

22-January-20

## Strong initial 2020 guidance; hikes mid-term targets

The release of in-line prelim figures for FY'19 this morning came with two major highlights, namely a **strong guidance for FY'20E and an upgrade to mid-term targets**, which for the first time includes an EPS outlook for FY'23E.

For this year, management guides for more than € 1.25bn sales and roughly € 130m EBITDA, implying a margin of above 10.0%. While in-line with consensus (€ 130m), **the bottom-line guidance is in fact impressive** considering that:

- S&T has a history of **clearly outperforming the initial guidance on the bottom-line** (e.g. by 14% for FY'18 and by >5% for FY'19)
- The market was covertly **expecting a slightly more conservative guidance** of > € 125m EBITDA for FY'20E.

Evidently, management must have **firm visibility on 2020** to guide for almost 25% yoy EBITDA growth at this early stage in the year. To compare: in 2018, it guided for 18% yoy EBITDA growth; and in 2019 for 10% yoy.

The key reasons, as we see it: first, an expected growth and margin upturn for IoT Americas (20% of sales), as new, higher-margin contracts ramp up and legacy customers fade out. Second, a highly successful integration of Kapsch KPTC, which should largely already operate at above 10% EBITDA margins.

Beyond the strong 2020 outlook, **management upgrades its mid-term targets**, now looking to achieve € 220m EBITDA by FY'23E (vs. € 200m prior), **which should be 10% above market expectations**. This is seen to reflect confidence in the secular high-margin growth drivers such as IoT, as well as the targeted € 20m cost savings from the PEC efficiency program.

Importantly, for the first time S&T issues an EPS outlook, expecting to reach earnings per share of above € 1.75 by FY'23E, **which would be double the EPS achieved in 2018**. This underlines bottom-line scalability and provides the transparency the capital market has repeatedly asked for.

For FY'19, S&T reported € 1,145m sales (+16% yoy) and € 105m EBITDA (+15% yoy) – both in-line with expectations. Management also confirmed that cash flow should have “improved significantly” versus 2018 (eH&A: € 72m vs. € 36m). Note that 2020 should see further w/c improvements due to the PEC program, resulting in additional cash flow upside.

**Current trading is seen to remain healthy**, with above all Germany having seen brisk design win activity for IoT solutions during Q4, indicating that the Q3 soft spot has been overcome.

**Reiterate BUY with a € 30.00 PT** based on DCF.

Tim Wunderlich, CFA  
Analyst

tim.wunderlich@ha-ib.de

+49 40 4143885 81

**Buy**

**Price target:** EUR 30.00

**Price:** EUR 22.10

Close price as of: 20.01.2020

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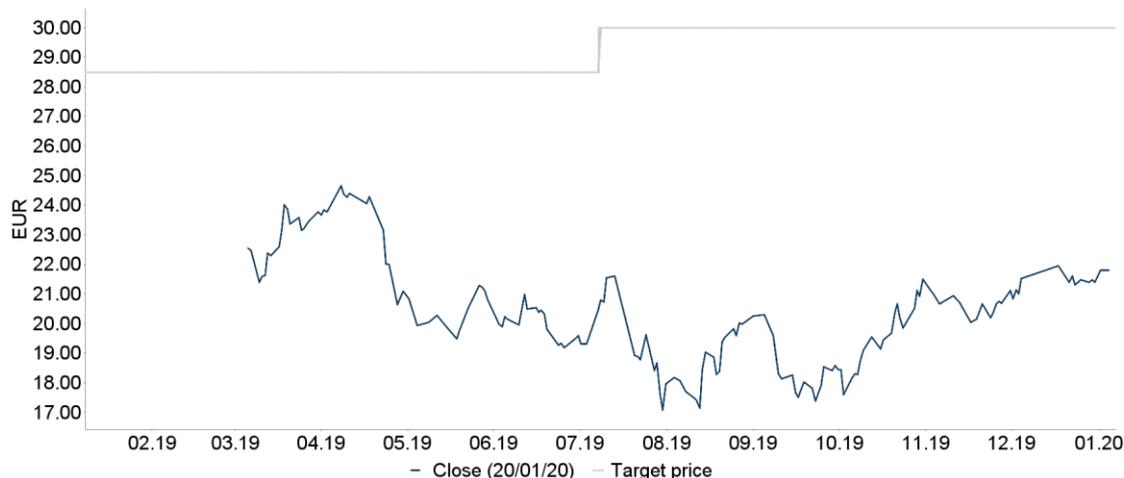
Company	Disclosure
S&T AG	3

