

# S&T

Germany | IT software & services | MCAP EUR 425.3m

04 January 2017

# Buy (Hold)

Target Price	EUR 10.50 (10.50)
Current Price	EUR 8.80
Up/downside	19.3%
Change in TP	none
Change in EPS	-7.8% 2016E

## Greater visibility on Kontron deal, upgrading to Buy

We have reworked our forecasts after S&T's CMD and a one-on-one call with CEO Hannes Niederhauser during which we were given a comprehensive roadmap for the Kontron integration and a clear presentation of the deal's rationale. We think the shares' recent weakness justifies a rating upgrade from Hold to Buy, as the current share price does not reflect the game-changing nature of the deal. Our unchanged TP of EUR10.5 yields 19% upside potential.

### Additional growth opportunities in the IoT business

As a result of the merger, notable cross-selling opportunities could arise from combining Kontron's huge installed base of embedded systems (4bn units) with S&T's software integration capabilities. Concretely, S&T aims at upgrading an estimated 1m units by adding software applications (security, data management) and IoT head end systems (cloud). This could translate into higher gross margins for Kontron's products (we model a gross margin improvement of 5pp by 2018E) and the generation of new recurring fees through multi-year maintenance contracts. The exploitation of synergies will start in H2 2017 with the launch of higher value-added embedded computers and will develop thereafter. The stated goal is to catch up with the growth standards in the global embedded market (7-10% annually) and close the gap with Advantech, which has widened in recent years.

### Kontron turnaround done by H2, EPS accretive from 2018

Our model estimates a full-year consolidation of Kontron as of January 2017 and a full merger during the year. Niederhauser reiterated his ambition to turn Kontron around by mid-2017. We estimate that cost savings could reach EUR20m with the bulk done through a clear cut in personnel expenses in administrative and non-core functions (hiring of qualified engineers will be maintained though). We expect Kontron to be flat at the EBIT level in 2017E, after accounting for restructuring one-offs, thus immediately impacting S&T's overall profitability (-2pp for the EBIT margin). Profitability will however recover significantly from 2018E as a result of the Kontron turnaround, scale effects and efficiency gains. As a result, EPS is expected to rise from 2018E (EUR0.55, which is 7% above a scenario excluding Kontron). As part of the merger, our EPS estimates factor the issuance of 14m new shares (62m shares) valuing Kontron's remaining shares at EUR3.60.

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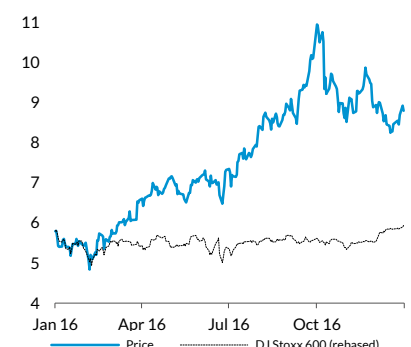
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#### Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	425
Free float	46%
No. of shares outstanding (m)	48
Avg. daily volume (EURm)	3.1
YTD abs performance	1.2%
52-week high/low (EUR)	10.96/4.84

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	483.6	851.4	936.8
EBITDA adj (m)	32.0	39.9	58.8
EBIT adj (m)	23.8	25.4	42.9
Net profit adj (m)	17.5	17.7	34.1
Net fin. debt (m)	9.1	100.9	70.8
FCF (m)	1.5	-87.9	37.6
EPS adj. and fully dil.	0.40	0.32	0.55
Consensus EPS	0.40	0.46	0.71
Net dividend	0.09	0.07	0.12

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	21.9	27.6	16.1
EV/EBITDA	na	na	na
EV/EBIT	na	na	na
FCF yield	0.4%	-16.0%	6.8%
Dividend yield	1.0%	0.8%	1.4%
Net fin.debt/EBITDA	0.3	2.5	1.2
Gearing	5.6%	56.9%	34.4%
ROIC	21.7%	14.2%	18.0%
EV/IC	na	na	na



