

# S&T

Germany | IT software & services | MCAP EUR 1.4bn

09 November 2018

# Buy

Target Price	EUR 29.00
Current Price	EUR 22.18
Up/downside	30.7%
Change in TP	none
Change in EPS	none 18E / none 19E

## Solid results, guidance raised

S&T reported a solid set of Q3 results that were mainly in line with expectations. The drivers are intact and the company raised its FY2018 guidance and now expects EUR88m EBITDA (vs. EUR80m previously).

### Solid results driven by IoT business

S&T posted a solid third quarter that mainly met our and consensus expectations. Revenues improved 15% YOY to EUR237.3m (+0.9% vs. consensus, we estimate c. 6-7% organically due to c. EUR8-10m except contribution) also as FX headwinds eased in Q3. The main revenue drivers were the IoT Solutions segment (EUR99.4m, +33.5% YOY, c. 21% organically) which showed accelerated growth compared to the second quarter. Also, the IT Service segment remained strong but growth dropped to 9.1% YOY (vs. 20%+ in Q1/Q2) but also due to tougher comps. The Embedded Systems segment improved QOQ (+15% but also due to lower FX effects) but was weaker YOY (EUR41.9m, -3.6% YOY) due to strong comps.

### EBITDA margin progression on track

S&T reported Q3 EBITDA of EUR20.5m (+30% YOY, -0.3% vs. consensus, we assume no inorganic contribution) which was mainly driven by its high-margin IoT segment (EUR12.8m +29.7% YOY, 12.9% margin) as well as the IT Service business (EUR5.2m, +253% YOY due to weak Q3-17 comps). EBITDA in Embedded Systems remained weaker due to strong comparables (EUR2.5m, -44.1% YOY) resulting from segment adjustments (i.e. reallocation of cost). With an EBITDA margin of 8.7% in Q3 (vs. 7.7% in Q3-17), the margin progression is on track to reach its 2020 target of c. 10%. Margins were positively affected by mix effects (lower share of IT Service vs. Q2) but negatively affected by M&A (except contribution at zero margin) as well as less natural hedging (close to no FX effects). Net income (EUR10m, +62% YOY) also benefited from a lower minority share (Kontron). The operating cash flow remained seasonally weak, mainly due to build-up of inventories.

### Guidance raised to EUR88m EBITDA

S&T raised its EBITDA guidance and now expects at least EUR88m (vs. KECH: EUR86.4m, cons: EUR86.5m) in EBITDA while the revenue guidance of c. EUR1bn remains unchanged. This would imply an EBITDA of EUR30.6m in the fourth quarter which will likely be driven by the IoT Solutions and a rebound in the Embedded Systems segments. Given the strong order backlog of EUR591.5m (+14.5% QOQ, +28.2% YOY) we believe that the guidance is in reach. We have DCF-based (8.25% WACC, 2% TG, 11% TM) TP of EUR29. Buy.

### Martin Jungfleisch

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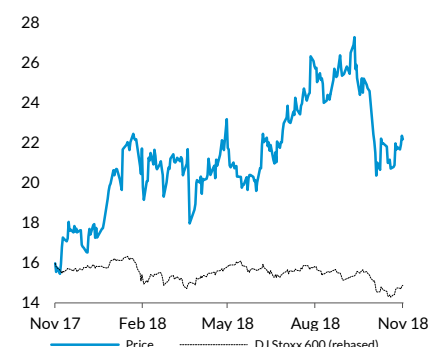
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#### Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	1,407
Free float	77%
No. of shares outstanding (m)	63
Avg. daily volume (EURm)	6.9
YTD abs performance	23.3%
52-week high/low (EUR)	27.30/15.45

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
Sales (m)	1,001.7	1,140.7	1,253.9
EBITDA adj (m)	86.4	99.7	116.6
EBIT adj (m)	58.9	71.7	89.6
Net profit adj (m)	44.3	57.1	73.0
Net fin. debt (m)	-87.6	-128.0	-180.9
FCF (m)	32.1	50.0	63.8
EPS adj. and fully dil.	0.69	0.89	1.13
Consensus EPS	0.71	0.97	1.21
Net dividend	0.15	0.17	0.20

