

# S&T

Germany | IT software & services | MCAP EUR 422.6m

14 October 2016

# Hold

**Target Price** EUR 10.50  
**Current Price** EUR 9.63  
**Up/downside** 9.0%  
**Change in TP** none  
**Change in EPS** none 2016E

## First take on S&T/Kontron deal

S&T has acquired a 29.9% share in Kontron for EUR60m, corresponding to EUR3.6 per share and a 25% premium. The operation was mostly financed by a 10% capital increase in S&T (EUR44m), fully subscribed by Ennoconn, a subsidiary of Foxconn, at EUR10 per share. Ennoconn has bought an additional 19.4% at EUR11 per share and now owns 29.4% of S&T. Our first take on the deal is positive.

### Valid deal rationale

The new Foxconn-S&T-Kontron association forms a serious player in the embedded computing field for IoT applications through a presence across the whole value chain (design, manufacturing, system optimisation, software implementation). The positives for S&T include: 1) the creation of massive cross-selling opportunities between its IoT security appliances and Kontron's embedded hardware; and 2) new distribution channels and an enlarged customer base. After Kontron's restructuring, we should definitely expect some significant commercial boost to materialise in the next 12 months (new product launch and customer wins).

### The right setup for Kontron turnaround

CEO Hannes Niederhauser sold 40% of its shares as part of the deal, but remains strongly committed at a shareholding (c. 5% of shares) and management level (deal terms require he stays on board until 2019 at least). Niederhauser knows Kontron upside down and continues to enjoy a solid reputation within the company, which, under his governance (1999-2007) experienced a golden age for sales growth (x4) and earnings (net margin of 7%). This obviously supports the story, as we believe no one is better positioned to get Kontron back on its feet. The restructuring plan includes better cost control (-300bp sin opex/sales ratio) as well as reviving Kontron's engineering DNA. With EUR30m of write-offs expected in 2016E, S&T will start from a clean base as of 2017E.

### Full takeover likely in 2017E

S&T does not plan any tender offer in the very short term, as it does not intend to consolidate any Kontron losses (analyst consensus anticipates a EUR50m loss for Kontron in 2016E). The plan is to merge Kontron into S&T by late 2017/early 2018 after the turnaround is complete (Q2 2017 at the latest). From a financial standpoint, the deal will be dilutive on S&T's gross margin, given Kontron's focus on the less value-added embedded hardware segment. We expect a negative impact on our 2017 EPS estimates and a neutral impact on 2018E. We leave our rating/TP unchanged. New estimates are disclosed on page 2.

### Baptiste de Leudeville

Equity Research Analyst

bdeleudeville@keplercheuvreux.com

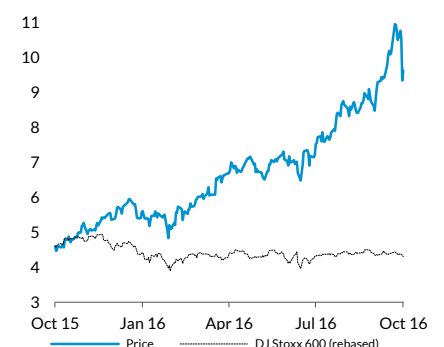
+41 22 994 1573

#### Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	423
Free float	66%
No. of shares outstanding (m)	44
Avg. daily volume (EURm)	2.1
YTD abs performance	61.9%
52-week high/low (EUR)	10.96/4.46

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	501.2	721.1	981.3
EBITDA adj (m)	33.7	43.0	71.8
EBIT adj (m)	25.4	31.1	55.6
Net profit adj (m)	19.5	24.3	47.1
Net fin. debt (m)	-6.3	69.9	50.3
FCF (m)	17.3	9.2	30.0
EPS adj. and fully dil.	0.45	0.45	0.72
Consensus EPS	0.43	0.53	0.60
Net dividend	0.10	0.10	0.16

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	21.5	21.5	13.3
EV/EBITDA	12.6	16.3	9.5
EV/EBIT	16.6	22.6	12.3
FCF yield	4.1%	1.5%	4.8%
Dividend yield	1.0%	1.0%	1.7%
Net fin.debt/EBITDA	-0.2	1.6	0.7
Gearing	-3.8%	28.7%	17.8%
ROIC	20.5%	13.5%	17.3%
EV/IC	3.2	2.5	2.3



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.

