

S&T

Germany | IT software & services | MCAP EUR 1.4bn

07 May 2018

Buy

Target Price	EUR 25.00 (21.50)
Current Price	EUR 21.64
Up/downside	15.5%
Change in TP	16.3%
Change in EPS	-4.9% 18E / -0.4% 19E

Growth story set to continue

S&T's growth story remains on track. We see strong top-line growth potential in all of its segments while earnings are set to receive a boost from an improved sales mix (higher share of software) as well as more efficient sourcing and R&D through the Foxconn partnership. We raise our target price from EUR21.50 to EUR25. Buy.

Evolving into own IP driven company

Q1 results were solid and the outlook for S&T's end-markets is bright, as the ongoing digitalisation trend as well as the growing relevance of IoT topics should play into S&T's hands. The company is successfully evolving from low-margin IT reseller and system house to a more own IP driven company with higher margins and recurring revenue streams. The Kontron acquisition reinforced this trend and the company is now an integrated player (one-stop-shop) with a strong portfolio that combines the hard- and software expertise of both companies and leads to strong cross-selling opportunities into Kontron's vast customer base.

Sales mix and partnerships to improve margins

In addition to a robust IT market, we expect S&T to benefit from the Foxconn/Ennocon partnership (Ennocon has a 22% stake in S&T) which should result in strong cost and revenue synergies due to better sourcing and a stronger footprint of S&T in Asia (expect revenues to triple in China) and provides S&T with a competitive edge in key areas (sourcing, products, and distribution). Moreover, S&T's ambition to increase the share of recurring revenues by adding value-added software and services to its hardware products should improve margins gradually going forward.

Strong mid-term targets, raising target price to EUR25

S&T is a well-managed company and we expect the combination of a robust IT market, continuing R&D and innovation, as well as the strong market positioning as an integrated one-stop-shop for customers to result in increased customer wins going forward. The guidance for 2018 remains conservative (EUR1bn sales, EUR80m EBITDA) but the mid-term target to double sales by 2023 remains reassuring (at least half of expected growth is organic, the rest via M&A, we expect a 10% revenue CAGR until 2023E). Moreover, as a result of an improved sales mix and a better sourcing we expect EBITDA margins to climb to above 10% by 2021 (vs. 7.7% in 2017). We adjust our estimates, and raise our DCF-based (8.25% WACC, 2% TG, 10.5% TM) target price from EUR21.50 to EUR25. Buy.

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Market data

Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)	1,373
Free float	77%
No. of shares outstanding (m)	63
Avg. daily volume (EURm)	10.3
YTD abs performance	20.3%
52-week high/low (EUR)	22.46/12.27

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
Sales (m)	1,010.1	1,119.1	1,225.6
EBITDA adj (m)	86.1	103.6	120.1
EBIT adj (m)	61.1	80.6	98.1
Net profit adj (m)	47.0	64.7	80.5
Net fin. debt (m)	-126.1	-173.1	-233.3
FCF (m)	36.0	56.5	71.0
EPS adj. and fully dil.	0.74	1.01	1.26
Consensus EPS	0.73	0.97	1.30
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.	29.4	21.4	17.2
EV/EBITDA	14.5	11.6	9.5
EV/EBIT	20.4	14.9	11.6
FCF yield	2.6%	4.1%	5.2%
Dividend yield	0.7%	0.8%	0.9%
Net fin. debt/EBITDA	-1.5	-1.7	-1.9
Gearing	-34.2%	-40.7%	-47.0%
ROIC	9.5%	12.0%	14.0%
EV/IC	2.7	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.

Solid market positioning and outlook

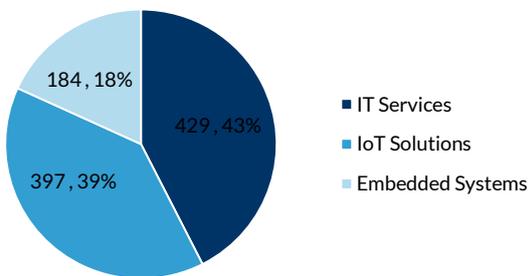
S&T operates under three segments: 1) IT Services 2) IoT Solutions and 3) Embedded Systems. The latter comprises the Kontron acquisition (2016). We see solid growth prospects and strong cross-selling potential in all three divisions. With an increased focus on IoT and Embedded Systems, S&T is successfully evolving from low-margin IT reseller and system house to a more own IP and own solution driven company with higher margins. S&T is now able to cover a large number of IoT and Industry 4.0 and other projects entire value chains.

S&T is now an integrated player and responsible for the development, implementation, operation, and marketing of proprietary IT hardware, software and solutions in multiple regions and vertical markets. This was reinforced by the Kontron acquisition which hardware and middleware know how join S&T's expertise in software and consulting as well as the expertise of Foxconn. We expect the combination of a robust IT market, continuing R&D and innovation, as well as the strong market positioning as an integrated one-stop-shop for customers to result in increased customer wins going forward.

We see solid growth prospects and strong cross-selling potential in all three divisions

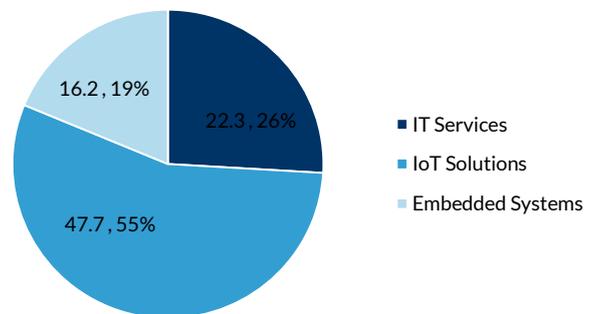
S&T is now an integrated player

Chart 1: Revenue split (2018E)



Source: Kepler Cheuvreux

Chart 2: EBITDA split (2018E)



Source: Kepler Cheuvreux

Although S&T is more increasingly evolving towards a more own IP driven company and we expect the IoT Solutions and Embedded Systems business to contribute close to 80% of the group's EBITDA going forward, the IT Services business remains important to the group (active in the DACH region and recently strong Eastern Europe) also as it is used for implementation of IoT Solutions products. We see the ongoing digitalisation trend (including topics such as mobility, cloud, security) as well as the increasing complexity of IT systems as drivers for increasing IT spend and outsourcing that should benefit S&T's IT Services division. Furthermore, the market is consolidating (with S&T as the consolidator) and additional M&A in IT Services will

S&T is increasingly evolving towards a more own IP driven company

broaden the market and open up to other customer groups which will also help in the distribution of S&T's products, especially for special purpose technologies.