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# Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Per share data</b>								
EPS adjusted	0.29	0.26	0.30	0.32	0.41	0.40	0.32	0.55
EPS adj and fully diluted	0.29	0.26	0.30	0.32	0.41	0.40	0.32	0.55
% Change	54.6%	-11.8%	17.0%	4.9%	28.4%	-0.8%	-20.6%	71.4%
EPS reported	0.29	0.26	0.30	0.32	0.36	0.40	0.32	0.55
Cash flow per share	0.06	0.43	0.28	0.50	0.61	0.22	-1.33	0.86
Book value per share	2.09	2.16	1.76	2.12	2.29	3.66	3.16	3.26
Dividend per share	0.00	0.00	0.06	0.07	0.08	0.09	0.07	0.12
Number of shares, YE (m)	23.54	28.28	39.20	41.00	43.51	48.30	62.30	62.30
<b>Valuation</b>								
P/E adjusted	8.2	8.9	7.9	9.0	11.0	21.9	27.6	16.1
P/E adjusted and fully diluted	8.2	8.9	7.9	9.0	11.0	21.9	27.6	16.1
P/BV	1.1	1.1	1.4	1.3	1.9	2.4	2.8	2.7
P/CF	39.5	5.3	8.4	5.7	7.3	39.4	na	10.3
Dividend yield (%)	0.0%	0.0%	2.5%	2.5%	1.8%	1.0%	0.8%	1.4%
FCF yield (%)	-2.5%	14.0%	5.7%	12.6%	8.9%	0.4%	-16.0%	6.8%
EV/Sales	na	na	na	na	na	na	na	na
EV/EBITDA	na	na	na	na	na	na	na	na
EV/EBIT	na	na	na	na	na	na	na	na
<b>Income Statement (EURm)</b>								
Sales	153.2	339.5	338.0	385.5	468.2	483.6	851.4	936.8
% Change	89.8%	121.6%	-0.4%	14.1%	21.5%	3.3%	76.1%	10.0%
EBITDA adjusted	12.2	16.6	20.1	22.8	28.4	32.0	39.9	58.8
EBITDA margin (%)	8.0%	4.9%	6.0%	5.9%	6.1%	6.6%	4.7%	6.3%
EBIT adjusted	9.5	11.1	14.4	16.6	20.6	23.8	25.4	42.9
EBIT margin (%)	6.2%	3.3%	4.2%	4.3%	4.4%	4.9%	3.0%	4.6%
Net financial items & associates	-1.0	-1.4	-2.2	-1.8	-2.2	-3.0	-4.5	-4.3
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-0.3	-0.3	-0.1	-0.8	-0.8	-1.5	-1.5	-2.7
Net profit from continuing operations	8.1	9.4	12.0	14.0	17.6	19.3	19.5	35.9
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	8.1	9.4	12.0	14.0	17.6	19.3	19.5	35.9
Net profit reported	6.9	7.3	11.8	12.9	15.8	17.5	17.7	34.1
Net profit adjusted	6.9	7.3	11.8	12.9	17.6	17.5	17.7	34.1
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	1.4	12.3	11.2	20.5	26.7	9.7	-73.5	53.5
Capex	-2.8	-3.2	-5.8	-5.8	-9.5	-8.2	-14.5	-15.9
Free cash flow	-1.4	9.1	5.4	14.8	17.2	1.5	-87.9	37.6
Acquisitions & Divestments	-11.6	0.4	5.5	-2.9	-0.2	0.0	0.0	0.0
Dividend paid	-0.1	-0.3	-0.3	-3.8	-4.1	-3.8	-3.9	-7.5
Others	1.4	0.0	-3.1	7.7	-2.7	44.0	0.0	0.0
Change in net financial debt	-11.6	9.3	7.4	15.8	10.1	41.7	-91.8	30.1
<b>Balance Sheet (EURm)</b>								
Intangible assets	40.9	38.8	44.8	57.1	72.8	72.8	72.8	72.8
Tangible assets	11.1	9.9	9.0	11.4	15.2	15.2	15.2	15.2
Financial & other non-current assets	13.6	13.7	13.9	17.4	33.1	93.1	93.1	93.1
Total shareholders' equity	54.6	63.1	71.2	89.7	102.2	161.7	177.3	205.7
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	172.5	150.0	148.9	183.3	216.8	244.5	471.6	454.1
Net debt	23.6	14.9	9.3	1.6	-9.3	9.1	100.9	70.8
Working capital requirement	23.2	24.3	23.9	22.3	1.6	19.4	126.8	125.1
Invested Capital	75.2	73.1	77.6	90.8	89.5	107.3	214.7	213.1
<b>Ratios</b>								
ROE (%)	16.7%	13.2%	18.1%	16.6%	18.9%	13.5%	10.6%	18.0%
ROIC (%)	16.3%	13.5%	17.1%	17.7%	20.6%	21.7%	14.2%	18.0%
Net fin. debt / EBITDA (x)	1.9	0.9	0.5	0.1	-0.3	0.3	2.5	1.2
Gearing (%)	43.2%	23.6%	13.1%	1.7%	-9.1%	5.6%	56.9%	34.4%