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
P/E adj and ful. dil.	32.3	25.0	19.6
EV/EBITDA	15.3	12.8	10.5
EV/EBIT	22.4	17.8	13.7
FCF yield	2.3%	3.6%	4.5%
Dividend yield	0.7%	0.8%	0.9%
Net fin. debt/EBITDA	-1.0	-1.3	-1.6
Gearing	-23.9%	-30.9%	-38.0%
ROIC	9.5%	10.6%	12.8%
EV/IC	2.7	2.5	2.3



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## S&T Q3 results

**Table 1: S&T Q3 results**

	<b>Q3-18</b>	<b>Q3-17</b>	<b>YOY</b>	<b>Consensus</b>	<b>vs.cons</b>	<b>Q2-18</b>	<b>% QOQ</b>	<b>9M-18</b>	<b>9M-17</b>	<b>YOY</b>
Revenue	237.3	205.9	15%	235.3	0.9%	219.0	8.3%	660.0	587.3	12%
Gross Profit	81.1	74.7	9%	n/a		80.7		235.9	220.6	7%
% margin	34.2%	36.3%				36.8%		35.7%	37.6%	
EBITDA	20.5	15.8	30%	20.6	-0.3%	19.6	4.8%	57.2	43.0	33%
% margin	8.7%	7.7%		8.8%		8.9%		8.7%	7.3%	
EBIT	13.4	9.6	40%	13.7	-2.2%	12.8	4.8%	36.5	23.8	53%
% margin	5.6%	4.6%		5.8%		5.5%		4.1%		
Net Income	10.1	6.2	62%	10.1	0.0%	8.9	13.7%	27.3	27.8	-2%
EPS	0.15	0.14	7.1%			0.13	15.4%	0.40	0.24	66.7%
OpCF	-4.0	-3.79	>100%			9.9	-140.1%	-19.9	-8.4	
Order Backlog	591.5	461.5	28.2%			516.4	14.5%	591.50	461.5	28.2%
Project Pipeline	1524.9	1133.1	34.6%			1,433.4	6.4%	1524.9	1,133.1	34.6%