IoT Solutions – the group's growth driver

IoT solutions, the largest revenue and EBITDA contributor, is the core growth driver of the group which should deliver high single digit to low teens growth over the coming years. In the IoT Solutions segment S&T develops and markets a wide range of proprietary products and solutions that combine its hardware and software expertise mainly in the vertical markets of industrial automation, medical technologies, infotainment and smart energy. The segment was also strengthened by parts of the Kontron group and includes the activities of the group outside of the North American market (IoT Solutions is mainly active in Europe). Parts of the product portfolio are:

- Solutions for control production equipment (i.e. control computers, touch screens etc.) and development of interfaces (APIs) providing access to a range of hardware components
- Smart Energy solutions and appliances (i.e. energy monitoring)
- Security functionalities for embedded systems (i.e. for remote systems of health management) as well as in infotainment (i.e. security solutions in betting software)
- Industrial automation solutions

The market outlook is solid and we expect strong demand for IoT solutions that combine hardware (Kontron) and software (S&T) expertise. The acquisition of the Kontron sub group has further strengthened the portfolio by adding customized hardware and software based specialised systems that were developed to serve niches in several markets.

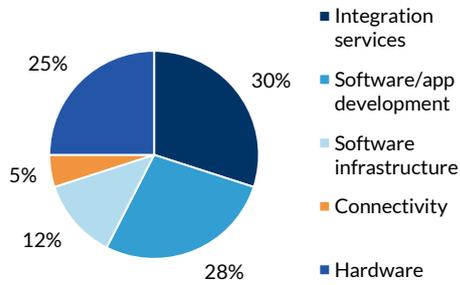
Increasing digitalisation and the emergence of industry 4.0 is unleashing a revolution that combines IT (information technologies) and OT (operational technologies). This is done by technologies such as cloud computing (IoT platforms) and the transformation of embedded systems into IoT devices. We expect S&T to benefit from its one-stop-shop capabilities as it covers the entire value chain from the embedded computers on the factory floor as well as software and security. Thus, companies will benefit to work with just one partner and receive their IT from one source.

We expect S&T to benefit from this trend and expect it to penetrate the IoT market quickly. The IoT market is still young but is growing fast and in 2020 it is estimated that there will be 25bn connected devices to the internet as machines are becoming equipped with sensors and made "smart". Moreover, S&T is positioned well in IoT as it covers c. 70% of the areas most IoT investments will be made in and also addresses most end-markets with the highest IoT spend.

IoT solutions, the largest revenue and EBITDA contributor, is the core growth driver of the group

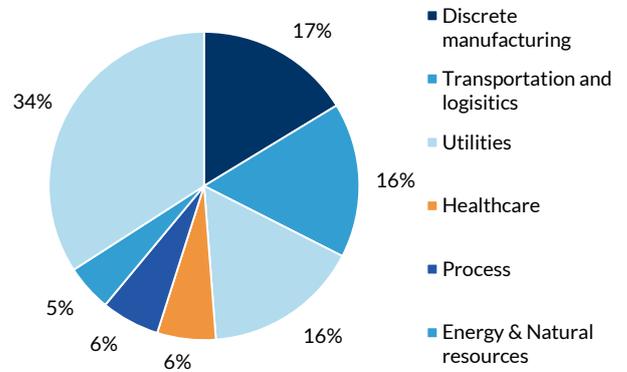
Increasing digitalisation and the emergence of industry 4.0 is unleashing a revolution

Chart 3: Split of IoT tech spending



Source: Kepler Cheuvreux

Chart 4: Expected spending by end-market

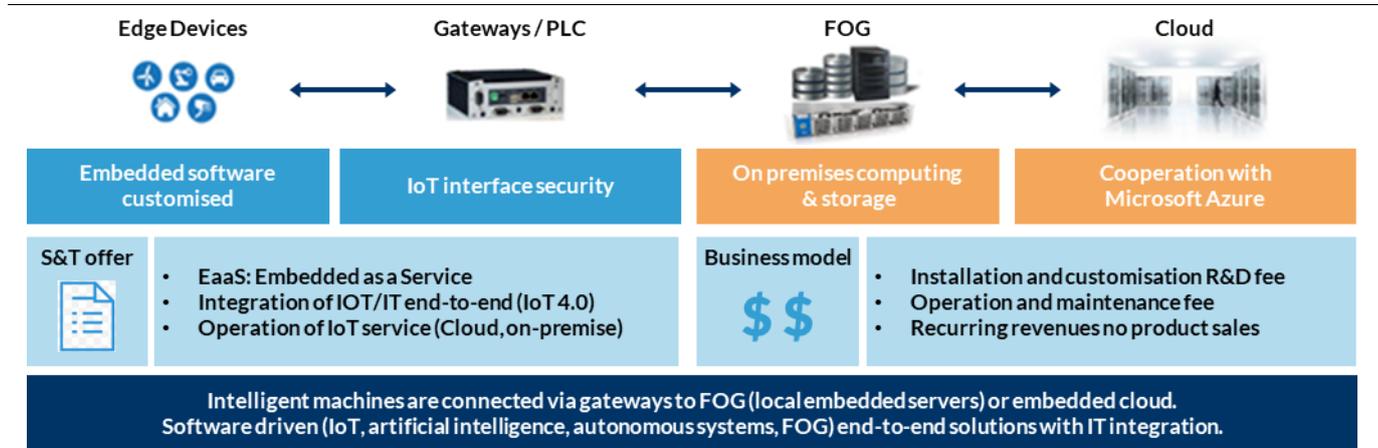


Source: BCG, Kepler Cheuvreux

Moreover, S&T continues to focus on cross-segment R&D (S&T created a CTO position in 2017, spent 13% of revenue on R&D) and establishing partnerships. In 2017, S&T has established SUSiEtec, one of the group’s largest projects, which is a middleware platform for connecting IoT devices (IoT Platform). In addition, S&T’s Embedded Cloud and TSN (time sensitive networking) were introduced in 2017. The Embedded Cloud is a secure and scalable cloud solution which is based on Microsoft Azure and intends to accelerate the digital transformation of customers. Here, S&T has developed “Microsoft Azure Certified IoT” hardware as well as pre-configured and integrated IoT Solutions based on Microsoft Azure for OEM suppliers in the area of industrial automation. The seamless integration into Microsoft Azure makes it easy for manufacturers and operators of systems to adapt quickly.

