

H&A FIRST TAKE

H&A FIRST TAKE

H&A FIRST TAKE

03-April-19

RS reveals upside to mid-term targets

A roadshow with CEO Niederhauser to Paris is being met with strong interest; a total of 20 investors were scheduled to see the company today.

Key points to highlight:

- **Q1 was one of the strongest design win quarters for S&T** in recent history. Noteworthy projects include:
 - (i) **A Level 4 autonomous driving design win worth almost € 40m** (over 18 months) for a big German auto OEM. S&T is providing the realtime server (hardware plus software) for on-board computing power with an ASP of c. € 50k per car. This design win builds upon the recent success in other autonomous driving projects e.g. with a rival of UBER.
 - (ii) **An € 18m design win with an Asian airline** to provide in-flight Wi-Fi and security (hardware / software). Further penetration could make this client a € 100m annual revenue customer in several years, according to management.
- Both design wins underpin the **success of S&T's co-operations** as the auto OEM was won with the help of partner Intel / Mobileye and the airline client through Foxconn.
- **Innovative technologies to become major growth drivers going forward.** (1) Data processing / communications technology SUSiEtec targeting the „Smart Factory“ is used in 53 test projects currently (clients include German Blue Chips). Importantly, € 1 in SUSiEtec revenues triggers knock-on demand for € 10 in revenues for other IoT solutions (i.e. hardware / software). S&T expects major production installations and total related revenues to rise to € 250m+ p.a. by 2023E at 20%+ EBITDA margins. Key rival is ADAMOS from Software AG but S&T has more installations and is open source, which is an edge; (2) The new, unique cloud-ready Smart Meter (in co-op with Foxconn) has secured a € 10m+ design win in Austria and S&T is pitching for four major Smart Energy projects. Its competitive edge: unrivaled costs (thanks to Foxconn) and differentiated technology. Related revenues should amount to € 100-150m p.a. by 2023E vs. € 50m currently.
 - **Upside to mid-term guidance.** While the 2023E guidance is for 10% EBITDA margin currently, management notes that the **margin could in fact go up to 13-14%** by then thanks to targeted gross margin improvements to 40% (driven by more software, more maintenance revenues and new technologies like SUSiEtec). **This would imply some 2pp upside** to our mid-term margin expectations, suggesting our current model estimates are conservative.

Newsflow: Expect solid Q1 results (eH&A: 10%+ yoy sales growth / disproportionate EBITDA growth) as well as at least one M&A transaction by Q3 (eH&A: >€ 100m sales for <0.5x EV/ sales).

Reiterate BUY with a € 28.50 PT based on DCF.

Tim Wunderlich, CFA

Analyst

tim.wunderlich@ha-ib.de

+49 40 4143885 81

Buy

Price target: EUR 28.50

Price: EUR 23.14

Close price as of: 02.04.2019

Disclosures regarding research publications of Hauck & Aufhäuser Privatbankiers AG pursuant to section 85 of the German Securities Trading Act (WpHG) and distributed in the UK under an EEA branch passport, subject to the FCA requirements on research recommendation disclosures

It is essential that any research recommendation is fairly presented and discloses interests of indicates relevant conflicts of interest. Pursuant to section 85 of the German Securities Trading Act (WpHG) a research report has to point out possible conflicts of interest in connection with the analysed company. Further to this, under the FCA’s rules on research recommendations, any conflicts of interest in connection with the recommendation must be disclosed. A conflict of interest is presumed to exist in particular if Hauck & Aufhäuser Privatbankiers AG

- (1) or its affiliate(s) (either in its own right or as part of a consortium) within the past twelve months, acquired the financial instruments of the analysed company,
- (2) has entered into an agreement on the production of the research report with the analysed company,
- (3) or its affiliate(s) has, within the past twelve months, been party to an agreement on the provision of investment banking services with the analysed company or have received services or a promise of services under the term of such an agreement,
- (4) or its affiliate(s) holds a) 5% or more of the share capital of the analysed company, or b) the analysed company holds 5% or more of the share capital of Hauck & Aufhäuser Privatbankiers AG or its affiliate(s),
- (5) or its affiliate(s) holds a net long (a) or a net short (b) position of 0.5% of the outstanding share capital of the analysed company or derivatives thereof,
- (6) or its affiliate(s) is a market maker or liquidity provider in the financial instruments of the issuer,
- (7) or the analyst has any other significant financial interests relating to the analysed company such as, for example, exercising mandates in the interest of the analysed company or a significant conflict of interest with respect to the issuer,
- (8) The research report has been made available to the company prior to its publication. Thereafter, only factual changes have been made to the report.

