

S&T

Germany | IT software & services | MCAP EUR 207.7m

05 August 2015

Buy (Buy)

Target Price EUR 5.60
Current Price EUR 4.8
Up/downside 16.7%
Change in TP none
Change in EPS none 2014E

Solid first half

The equity story (climbing the value chain, thanks to its smart investments in IT security and smart grid) is unfolding. The group managed to improve profitability, despite costs associated with the ramp of smart grid activity,

Solid top-line growth and earnings up in H1

Growth further accelerated in H1. Sales came to EUR188m (vs. EUR165m a year ago), corresponding to a rise of 14% (+17% expected). Unsurprisingly, growth was from its 2014 entry into the Appliances Smart Energy segment and from the strong improvement in business in the Appliances Security segment (EUR55m vs. EUR26m in revenues for the two segments accounted together). S&T performed better than we expected on the profitability front. EBITDA rose to EUR10.8m (PY EUR10m), slightly above our expectations (KECH: EUR10.2m). This was due to a strong bounce in gross profit, resulting from an improvement in the company's product mix. Gross profit rebounded sharply to 36.6% compared with 32.9% in H1 2014 and 35.2% expected. Net income is also improving fast, reaching EUR6.0m in H1 compared with EUR4.9m (EUR5.7m expected).

Upcoming leverage from smart grid from 2016

Figures above are confirming S&T is shifting successfully towards more technology. The Appliances Security segment keeps driving profitability up (EUR4.8m vs EUR3.9m in H1 2014). In Smart grid business, the start-up costs caused an initial loss of EUR1m but we expect it to start operating in the black in 2016 as the bulk of dedicated investments to smart grids in Eastern Europe are ahead of us (a key driver for the group will be the EU regulation requiring the replacement of 80% of the European Union's electricity meters with smart meters by 2019).

Guidance reiterated. Buy, TP EUR5.60.

The group reiterated guidance of EUR465m in revenues (+20%) and net profit of EUR15m (+15%) in 2015 despite costs associated with the smart energy ramp-up. Our positive investment view remains intact. S&T represents an investment in a young, dynamic company brimming with opportunity and run with an entrepreneurial approach. Due to smart acquisitions, the company has captured a valuable position in a very promising growth markets. At under 11x 2016E earnings, valuation is attractive considering that if management keeps delivering, upside is huge. Buy, TP EUR5.60.

Baptiste de Leudeville

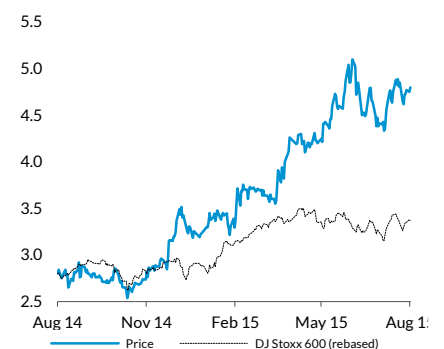
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Market data

Market cap (EURm)	208
Free float	66%
No. of shares outstanding (m)	43
Avg. daily trading volume('000)	35
YTD abs performance	49.1%
52-week high (EUR)	5.10
52-week low (EUR)	2.54

FY to 31/12 (EUR)	2015E	2016E	2017E
Sales (m)	472.4	507.6	543.9
EBITDA adj (m)	26.3	32.8	37.0
EBIT adj (m)	18.8	23.7	27.2
Net profit adj (m)	15.0	19.1	21.9
Net fin. debt (m)	8.9	-6.2	-24.4
FCF (m)	-7.4	15.1	18.2
EPS adj. and fully dil.	0.35	0.44	0.51
Consensus EPS	0.33	0.41	0.48
Net dividend	0.06	0.08	1.08

FY to 31/12 (EUR)	2015E	2016E	2017E
P/E (x) adj and ful. dil.	13.8	10.9	9.5
EV/EBITDA (x)	8.3	6.2	5.0
EV/EBIT (x)	11.7	8.6	6.8
FCF yield	-3.6%	7.2%	8.8%
Dividend yield	1.3%	1.7%	22.5%
Net fin.debt/EBITDA	0.3	-0.2	-0.7
Gearing	8.3%	-4.8%	-15.8%
ROIC	13.7%	14.9%	-5.4%
EV/IC (x)	1.9	1.7	1.4



KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer.