**Table 1: New estimates versus former estimates**

	New estimates			Former estimates		
	2016E	2017E	2018E	2016E	2017E	2018E
<b>Sales</b>	<b>501.2</b>	<b>721.1</b>	<b>981.3</b>	<b>501.2</b>	<b>561.7</b>	<b>612.5</b>
Growth	7.0%	43.9%	36.1%	7.0%	12.1%	9.0%
<b>EBITDA</b>	<b>33.7</b>	<b>43.0</b>	<b>71.8</b>	<b>33.7</b>	<b>41.1</b>	<b>48.3</b>
Growth	18.7%	27.8%	66.9%	18.7%	22.2%	17.4%
EBITDA margin	6.7%	6.0%	7.3%	6.7%	7.3%	7.9%
<b>Net profit</b>	<b>19.5</b>	<b>24.3</b>	<b>47.1</b>	<b>19.5</b>	<b>25.5</b>	<b>31.4</b>
Growth	23.1%	24.8%	93.5%	23.1%	30.9%	23.0%
Net margin	3.9%	3.4%	4.8%	3.9%	4.5%	5.1%
<b>EPS</b>	<b>0.45</b>	<b>0.45</b>	<b>0.72</b>	<b>0.45</b>	<b>0.59</b>	<b>0.72</b>
Growth	23.1%	-0.2%	62.1%	23.1%	30.9%	23.0%

Source: Kepler Cheuvreux



# Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Per share data</b>								
EPS adjusted	0.29	0.26	0.30	0.32	0.41	0.45	0.45	0.72
EPS adj and fully diluted	0.29	0.26	0.30	0.31	0.40	0.45	0.45	0.72
% Change	54.6%	-11.8%	17.0%	4.4%	27.7%	11.7%	-0.2%	62.1%
EPS reported	0.29	0.26	0.30	0.32	0.36	0.45	0.45	0.72
Cash flow per share	0.06	0.43	0.28	0.50	0.61	0.66	0.43	0.73
Book value per share	2.09	2.16	1.76	2.12	2.29	3.70	4.44	4.31
Dividend per share	0.00	0.00	0.06	0.07	0.08	0.10	0.10	0.16
Number of shares, YE (m)	23.54	28.28	39.20	41.00	43.51	43.88	65.00	65.00
<b>Valuation</b>								
P/E adjusted	8.2	8.9	7.9	9.0	11.0	21.5	21.5	13.3
P/E adjusted and fully diluted	8.2	8.9	7.9	9.1	11.1	21.5	21.5	13.3
P/BV	1.1	1.1	1.4	1.3	1.9	2.6	2.2	2.2
P/CF	39.5	5.3	8.4	5.7	7.3	14.7	22.2	13.3
Dividend yield (%)	0.0%	0.0%	2.5%	2.5%	1.8%	1.0%	1.0%	1.7%
FCF yield (%)	-2.5%	14.0%	5.7%	12.6%	8.9%	4.1%	1.5%	4.8%
EV/Sales	0.6	0.2	0.3	0.3	0.4	0.8	1.0	0.7
EV/EBITDA	7.0	5.0	5.3	5.4	6.7	12.6	16.3	9.5
EV/EBIT	9.0	7.4	7.4	7.4	9.2	16.6	22.6	12.3
<b>Income Statement (EURm)</b>								
Sales	153.2	339.5	338.0	385.5	468.2	501.2	721.1	981.3
% Change	89.8%	121.6%	-0.4%	14.1%	21.5%	7.0%	43.9%	36.1%
EBITDA adjusted	12.2	16.6	20.1	22.8	28.4	33.7	43.0	71.8
EBITDA margin (%)	8.0%	4.9%	6.0%	5.9%	6.1%	6.7%	6.0%	7.3%
EBIT adjusted	9.5	11.1	14.4	16.6	20.6	25.4	31.1	55.6
EBIT margin (%)	6.2%	3.3%	4.2%	4.3%	4.4%	5.1%	4.3%	5.7%
Net financial items & associates	-1.0	-1.4	-2.2	-1.8	-2.2	-2.5	-3.0	-3.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-0.3	-0.3	-0.1	-0.8	-0.8	-1.6	-2.0	-3.7
Net profit from continuing operations	8.1	9.4	12.0	14.0	17.6	21.3	26.1	48.9
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	8.1	9.4	12.0	14.0	17.6	21.3	26.1	48.9
Net profit reported	6.9	7.3	11.8	12.9	15.8	19.5	24.3	47.1
Net profit adjusted	6.9	7.3	11.8	12.9	17.6	19.5	24.3	47.1
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	1.4	12.3	11.2	20.5	26.7	28.5	23.6	47.2
Capex	-2.8	-3.2	-5.8	-5.8	-9.5	-11.3	-14.4	-17.2
Free cash flow	-1.4	9.1	5.4	14.8	17.2	17.3	9.2	30.0
Acquisitions & Divestments	-11.6	0.4	5.5	-2.9	-0.2	0.0	0.0	0.0
Dividend paid	-0.1	-0.3	-0.3	-3.8	-4.1	-4.3	-5.3	-10.4
Others	1.4	0.0	-3.1	7.7	-2.7	44.0	60.0	0.0
Change in net financial debt	-11.6	9.3	7.4	15.8	10.1	57.0	63.8	19.6
<b>Balance Sheet (EURm)</b>								
Intangible assets	40.9	38.8	44.8	57.1	72.8	104.3	205.5	206.0
Tangible assets	11.1	9.9	9.0	11.4	15.2	26.7	57.9	58.4
Financial & other non-current assets	13.6	13.7	13.9	17.4	33.1	53.1	63.1	63.1
Total shareholders' equity	54.6	63.1	71.2	89.7	102.2	163.3	244.1	282.6
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	172.5	150.0	148.9	183.3	216.8	218.5	321.0	348.9
Net debt	23.6	14.9	9.3	1.6	-9.3	-6.3	69.9	50.3
Working capital requirement	23.2	24.3	23.9	22.3	1.6	2.6	17.1	35.0
Invested Capital	75.2	73.1	77.6	90.8	89.5	133.5	280.5	299.4
<b>Ratios</b>								
ROE (%)	16.7%	13.2%	18.1%	16.6%	18.9%	15.0%	12.1%	18.0%
ROIC (%)	16.3%	13.5%	17.1%	17.7%	20.6%	20.5%	13.5%	17.3%
Net fin. debt / EBITDA (x)	1.9	0.9	0.5	0.1	-0.3	-0.2	1.6	0.7
Gearing (%)	43.2%	23.6%	13.1%	1.7%	-9.1%	-3.8%	28.7%	17.8%