Conflicts of interest that existed at the time when this research report was published:

Company	Disclosure
S&T AG	3

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

**Price and Rating History
S&T AG as of 03/04/19**

Initiation coverage
30-May-12



Company	Date	Analyst	Rating	Target price	Close
S&T AG	01.04.2019	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 22,60
	10.01.2019	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 17,85
	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

Hauck & Aufhäuser distribution of ratings and in proportion to investment banking services

Buy	63.58 %	85.00 %
Sell	13.25 %	0.00 %
Hold	23.18 %	15.00 %

Date of publication creation: 03/04/2019 03:23 PM

Date of publication dissemination: 03/04/2019 03:27 PM

1. General Information/Liabilities

This research report has been produced for the information purposes of institutional investors only, and is not in any way a personal recommendation, offer or solicitation to buy or sell the financial instruments mentioned herein. The document is confidential and is made available by Hauck & Aufhäuser Privatbankiers AG, exclusively to selected recipients [in DE, GB, FR, CH, US, UK, Scandinavia, and Benelux or, in individual cases, also in other countries]. A distribution to private investors in the sense of the German Securities Trading Act (WpHG) is excluded. It is not allowed to pass the research report on to persons other than the intended recipient without the permission of Hauck & Aufhäuser Privatbankiers AG. Reproduction of this document, in whole or in part, is not permitted without prior permission Hauck & Aufhäuser Privatbankiers AG. All rights reserved.

Under no circumstances shall Hauck & Aufhäuser Privatbankiers AG, any of its employees involved in the preparation, have any liability for possible errors or incompleteness of the information included in this research report – neither in relation to indirect or direct nor consequential damages. Liability for damages arising either directly or as a consequence of the use of information, opinions and estimates is also excluded. Past performance of a financial instrument is not necessarily indicative of future performance.

2. Responsibilities

This research report was prepared by the research analyst named on the front page (the "Producer"). The Producer is solely responsible for the views and estimates expressed in this report. The report has been prepared independently. The content of the research report was not influenced by the issuer of the analysed financial instrument at any time. It may be possible that parts of the research report were handed out to the issuer for information purposes prior to the publication without any major amendments being made thereafter.

3. Organisational Requirements

Hauck & Aufhäuser Privatbankiers AG took internal organisational and regulative precautions to avoid or accordingly disclose possible conflicts of interest in connection with the preparation and distribution of the research report. All members of Hauck & Aufhäuser Privatbankiers AG involved in the preparation of the research report are subject to internal compliance regulations. No part of the Producer's compensation is directly or indirectly related to the preparation of this financial analysis. In case a research analyst or a closely related person is confronted with a conflict of interest, the research analyst is restricted from covering this company.

4. Information Concerning the Methods of Valuation/Update

The determination of the fair value per share, i.e. the price target, and the resultant rating is done on the basis of the adjusted free cash flow (adj. FCF) method and on the basis of the discounted cash flow – DCF model. Furthermore, a peer group comparison is made.

The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

Within the framework of the DCF approach, the future free cash flows are calculated initially on the basis of a fictitious capital structure of 100% equity, i.e. interest and repayments on debt capital are not factored in initially. The adjustment towards the actual capital structure is done by discounting the calculated free cash flows with the weighted average cost of capital (WACC), which takes into account both the cost of equity capital and the cost of debt. After discounting, the calculated total enterprise value is reduced by the interest-bearing debt capital in order to arrive at the equity value.

Hauck & Aufhäuser Privatbankiers AG uses the following three-step rating system for the analysed companies:

Buy: Sustainable upside potential of more than 10% within 12 months
Sell: Sustainable downside potential of more than 10% within 12 months.
Hold: Upside/downside potential is limited. No immediate catalyst visible.

NB: The ratings of Hauck & Aufhäuser Privatbankiers AG are not based on a performance that is expected to be "relative" to the market.

The decision on the choice of the financial instruments analysed in this document was solely made by Hauck & Aufhäuser Privatbankiers AG. The opinions and estimates in this research report are subject to change without notice. It is within the discretion of Hauck & Aufhäuser Privatbankiers AG whether and when it publishes an update to this research report, but in general updates are created on a regular basis, after 6 months at the latest. A sensitivity analysis is included and published in company's initial studies.

5. Major Sources of Information

Part of the information required for this research report was made available by the issuer of the financial instrument. Furthermore, this report is based on publicly available sources (such as, for example, Bloomberg, Reuters, VWD-Trader and the relevant daily press) believed to be reliable. Hauck & Aufhäuser Privatbankiers AG has checked the information for plausibility but not for accuracy or completeness.

6. Competent Supervisory Authority

Hauck & Aufhäuser Privatbankiers AG are under supervision of the BaFin – German Federal Financial Supervisory Authority Bundesanstalt für Finanzdienstleistungsaufsicht), Graurheindorfer Straße 108, 53117 Bonn and Marie-Curie-Straße 24 – 28, 60439 Frankfurt a.M.

