

# S&T

Germany | IT software & services | MCAP EUR 1.4bn

12 November 2018

# Buy

Target Price	EUR 28.00 (29.00)
Current Price	EUR 22.08
Up/downside	26.8%
Change in TP	-3.4%
Change in EPS	0.7% 18E / -3.2% 19E

## Remaining on track

S&T reported a solid set of Q3 results and the guidance increase for FY 2018 was reassuring. The outlook for 2019E also remains solid, with the IOT solutions business remaining the growth driver.

### Solid Q3, guidance for FY 2018 raised

S&T reported a solid Q3 with organic revenue growth of c. 7% (stated: 15%) driven by the IOT solutions segment (+c. 15% organic growth) as well as ongoing momentum in IT Service (+9% YOY). We understood that drivers were smart energy while medical as well as the gaming sector were weaker in Q3. FY 2018 EBITDA guidance was lifted to at least EUR88m (EUR80m previously) which is in line with our previous forecast excluding the EUR1.6m badwill gain in Q3 (other income). Based on the strong order backlog growth (+14.5% QOQ) we expect a solid Q4, increasingly driven by the IOT solutions and embedded systems segments.

### Mid-term targets remain in reach

S&T's mid-term targets to lift sales to EUR2bn with an EBITDA of more than EUR200m by 2023 remains on track. The drivers here will also be the IOT segment (we estimate 10% organic revenue growth in 2019E) with its strong footprint in industrial solutions (e.g. machine connectivity, security) as well as smart energy solutions (introducing smart meters with Microsoft Azure connection). Next to this, we understood that S&T is gaining traction in the aviation sector with customer wins in in-flight connectivity. In addition, S&T's China initiative (with Ennocon) where sales are expected to increase to c. EUR70m next year (from EUR40m today) should add to growth. On the margin side, a higher share of IOT Solutions and an increased share of recurring revenues (e.g. maintenance) and software should incrementally lift the margin to the 10% target by 2023E (KECH 2018E: 8.6% adjusted).

### Buy reiterated, adjusting for weaker operating cash flow

Following Q3 results, we slightly adjust our estimates and mainly cut our FCF assumptions (from EUR32m to EUR10.5m) due to higher working capital build (inventories). As a result, we lower our DCF-based (8.25% WACC, 2% TG, 11% TM) target price from EUR29 to EUR28 but reiterate our Buy rating. The main risk to our estimates remains a downturn in the macro environment. That said, we understood that the Intel component shortage is not a risk (S&T is a Platinum partner and has long-term contracts). However, we understood that in order to avoid punitive tariffs from goods shipped from China to the US, goods are being rerouted over Germany (possibly higher logistics cost).

### Martin Jungfleisch

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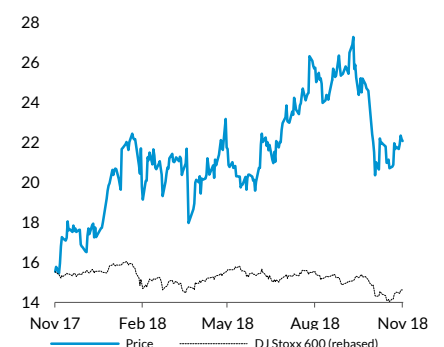
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#### Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	1,401
Free float	77%
No. of shares outstanding (m)	63
Avg. daily volume (EURm)	7.1
YTD abs performance	22.8%
52-week high/low (EUR)	27.30/15.45

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
Sales (m)	1,000.3	1,123.3	1,219.1
EBITDA adj (m)	88.3	99.7	114.0
EBIT adj (m)	60.3	70.2	84.5
Net profit adj (m)	44.8	55.5	68.4
Net fin. debt (m)	-60.6	-96.7	-146.2
FCF (m)	10.5	45.8	60.5
EPS adj. and fully dil.	0.69	0.86	1.06
Consensus EPS	0.71	0.97	1.21
Net dividend	0.15	0.17	0.20

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
P/E adj and ful. dil.	31.9	25.7	20.9
EV/EBITDA	15.2	13.1	11.0
EV/EBIT	22.2	18.6	14.8
FCF yield	0.7%	3.3%	4.3%
Dividend yield	0.7%	0.8%	0.9%
Net fin.debt/EBITDA	-0.7	-1.0	-1.3
Gearing	-17.0%	-24.0%	-31.7%
ROIC	9.6%	10.0%	11.5%
EV/IC	2.6	2.4	2.2



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## Changes to estimates

Our changes to our estimates are mainly due to slightly lower sales growth assumptions in (low-margin) IT Service for 2019E as well as higher D&A/PPA charges.