Key financials

FY to 31/12 (EUR)	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Per share data								
EPS adjusted	0.21	0.30	0.23	0.30	0.31	0.35	0.44	0.51
EPS adj and fully diluted	0.21	0.30	0.23	0.30	0.31	0.35	0.44	0.51
EPS reported	0.21	0.30	0.23	0.30	0.31	0.35	0.44	0.51
Cash flow per share	-0.17	0.06	0.39	0.28	0.50	0.10	0.64	0.73
Book value per share	1.82	2.12	1.92	1.76	2.10	2.41	2.92	3.51
Dividend per share	0.00	0.00	0.00	0.06	0.06	0.06	0.08	1.08
Number of shares, YE (m)	22.20	24.13	39.34	39.34	43.27	43.27	43.27	43.27
Valuation								
P/E adjusted	10.4	8.0	10.0	8.0	15.3	13.8	10.9	9.5
P/E adjusted and fully diluted	10.4	8.0	10.0	8.0	15.3	13.8	10.9	9.5
P/BV	1.2	1.1	1.2	1.4	2.3	2.0	1.6	1.4
P/CF	na	38.9	6.0	8.4	9.6	47.5	7.5	6.5
Dividend yield (%)	0.0%	0.0%	0.0%	2.5%	1.3%	1.3%	1.7%	22.5%
FCF yield (%)	-8.6%	-2.4%	10.1%	5.7%	7.1%	-3.6%	7.2%	8.8%
EV/Sales	0.5	0.6	0.3	0.3	0.5	0.5	0.4	0.3
EV/EBITDA	9.5	7.1	6.5	5.2	9.3	8.3	6.2	5.0
EV/EBIT	13.3	9.1	9.6	7.3	12.8	11.7	8.6	6.8
Income Statement (EURm)								
Sales	80.7	153.2	339.5	338.0	385.6	472.4	507.6	543.9
EBITDA adjusted	4.5	12.2	16.6	20.1	22.9	26.3	32.8	37.0
EBIT adjusted	3.2	9.5	11.1	14.4	16.6	18.8	23.7	27.2
Net financial items & associates	-0.4	-1.0	-1.4	-2.2	-1.8	-1.6	-1.6	-1.6
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	1.2	-0.3	-0.3	-0.1	-0.8	-1.7	-2.2	-2.6
Net profit from continuing operations	4.0	8.1	9.4	12.0	14.0	15.5	19.9	23.1
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	4.0	8.1	9.4	12.0	14.0	15.5	19.9	23.1
Net profit reported	3.7	6.9	7.3	11.8	13.0	15.0	19.1	21.9
Net profit adjusted	3.7	6.9	7.3	11.8	13.0	15.0	19.1	21.9
Cash Flow Statement (EURm)								
Cash flow from operating activities	-3.1	1.4	12.3	11.2	20.6	4.4	27.7	31.8
Capex	-1.0	-2.8	-3.2	-5.8	-5.8	-11.8	-12.7	-13.6
Free cash flow	-4.1	-1.4	9.1	5.4	14.8	-7.4	15.1	18.2
Acquisitions & Divestments	-1.2	-11.6	0.4	5.5	-2.9	0.0	0.0	0.0
Dividend paid	0.0	-0.1	-0.3	-0.3	-3.8	0.0	0.0	0.0
Others	3.7	1.4	0.0	-4.5	7.7	0.0	0.0	0.0
Change in net financial debt	-1.6	-11.6	9.3	6.1	15.8	-7.4	15.1	18.2
Balance Sheet (EURm)								
Intangible assets	20.6	40.9	38.8	44.8	57.1	59.6	61.8	64.1
Tangible assets	2.7	11.1	9.9	9.0	11.4	13.1	14.6	16.1
Financial & other non-current assets	3.0	13.6	13.7	13.9	16.1	16.1	16.1	16.1
Total shareholders' equity	33.4	54.6	63.1	71.2	89.7	107.0	129.1	154.7
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	31.5	172.5	150.0	148.9	183.3	275.3	291.2	307.6
Net debt	-5.7	23.6	14.9	9.3	1.4	8.9	-6.2	-24.4
Working capital requirement	6.1	23.2	24.3	23.9	22.3	42.7	46.2	49.8
Invested Capital	29.4	75.2	73.1	77.6	90.8	115.5	122.5	130.0
Ratios								
ROE (%)	14.5%	16.7%	13.2%	18.1%	16.6%	15.7%	16.6%	15.7%
ROIC (%)	12.8%	13.6%	11.3%	14.3%	14.8%	13.7%	14.9%	-5.4%
Net fin. debt / EBITDA (x)	-1.3	1.9	0.9	0.5	0.1	0.3	-0.2	-0.7
Gearing (%)	-17.0%	43.2%	23.6%	13.0%	1.6%	8.3%	-4.8%	-15.8%