S&T continues to focus on cross-segment R&D and establishing partnerships

Chart 5: S&T's Embedded Cloud



Source: Kepler Cheuvreux

Embedded Systems – increasing share of software driving growth

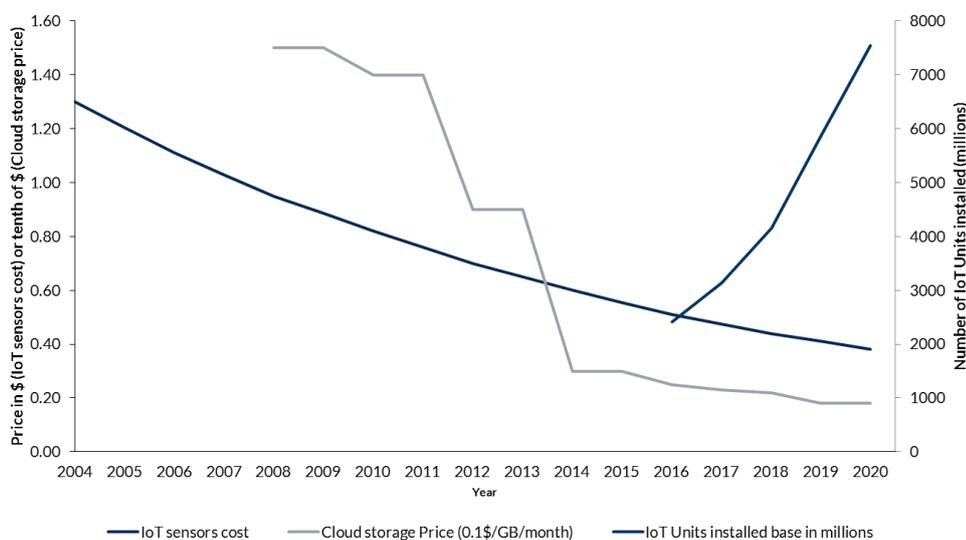
S&T's Embedded Systems segment was established in 2017 post the Kontron acquisition and mainly includes the activities of the Kontron group in the North American market. The segment mainly operates in the verticals of aviation, transport, and communication. Parts of the product portfolio are:

- Implementation of broadband and multimedia services in aircrafts (Kontron's IFE hardware has been installed in more than 4,000 aircrafts so far)
- Development of digital signage solutions for public transports, communication in transport
- Deployment of hardware in communication equipment (Carrier grade servers for telecom corporations)

We also expect the Embedded Systems segment to continue to show strong growth (we forecast a 7% CAGR until 2023) also driven by increased digitalisation and increased technology penetration in every-day-life equipment (i.e. trains, medical equipment, airplanes etc.) and new projects (i.e. S&T's embedded server). Also, the increased relevance in the Internet of Things are is expected to benefit the Embedded Systems segment: The average value of embedded systems in 2016 was EUR948 but if these systems are part of IoT, the value increased to c. EUR2,300. Here, we also expect an increase in sales to the aviation sector (currently c. EUR30m) as customers benefit from S&T's new one-stop-shop capabilities.

S&T's Embedded Systems segment was established in 2017 post the Kontron acquisition

Chart 6: Key drivers behind I4.0 adoption



Source: Kepler Cheuvreux

Currently, the embedded systems solutions are still dominated by hardware but with the help of S&T’s software expertise, the share of software solutions in the segment is expected to increase. This will likely have a positive effect on the segment’s growth profile and, due to the better mix, higher margins are also possible (i.e. achieving margins close to the IoT solutions segment).

The share of software solutions in the segment is expected to increase.

Improved sales mix, Ennocon partnership to lead to improved margins

In addition to solid end-market demand for IT Services, IoT Solutions and Embedded systems as well as S&T’s strong R&D capabilities, we see the Kontron turnaround, an improved sales mix as well as the Foxconn/Ennocon partnership as further growth and margin drivers for the group going forward.

The new Foxconn-S&T-Kontron association forms a serious player in the embedded computing field

The new Foxconn-S&T-Kontron association forms a strong player in the embedded computing field for IoT applications through a presence across the whole value chain (design, manufacturing, system optimization, software implementation). The positives for S&T include the creation of massive cross-selling opportunities between its IoT security appliances and Kontron’s embedded hardware and new distribution channels and an enlarged customer base.

Foxconn/Ennoconn partnership to improve sourcing, margins

In October 2016, Foxconn’s subsidiary Ennocon has become a major shareholder in S&T (via 10% capital increase, acquisition of shares) with a 22% stake (the stake has been reduced from 29 to 22% due to dilution from a further capital increase). With the funds from the capital increase, S&T acquired a 29.9% stake in Kontron AG and

The partnership with Foxconn enables S&T to realise substantial synergies

the three parties (Ennocon, S&T, and Kontron) established a relationship in the Internet-of-things area. The partnership with Foxconn enables S&T to realise substantial synergies as it combines Foxconn’s large and highly efficient production facilities, Kontron’s market leading embedded systems expertise and S&T’s software engineering resources.

