing on structural growth drivers, cashflow and cash use, as well as current trading. Notably, CEO Niederhauser **sees no demand slowdown** and reiterated the recently raised FY'18E guidance (c. € 1bn sales / € 88m EBITDA) as well as the 2023 targets of € 2bn sales at 10%+ EBITDA (conservatively not fully accounted for in eH&A). Key insights:

* **Strong cash generation ahead.** In Q4'18E, cash flow is expected to exceed € 60m (9m'18: zero) thanks to favourable seasonality driving strong profitability and w/c reduction. This means net cash should exceed € 60m by year end (accounting for € 30m M&A cash out). **Cash use:** we expect S&T to use some € 50m per year for M&A (good for c. € 100m in sales) **AND potentially implement a share buyback program** to take advantage of the attractive valuation following the fundamentally-unjustified share price slump.

* **Exposure to attractive growth markets.** Management continues to see brisk demand and even has selected customers pushing for faster deliveries, **suggesting the recently raised FY'18E guidance remains fully intact.** Importantly, **S&T is seen to thrive on structural drivers** as IoT functionality is mission-critical for customers to improve efficiency and remain competitive, **and the return on investment of implementing S&T's solutions is typically substantially below one year.** Current backlog provides visibility on Q4'18E and Q1'19E. Key growth applications within IoT (40% of sales) include:

- **Avionics** (secure in-flight connectivity), which should reach € 45m sales in 2019E vs. € 25m this year.

- **Autonomous driving** - S&T co-operates with a Tier-1 automotive supplier to provide computing power and software for Level 3 / 4 autonomous driving. While still in early-stage pilot projects, related revenues look set to exceed € 20m this year.

- **Automated logistics** - Smart automation comprising forklifts and shelving systems enables e.g. preventive maintenance and efficiency improvements.

* **Self-help measures to drive further growth and margin improvements in 2019E.** Embedded Systems (20% of sales) is expected to grow at double-digits and move closer to a 10% EBITDA margin in 2019E (2018E: low single digit FX-adjusted growth / 7% margin) as **strategic measures should take effect** including (1) Growth and cost synergies between the now merged US and Canadian subsidiaries; (2) Adding software to its products.

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Buy

Price target: EUR 28.50

Price: EUR 17.02

Close price as of: 20.11.2018

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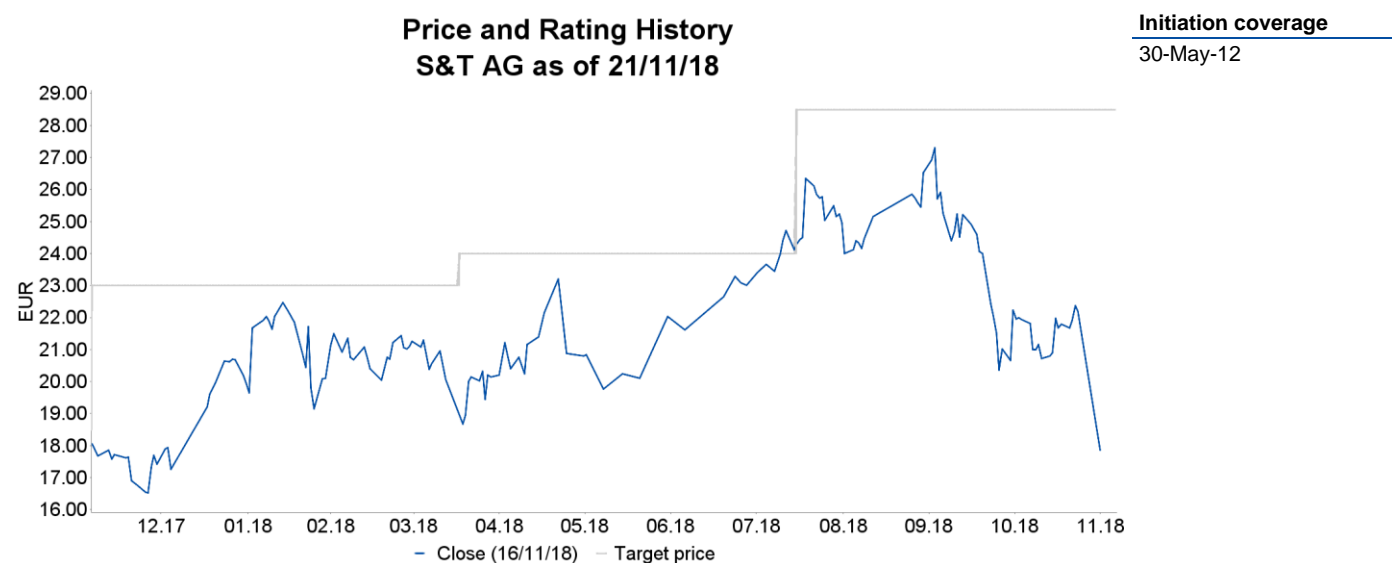
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Company	Disclosure
S&T AG	3

Historical target price and rating changes for S&T AG in the last 12 months



Company	Date	Analyst	Rating	Target price	Close
S&T AG	17.09.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 26,92
	03.09.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 25,16
	28.08.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 25,16
	07.08.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 25,84
	31.07.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 24,30
	10.07.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 23,28

03.07.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 21,62
07.06.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 20,10
07.05.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 23,20
02.05.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 22,14
11.04.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 19,45
03.04.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 18,66
18.01.2018	Wunderlich, CFA, Tim	Buy	EUR 23,00	EUR 21,68
22.11.2017	Wunderlich, CFA, Tim	Buy	EUR 23,00	EUR 18,05

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