

S&T

Germany | IT software & services | MCAP EUR 428.7m

04 November 2016

Hold

Target Price EUR 10.50
Current Price EUR 8.88
Up/downside 18.3%
Change in TP none
Change in EPS -2.6% 2016E

Feedback on Q3 earnings

In Q3, S&T continued to improve overall profitability while posting double-digit growth in technology segments. Looking into segment performance, the analysis is less favourable than it looks on the outside. Hold, TP EUR10.5.

Q3 delivery good overall

At group level, earnings kept progressing at a dynamic pace in Q3: EBITDA and net income were up 6% QOQ and 38% QOQ respectively at EUR6.3m and EUR4.3m. Corresponding margins are also increasing: the EBITDA margin is up 60bps to 6% and net margin up 140bps to 4.1%. We add that the top line in the technology segments (IoT security and Smart Energy) continues to post double-digit growth (+31% and +15% respectively).

Some rough areas, though

On a more negative note, we notice that Smart Energy, after nine months of activity, is the only segment that contributes to overall earnings appreciation. While keeping recording robust top-line growth (+23% after nine months), important investments in the IoT Appliances security continue to weigh on the division's profitability (margin -340bps vs. Q3 2015). In IT services, EBITDA is down after nine months (EUR8m vs. EUR8.3m) and margins are roughly flat, which seems to indicate real difficulties in optimising efficiency in this part of business.

Lower FY 2016E sales target not necessarily a bad thing

The adjustment of the FY sales target from EUR500m to EUR480m by management should not be seen as a bad thing. S&T has always made clear it would be ready to sacrifice some top line in IT Services to lift profitability in the segment (from 3.5-4% to 5-6% EBITDA margin). That's what it did in October by deconsolidating its low-margin activity of PC manufacturing MAXDATA and Proworx proprietary brands (a EUR12m impact on top line).

New chapter begins

The market is still digesting the Foxconn/S&T/Kontron operation, which is obviously a new chapter in S&T's history. Our first take on the deal is rather positive, as we believe this is the right setup for the Kontron turnaround (CEO Niederhauser knows Kontron inside out, has a good track record in past turnaround execution, added-value from S&T product offering). In the short term, we see a wait-and-see attitude from the market, which should translate into a pause in the YTD share price rally. In our updated estimates, we model a consolidation of Kontron from H2 2017.

Baptiste de Leudeville

Equity Research Analyst

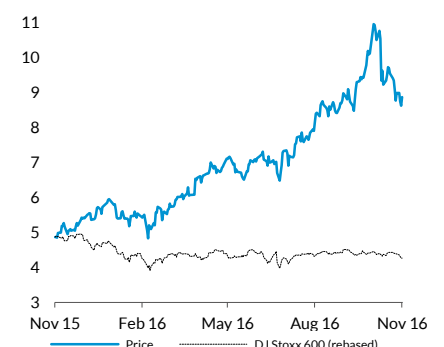
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Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	429
Free float	66%
No. of shares outstanding (m)	48
Avg. daily volume (EURm)	2.7
YTD abs performance	49.2%
52-week high/low (EUR)	10.96/4.84

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	476.1	703.3	931.0
EBITDA adj (m)	32.7	51.5	69.1
EBIT adj (m)	24.8	39.9	53.7
Net profit adj (m)	19.0	32.5	45.4
Net fin. debt (m)	-6.9	28.9	-6.5
FCF (m)	17.8	31.4	45.4
EPS adj. and fully dil.	0.44	0.62	0.79
Consensus EPS	0.43	0.50	0.60
Net dividend	0.10	0.14	0.17

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	20.3	14.4	11.2
EV/EBITDA	13.1	10.5	7.3
EV/EBIT	17.2	13.5	9.4
FCF yield	4.1%	6.2%	9.0%
Dividend yield	1.1%	1.5%	2.0%
Net fin.debt/EBITDA	-0.2	0.6	-0.1
Gearing	-4.2%	10.7%	-2.1%
ROIC	20.1%	18.0%	18.2%
EV/IC	3.2	2.0	1.9



