

Q3'19 first take: Stronger growth at better margins

S&T published Q3 figures moderately better than anticipated by us. While revenues growth accelerated in the third quarter, margins improved on the back of a higher software share in the business, first positive repercussions of the PEC (profitability, efficiency, cash flow) program and IFRS 16. Overall, we regard S&T well on track to meet their annual targets, which have been confirmed (EUR 1,145m revenues, EUR >100m EBITDA), albeit at a slightly more positive wording regarding EBITDA. Overall, the Q3'19 release should positively impact the share price development in today's trading session.

S&T AG		Actual			Pareto	
		Q3 2018	Q3 2019	yoy	Q3 2019	Delta
Revenues	EURm	237	280	18%	269	4%
EBITDA	"	21	27	34%	25	9%
EBITDA margin	%	8.6%	9.8%	116 bps	9.4%	44 bps

Source: Pareto, Company data

Accelerating growth and margin improvements

Revenues growth accelerated to 18% yoy against relatively strong comps in Q3'18 after 11% / 14% in Q1'19 / Q2'19. This should have in part been helped by the first-time consolidation of the recently acquired Kapsch CarrierCom and Kapsch PublicTransportCom, which are expected to contribute c. EUR 45m in FY'19. The gross margin could return to the high levels seen in Q1'19 (slightly below 38%) based on the continued efforts to increase the software share in the business at the expense of lower-yielding hardware business. EBITDA margin was fuelled to strong 9.8%. Here, we would expect that first positive repercussions of the recently initiated PEC (Profitability, Efficiency, Cashflow) program should have been visible in Q3'19. Also, IFRS 16 continues to impact positively on EBITDA in the first year of its application.

Full year guidance confirmed, slightly more optimistic tone on EBITDA

S&T's management confirmed the full year guidance of EUR 1,145m revenues and EUR >100m EBITDA. Here the press release states that the EUR 100m EBITDA "are going to be exceeded", which we would interpret as a notch more optimistic than before. After 9M'19 revenues of EUR 753m (EBITDA: EUR 72m) and the seasonally strongest Q4 ahead, we regard S&T well on track to achieve their annual targets. Overall, the Q3'19 release should support the share price development in today's trading session.

Dustin Mildner
+49 69 58997 438, dustin.mildner@paretosec.com

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