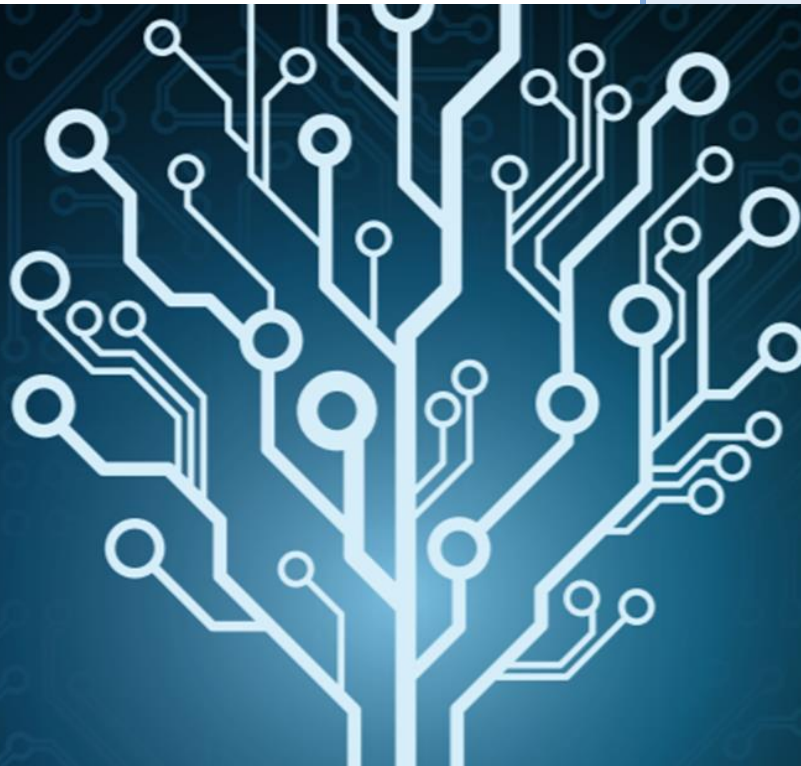


S&T AG

Austria | Technology | MCap EUR 1,403.1m

24 February 2021

UPDATE



Continued profitable growth, PT up, BUY

What's it all about?

S&T AG released strong prelim. 2020 results pointing towards a strong finish in Q4/20. For fiscal 2020, sales continued to growth by 11% yoy with EBITDA margins expanding beyond 10%. We believe that S&T will continue benefitting from stellar growth expectations driven by numerous secular growth trends such as edge computing, artificial intelligence (AI) or IoT. Still, we do not see that this growth and earnings potential is accurately reflected in S&T's share price. With increased estimates, we reiterate our BUY recommendation and new PT of EUR 31.00, offering a handsome upside of 45%

BUY (BUY)

Target price	EUR 31.00 (25.70)
Current price	EUR 21.30
Up/downside	45.5%

MAIN AUTHOR

Thomas Wissler

t.wissler@alsterresearch.com

+49 40 309 293-58

S&T AG

Austria | Technology | MCap EUR 1,403.1m | EV EUR 1,446.1m

BUY (BUY)

Target price EUR 31.00 (25.70)
Current price EUR 21.30
Up/downside 45.5%

MAIN AUTHOR

Thomas Wissler
t.wissler@alsterresearch.com
+49 40 309 293-58

Continued profitable growth, PT up; Remains BUY

Yesterday, S&T AG announced prelim. figures for fiscal 2020. Despite the Covid-19 pandemic, the company managed to improve all financial parameters. Sales increased by 11.7% from EUR 1.12bn to EUR 1.25bn, of which around half represents organic growth. EBITDA rose to EUR 129.5m (2019: EUR 111.7m), which represents a disproportionate increase of around 16% yoy. The EBITDA margin thus came in at around 10.3%. Q4/20 thus was a very strong quarter with revenues of EUR 418.4m – up 13.2% yoy (Q4/19: EUR 369.7m) and an EBITDA of EUR 45.8m (Q4/19: EUR 40.0m).

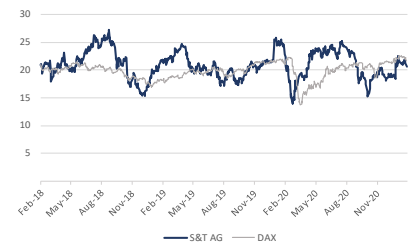
According to preliminary results, earnings per share (undiluted) also increased by around 15%. Particularly noteworthy is the further improvement in operating cash flow, which reached a new all-time high in the history of S&T AG at around EUR 140.8m or EUR 134.7m, adjusted for the operating cash flow of CITYCOMP and Iskratel Group acquired in 2020. The strong cash flow is attributable to the successful implementation of the PEC program.