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Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Per share data								
EPS adjusted	0.29	0.26	0.30	0.32	0.41	0.44	0.62	0.79
EPS adj and fully diluted	0.29	0.26	0.30	0.32	0.41	0.44	0.62	0.79
% Change	54.6%	-11.8%	17.0%	4.9%	28.4%	7.6%	41.4%	28.8%
EPS reported	0.29	0.26	0.30	0.32	0.36	0.44	0.62	0.79
Cash flow per share	0.06	0.43	0.28	0.50	0.61	0.65	0.86	1.08
Book value per share	2.09	2.16	1.76	2.12	2.29	3.69	5.08	5.34
Dividend per share	0.00	0.00	0.06	0.07	0.08	0.10	0.14	0.17
Number of shares, YE (m)	23.54	28.28	39.20	41.00	43.51	48.30	57.07	57.07
Valuation								
P/E adjusted	8.2	8.9	7.9	9.0	11.0	20.3	14.4	11.2
P/E adjusted and fully diluted	8.2	8.9	7.9	9.0	11.0	20.3	14.4	11.2
P/BV	1.1	1.1	1.4	1.3	1.9	2.4	1.7	1.7
P/CF	39.5	5.3	8.4	5.7	7.3	13.6	10.3	8.2
Dividend yield (%)	0.0%	0.0%	2.5%	2.5%	1.8%	1.1%	1.5%	2.0%
FCF yield (%)	-2.5%	14.0%	5.7%	12.6%	8.9%	4.1%	6.2%	9.0%
EV/Sales	0.6	0.2	0.3	0.3	0.4	0.9	0.8	0.5
EV/EBITDA	7.0	5.0	5.3	5.4	6.7	13.1	10.5	7.3
EV/EBIT	9.0	7.4	7.4	7.4	9.2	17.2	13.5	9.4
Income Statement (EURm)								
Sales	153.2	339.5	338.0	385.5	468.2	476.1	703.3	931.0
% Change	89.8%	121.6%	-0.4%	14.1%	21.5%	1.7%	47.7%	32.4%
EBITDA adjusted	12.2	16.6	20.1	22.8	28.4	32.7	51.5	69.1
EBITDA margin (%)	8.0%	4.9%	6.0%	5.9%	6.1%	6.9%	7.3%	7.4%
EBIT adjusted	9.5	11.1	14.4	16.6	20.6	24.8	39.9	53.7
EBIT margin (%)	6.2%	3.3%	4.2%	4.3%	4.4%	5.2%	5.7%	5.8%
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	-2.6	-3.6
Net profit from continuing operations	8.1	9.4	12.0	14.0	17.6	20.8	34.3	47.2
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	8.1	9.4	12.0	14.0	17.6	20.8	34.3	47.2
Net profit reported	6.9	7.3	11.8	12.9	15.8	19.0	32.5	45.4
Net profit adjusted	6.9	7.3	11.8	12.9	17.6	19.0	32.5	45.4
Cash Flow Statement (EURm)								
Cash flow from operating activities	1.4	12.3	11.2	20.5	26.7	28.5	45.4	61.7
Capex	-2.8	-3.2	-5.8	-5.8	-9.5	-10.7	-14.1	-16.3
Free cash flow	-1.4	9.1	5.4	14.8	17.2	17.8	31.4	45.4
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	-4.2	-7.1	-10.0
Others	1.4	0.0	-3.1	7.7	-2.7	44.0	80.0	0.0
Change in net financial debt	-11.6	9.3	7.4	15.8	10.1	57.6	104.2	35.4
Balance Sheet (EURm)								
Intangible assets	40.9	38.8	44.8	57.1	72.8	104.2	205.4	205.9
Tangible assets	11.1	9.9	9.0	11.4	15.2	26.6	57.8	58.3
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	162.9	270.0	307.2
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	267.1	256.8	247.1
Net debt	23.6	14.9	9.3	1.6	-9.3	-6.9	28.9	-6.5
Working capital requirement	23.2	24.3	23.9	22.3	1.6	1.7	2.2	3.0
Invested Capital	75.2	73.1	77.6	90.8	89.5	132.5	265.4	267.2
Ratios								
ROE (%)	16.7%	13.2%	18.1%	16.6%	18.9%	14.6%	15.2%	15.8%
ROIC (%)	16.3%	13.5%	17.1%	17.7%	20.6%	20.1%	18.0%	18.2%
Net fin. debt / EBITDA (x)	1.9	0.9	0.5	0.1	-0.3	-0.2	0.6	-0.1
Gearing (%)	43.2%	23.6%	13.1%	1.7%	-9.1%	-4.2%	10.7%	-2.1%

