

H&A FIRST TAKE

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26-March-20

CC feedback: powering ahead, COVID be damned

The final FY'19 figures released today offered some positive surprises, **most notably EBITDA arriving at a strong € 111m** (+23% yoy), which beat consensus expectations as well as the preliminary indication (both € 105m), reflecting management's DNA to under-promise and over-deliver.

At the same time, **a bullish Conference Call held this morning fully confirms our high-conviction call**. Key insights:

- **COVID-19 impact:** Q1 will be "strong" and fully supporting the FY guidance. Management at this point in time expects Q2 revenues to be 10% below budget, indicating slightly negative organic growth. We model -13% yoy in Q2, implying a significant margin of safety and possible upside to estimates.
- **What is helping:** S&T received a total of € 20m orders from the medical sector e.g. for respirators, serving customers such as Dräger, Fresenius, GE Healthcare, Philips, Siemens and Maquet. As such, IoT Solutions Europe looks set to grow by 15% yoy in Q2, according to management. **This is important because it is the highest margin segment**, suggesting an even less pronounced negative EBITDA impact in Q2 from COVID-19.
- **Kapsch integration fully on track:** The subsidiary contributed positive EBITDA of € 3-4m in Q4'19, providing confidence that the turnaround has been successful. Importantly, S&T has reached a settlement regarding the major loss-making contract in Hungary, **which strengthens visibility on Kapsch's 10% EBITDA margin target** in 2020. Provisions for the contract were set up in 2019, hence we expect only a minor negative EBITDA headwind (< € -0.5m) from Hungary in 2020.
- **Excellent cash generation: Operating cash flow came in at a strong € 83m** and free cash flow at € 56m, showing the positive impact of the PEC efficiency program on working capital. Both metrics beat our already ambitious expectations easily (€ 72m CFO / € 42m FCF).
- **Mid-term targets intact:** The Q4 top performer IoT Europe achieved a record 19% EBITDA margin, reflecting the positive impact of Kapsch but also the benefit of rising software content, **which is S&T's core strategy**. The company confirms its 2023 targets of € 2bn sales and € 220m EBITDA. Key drivers should be high-margin software solution SUSIETEC (2023E: € 80m revenue target vs. € 21m achieved in 2019), Avionics applications (€ 120m vs. € 41m), Train Control Systems (€ 140m vs. € 99m) and Smart Energy (€ 100m vs. € 49m).

While S&T has withdrawn its FY'20 guidance amidst COVID-19 uncertainty, this was expected (we cut estimates well below guidance last week) and **does not impair the strong investment case. Reiterate BUY with a € 28.00 PT** based on DCF.

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Buy

Price target: EUR 28.00

Price: EUR 16.12

Close price as of: 25.03.2020

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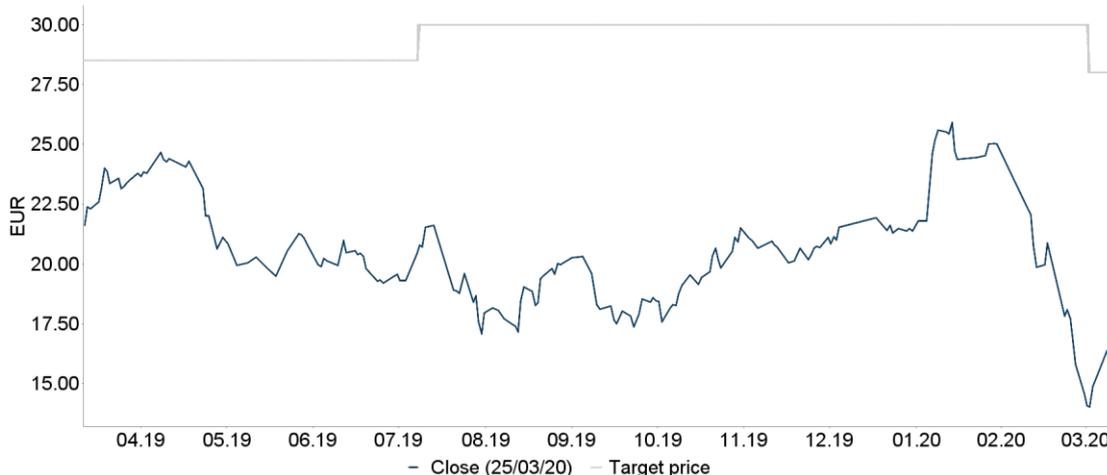
Company	Disclosure
S&T AG	3

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

Price and Rating History S&T AG as of 26/03/20

Initiation coverage

30-May-12



Company	Date	Analyst	Rating	Target price	Close
S&T AG	19.03.2020	Wunderlich, CFA, Tim	Buy	EUR 28,00	EUR 14,88
	03.03.2020	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,86
	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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Sell	11.80 %	4.17 %
Hold	21.12 %	20.83 %

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