Model adjustments: We have slightly increased our estimates in order to reflect the good growth trajectory of S&T as well as improved margin level. We believe that S&T will remain a “growth” play going forward banking on numerous secular growth trends such as edge computing, artificial intelligence (AI) or IoT, paving the way for further organic growth.

On the back of increased estimates, we are increasing our PT to EUR 31.00 (old EUR 25.70) based on our adj. FCF yield methodology. For investors S&T offers the ideal mix of continued profitable growth at decent margins and returns (ROCE of c. 13%). In addition, we expect a moderate payout of some EUR 0.20-0.22 per share. **We therefore reiterate our BUY recommendation, PT new EUR 31.00.** S&T will publish its full and audited results for the financial year 2020 on March 25, 2021.

S&T AG	2018	2019	2020E	2021E	2022E	2023E
Sales	990.9	1,122.9	1,254.8	1,443.0	1,606.5	1,785.4
<i>Growth yoy</i>	12.3%	13.3%	11.7%	15.0%	11.3%	11.1%
EBITDA	90.5	111.7	129.2	142.9	159.0	176.8
EBIT	61.5	61.8	76.2	90.0	111.1	131.4
Net profit	45.0	49.1	58.9	70.3	87.8	104.6
Net debt (net cash)	-52.7	31.6	24.3	-44.4	-122.9	-207.7
Net debt/EBITDA	-0.6x	0.3x	0.2x	-0.3x	-0.8x	-1.2x
EPS recurring	0.70	0.75	0.89	1.07	1.33	1.59
DPS	0.13	0.16	0.22	0.27	0.33	0.40
<i>Dividend yield</i>	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%
Gross profit margin	36.5%	37.7%	38.4%	38.0%	38.0%	38.0%
EBITDA margin	9.1%	9.9%	10.3%	9.9%	9.9%	9.9%
EBIT margin	6.2%	5.5%	6.1%	6.2%	6.9%	7.4%
ROCE	11.7%	7.8%	8.9%	10.7%	13.4%	14.8%
EV/EBITDA	15.0x	13.0x	11.2x	9.7x	8.2x	6.9x
EV/EBIT	22.0x	23.5x	19.0x	15.3x	11.7x	9.3x
PER	30.5x	28.6x	23.8x	20.0x	16.0x	13.4x
FCF yield	2.0%	4.1%	3.5%	6.4%	7.6%	8.6%

Source: Company data, Alster Research



Source: Company data, AlsterResearch

High/low 52 weeks 25.72 / 13.20
Price/Book Ratio 3.4x

Ticker / Symbols

ISIN AT0000A0E9W5
WKN AOX9EJ
Bloomberg SANT:GR

Changes in estimates

		Sales	EBIT	EPS
2020	old	1220	67.0	0.77
	Δ	+2.7%	+12.2%	+13.1%
2021	old	1456	91.6	1.08
	Δ	-0.6%	+5.5%	+5.9%
2022	old	1622	108.5	1.29
	Δ	-0.6%	+5.1%	+5.3%

Key share data

Number of shares: (in m pcs) 65.9
Book value per share: (in €) 6.36
Ø trading volume: (12 months) 48,500

Major shareholders

Ennoconn Corporation 26.6%
Allianz Global Investors 5.0%
Free Float 68.4%

Company description

S&T is an Austria-based technology company. It provides end-to-end IT services, including consulting, integration and support services. In the IoT segment, it provides products and solutions such as industrial PCs and embedded boards installed with proprietary software. Germany, Austria, Switzerland, France, Eastern Europe and North America are its core markets.

Quarterly table

P&L data	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Sales	330.9	225.1	248.7	279.4	369.7	270.1	268.6	297.7
yoy growth in %	12.3%	10.5%	13.5%	17.7%	11.7%	20.0%	8.0%	6.6%
Gross profit	114.6	88.6	92.9	109.6	131.9	111.6	107.2	110.8
Gross margin in %	34.6%	39.4%	37.3%	39.2%	35.7%	41.3%	39.9%	37.2%
EBITDA	33.4	21.2	23.2	27.4	40.0	23.2	27.0	31.7
EBITDA margin in %	10.1%	9.4%	9.3%	9.8%	10.8%	8.6%	10.0%	10.7%
EBIT	25.0	10.7	11.7	14.5	24.9	9.4	13.1	17.2
EBIT margin in %	7.6%	4.8%	4.7%	5.2%	6.7%	3.5%	4.9%	5.8%
EBT	23.6	9.6	10.2	12.2	22.1	9.1	11.9	15.3
taxes paid	2.5	1.0	1.4	1.5	0.6	0.6	1.9	3.3
tax rate in %	10.6%	10.2%	14.2%	12.6%	2.7%	6.7%	16.1%	21.6%
net profit	19.4	9.4	8.8	10.8	20.1	9.5	10.1	11.8
yoy growth in %	82.8%	27.4%	-0.6%	16.0%	3.5%	1.8%	14.4%	8.9%
EPS	0.29	0.14	0.13	0.16	0.31	0.15	0.16	0.18