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Stock	ISIN	Disclosure (See Below)	Currency	Price
S&T	AT0000A0E9W5	8	EUR	8.88

Source: Factset closing prices of 03/11/2016

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 – Q3 2016

Rating breakdown	A	B
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Hold	36%	38%
Reduce	13%	6%
Not Rated/Under Review/Accept Offer	1%	3%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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

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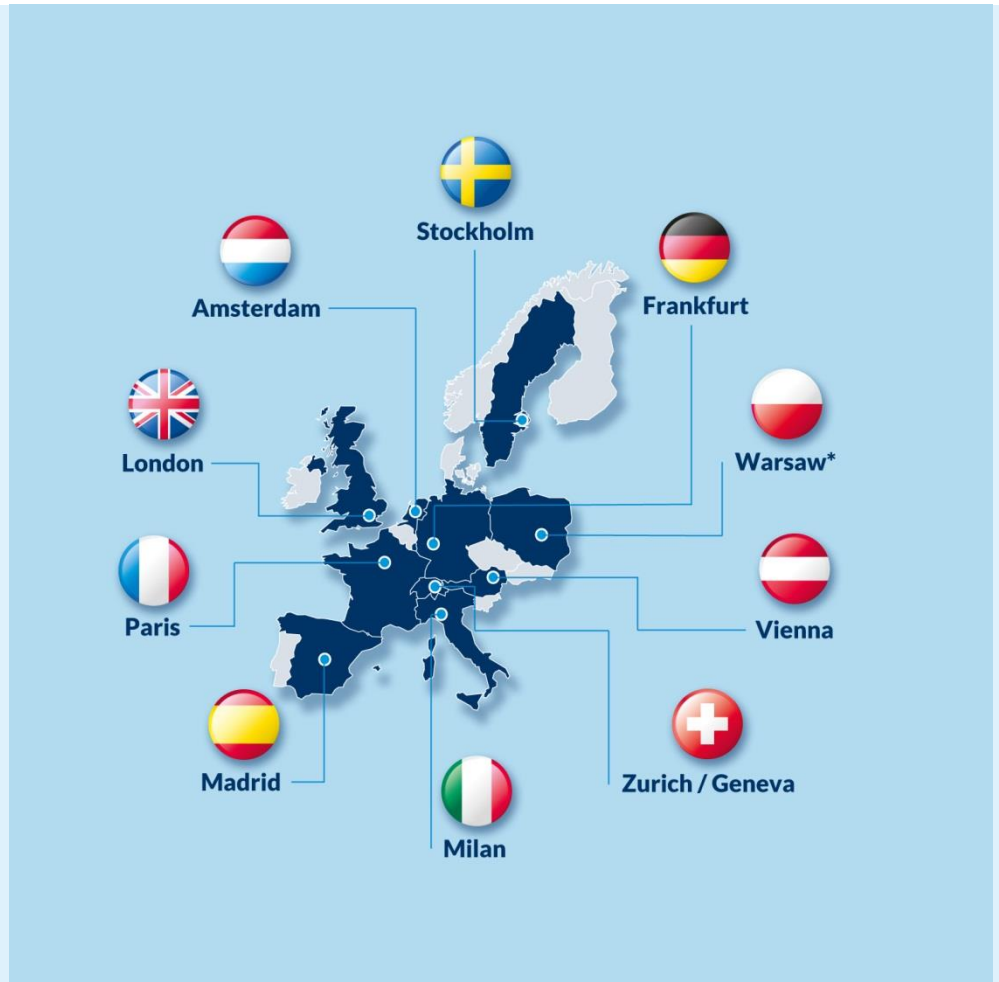
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