

09-May-19

## Solid Q1; bullish CC the main highlight

EUR	Q1 19	Q1 19 est	Q1 19 cons.	Q1 18	yoy
<b>Sales</b>	<b>225</b>	<b>220</b>	<b>225</b>	<b>204</b>	11%
<b>EBITDA</b>	<b>21.2</b>	<b>19.2</b>	<b>19.8</b>	<b>17.1</b>	24%
EBITDA margin	9.4%	8.7%	8.8%	8.4%	+10 pp
<b>Net after minorities</b>	<b>9.4</b>	<b>8.4</b>	<b>8.9</b>	<b>7.4</b>	27%
Net margin	4.2%	3.8%	4.0%	3.6%	+0.5 pp
<b>EPS</b>	<b>0.14</b>	<b>0.13</b>	<b>0.13</b>	<b>0.12</b>	17%

Source: Company data, Hauck & Aufhäuser

- **Solid Q1; here are the key insights:** sales bang in-line, net income beat expectations by some 6% thanks to tax optimisation (tax rate -4pp yoy to 10%) and lower minorities (acquisition of minority stake Kontron Canada). Q1 sales growth was 7% yoy when adjusted for positive FX effects and M&A (except electronics). Key growth driver was IoT Europe (+24% yoy to € 93m) as new high-growth applications Avionics (eH&A: € 40m sales in FY'19E) and Autonomous Driving (eH&A: USD 50m sales in FY'19E) made initial impacts. Q1 EBITDA benefitted from scale and disproportionate growth of high-margin IoT Europe (13% EBITDA margin; +0.8pp yoy), explaining the gross margin improvement on group level (GM +1.5pp yoy to 38%). Also, Q1 EBITDA saw a € 2m positive non-operating impact from IFRS 16 (no IFRS 16 impact on net income line).

- **Wildly bullish CC; high visibility on growth acceleration starting H2:** design win activity for IoT remains outstanding (project pipeline +37% yoy to € 1.8bn) and management noted that half of the Top-10 clients by 2020E should be new customers which do not contribute materially to sales currently. Note: a top-10 client would need to generate more than € 15m in sales per year. Evidently, **this provides high visibility on growth**, and several of said clients should start to ramp by H2'19, implying a growth acceleration from Q3 this year.

**Prospects are especially bright for IoT America** (ex Embedded Systems): the phase-out of low-margin clients Juniper and NSN is ongoing (eH&A: USD 25m sales combined this year vs. USD 50m in FY'18) and new major clients are set to ramp in H2'19, including a video streaming provider yielding an annualised USD 40m of sales (eH&A). The new clients should generate gross margins of 35-40% (eH&A) versus e.g. 20% for NSN currently, which is set to support gross margin expansion towards 40% on group level within the next 2-3 years. At the same time, management expects **IoT Americas to show 8-9% yoy organic growth in FY'19E** despite the slight 3% sales decline to € 34m in Q1.

- **Outlook confirmed:** The FY'19E guidance of € 1.1bn sales and more than € 100m EBITDA does not yet include the likely € 8m positive EBITDA impact from IFRS 16 (neither does eH&A). At the same time, management reiterated its 2023 targets of € 2bn sales and € 200m EBITDA with recurring revenues moving up to >50% (from 35-40% currently), driven by new technologies like SUSiEtec. **This would imply upside to our mid-term estimates. Reiterate BUY with a € 28.50 PT based on DCF.**

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**Buy**

**Price target:** EUR 28.50

**Price:** EUR 23.14

Close price as of: 08.05.2019

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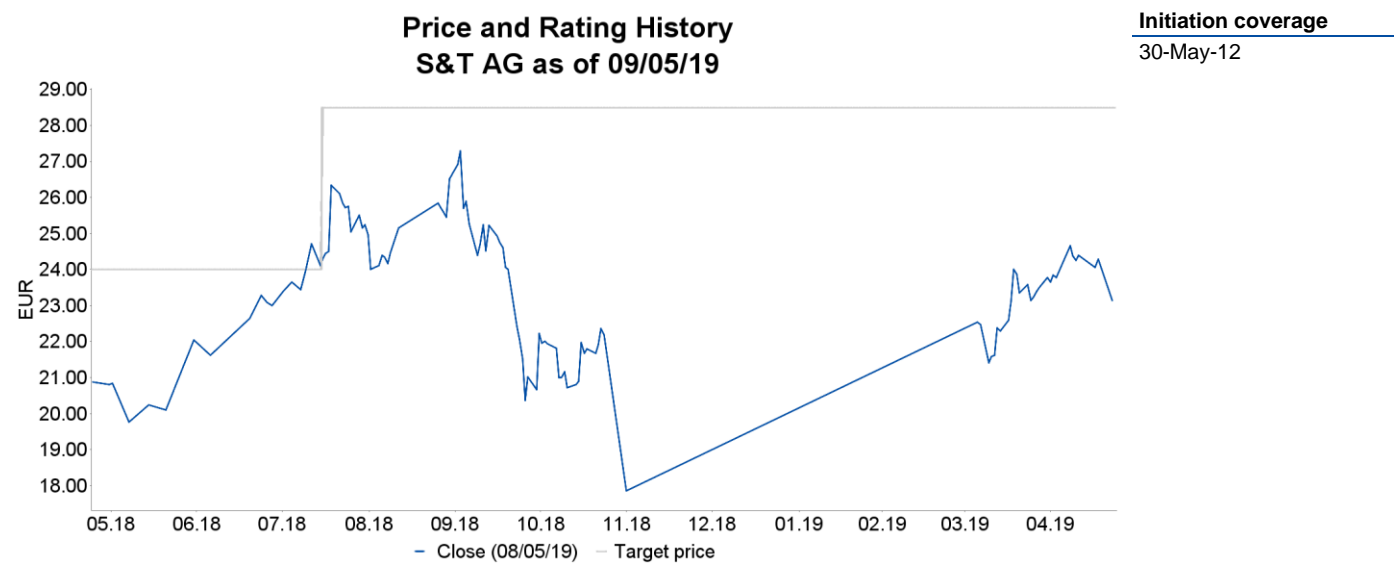
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Company	Disclosure
S&T AG	3

**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	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

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