This document is distributed in the UK under a MiFID EEA branch passport and in compliance with the applicable FCA requirements.

7. Specific Comments for Recipients Outside of Germany

This research report is subject to the law of the Federal Republic of Germany. The distribution of this information to other states in particular to the USA, Canada, Australia and Japan may be restricted or prohibited by the laws applicable within this state.

8. Miscellaneous

According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under:

<https://www.hauck-aufhaeuser.com/en/investment-banking/equities#institutionalresearch>

Contacts: Hauck&Aufhäuser Privatbankiers AG**Hauck & Aufhäuser Research**

Hauck & Aufhäuser
Privatbankiers AG
Mittelweg 16/17
20148 Hamburg
Germany

Tel.: +49 (0) 40 414 3885 91
Fax: +49 (0) 40 414 3885 71
Email: research@ha-ib.de
www.ha-research.de

Tim Wunderlich, CFA
Head of Transactional Research
Tel.: +49 40 414 3885 81
E-Mail: tim.wunderlich@ha-ib.de

Henning Breiter
Head of Research
Tel.: +49 40 414 3885 73
E-Mail: henning.breiter@ha-ib.de

Marie-Thérèse Grübner
Head of Corporate Brokerage
Tel.: +49 40 450 6342 3097
E-Mail: marie-therese.gruebner@ha-ib.de

Carlos Becke
Analyst
Tel.: +49 40 414 3885 74
E-Mail: carlos.becke@ha-ib.de

Simon Bentlage
Analyst
Tel.: +49 40 4506342 3096
E-Mail: simon.bentlage@ha-ib.de

Frederik Bitter
Analyst
Tel.: +44 203 9473 247
E-Mail: frederik.bitter@ha-ib.de

Robin Brass, CFA
Analyst
Tel.: +49 40 414 3885 76
E-Mail: robin.brass@ha-ib.de

Christian Glowa
Analyst
Tel.: +49 40 414 3885 95
E-Mail: christian.glowa@ha-ib.de

Aliksandr Halitsa
Analyst
Tel.: +49 40 414 3885 83
E-Mail: aliaksandr.halitsa@ha-ib.de

Alina Köhler
Analyst
Tel.: +49 40 4506342 3095
E-Mail: alina.koehler@ha-ib.de

Christian Salis
Analyst
Tel.: +49 40 414 3885 96
E-Mail: christian.salis@ha-ib.de

Christian Sandherr
Analyst
Tel.: +49 40 414 3885 79
E-Mail: christian.sandherr@ha-ib.de

Julius Stinauer
Analyst
Tel.: +49 40 414 3885 84
E-Mail: julius.stinauer@ha-ib.de

Hauck & Aufhäuser Sales

Toby Woods
Sales
Tel.: +44 203 9473 245
E-Mail: toby.woods@ha-ib.de

Christian Alisch
Sales
Tel.: +49 40 414 3885 99
E-Mail: christian.alisch@ha-ib.de

Vincent Bischoff
Sales
Tel.: +49 40 414 3885 88
E-Mail: vincent.bischoff@ha-ib.de

Alexander Lachmann
Sales
Tel.: +41 43 497 30 23
E-Mail: alexander.lachmann@ha-ib.de

Hugues Madelin
Sales
Tel.: +33 1 78 41 40 62
E-Mail: hugues.madelin@ha-ib.de

Christian Schwenkenbecher
Sales
Tel.: +44 203 9473 246
E-Mail: christian.schwenkenbecher@ha-ib.de

Hauck & Aufhäuser Sales Trading

Hauck & Aufhäuser
Privatbankiers AG
Mittelweg 16/17
20148 Hamburg
Germany

Tel.: +49 40 414 3885 78
Fax: +49 40 414 3885 71
Email: info@hauck-aufhaeuser.com
www.hauck-aufhaeuser.com

Mirko Brueggemann
Trading
Tel.: +49 40 414 3885 78
E-Mail: mirko.brueggemann@hauck-aufhaeuser.com

Christian von Schuler
Trading
Tel.: +49 40 414 3885 77
E-Mail: christian.schuler@hauck-aufhaeuser.com

Fin Schaffer
Trading
Tel.: +49 40 414 3885 98
E-Mail: fin.schaffer@hauck-aufhaeuser.com

Kathleen Jonas
Middle-Office
Tel.: +49 40 414 3885 97
E-Mail: kathleen.jonas@hauck-aufhaeuser.com

Carolin Weber
Middle-Office
Tel.: +49 40 414 3885 87
E-Mail: carolin.weber@hauck-aufhaeuser.com