**Table 1: Changes to estimates 2018E**

	2018 KECH New	2018 KECH Old	% change	Consensus	vs. Consensus
Sales	1,000.3	1,001.7	-0.1%	1,001	-0.1%
EBITDA	88.3	86.4	2.2%	86.5	2.0%
% margin	8.8%	8.6%		8.6%	
EBIT	60.3	58.9	2.3%	61.9	-2.6%
% margin	6.0%	5.9%		6.2%	
Net Income	44.8	44.3	1.1%		
EPS	0.70	0.69	1.1%	0.71	-1.7%

Source: FactSet consensus, Kepler Cheuvreux

**Table 2: Changes to estimates 2019E**

	2019 KECH New	2019 KECH Old	% change	Consensus	vs. Consensus
Sales	1,123.3	1,140.7	-1.5%	1,113	1.0%
EBITDA	99.7	99.7	0.0%	102.7	-3.0%
% margin	8.9%	8.7%		9.2%	
EBIT	70.2	71.7	-2.2%	80.1	-12.4%
% margin	6.2%	6.3%		7.2%	
Net Income	55.5	57.1	-2.7%		
EPS	0.87	0.89	-2.8%	0.97	-10.8%

Source: FactSet consensus, Kepler Cheuvreux

# Key financials

FY to 31/12 (EUR)	12/13	12/14	12/15	12/16	12/17	12/18E	12/19E	12/20E
<b>Income Statement (EURm)</b>								
Sales	338.0	385.5	468.2	503.7	882.0	1,000.3	1,123.3	1,219.1
% Change	-0.4%	14.1%	21.5%	7.6%	75.1%	13.4%	12.3%	8.5%
EBITDA adjusted	20.1	22.8	28.4	34.4	68.1	88.3	99.7	114.0
EBITDA margin (%)	6.0%	5.9%	6.1%	6.8%	7.7%	8.8%	8.9%	9.4%
EBIT adjusted	14.4	16.6	20.6	24.1	41.7	60.3	70.2	84.5
EBIT margin (%)	4.2%	4.3%	4.4%	4.8%	4.7%	6.0%	6.2%	6.9%
Net financial items & associates	-2.2	-0.3	0.5	0.0	0.0	0.0	0.0	0.0
Others	0.0	-1.6	-2.6	-4.0	-6.3	-4.7	-3.2	-2.2
Tax	-0.1	-0.8	-0.8	0.3	-6.0	-8.9	-10.7	-13.2
Net profit from continuing operations	12.0	14.0	17.7	20.4	29.4	46.7	56.2	69.2
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	12.0	14.0	17.7	20.4	29.4	46.7	56.2	69.2
Net profit reported	11.8	12.9	15.8	14.6	22.5	44.8	55.5	68.4
Net profit adjusted	11.8	12.9	15.8	14.6	22.5	44.8	55.5	68.4
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	9.9	20.6	26.7	61.4	44.9	34.0	71.5	87.8
Capex	-5.8	-5.8	-9.5	-9.3	-23.0	-23.5	-25.7	-27.3
Free cash flow	4.1	14.8	17.2	52.1	21.9	10.5	45.8	60.5
Acquisitions & Divestments	5.2	-4.7	-0.4	-59.2	-11.5	-30.0	0.0	0.0
Dividend paid	-0.3	-4.1	-4.1	-7.8	-7.0	-6.8	-9.6	-10.9
Others	-3.5	2.0	-1.8	37.6	66.5	-15.0	0.0	0.0
Change in net financial debt	5.6	7.9	10.9	22.6	69.9	-41.3	36.1	49.5
<b>Balance Sheet (EURm)</b>								
Intangible assets	44.8	57.1	72.8	183.2	189.9	212.9	205.8	199.9
Tangible assets	9.0	11.4	15.2	27.5	31.9	34.4	37.8	41.4
Financial & other non-current assets	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	71.2	89.7	102.2	241.1	331.9	356.8	403.4	461.6
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	148.9	183.3	216.8	427.7	473.0	526.6	521.6	499.2
Net financial debt	9.3	1.5	-9.4	-32.0	-101.8	-60.6	-96.7	-146.2
Working capital requirement	23.9	90.9	100.7	198.1	211.2	262.7	295.5	321.1
Invested Capital	77.6	159.4	188.6	408.9	433.0	510.0	539.0	562.4
<b>Per share data</b>								
EPS adjusted	0.30	0.32	0.36	0.33	0.43	0.70	0.87	1.07
EPS adj and fully diluted	0.30	0.25	0.30	0.32	0.43	0.69	0.86	1.06
% Change	17.0%	-18.1%	22.4%	7.0%	33.0%	61.4%	24.0%	23.2%
EPS reported	0.30	0.32	0.36	0.33	0.43	0.70	0.87	1.07
Cash flow per share	0.25	0.50	0.61	1.40	0.86	0.53	1.11	1.37
Book value per share	1.76	2.12	2.29	3.50	5.88	5.35	6.06	6.96
Dividend per share	0.06	0.07	0.08	0.10	0.13	0.15	0.17	0.20
Number of shares, YE (m)	39.20	41.00	43.51	48.93	63.44	63.44	63.44	63.44
<b>Ratios</b>								
ROE (%)	18.1%	16.6%	17.0%	11.5%	9.8%	13.8%	15.2%	16.4%
ROIC (%)	14.3%	10.5%	8.9%	6.1%	7.4%	9.6%	10.0%	11.5%
Net fin. debt / EBITDA (x)	0.5	0.1	-0.3	-0.9	-1.5	-0.7	-1.0	-1.3
Gearing (%)	13.1%	1.6%	-9.2%	-13.3%	-30.7%	-17.0%	-24.0%	-31.7%
<b>Valuation</b>								
P/E adjusted	7.9	9.0	12.2	22.8	32.0	31.6	25.5	20.7
P/E adjusted and fully diluted	7.9	11.6	14.8	23.4	32.4	31.9	25.7	20.9
P/BV	1.4	1.3	1.9	2.2	2.4	4.1	3.6	3.2
P/CF	9.5	5.7	7.3	5.4	16.1	41.7	19.8	16.1
Dividend yield (%)	2.5%	2.5%	1.8%	1.3%	0.9%	0.7%	0.8%	0.9%
FCF yield (%)	4.4%	12.7%	8.9%	14.1%	2.5%	0.7%	3.3%	4.3%
EV/Sales	0.3	0.3	0.4	0.7	0.9	1.3	1.2	1.0
EV/EBITDA	5.1	5.2	6.5	9.8	11.4	15.2	13.1	11.0
EV/EBIT	7.2	7.2	8.9	14.0	18.7	22.2	18.6	14.8