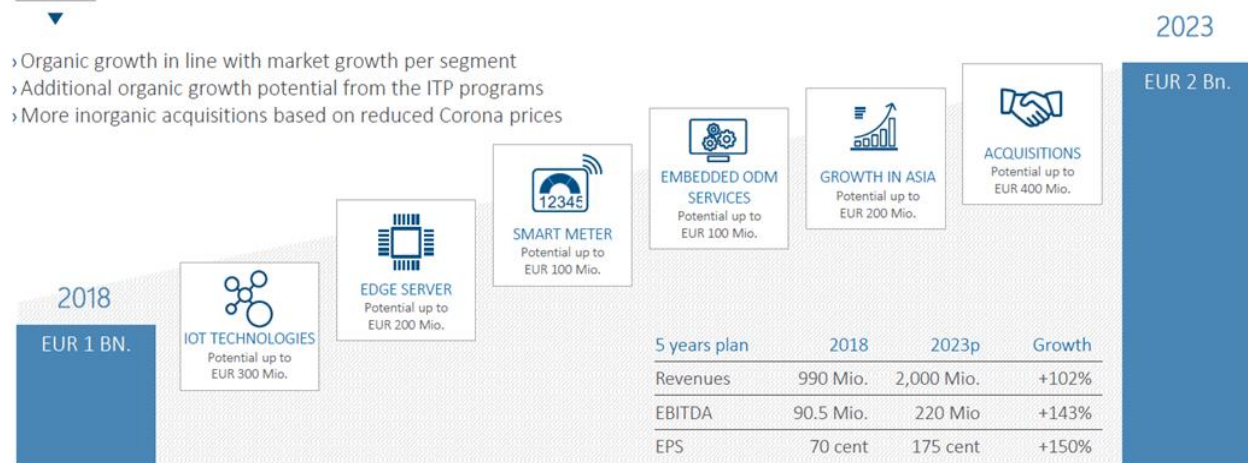
Source: Company data; AlsterResearch

Investment case in charts

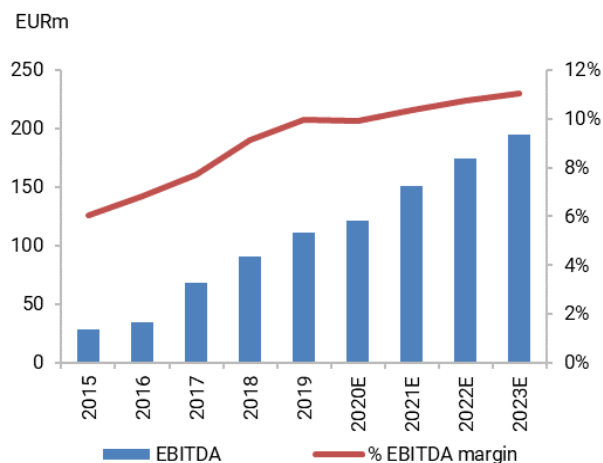
Business units and end markets



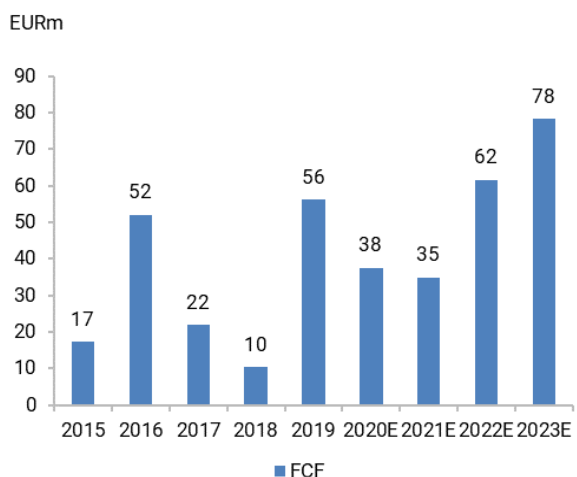
Growth projection until 2023E



EBITDA and margins on an upwards trend



FCF to strengthen going forward



Source: Company data; AlsterResearch

SWOT Analysis

Strengths

- Strong and strategic partnership with Foxconn
- Offers comprehensive suite of solutions in IT Service business
- Strong presence in DACH and EE countries
- Has diversified clients and is present in multiple geographies, minimising concentration risk