Source: Kepler Cheuvreux

# Key financials

FY to 31/12 (EUR)	12/13	12/14	12/15	12/16	12/17	12/18E	12/19E	12/20E
<b>Income Statement (EURm)</b>								
Sales	338.0	385.5	468.2	503.7	882.0	1,001.7	1,140.7	1,253.9
% Change	-0.4%	14.1%	21.5%	7.6%	75.1%	13.6%	13.9%	9.9%
EBITDA adjusted	20.1	551.5	28.4	34.4	68.1	86.4	99.7	116.6
EBITDA margin (%)	6.0%	143.1%	6.1%	6.8%	7.7%	8.6%	8.7%	9.3%
EBIT adjusted	14.4	16.6	20.6	24.1	41.7	58.9	71.7	89.6
EBIT margin (%)	4.2%	4.3%	4.4%	4.8%	4.7%	5.9%	6.3%	7.1%
Net financial items & associates	-2.2	-0.3	0.5	0.0	0.0	0.0	0.0	0.0
Others	0.0	-1.6	-2.6	-4.0	-6.3	-4.7	-3.2	-2.2
Tax	-0.1	-0.8	-0.8	0.3	-6.0	-8.7	-11.0	-14.0
Net profit from continuing operations	12.0	14.0	17.7	20.4	29.4	45.6	57.5	73.4
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	45.6	57.5	73.4
Net profit reported	11.8	12.9	15.8	14.6	22.5	44.3	57.1	73.0
Net profit adjusted	11.8	12.9	15.8	14.6	22.5	44.3	57.1	73.0
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	9.9	20.6	26.7	61.4	44.9	53.6	73.3	88.6
Capex	-5.8	-5.8	-9.5	-9.3	-23.0	-21.5	-23.3	-24.8
Free cash flow	4.1	14.8	17.2	52.1	21.9	32.1	50.0	63.8
Acquisitions & Divestments	5.2	-4.7	-0.4	-59.2	-11.5	-34.6	0.0	0.0
Dividend paid	-0.3	-4.1	-4.1	-7.8	-7.0	-6.8	-9.6	-10.9
Others	-3.5	2.0	-1.8	37.6	66.5	-5.0	0.0	0.0
Change in net financial debt	5.6	7.9	10.9	22.6	69.9	-14.3	40.4	52.9
<b>Balance Sheet (EURm)</b>								
Intangible assets	44.8	57.1	72.8	183.2	189.9	215.5	207.2	200.7
Tangible assets	9.0	11.4	15.2	27.5	31.9	34.9	38.4	42.8
Financial & other non-current assets	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	71.2	89.7	102.2	241.1	331.9	365.7	413.6	476.2
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	506.1	493.0	461.6
Net financial debt	9.3	1.5	-9.4	-32.0	-101.8	-87.6	-128.0	-180.9
Working capital requirement	23.9	90.9	100.7	198.1	211.2	247.2	271.8	290.4
Invested Capital	77.6	159.4	188.6	408.9	433.0	497.6	517.5	533.9
<b>Per share data</b>								
EPS adjusted	0.30	0.32	0.36	0.33	0.43	0.69	0.89	1.14
EPS adj and fully diluted	0.30	0.25	0.30	0.32	0.43	0.69	0.89	1.13
% Change	17.0%	-18.1%	22.4%	7.0%	33.0%	60.3%	29.1%	27.8%
EPS reported	0.30	0.32	0.36	0.33	0.43	0.69	0.89	1.14
Cash flow per share	0.25	0.50	0.61	1.40	0.86	0.84	1.15	1.39
Book value per share	1.76	2.12	2.29	3.50	5.88	5.36	6.11	7.08
Dividend per share	0.06	0.07	0.08	0.10	0.13	0.15	0.17	0.20
Number of shares, YE (m)	39.20	41.00	43.51	48.93	63.44	63.44	63.44	63.44
<b>Ratios</b>								
ROE (%)	18.1%	16.6%	17.0%	11.5%	9.8%	13.7%	15.6%	17.3%
ROIC (%)	14.3%	10.5%	8.9%	6.1%	7.4%	9.5%	10.6%	12.8%
Net fin. debt / EBITDA (x)	0.5	0.0	-0.3	-0.9	-1.5	-1.0	-1.3	-1.6
Gearing (%)	13.1%	1.6%	-9.2%	-13.3%	-30.7%	-23.9%	-30.9%	-38.0%
<b>Valuation</b>								
P/E adjusted	7.9	9.0	12.2	22.8	32.0	32.0	24.8	19.4
P/E adjusted and fully diluted	7.9	11.6	14.8	23.4	32.4	32.3	25.0	19.6
P/BV	1.4	1.3	1.9	2.2	2.4	4.1	3.6	3.1
P/CF	9.5	5.7	7.3	5.4	16.1	26.4	19.3	16.0
Dividend yield (%)	2.5%	2.5%	1.8%	1.3%	0.9%	0.7%	0.8%	0.9%
FCF yield (%)	4.4%	12.7%	8.9%	14.1%	2.5%	2.3%	3.6%	4.5%
EV/Sales	0.3	0.3	0.4	0.7	0.9	1.3	1.1	1.0
EV/EBITDA	5.1	0.2	6.5	9.8	11.4	15.3	12.8	10.5
EV/EBIT	7.2	7.2	8.9	14.0	18.7	22.4	17.8	13.7

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## Companies mentioned

Stock	ISIN	Currency	Price
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Source: Factset closing prices of 08/11/2018

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Reduce	13%	8%
Not Rated/Under Review/Accept Offer	3%	2%
Total	100%	100%

Source: KEPLER CHEUVREUX

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	29/03/2018 07:52	Equity Research	Under Review	19.50	20.06
	04/04/2018 07:24	Equity Research	Buy	21.50	18.66
	07/05/2018 07:15	Equity Research	Buy	25.00	21.64
	16/08/2018 07:17	Equity Research	Buy	29.00	25.24

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