We expect S&T to benefit from the partnership in several ways:

- Strong cost and revenue synergies (see chart below) due to joint factory in China (2019) and joint technology (Dragon 4 – Embedded Server) which should result in the improvement in gross margins as a result of better sourcing and product mix (lower manufacturing cost and R&D). S&T expects a 3% gain in gross margins through the production of EUR200m in hardware at Foxconn.
- The use of the Foxconn hardware engineering platform with over 1,000 designs annually is expected to double R&D output and improve time to market
- S&T/Kontron can expand its market share in Asia and expects to triple Chinese revenues (from c. EUR35m to EUR100m) in three years
- Foxconn has high standards of quality and low cost manufacturing (we expect that Foxconn/Ennocon will do c. 60-70% of the manufacturing for S&T, the remainder will be in Europe and Canada)

Chart 7: S&T’s collaboration with Foxconn

	Dragon 2 - Manufacturing	Dragon 4 – IoT/Embedded Server	Rising sun – Joint Marketing China
			
Status	✓ implemented	In design, today samples, launch 2018	Start using “Kontron” brand by Ennocon channel in China
Target	2019 joint factory in China	Joint technology leadership in industry 4.0	Foxconn becomes major customer of S&T
Advantages	<ul style="list-style-type: none"> • Cost leader: best manufacturing cost in the industry • „Apple“ quality 	<ul style="list-style-type: none"> • Server product line branded “Kontron” • Foxconn delivers hardware / fog server • S&T adds IoT software 	<ul style="list-style-type: none"> • Foxconn “well connected” • Industry 4.0 sales to Foxconn factories
Impact	Add 3% GM (EUR6m)	Add EUR400m revenues (2021)	Triple revenues in China within 3 years
S&T benefits from manufacturing power of Foxconn, S&T becomes an important technology supplier to Foxconn			

Source: S&T, Kepler Cheuvreux

S&T to benefit from Kontron’s large installed base

Today, S&T holds 95% of the shares in Kontron (it intends to squeeze the remaining shareholders out). S&T has successfully turned around Kontron (it is delivering

profits again) and the acquisition has turned S&T into an integrated player and full solution provider with a competitive edge in sourcing, products and distribution.

We see S&T to benefit from the Kontron acquisition in multiple ways. Kontron is the largest manufacturers of embedded computers and it maintains relations with more than 4,000 producers of machines globally which have some 4.5m machine control systems.

Following the successful turnaround of Kontron, S&T is now a one-stop-shop that sells full solutions out of one form based on Kontron products (hardware) and equipped with control and analysis software of S&T. This should lead to gross margin improvement and generation of recurring revenue streams due to multi-year maintenance contracts.

We also see strong cross-selling synergies and the turnaround enables S&T to sell (and upgrade) embedded as well as security and IoT appliances to Kontron's vast customer base (there is not much overlap).

Moreover, we expect Kontron to regain clients that cancelled relationships due to improved technology/products and a better financial positing of the group. Lastly, it widens S&T's product range and will likely improve sales in Eastern Europe due to S&T's strong positioning in this region.

Higher margins due to increased software in sales mix

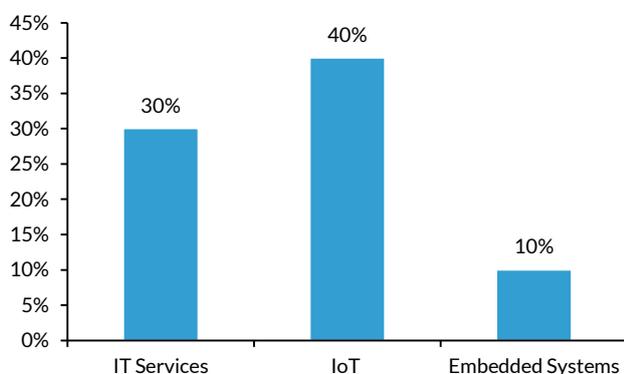
Next to the strong cross-selling benefits and enrichment of the S&T product portfolio, we expect margins in the Embedded Systems segment (and S&T group) to improve meaningfully going forward as a result of a better sales mix. This is based on an overall improvement in sales mix (i.e. a higher share of high-margin IoT Solutions revenues) and an increase in recurring revenues.

The turnaround of Kontron also includes the increased sale of software and services in combination with Kontron's embedded systems as the company is moving from a pure seller of hardware devices to a full solutions provider with recurring revenue streams for service and maintenance (moving up the value chain). Currently, the Embedded Systems segment has only c. 10% recurring revenues (the lowest of all segments) but we expect these to increase with the combination of S&T's software expertise.

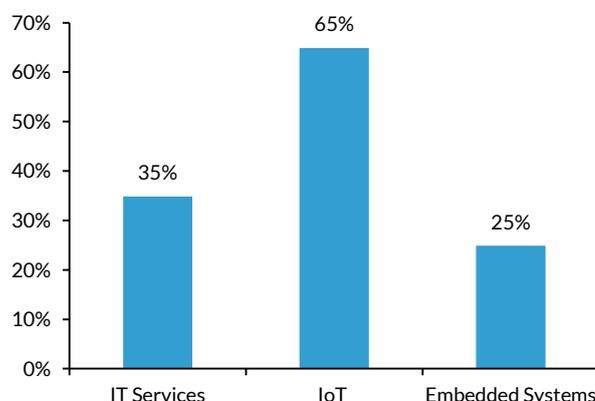
In addition, S&T also aims to increase recurring revenues in its IT Services and IoT Solutions business. Within IT Service (c. 30% recurring revenues), higher margins can be realised with an increase in multi-year outsourcing and managed services contracts as well as the disposal of lower-margin IT services (as it has done recently). Also in IoT Solutions which is already quite software heavy, S&T targets to increase the recurring revenue share from c. 40% today (KECH: to c. 65% by 2020). Here, recurring revenues are charged for smart energy applications, security operations (firewalls) and network fees (i.e. for betting machines). Hence, with an increased share of recurring revenues, long-term customer relationships are fostered and also cash flows are becoming less volatile.

We see S&T to benefit from the Kontron acquisition in multiple ways

We expect margins in the Embedded Systems segment (and S&T group) to improve meaningfully going forward as a result of a better sales mix

Chart 8: Recurring revenues 2017 (KECH estimate)

Source: Kepler Cheuvreux

Chart 9: Recurring revenues 2023E (KECH estimate)

Source: Kepler Cheuvreux

Strong mid-term targets, raising TP to EUR25

S&T's is a well-managed company and its progress from a low-margin IT reseller and system house towards a more own IP driven company is going well. Our view is that S&T is now an integrated player in the IoT field with a competitive edge in key areas (sourcing, products, and distribution). We expect the company to benefit from a strong outlook for high growth areas in IoT solutions and embedded technologies, the Kontron integration, its partnership with Ennocon and its strong leadership.