Weaknesses

- A large part of revenue accrues from IT Services segment, which is a low-margin business and has low pricing power
- Lacks a scalable platform
- Avionics, one of its target IoT markets, is witnessing a rough phase due to travel restrictions

Opportunities

- Has a strong presence in medical and transport segments of IoT market, which are expected to grow well
- Has sufficient liquidity and balance sheet strength to undertake acquisitions in current market where valuations are attractive
- Margin expansion, as focus shifts to higher margin IoT segment and proprietary products
- Expanding presence in China, one of the fastest-growing IoT markets

Threats

- A relatively small player in the IoT market and could be hard pressed to defend its turf if a larger player enters its segment
- Dependent on Asia for hardware manufacturing and China for raw material. Geopolitical tension in the area could impair its supply chain
- Aggressive acquisitions could drag company's prospects if not properly synergized

Valuation

Due to the fact that companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and in order to adjust for the pitfalls of weak long-term visibility, we have conducted an Adjusted Free Cash Flow analysis (Adjusted FCF).

The adjusted free cash flow yield results in a fair value of EUR 27.30 per share based on 2021E and EUR 32.00 per share on 2022E. We note that this supports our DCF-based price target. Looking beyond 2021E, i.e. 2022 and beyond, seem justified considering benefits from the expansion in its range of offerings, improvement in the product mix, and potential synergies from its recent acquisitions will be realized by then.

The main driver of this model is the level of return available to a controlling investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company. Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after tax return equals the model's hurdle rate of 6%. Anything lower suggests the stock is expensive; anything higher suggests the stock is cheap.

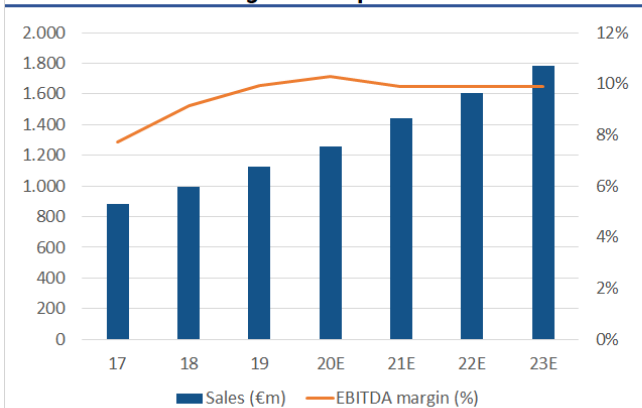
FCF yield in EURm	2021E	2022E	2023E	2024E	2025E
EBITDA	142,9	159,0	176,8	191,5	201,1
- Maintenance capex	30,9	31,9	33,6	36,0	38,7
- Minorities	-2,2	-2,7	-3,2	-3,6	-3,9
- tax expenses	12,5	15,6	18,6	20,9	22,2
= Adjusted Free Cash Flow	101,6	114,3	127,8	138,3	144,0
Actual Market Cap	1.370	1.370	1.370	1.370	1.370
+ Net debt (cash)	-44,4	-122,9	-207,7	-298,1	-392,3
+ Pension provisions	21,6	24,1	26,8	29,0	30,5
+ Off balance sheet financing	0,0	0,0	0,0	0,0	0,0
- Financial assets	62,5	62,5	62,5	62,5	62,5
- Accumulated dividend payments	17,6	39,5	65,7	95,0	126,3
<i>EV Reconciliations</i>	<i>-102,8</i>	<i>-200,9</i>	<i>-309,1</i>	<i>-426,7</i>	<i>-550,7</i>
= Actual EV'	1.267	1.169	1.061	944	820
Adjusted Free Cash Flow yield	8,0%	9,8%	12,0%	14,7%	17,6%
base hurdle rate	6,0%	6,0%	6,0%	6,0%	6,0%
ESG adjustment (score 50/100)	0,0%	0,0%	0,0%	0,0%	0,0%
adjusted hurdle rate	6,0%	6,0%	6,0%	6,0%	6,0%
Fair EV	1.694	1.904	2.130	2.304	2.400
- <i>EV Reconciliations</i>	<i>-103</i>	<i>-201</i>	<i>-309</i>	<i>-427</i>	<i>-551</i>
Fair Market Cap	1.796	2.105	2.439	2.731	2.951
No. of shares (million)	65,9	65,9	65,9	65,9	65,9
Fair value per share in EUR	27,3	32,0	37,0	41,5	44,8
Premium (-) / discount (+) in %	31,1%	53,6%	78,0%	99,3%	115,4%

