

H&A FIRST TAKE

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01-July-20

First M&A deal in the bag

S&T announced the acquisition of Iskratel Group from Slovenia. Iskratel is a specialist for information and communication technology targeting energy, telecommunication and railway networks as well as industrial automation markets.

The target should generate approx. **EUR 115m sales at EUR 4-5m EBITDA** (3.5%-4.5% margin) this year. Consolidation is expected from October, and this year's contribution seen to amount to approx. EUR 25m sales and EUR 1m EBITDA. The acquisition price is EUR 37.5m plus an earn out of an expected EUR 15m to be paid in increments until 2022. Including the earn-out, S&T is seen to **pay between 10x and 13x EBITDA**. However, this multiple does neither account for synergies nor for the strategic value of Iskratel's 5G know-how.

Indeed, S&T acquired Iskratel above all for its 5G technology, which is mostly software to encrypt and transport data wirelessly via 5G. This S&T plans to use in:

- Its railway segment (formerly Kapsch), where wireless control technology should move to 5G within the next 5 years. Importantly, Kapsch initially planned to develop this by itself, **which would have cost around EUR 30m**.
- For Industrial Internet of Things, where machine communication should move to higher-bandwidth 5G already within 1-2 years.

Management is confident to move Iskratel quickly up to 10% EBITDA margins possibly already by Q3'21. This would imply an annual run-rate of more than EUR 11m EBITDA. First, note that Iskratel has so far suffered from a complex structure: there were a large number of employee-owners, which prevented efficient decision-making. Second, there should be synergies in procurement (e.g. Intel chipsets) and R&D (shifting underutilized employees to higher-margin projects of S&T). Finally, the move to 5G is seen to bolster gross margins.

In sum, **the acquisition looks like an excellent fit at a very reasonable price.** We will adjust estimates following regulatory approval. **The guidance should then be increased as well (eH&A: by some 5% on top and bottom-line)**, especially in light of strong current trading. As an example, a key customer from Americas, whose demand was very soft during H1, just placed an order worth more than € 10m to be billed from August.

Reiterate BUY with a EUR 28.00 PT based on DCF.

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Buy

Price target: EUR 28.00

Price: EUR 22.80

Close price as of: 30.06.2020

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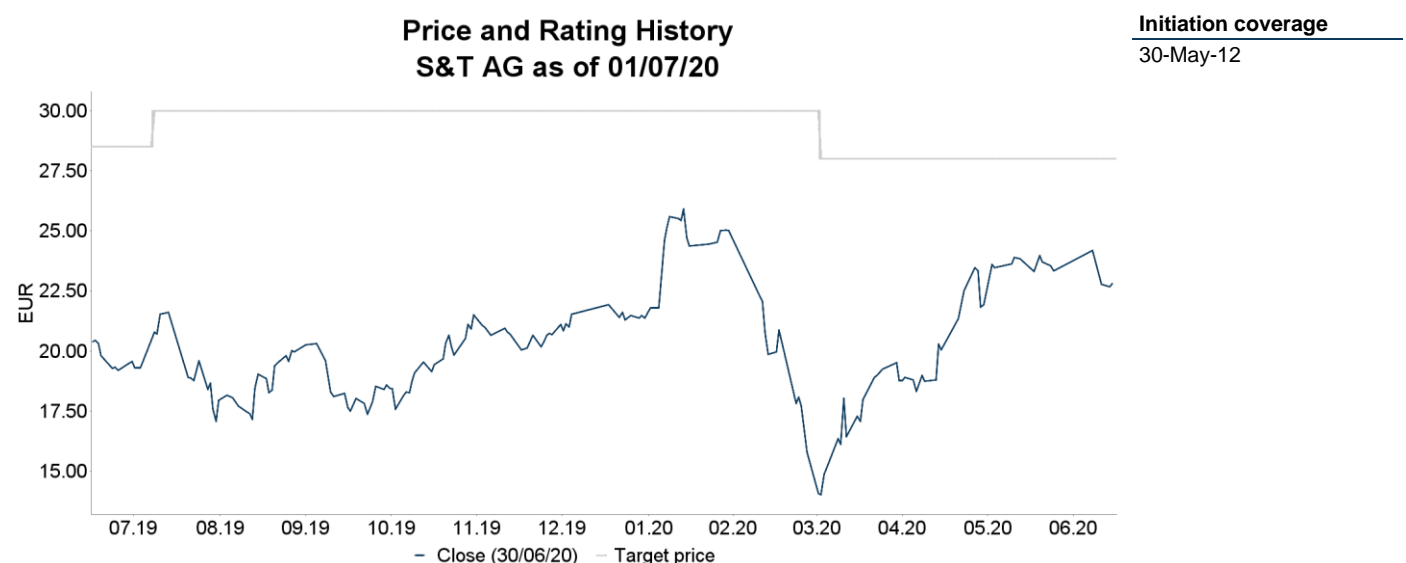
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Company	Disclosure
S&T AG	3

Historical target price and rating changes for S&T AG in the last 12 months



Company	Date	Analyst	Rating	Target price	Close
S&T AG	06.05.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 21.36
	28.04.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 18.80
	03.04.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 17.97
	19.03.2020	Wunderlich, CFA, Tim	Buy	EUR 28.00	EUR 14.88
	03.03.2020	Wunderlich, CFA, Tim	Buy	EUR 30.00	EUR 20.86

04.11.2019	Wunderlich, CFA, Tim	Buy	EUR 30.00	EUR 19.68
25.07.2019	Wunderlich, CFA, Tim	Buy	EUR 30.00	EUR 20.72

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Sell	10.95 %	0.00 %
Hold	20.44 %	21.74 %

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