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Prices in this report are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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Stock	ISIN	Disclosure (See Below)	Currency	Price
S&T	AT0000A0E9W5	8	EUR	9.63

Source: Factset closing prices of 13/10/2016

## Companies mentioned

Stock	Disclosure (See Below)
	nothing to disclose

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Name of the Research Analyst(s) : Baptiste de Leudeville

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**Kepler Cheuvreux rating distribution – Q2 2016**

Rating breakdown	A	B
Buy	50.9%	53.7%
Hold	34.8%	32.6%
Reduce	12.1%	8.4%
Not Rated/Under Review/Accept Offer	2.2%	5.3%
Total	100.0%	100.0%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

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The below table shows the history of recommendations and target prices changes issued by Kepler Cheuvreux research department (Equity and Credit) over a 12 months period.

Company Name	Date	Business Line	Rating	Target Price	Closing Price
S&T (EUR)	12/23/2015 9:45	Equity Research	Buy	6.70	5.54
	2/29/2016 9:25	Equity Research	Buy	7.00	5.59
	3/31/2016 7:42	Equity Research	Buy	8.40	6.54
	7/6/2016 8:33	Equity Research	Buy	8.00	7.26
	8/4/2016 8:28	Equity Research	Buy	9.30	8.16
	9/30/2016 8:33	Equity Research	Hold	10.50	10.10

Credit research does not issue target prices. Left intentionally blank.

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**Equity research**

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**Hold:** The expected upside is below 10% (the expected upside could be higher in light of the company's risk profile).

**Reduce:** There is an expected downside.

**Accept offer:** In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offer price is considered to be fairly valuing the shares.

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**Under review:** An event occurred with an expected significant impact on our target price and we cannot issue a recommendation before having processed that new information and/or without a new share price reference.

**Not rated:** The stock is not covered.

**Restricted:** A recommendation, target price and/or financial forecast is not disclosed further to compliance and/or other regulatory considerations.

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**Credit research**

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**Hold:** The analyst has a stable credit fundamental opinion on the issuer and/or performances of the debt securities over a 6 months period.

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KEPLER CHEUVREUX, Milan branch	Commissione Nazionale per le Società e la Borsa	CONSOB
KEPLER CHEUVREUX, Amsterdam branch	Autoriteit Financiële Markten	AFM
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**Amsterdam**

Kepler Cheuvreux Benelux  
Johannes Vermeerstraat 9  
1071 DK Amsterdam  
+31 20 573 06 66

**Frankfurt**

Kepler Cheuvreux Germany  
Taunusanlage 18  
60325 Frankfurt  
+49 69 756960

**Geneva**

Kepler Cheuvreux SA  
Route de Crassier 11  
1262 - Eysins  
Switzerland  
+41 22361 5151

**London**

Kepler Cheuvreux UK  
5th Floor  
95 Gresham Street  
London EC2V 7NA  
+44 20 7621 5100