We change the analyst for S&T from Baptiste de Leuville to Martin Jungfleisch, adjust our estimates and raise our DCF-based target price from EUR21.50 to EUR25.

Strong start into the year

S&T has reported a strong set of first quarter results (on 4 May) that beat consensus on all metrics. Sales (all organic) have reached EUR203.6m (+11% YOY, +1% vs. consensus), while EBITDA improved by 40% YOY to EUR17.1m in the first quarter (+9% vs. consensus). The EBITDA margin improved from 6.7% to 8.4% and is a major step towards its mid-term target of 10%.

The top-line was mostly driven by the IT Services segment (45% of sales) with a sales increase of almost 30% YOY to EUR90.9m mainly driven by a strongly performing Eastern Europe. Moreover, the IT Services division benefitted from increased IoT Solutions implementation (i.e. more inter-company transactions). However, forex effects were clearly visible in IoT Solutions (c. 65% USD exposure, 3-4% impact on sales) and Embedded Systems (100% USD exposure). Still, IoT Solutions (37% of sales, c. 8% impact on sales) recorded sales growth of 9.4% to EUR75.3m while the Embedded Systems segment was 14.6% weaker YOY.

Forex did not impact EBITDA (due to natural hedges) and IoT Solutions was again the EBITDA driver (EUR9.2m, +104% YOY, 12.2% margin) for the group, contributing 54% of group EBITDA, while IT Service improved by 32% to EUR5.4m

S&T's is a well-managed company and its progress from an IT reseller towards a more own IP driven company is going well.

(5.9% margin) and Embedded Systems was c. 30% lower YOY (EUR2.6m, 9.9% margin).

The backlog increased further to EUR501.5m (EUR474.2m in Q4 2017), while the project pipeline improved from EUR1,104.6m in Q4 2017 to EUR1,293m.

S&T Q1 2018 results

	Q1-18	Q1-17	YOY	Consensus	vs.cons
Revenue	203.6	182.8	11%	201.0	1%
Gross Profit	74.1	71.8	3%		
EBITDA	17.1	12.2	40%	15.7	9%
% margin	8.4%	6.7%		7.8%	
EBIT	10.3	5.7	81%	9.0	14%
% margin	5.1%	3.1%		4.5%	
Net Income	7.4	2.4	203%	6.4	15%
EPS	0.12	0.05	140.0%	n/a	

Source: Kepler Cheuvreux

Aiming to double revenues by 2023

For 2018, S&T expects close to EUR1bn in revenues and EUR80m in EBITDA which remains conservative on EBITDA level in our view (the top-line will likely see impacts from its c. 40% USD exposure).

We expect EUR430m in IT Service revenues (+11% YOY) and a 5.2% EBITDA margin (vs. 3.5% in 2017). In IoT Solutions we expect EUR397m in revenues (+24% YOY, with a c. 2-3% FX impact) and an EBITDA margin of 12% (vs. 11% in 2017) while we expect EUR182m in Embedded Systems revenues (+5% YOY, with a c. 5% FX impact) and an EBITDA margin of 8.8%.

That said, the mid-term outlook remains solid, illustrated by S&T's ambition to double sales by 2023 to EUR2bn (at least half of expected growth is organic, the rest via M&A). This is underlined by S&T's growth ambitions of 5% in IT Services, 10% in IoT Solutions and 8% in Embedded systems. Overall, we expect an organic revenue CAGR of 9.7% until 2023E.

Table 1: S&T backlog and project pipeline (EURm)

Backlog	12/13	12/14	12/15	12/16	12/17	Q1-18
Project Pipeline	308	644	701	1002	1105	1293.3
Scheduled orders	97	157	181	306	474	501.5

Source: S&T, Kepler Cheuvreux

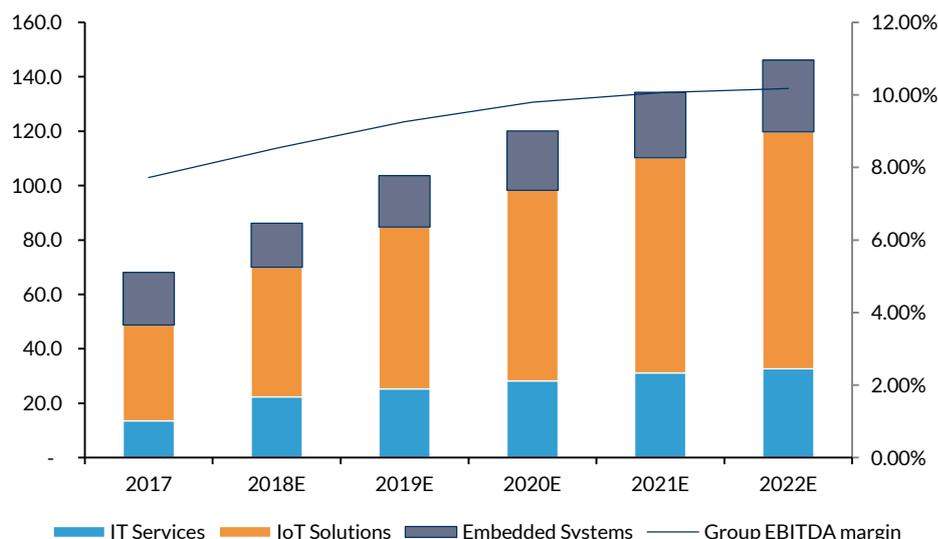
However, we expect disproportional EBITDA growth (15.2% CAGR) as the company should benefit from improving gross margins (target is to lift gross margins to 40% from 35.7% in 2017) as a result of result of better sourcing (Foxconn) and product mix owing to increased own IP, recurring revenues and a higher share of high-margin IoT Solutions revenues in the sales mix. For the segments it expects gross margins of over 30% in IT Services, over 45% in IoT Solutions and 30% in Embedded systems while EBITDA margins are set to rise above 5% in IT Service, 12% in IoT Solutions

The mid-term outlook remains solid, illustrated by S&T's ambition to double sales by 2023 to EUR2bn

We expect disproportional EBITDA growth (15% CAGR) as the company should benefit from improving gross margins

and 8% in Embedded Systems. This could already be reached this year but further margin improvements are possible from an increased software share, improved sourcing, and operating leverage. Moreover, 50% of S&T's workforce is located in low-cost Eastern European countries (however, the risk of wage inflation persists). Hence, we expect gross margins to rise to 39.8% while we expect group EBITDA margins to rise to 10.3% by 2023 (vs. 7.7% in 2017).