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## Companies mentioned

Stock	ISIN	Currency	Price
S&T	AT0000A0E9W5	EUR	22.08

Source: Factset closing prices of 09/11/2018

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Total	100%	100%

Source: KEPLER CHEUVREUX

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	04/04/2018 07:24	Equity Research	Buy	21.50	18.66
	07/05/2018 07:15	Equity Research	Buy	25.00	21.64
	16/08/2018 07:17	Equity Research	Buy	29.00	25.24

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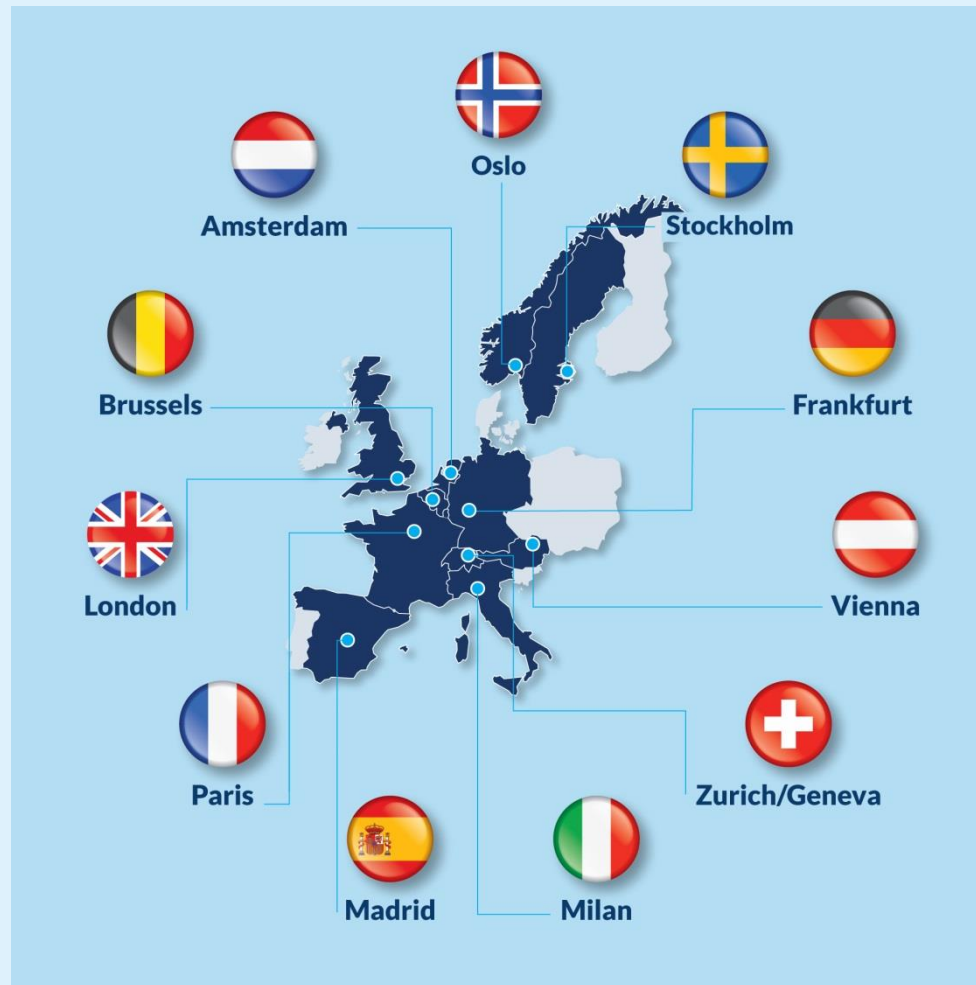
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