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Stock	ISIN	Disclosure (See Below)	Currency	Price
S&T	AT0000A0E9W5	3, 5, 8	EUR	8.81

Source: Factset closing prices of 03/01/2017

## Companies mentioned

Stock	Disclosure (See Below)
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Name of the Research Analyst(s) : Baptiste de Leudeville

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Reduce	13%	6%
Not Rated/Under Review/Accept Offer	1%	3%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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	3/31/2016 6:42	Equity Research	Buy	8.40	6.54
	7/6/2016 7:33	Equity Research	Buy	8.00	7.26
	8/4/2016 7:28	Equity Research	Buy	9.30	8.16
	9/30/2016 7:33	Equity Research	Hold	10.50	10.10

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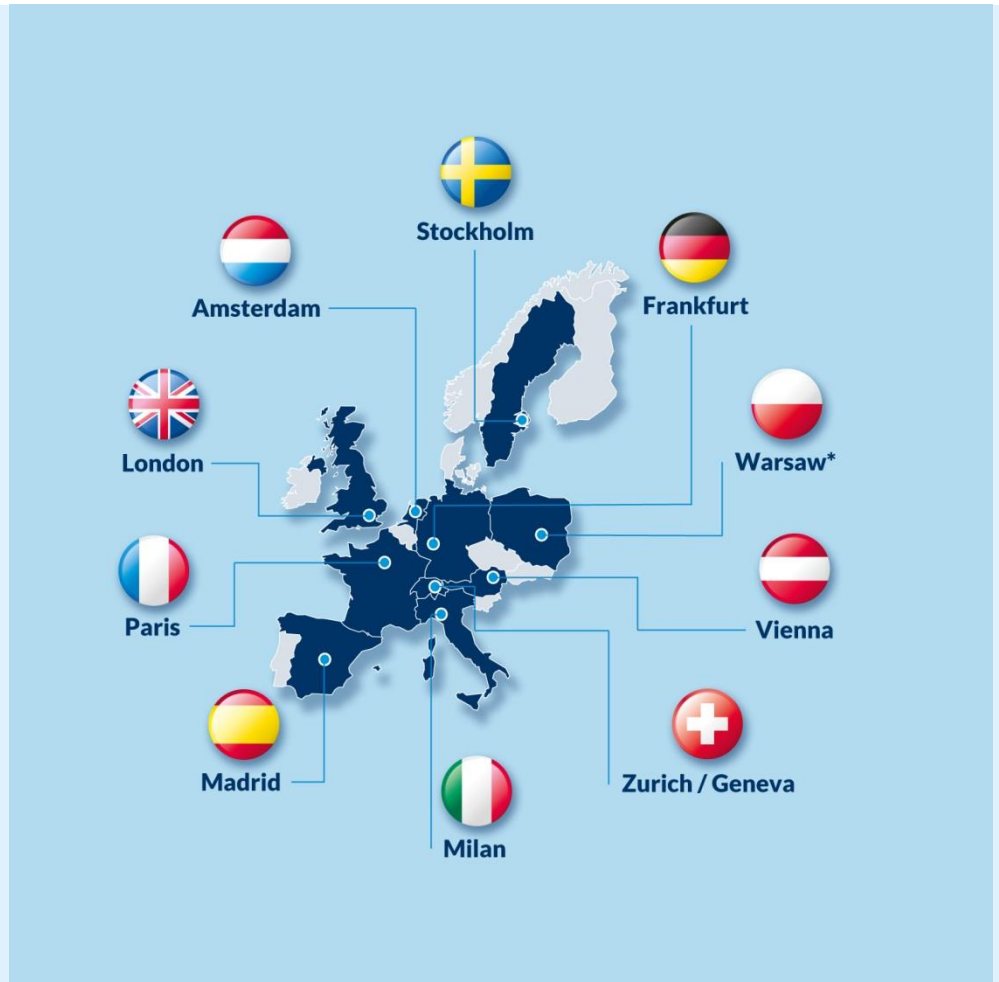
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