Chart 10: Segment EBITDA contribution and Group EBITDA margin



Source: Kepler Cheuvreux

Moreover, selective M&A could lead to upside beyond our estimates as the company has c. EUR150m in firepower for M&A in areas such as M2M, connectivity, and industrial automation but also in IT Services. We see further key M&A in software applications as well as for volume suppliers (i.e. embedded hardware companies).

S&T currently (end FY2017) has EUR216m cash on hand (EUR102m net-cash) of which it expects EUR15m to squeeze out the remaining Kontron shareholders (S&T holds 95% of Kontron) and EUR40m to redeem debt. The remainder (plus leverage) can be used for M&A).

We also make improvements to our working capital assumptions (S&T has an working capital improvement programme) for the coming years. Currently, S&T has a working capital to sales ratio of about 15% but we expect that this can improve to around 12-13% especially on the Kontron side which can lead to substantially improved cash flows in the coming years. This, in combination with low capex (c. 1-2% of sales) as well as a low tax rate of c. 14-18% in the mid-term (due to EUR140m of existing tax loss carry forwards) should lead to solid free cash flow generation. However, we still expect negative working capital effects in operating cash flow over the coming years.

Selective M&A could lead to upside beyond our estimates

Changes to estimates

Table 2: Changes to estimates 2018E

	2018 KECH New	2018 KECH Old	% change	Consensus	vs. Consensus
Sales	1,010.1	1,005.4	0.5%	1,003	0.7%
EBITDA	86.1	86.4	-0.3%	85.1	1.2%
% margin	8.5%	8.6%		8.5%	
EBIT	61.1	61.2	-0.1%	60.2	1.6%
% margin	6.1%	6.1%		6.0%	
Net Income	47.0	49.1	-4.2%	46.3	1.6%
EPS	0.74	0.77	-3.7%	0.73	1.6%

Source: Kepler Cheuvreux

Table 3: Changes to estimates 2019E

	2019 KECH New	2019 KECH Old	% change	Consensus	vs. Consensus
Sales	1,119.1	1,115.9	0.3%	1,108	1.0%
EBITDA	103.6	105.0	-1.3%	101.9	1.7%
% margin	9.3%	9.4%		9.2%	
EBIT	80.6	78.3	3.0%	76.9	4.9%
% margin	7.2%	7.0%		6.9%	
Net Income	64.7	64.4	0.4%	61.5	5.1%
EPS	1.02	1.02	-0.1%	0.97	5.1%

Source: Kepler Cheuvreux

Valuation

We value S&T with a DCF-model using an 8.25% WACC. We have assumed a 9.7% revenue CAGR until 2023E and then assume a growth rate of 5% until 2031 and a terminal growth rate of 2%. We model gradually rising EBITDA margins from 7.7% in 2017 to 10.3% in 2023, 10.5% until 2031 and a 10.5% terminal EBITDA margin.

We assume a tax rate of 14% until 2022 (S&T has substantial tax loss carry forwards) and model a tax rate of 25% beginning 2022. We assume D&A to sales to decline to about 1.5% in the mid-term and keep capex at D&A level.

We derive a target price of EUR25 and confirm our Buy rating.

Risks to our rating

We have identified the followings risks to our rating:

- Increased competition as larger players enter the IoT market
- Geopolitical risks (Eastern Europe exposure)
- Increased difficulty to attract and retain talent (in engineering, software), wage inflation for its Eastern European workforce
- M&A integration
- Slower margin progression as anticipated
- Increase of sales cycles

- Strong changes in foreign exchange rates (Embedded Systems has 100% US exposure, IoT Solutions about 65%) can impact top-line growth