Sensitivity analysis fair value						
Adjusted hurdle rate	4,0%	40,1	46,4	53,2	59,0	63,0
	5,0%	32,4	37,7	43,5	48,5	52,1
	6,0%	27,3	32,0	37,0	41,5	44,8
	7,0%	23,6	27,8	32,4	36,5	39,6
	8,0%	20,8	24,7	28,9	32,7	35,7

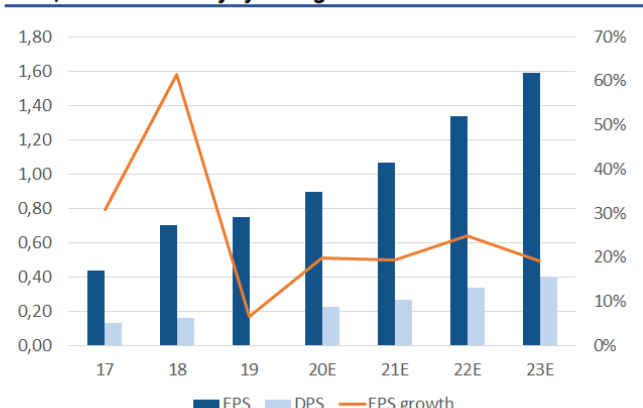
Source: AlsterResearch

Financials in six charts

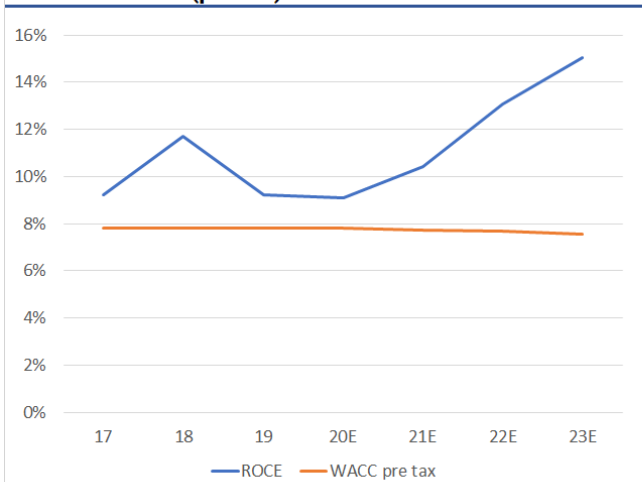
Sales vs. EBITDA margin development



EPS, DPS in EUR & yoy EPS growth



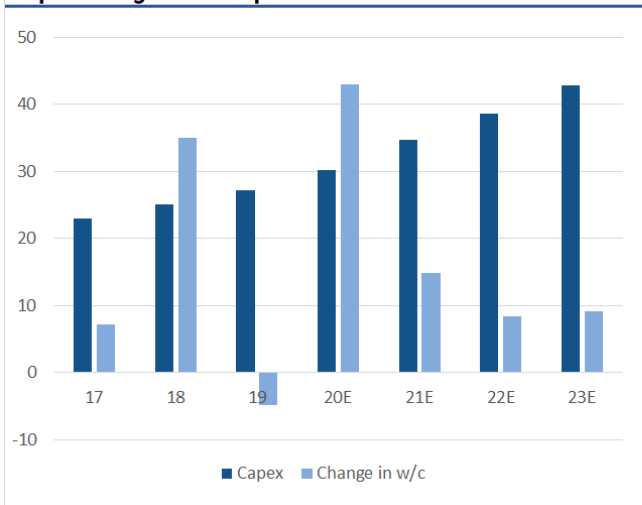
ROCE vs. WACC (pre tax)