### Historical target price and rating changes for S&T AG in the last 12 months

#### Price and Rating History S&T AG as of 22/01/20

Initiation coverage

30-May-12



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

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## Contacts: Hauck & Aufhäuser Privatbankiers AG

### Hauck & Aufhäuser Research

Hauck & Aufhäuser  
Privatbankiers AG  
Mittelweg 16/17  
20148 Hamburg  
Germany

Tel.: +49 (0) 40 414 3885 91  
Fax: +49 (0) 40 414 3885 71  
Email: research@ha-ib.de  
www.ha-research.de

**Tim Wunderlich, CFA**  
Head of Transactional Research  
Tel.: +49 40 414 3885 81  
E-Mail: tim.wunderlich@ha-ib.de

**Henning Breiter**  
Head of Research  
Tel.: +49 40 414 3885 73  
E-Mail: henning.breiter@ha-ib.de

**Marie-Thérèse Grübner**  
Head of Corporate Brokerage  
Tel.: +49 40 450 6342 3097  
E-Mail: marie-therese.gruebner@ha-ib.de

**Aliaksandr Halitsa**  
Analyst  
Tel.: +49 40 414 3885 83  
E-Mail: aliaksandr.halitsa@ha-ib.de

**Alina Köhler**  
Analyst  
Tel.: +49 40 450 6342 3095  
E-Mail: alina.koehler@ha-ib.de

**Catharina Claes**  
Analyst  
Tel.: +49 40 450 6342 3092  
E-Mail: catharina.claes@ha-ib.de

**Christian Glowa**  
Analyst  
Tel.: +49 40 414 3885 95  
E-Mail: christian.glowa@ha-ib.de

**Christian Salis**  
Analyst  
Tel.: +49 40 414 3885 96  
E-Mail: christian.salis@ha-ib.de

**Christian Sandherr**  
Analyst  
Tel.: +49 40 414 3885 79  
E-Mail: christian.sandherr@ha-ib.de

**Frederik Bitter**  
Analyst  
Tel.: +49 40 450 6342 3091  
E-Mail: frederik.bitter@ha-ib.de

**Julius Stinauer**  
Analyst  
Tel.: +49 40 414 3885 84  
E-Mail: julius.stinauer@ha-ib.de

**Simon Bentlage**  
Analyst  
Tel.: +49 40 450 6342 3096  
E-Mail: simon.bentlage@ha-ib.de

### Hauck & Aufhäuser Sales

**Alexander Lachmann**  
Equity Sales  
Tel.: +41 43 497 30 23  
E-Mail: alexander.lachmann@ha-ib.de

**Carlos Becke**  
Equity Sales  
Tel.: +44 203 9473 245  
E-Mail: carlos.becke@ha-ib.de

**Christian Alisch**  
Equity Sales  
Tel.: +49 40 414 3885 99  
E-Mail: christian.alisch@ha-ib.de

**Christian Schwenkenbecher**  
Equity Sales  
Tel.: +44 203 9473 246  
E-Mail: christian.schwenkenbecher@ha-ib.de

**Christian Bybjerg**  
Equity Sales  
Tel.: +49 414 3885 74  
E-Mail: christian.bybjerg@ha-ib.de

**Hugues Madelin**  
Equity Sales  
Tel.: +33 1 78 41 40 62  
E-Mail: hugues.madelin@ha-ib.de

**Vincent Bischoff**  
Equity Sales  
Tel.: +49 40 414 3885 88  
E-Mail: vincent.bischoff@ha-ib.de

**Imogen Voorspuy**  
Equity Junior Sales  
Tel.: +44 203 9473 244  
E-Mail: imogen.voorspuy@ha-ib.de

### Hauck & Aufhäuser Sales Trading

Hauck & Aufhäuser  
Privatbankiers AG  
Mittelweg 16/17  
20148 Hamburg  
Germany

Tel.: +49 40 414 3885 78  
Fax: +49 40 414 3885 71  
Email: info@hauck-aufhaeuser.com  
www.hauck-aufhaeuser.com

**Christian von Schuler**  
Trading  
Tel.: +49 40 414 3885 77  
E-Mail: christian.schuler@hauck-aufhaeuser.com

**Fin Schaffer**  
Trading  
Tel.: +49 40 414 3885 98  
E-Mail: fin.schaffer@hauck-aufhaeuser.com

**Kathleen Jonas**  
Middle-Office  
Tel.: +49 40 414 3885 97  
E-Mail: kathleen.jonas@hauck-aufhaeuser.com

**Alexander Hanisch**  
Middle-Office  
Tel.: +49 40 414 3885 87  
E-Mail: alexander.hanisch@hauck-aufhaeuser.com