Divisional tables

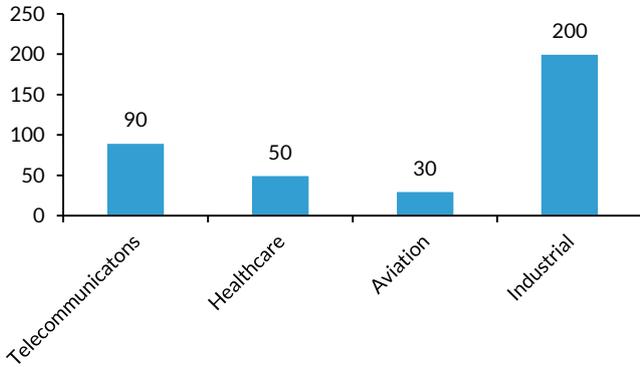
Table 4: Divisional tables

	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
IT Services	320.7	386.8	429.4	468.0	503.1	540.8	567.9	596.3
IoT Solutions	182.9	320.3	397.2	452.8	509.4	565.4	621.9	677.9
Embedded Systems	17.0	174.9	183.6	198.3	213.2	229.2	245.2	262.4
Total	503.7	882.0	1010.1	1119.1	1225.6	1335.4	1435.0	1536.5
Revenue growth								
IT Services	-4.2%	20.6%	11.0%	9.0%	7.5%	7.5%	5.0%	5.0%
IoT Solutions	37.1%	75.1%	24.0%	14.0%	12.5%	11.0%	10.0%	9.0%
Embedded Systems		928.7%	5.0%	8.0%	7.5%	7.5%	7.0%	7.0%
Total	11.2%	69.4%	14.5%	10.8%	9.5%	9.0%	7.5%	7.1%
Sales Mix								
IT Services	63.7%	43.9%	42.5%	41.8%	41.0%	40.5%	39.6%	38.8%
IoT Solutions	36.3%	36.3%	39.3%	40.5%	41.6%	42.3%	43.3%	44.1%
Embedded Systems	3.4%	19.8%	18.2%	17.7%	17.4%	17.2%	17.1%	17.1%
EBITDA								
IT Services	10.7	13.6	22.3	25.3	28.2	31.1	32.7	34.3
IoT Solutions	23.7	35.1	47.7	59.5	70.0	79.2	87.1	95.6
Embedded Systems	0.0	19.4	16.2	18.8	21.9	24.1	26.4	28.9
Total	34.4	68.1	86.1	103.6	120.1	134.3	146.1	158.7
EBITDA margin								
IT Services	3.3%	3.5%	5.2%	5.4%	5.6%	5.8%	5.8%	5.8%
IoT Solutions	13.0%	11.0%	12.0%	13.2%	13.8%	14.0%	14.0%	14.1%
Embedded Systems	0.0%	11.1%	8.8%	9.5%	10.3%	10.5%	10.8%	11.0%
Total	6.8%	7.7%	8.5%	9.3%	9.8%	10.1%	10.2%	10.3%
EBITDA contribution								
IT Services	31.1%	19.9%	25.9%	24.4%	23.5%	23.2%	22.4%	21.6%
IoT Solutions	68.9%	51.6%	55.3%	57.4%	58.3%	58.9%	59.6%	60.2%
Embedded Systems	0.0%	28.5%	18.8%	18.2%	18.2%	17.9%	18.0%	18.2%

Source: Kepler Cheuvreux

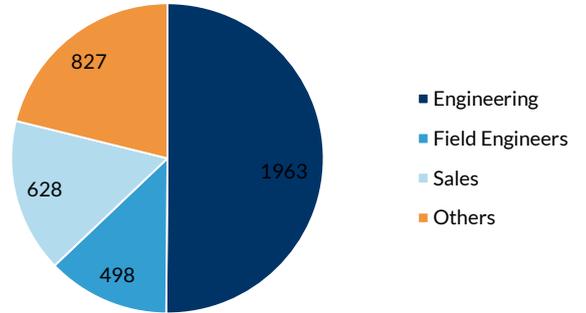
Appendices

Chart 11: S&T largest sectors (in revenue)



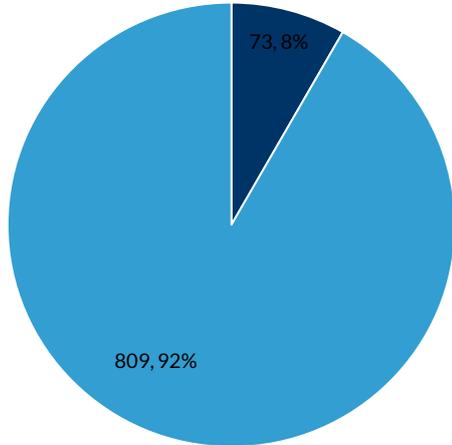
Source: Kepler Cheuvreux

Chart 12: Employees



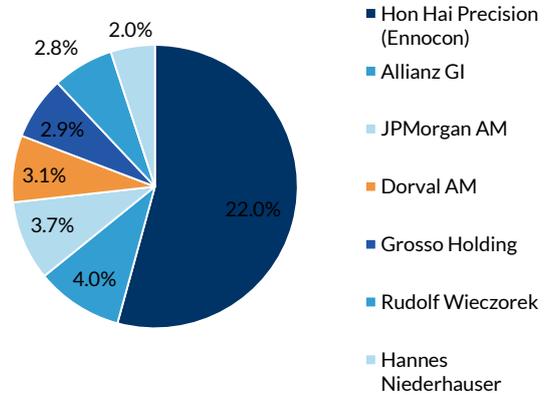
Source: Kepler Cheuvreux

Chart 13: S&T geographical revenue split



Source: S&T, Kepler Cheuvreux

Chart 14: Shareholder structure



Source: Thomson Reuters, Kepler Cheuvreux

Key financials

FY to 31/12 (EUR)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Income Statement (EURm)								
Sales	338.0	385.5	468.2	503.7	882.0	1,010.1	1,119.1	1,225.6
% Change	-0.4%	14.1%	21.5%	7.6%	75.1%	14.5%	10.8%	9.5%
EBITDA adjusted	20.1	551.5	28.4	34.4	68.1	86.1	103.6	120.1
EBITDA margin (%)	6.0%	143.1%	6.1%	6.8%	7.7%	8.5%	9.3%	9.8%
EBIT adjusted	14.4	16.6	20.6	24.1	41.7	61.1	80.6	98.1
EBIT margin (%)	4.2%	4.3%	4.4%	4.8%	4.7%	6.1%	7.2%	8.0%
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	-3.7	-2.7
Tax	-0.1	-0.8	-0.8	0.3	-6.0	-7.9	-10.8	-13.4
Net profit from continuing operations	12.0	14.0	17.7	20.4	29.4	48.5	66.2	82.0
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	48.5	66.2	82.0
Net profit reported	11.8	12.9	15.8	14.6	22.5	47.0	64.7	80.5
Net profit adjusted	11.8	12.9	15.8	14.6	22.5	47.0	64.7	80.5
Cash Flow Statement (EURm)								
Cash flow from operating activities	9.9	20.6	26.7	61.4	44.9	53.7	76.1	92.5
Capex	-5.8	-5.8	-9.5	-9.3	-23.0	-17.7	-19.6	-21.4
Free cash flow	4.1	14.8	17.2	52.1	21.9	36.0	56.5	71.0
Acquisitions & Divestments	5.2	-4.7	-0.4	-59.2	-11.5	0.0	0.0	0.0
Dividend paid	-0.3	-4.1	-4.1	-7.8	-7.0	-6.8	-9.5	-10.8
Others	-3.5	2.0	-1.8	37.6	66.5	-5.0	0.0	0.0
Change in net financial debt	5.6	7.9	10.9	22.6	69.9	24.3	47.0	60.3
Balance Sheet (EURm)								
Intangible assets	44.8	57.1	72.8	183.2	189.9	180.0	172.2	166.5
Tangible assets	9.0	11.4	15.2	27.5	31.9	34.4	38.8	44.0
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	368.6	425.3	496.5
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	470.2	441.2	400.8
Net financial debt	9.3	1.5	-9.4	-32.0	-101.8	-126.1	-173.1	-233.3
Working capital requirement	23.9	90.9	100.7	198.1	211.2	249.5	269.8	287.3
Invested Capital	77.6	159.4	188.6	408.9	433.0	464.0	480.8	497.8
Per share data								
EPS adjusted	0.30	0.32	0.36	0.33	0.43	0.74	1.02	1.27
EPS adj and fully diluted	0.30	0.25	0.30	0.32	0.43	0.74	1.01	1.26
% Change	17.0%	-18.1%	22.4%	7.0%	33.0%	71.5%	37.5%	24.5%
EPS reported	0.30	0.32	0.36	0.33	0.43	0.74	1.02	1.27
Cash flow per share	0.25	0.50	0.61	1.40	0.86	0.85	1.20	1.46
Book value per share	1.76	2.12	2.29	3.50	5.88	5.44	6.31	7.41
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
Ratios								
ROE (%)	18.1%	16.6%	17.0%	11.5%	9.8%	14.5%	17.3%	18.5%
ROIC (%)	13.3%	9.8%	8.3%	5.7%	6.9%	9.5%	12.0%	14.0%
Net fin. debt / EBITDA (x)	0.5	0.0	-0.3	-0.9	-1.5	-1.5	-1.7	-1.9
Gearing (%)	13.1%	1.6%	-9.2%	-13.3%	-30.7%	-34.2%	-40.7%	-47.0%
Valuation								
P/E adjusted	7.9	9.0	12.2	22.8	32.0	29.2	21.2	17.1
P/E adjusted and fully diluted	7.9	11.6	14.8	23.4	32.4	29.4	21.4	17.2
P/BV	1.4	1.3	1.9	2.2	2.4	4.0	3.4	2.9
P/CF	9.5	5.7	7.3	5.4	16.1	25.6	18.0	14.8
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%	2.6%	4.1%	5.2%
EV/Sales	0.3	0.3	0.4	0.7	0.9	1.2	1.1	0.9
EV/EBITDA	5.1	0.2	6.5	9.8	11.4	14.5	11.6	9.5
EV/EBIT	7.2	7.2	8.9	14.0	18.7	20.4	14.9	11.6

