

H&A FIRST TAKE – H&A FIRST TAKE – H&A FIRST TAKE

07-November-19

## Q3 out: EBITDA beats expectations handily

**Topic:** Key insights from this morning's strong and better-than-expected Q3 release. Earnings call to start at 9:00 am CET.

EUR	Q3 19	Q3 19 est	Q3 19 cons.	Q3 18	yoy	Q1 19	qoq	9m 19	9m 18	yoy
<b>Sales</b>	<b>279</b>	<b>278</b>	<b>280</b>	<b>237</b>	18%	<b>249</b>	12%	<b>753</b>	<b>660</b>	14%
<b>EBITDA</b>	<b>27.4</b>	<b>25.0</b>	<b>25.3</b>	<b>20.5</b>	33%	<b>23.2</b>	18%	<b>71.7</b>	<b>57.2</b>	25%
EBITDA margin	9.8%	9.0%	9.0%	8.7%	+ 1.2 pp	9.3%	+ 0.5 pp	9.5%	8.7%	+ 0.9 pp
<b>Net after minorities</b>	<b>10.8</b>	<b>10.3</b>	<b>10.5</b>	<b>9.3</b>	16%	<b>8.8</b>	23%	<b>29.0</b>	<b>25.6</b>	14%
Net margin	3.9%	3.7%	3.7%	3.9%	- 0.1 pp	3.5%	+ 0.3 pp	3.9%	3.9%	- 0.0 pp
<b>EPS</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>	<b>0.15</b>	7%	<b>0.13</b>	23%	<b>0.44</b>	<b>0.40</b>	10%

Source: Company data, Hauck & Aufhäuser

- Q3 EBITDA some 8% above expectations.** Key reason: Kapsch performed better than expected (eH&A: no negative EBITDA contribution in Q3 vs € -2m expected) thanks to a software license deal with a UK rail operator and early restructuring successes. Also, IoT America saw its EBITDA margin rise by 2.3pp yoy to 7.8% as new higher-margin design wins ramped up. Q3 net income rose by 16% yoy to € 10.8m (eH&A: € 10.3m), also above expectations but not as firmly as EBITDA, due to higher PPA amortisation (plus € 0.7m yoy to € 2m) and a softer financial result (€ 2.3m vs. € -1.0m / M&A financing). Q3 organic growth came in at c. 7% yoy in Q3, roughly in-line with expectations. We continue to expect an acceleration in the coming quarters as new large clients will be on-boarded.
- Management upgrades Kapsch targets,** now expecting to reach € 100m sales at a 10% EBITDA margin in 2020E vs. 5% before, **beating current market expectations of 5%.** Evidently, the Kapsch integration is running above plan and all restructuring measures should be finalized by the end of Q1'20E.
- Cash flow benefits from w/c measures** – Operating cash flow reached a positive € 16m in Q3 (eH&A: € 15m) as inventories improved (+€ 8m cash flow benefit in Q3) and FCF came in at € 10m. This is a substantial improvement over last year (Q3'18: € -4m cash flow / € -10m FCF), showing initial positive impact from the PEC efficiency program. **Expect further progress in Q4.**
- Upside to FY guidance** – Management states it will "exceed the € 100m EBITDA guidance" for the FY'19. Note that both our and consensus expectations of € 104m **look too conservative** following the better-than-expected 9M'19 results as this would imply negative 2% yoy EBITDA growth in Q4. Even though some Kapsch restructuring expenses should accrue in Q4, **this does not make any sense** as (i) end-market demand remains firm with visibility extending to the end of the year; (ii) IFRS 16 should benefit Q4 EBITDA to the tune of € 2m.

Reiterate BUY with a € 30.00 PT based on DCF.

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**Buy**

**Price target:** EUR 30.00

**Price:** EUR 20.66

Close price as of: 06.11.2019

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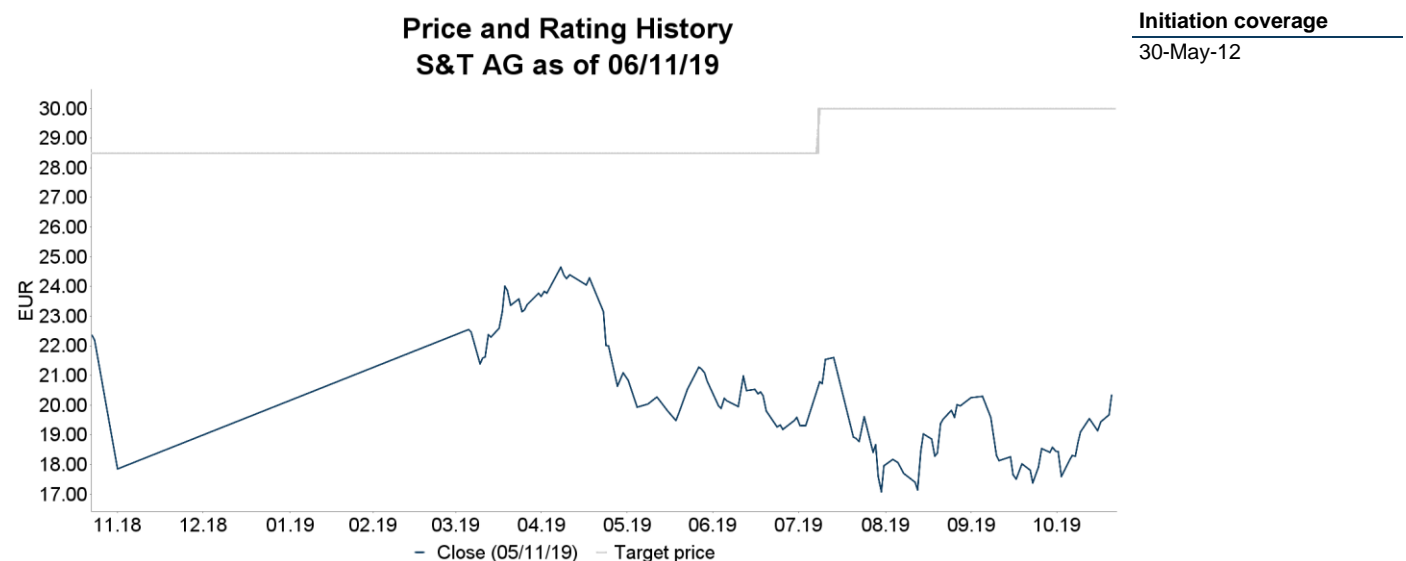
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Company	Disclosure
S&T AG	3

### 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	04.11.2019	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 19,68
	25.07.2019	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,72
	18.06.2019	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 19,98
	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

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