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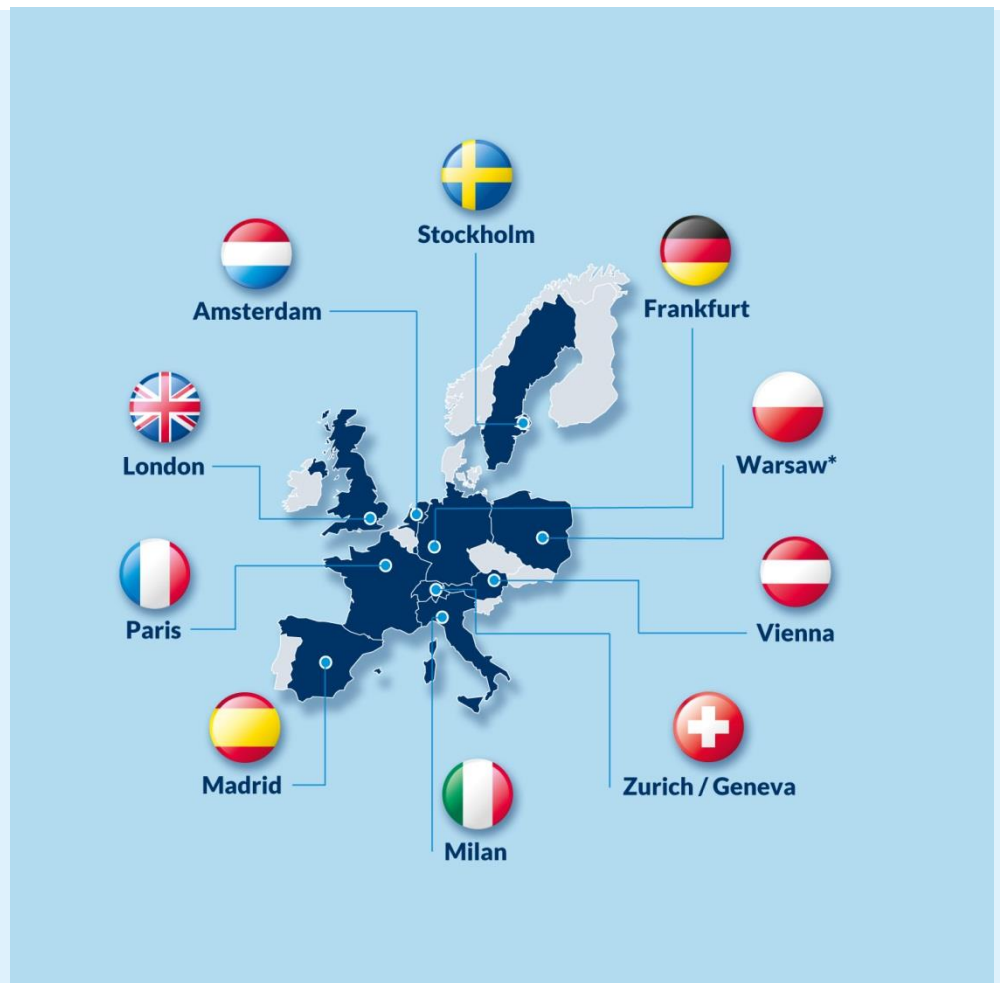
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