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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.

Companies mentioned

Stock	ISIN	Currency	Price
S&T	AT0000A0E9W5	EUR	21.64

Source: Factset closing prices of 04/05/2018

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Hold	36%	38%
Reduce	15%	10%
Not Rated/Under Review/Accept Offer	3%	4%
Total	100%	100%

Source: KEPLER CHEUVREUX

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
S&T (EUR)	04/08/2017 08:25	Equity Research	Buy	18.00	14.46
	10/11/2017 09:02	Equity Research	Buy	19.50	15.54
	29/03/2018 08:52	Equity Research	Under Review	19.50	20.06
	04/04/2018 08:24	Equity Research	Buy	21.50	18.66

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

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Buy: The minimum expected upside is 10% over next 12 months (the minimum required upside could be higher in light of the company's risk profile).

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.

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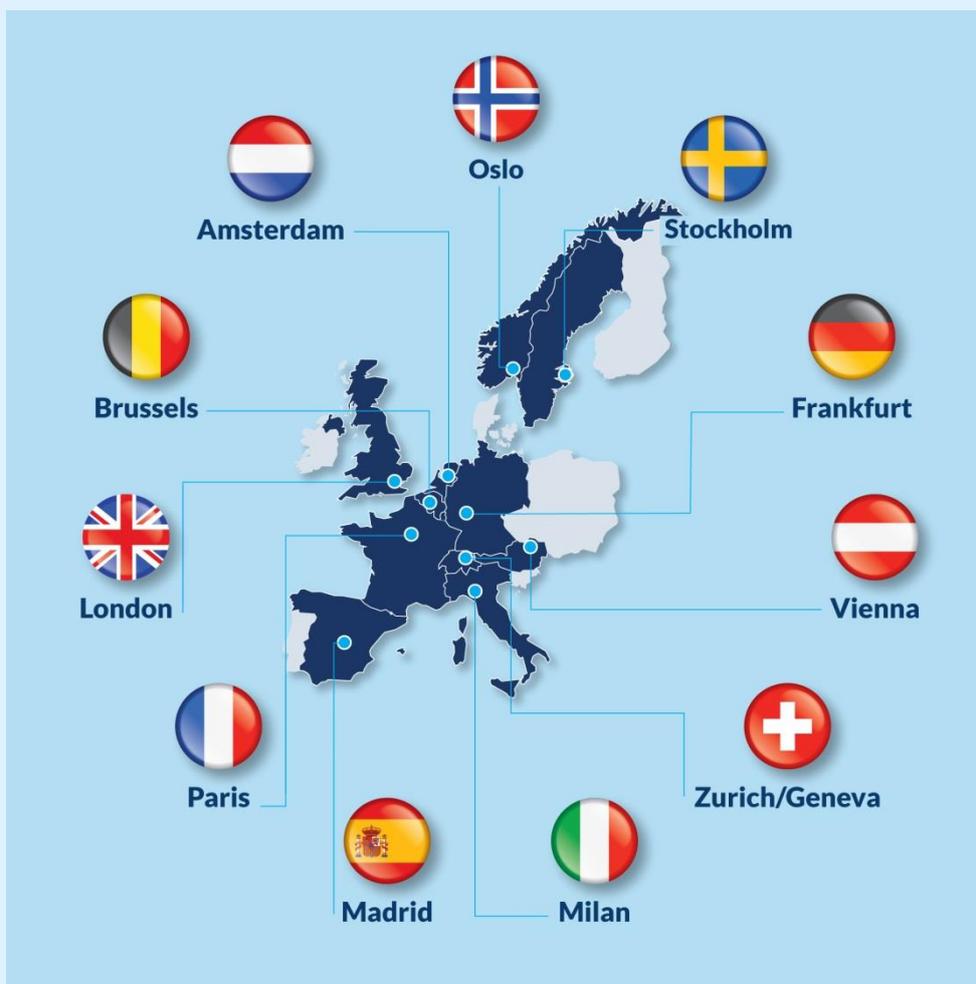
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