**Madrid**

Kepler Cheuvreux Espana  
Alcala 95  
28009 Madrid  
+3491 4365100

**Milan**

Kepler Cheuvreux Italia  
Via C. Cornaggia 10  
20123 Milano  
+39 02 855 07 1

**Paris**

Kepler Cheuvreux France  
112 Avenue Kleber  
75016 Paris  
+33 1 53653500

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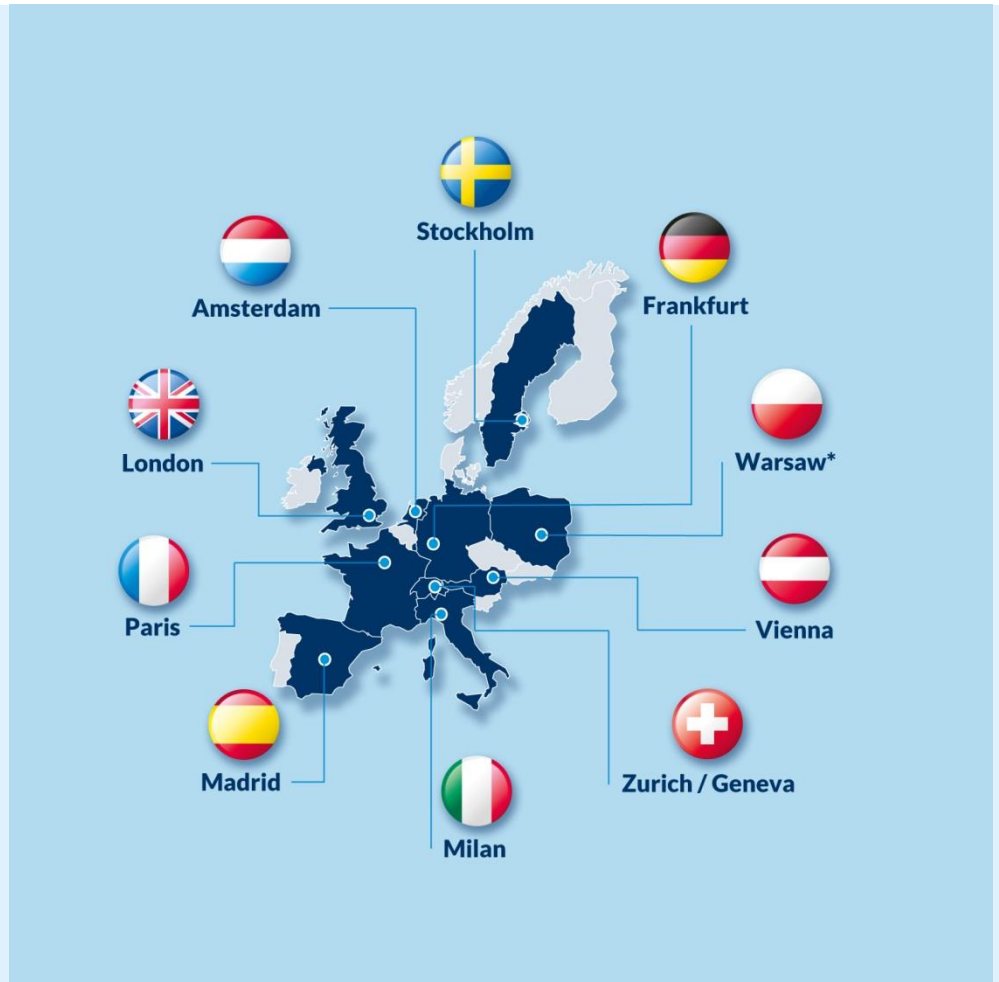
Kepler Cheuvreux Nordic  
Regeringsgatan 38  
10393 Stockholm  
+468 723 5100

**Vienna**

Kepler Cheuvreux Vienna  
Schottenring 16/2  
Vienna 1010  
+43 1 537 124 147

**Zurich**

Kepler Cheuvreux Switzerland  
Stadelhoferstrasse 22  
Postfach  
8024 Zurich  
+41 433336666



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**North America**

**Boston**

Kepler Capital Markets, Inc  
225 Franklin Street, Floor 26  
Boston, MA 02110  
+1 617-217-2615

**San Francisco**

Kepler Capital Markets, Inc  
50 California Street, Suite 1500  
San Francisco, CA 94111  
+1 415-439-5253

**New York**

Kepler Capital Markets, Inc.  
Tower 49  
12 East 49th Street, Floor 36,  
10017 New York, NY USA  
+1 212-710-7600