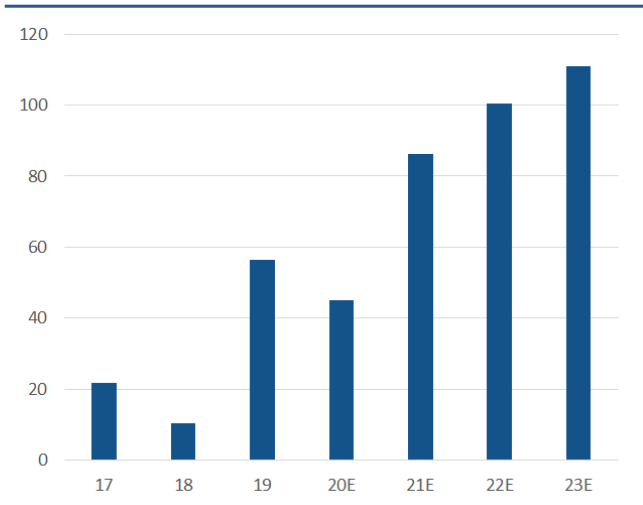
Net debt and net debt/EBITDA



Capex & chg in w/c requirements in EURm



Free Cash Flow in EURm



Source: Company data; AlsterResearch

Financials

Profit and loss (EUR m)	2018	2019	2020E	2021E	2022E	2023E
Net sales	990.9	1,122.9	1,254.8	1,443.0	1,606.5	1,785.4
Sales growth	12.3%	13.3%	11.7%	15.0%	11.3%	11.1%
Change in finished goods and work-in-process	15.1	15.5	0.0	0.0	0.0	0.0
Total sales	1,006.0	1,138.4	1,254.8	1,443.0	1,606.5	1,785.4
Material expenses	644.3	715.4	773.0	894.7	996.1	1,107.0
Gross profit	361.7	423.0	481.8	548.3	610.5	678.5
Other operating income	7.5	8.0	6.3	7.2	8.0	8.9
Personnel expenses	194.6	245.2	273.5	314.6	350.2	389.2
Other operating expenses	84.0	74.2	85.3	98.1	109.2	121.4
EBITDA	90.5	111.7	129.2	142.9	159.0	176.8
Depreciation	8.2	25.9	26.0	30.9	31.9	33.6
EBITA	82.3	85.8	103.3	111.9	127.2	143.1
Amortisation of goodwill and intangible assets	20.8	24.0	27.1	22.0	16.0	11.7
EBIT	61.5	61.8	76.2	90.0	111.1	131.4
Financial result	-5.2	-7.7	-5.0	-5.0	-5.0	-5.0
Recurring pretax income from continuing operations	56.3	54.1	71.2	85.0	106.1	126.4
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	56.3	54.1	71.2	85.0	106.1	126.4
Taxes	7.9	4.6	10.5	12.5	15.6	18.6
Net income from continuing operations	48.5	49.5	60.7	72.5	90.5	107.8
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	48.5	49.5	60.7	72.5	90.5	107.8
Minority interest	-3.5	-0.4	-1.8	-2.2	-2.7	-3.2
Net profit (reported)	45.0	49.1	58.9	70.3	87.8	104.6
Average number of shares	64.33	65.87	65.87	65.87	65.87	65.87
EPS reported	0.70	0.75	0.89	1.07	1.33	1.59

Profit and loss (common size)	2018	2019	2020E	2021E	2022E	2023E
Net sales	100%	100%	100%	100%	100%	100%
Change in finished goods and work-in-process	2%	1%	0%	0%	0%	0%
Total sales	102%	101%	100%	100%	100%	100%
Material expenses	65%	64%	62%	62%	62%	62%
Gross profit	36%	38%	38%	38%	38%	38%
Other operating income	1%	1%	1%	1%	1%	1%
Personnel expenses	20%	22%	22%	22%	22%	22%
Other operating expenses	8%	7%	7%	7%	7%	7%
EBITDA	9%	10%	10%	10%	10%	10%
Depreciation	1%	2%	2%	2%	2%	2%
EBITA	8%	8%	8%	8%	8%	8%
Amortisation of goodwill and intangible assets	2%	2%	2%	2%	1%	1%
EBIT	6%	6%	6%	6%	7%	7%
Financial result	-1%	-1%	-0%	-0%	-0%	-0%
Recurring pretax income from continuing operations	6%	5%	6%	6%	7%	7%
Extraordinary income/loss	0%	0%	0%	0%	0%	0%
Earnings before taxes	6%	5%	6%	6%	7%	7%
Taxes	1%	0%	1%	1%	1%	1%
Net income from continuing operations	5%	4%	5%	5%	6%	6%
Result from discontinued operations (net of tax)	0%	0%	0%	0%	0%	0%
Net income	5%	4%	5%	5%	6%	6%
Minority interest	-0%	-0%	-0%	-0%	-0%	-0%
Net profit (reported)	5%	4%	5%	5%	5%	6%

