

07-May-20

Q1 out: resilient business, sound order momentum

Topic: Q1'20 results released today (see below) beat expectations slightly on both sales and EBITDA. A CC took place this morning. **Key insights:**

- **A beat on key metrics** – Q1 sales growth of 20% yoy (11% yoy organic) beat expectations of 15% yoy. Key outperformer was IoT Europe (+38% yoy to € 129m) driven by medical, industrial and train control system applications. **Q1 EBITDA would have grown by 30% yoy** but for € 2.4m net negatives one-offs. Supply chain issues were the biggest one-off contributor: bottlenecks due to lockdowns forced S&T to look for second source suppliers (e.g. for PCBs) and re-engineer products.
- **EPS in-line** – Q1 earnings grew by only 6% yoy to € 0.15 per share. Reasons: (i) PPA amortisation rose by € 1m to € 2.5m due to Kapsch. (ii) The financial result deteriorated by € 1m to € -2m as S&T took up € 160m debt for M&A.
- **Q1 highlights:** (i) Cash flow improved by c. € 20m yoy to € 6m driven by the PEC efficiency program. **Further measures planned.** (ii) The group gross margin rose to a record 40% (+2pp yoy), **thanks to growing software content.**

This benefitted above all IoT Americas – The segment's gross margins reached 39% (role model IoT Europe is at 45%) and the EBITDA margin climbed to 9% (+5pp yoy). Segment growth was soft (-29% yoy to € 24m) though. Two reasons: (i) Legacy Nokia is still declining. (ii) New client Twitch hunkered down in Q1 due to COVID-19. **Twitch should come roaring back in H2**, with FY revenues seen at € 25-30m.

EUR	Q1 20	Q1 20 est	Q1 20 cons.	Q1 19	yoy
Sales	270	260.0	260	225	20%
EBITDA	25.0	24.6	24.7	21.2	18%
EBITDA margin	9.3%	9.5%	9.5%	9.4%	- 0.1 pp
EPS	0.15	0.16	0.14	0.14	6%

Source: Company data, Hauck & Aufhäuser

- **Excess demand in medical** – Customers like Dräger, GE Healthcare, and Getinge are growing by 100%+ yoy and want to grow even faster (i.e. pushing S&T to ramp capacity), which **could yield upside** to our FY estimates and guidance, in our view. **It should be at least a € 200m end market this year** (eH&A / +30% yoy).
- **Fewer rivals for M&A, prices coming down** – S&T plans to acquire € 150m revenues this year, and pay € 100m. Prices have come down 30% to <0.5x sales, thus S&T will be able to acquire more with less, **driving up value-accretion potential.** The pipeline comprises 14 targets with € 800m revenues in total; all targets must have the potential to reach double-digit EBITDA margins.
- **Backlog growing even in challenging times**, sound visibility on the next six months. The backlog is up 39% yoy / 4% qoq to € 873m. S&T expects to finish the year with a book-to-bill of 1.1x, underpinning the sound order momentum. Hence, the company confirms its FY guidance (€ 1,150m sales / € 115m EBITDA / in-line), **which could see upside in the course of the year**, in our view, due to the conservative stance of management and demand pull from medical.

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Buy

Price target: EUR 28.00

Price: EUR 21.36

Close price as of: 06.05.2020

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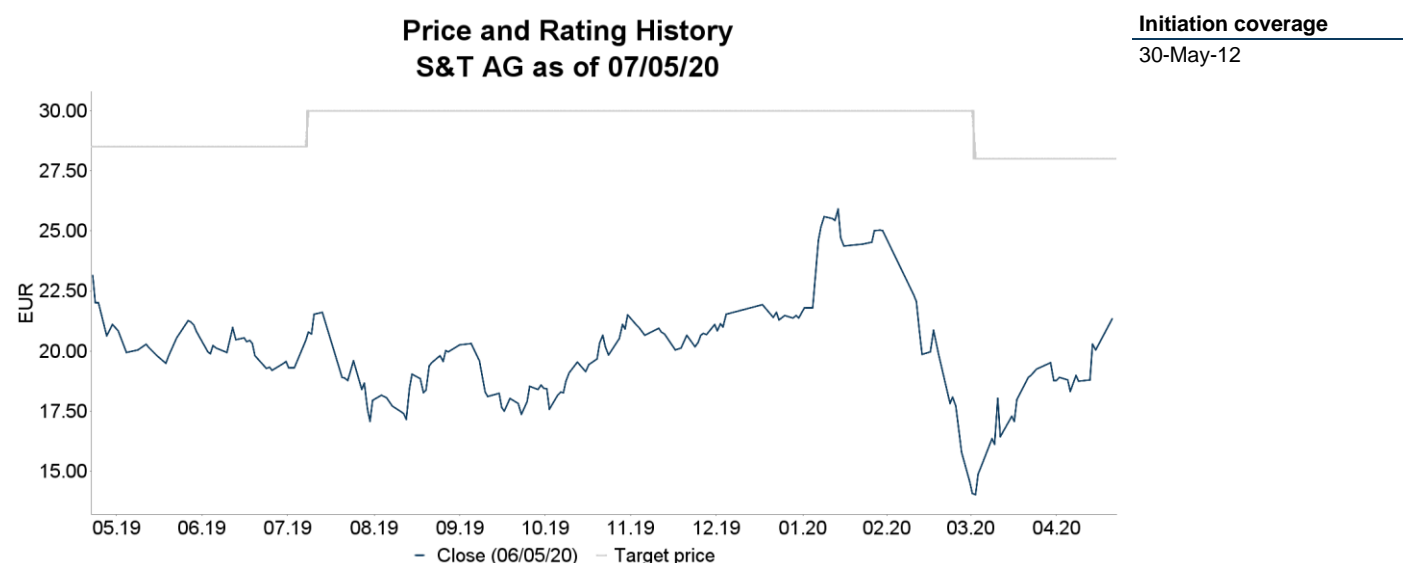
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Company	Disclosure
S&T AG	3

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Company	Date	Analyst	Rating	Target price	Close
S&T AG	06.05.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 21.36
	28.04.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 18.80
	03.04.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 17.97
	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

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