Source: Company data; AlsterResearch

Balance sheet (EUR m)	2018	2019	2020E	2021E	2022E	2023E
Intangible assets (exl. Goodwill)	87.6	100.5	81.4	59.4	43.4	31.7
Goodwill	120.0	194.4	194.4	194.4	194.4	194.4
Property, plant and equipment	37.1	99.8	119.0	122.7	129.3	138.6
Financial assets	47.8	62.5	62.5	62.5	62.5	62.5
FIXED ASSETS	292.5	457.2	457.2	438.9	429.6	427.1
Inventories	130.8	146.8	148.2	174.0	193.8	215.3
Accounts receivable	207.0	239.4	264.7	308.4	343.3	381.5
Other current assets	18.5	21.1	21.1	21.1	21.1	21.1
Liquid assets	171.8	322.0	345.7	334.4	322.9	377.7
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Deferred charges and prepaid expenses	27.5	39.4	37.6	43.3	48.2	53.6
CURRENT ASSETS	555.5	768.5	817.4	881.2	929.3	1,049.2
TOTAL ASSETS	847.9	1,225.7	1,274.6	1,320.1	1,358.8	1,476.3
SHAREHOLDERS EQUITY	356.0	372.7	418.7	473.6	542.1	623.8
MINORITY INTEREST	11.3	12.4	12.4	12.4	12.4	12.4
Long-term debt	79.4	267.1	300.0	250.0	200.0	100.0
Provisions for pensions and similar obligations	5.6	19.9	18.8	21.6	24.1	26.8
Other provisions	46.8	44.8	50.2	57.7	64.3	71.4
Non-current liabilities	131.9	331.8	369.0	329.4	288.4	198.2
short-term liabilities to banks	39.6	86.5	70.0	40.0	0.0	70.0
Accounts payable	177.0	205.0	211.8	245.1	272.9	303.3
Advance payments received on orders	38.1	61.1	50.2	57.7	64.3	71.4
Other liabilities (incl. from lease and rental contracts)	55.6	109.0	87.8	101.0	112.5	125.0
Deferred taxes	12.6	13.4	13.4	13.4	13.4	13.4
Deferred income	25.9	33.8	41.4	47.6	53.0	58.9
Current liabilities	348.8	508.8	474.6	504.8	516.0	642.0
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	847.9	1,225.7	1,274.6	1,320.1	1,358.8	1,476.3

Balance sheet (common size)	2018	2019	2020E	2021E	2022E	2023E
Intangible assets (excl. Goodwill)	10%	8%	6%	4%	3%	2%
Goodwill	14%	16%	15%	15%	14%	13%
Property, plant and equipment	4%	8%	9%	9%	10%	9%
Financial assets	6%	5%	5%	5%	5%	4%
FIXED ASSETS	34%	37%	36%	33%	32%	29%
Inventories	15%	12%	12%	13%	14%	15%
Accounts receivable	24%	20%	21%	23%	25%	26%
Other current assets	2%	2%	2%	2%	2%	1%
Liquid assets	20%	26%	27%	25%	24%	26%
Deferred taxes	0%	0%	0%	0%	0%	0%
Deferred charges and prepaid expenses	3%	3%	3%	3%	4%	4%
CURRENT ASSETS	66%	63%	64%	67%	68%	71%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
SHAREHOLDERS EQUITY	42%	30%	33%	36%	40%	42%
MINORITY INTEREST	1%	1%	1%	1%	1%	1%
Long-term debt	9%	22%	24%	19%	15%	7%
Provisions for pensions and similar obligations	1%	2%	1%	2%	2%	2%
Other provisions	6%	4%	4%	4%	5%	5%
Non-current liabilities	16%	27%	29%	25%	21%	13%
short-term liabilities to banks	5%	7%	5%	3%	0%	5%
Accounts payable	21%	17%	17%	19%	20%	21%
Advance payments received on orders	4%	5%	4%	4%	5%	5%
Other liabilities (incl. from lease and rental contracts)	7%	9%	7%	8%	8%	8%
Deferred taxes	1%	1%	1%	1%	1%	1%
Deferred income	3%	3%	3%	4%	4%	4%
Current liabilities	41%	42%	37%	38%	38%	43%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100%	100%	100%	100%	100%	100%

Source: Company data; AlsterResearch

Ratios	2018	2019	2020E	2021E	2022E	2023E
Per share data						
Earnings per share reported	0.70	0.75	0.89	1.07	1.33	1.59
Cash flow per share	0.42	0.87	0.75	1.37	1.63	1.82
Book value per share	5.53	5.66	6.36	7.19	8.23	9.47
Dividend per share	0.13	0.16	0.22	0.27	0.33	0.40
Valuation						
P/E	30.5x	28.6x	23.8x	20.0x	16.0x	13.4x
P/CF	50.2x	24.4x	28.5x	15.6x	13.1x	11.7x
P/BV	3.8x	3.8x	3.4x	2.9x	2.6x	2.2x
Dividend yield (%)	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%
FCF yield (%)	2.0%	4.1%	3.5%	6.4%	7.6%	8.6%
EV/Sales	1.4x	1.3x	1.2x	1.0x	0.8x	0.7x
EV/EBITDA	15.0x	13.0x	11.2x	9.7x	8.2x	6.9x
EV/EBIT	22.0x	23.5x	19.0x	15.3x	11.7x	9.3x
Income statement (EURm)						
Sales	990.9	1,122.9	1,254.8	1,443.0	1,606.5	1,785.4
yoy chg in %	12.3%	13.3%	11.7%	15.0%	11.3%	11.1%
Gross profit	361.7	423.0	481.8	548.3	610.5	678.5
Gross margin in %	36.5%	37.7%	38.4%	38.0%	38.0%	38.0%
EBITDA	90.5	111.7	129.2	142.9	159.0	176.8
EBITDA margin in %	9.1%	9.9%	10.3%	9.9%	9.9%	9.9%
EBIT	61.5	61.8	76.2	90.0	111.1	131.4
EBIT margin in %	6.2%	5.5%	6.1%	6.2%	6.9%	7.4%
Net profit	45.0	49.1	58.9	70.3	87.8	104.6
Cash flow statement (EURm)						
CF from operations	35.5	83.4	75.2	120.9	139.0	153.8
Capex	-25.1	-27.1	-30.1	-34.6	-38.6	-42.8
Maintenance Capex	8.2	25.9	26.0	30.9	31.9	33.6
Free cash flow	10.4	56.3	45.1	86.3	100.5	111.0
Balance sheet (EURm)						
Intangible assets	207.6	294.9	275.7	253.8	237.7	226.0
Tangible assets	37.1	99.8	119.0	122.7	129.3	138.6
Shareholders' equity	356.0	372.7	418.7	473.6	542.1	623.8
Pension provisions	5.6	19.9	18.8	21.6	24.1	26.8
Liabilities and provisions	171.5	418.3	439.0	369.4	288.4	268.2
Net financial debt	-52.7	31.6	24.3	-44.4	-122.9	-207.7
w/c requirements	122.7	119.9	151.0	179.6	199.9	222.2
Ratios						
ROE	13.6%	13.3%	14.5%	15.3%	16.7%	17.3%
ROCE	11.7%	7.8%	8.9%	10.7%	13.4%	14.8%
Net gearing	-14.8%	8.5%	5.8%	-9.4%	-22.7%	-33.3%
Net debt / EBITDA	-0.6x	0.3x	0.2x	-0.3x	-0.8x	-1.2x

Source: Company data; AlsterResearch

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Contacts

SRH AlsterResearch AG
Himmelstr. 9
22299 Hamburg

Tel: +49 40 309 293-52
Fax: +49 40 556 330-54
E-Mail: info@alsterresearch.com

mwb fairtrade Wertpapierhandelsbank AG
Rottenbacher Straße 28
82166 Gräfelfing

Tel: +49 89 85852-0
Fax: +49 89 85852-505
E-Mail: info@mwbfairtrade.com

Our research can be found under

Research

OLIVER DREBING
Senior Analyst
Tel: +49 40 309 293-57
E-Mail: o.drebing@alsterresearch.com

LOUISA HESSELBEIN
Analyst
Tel: +49 40 309 293-52
E-Mail: l.hesselbein@alsterresearch.com

KARSTEN RAHLF, CFA
Senior Analyst
Tel: +49 40 309 293-54
E-Mail: k.rahlf@alsterresearch.com

KATHARINA SCHLÖTER
Analyst
Tel: +49 40 309 293-52
E-Mail: k.schloeter@alsterresearch.com

THOMAS WISSLER
Senior Analyst
Tel: +49 40 309 293-58
E-Mail: t.wissler@alsterresearch.com

ALEXANDER ZIENKOWICZ
Analyst
Tel: +49 40 309 293-56
E-Mail: a.zienkowicz@alsterresearch.com

Sales

MARKUS KÖNIG-WEISS
Head of Sales
Tel: +49 40 309 293-52
E-Mail: mkw@alsterresearch.com

Equity Capital Markets / Trading

KAI JORDAN
Member of the Board
Tel: +49 40 36 0995-22
E-Mail: kjordan@mwbfairtrade.com

ALEXANDER DEUSS
Head of Institutional Sales
Tel: +49 40 36 0995-22
E-Mail: adeuss@mwbfairtrade.com

SASCHA GUENON
Head of Designated Sponsoring
Tel: +49 40 360 995-23
E-Mail: sguenon@mwbfairtrade.com

RESEARCH HUB	www.research-hub.de
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