

H&A FIRST TAKE – H&A FIRST TAKE – H&A FIRST TAKE

06-August-20

Excellent Q2 and bullish CC – Reiterate BUY

Topic: S&T reported **excellent Q2 results**, beating consensus by 10% on the top-line and 20% on EBITDA. The strong operating performance despite COVID-19 underpins the resilience of the business model thanks to exposure to secular growth drivers.

EUR	Q2'20	Q2'20 est	Q2'20 cons.	Q2'19	yoy	Q1 20	qoq	H1'20	H1'19	yoy
Sales	269	255.0	241	249	8%	270	-1%	539	474	14%
EBITDA	27.0	23.5	22.3	23.2	16%	25.0	8%	52.0	44.3	17%
EBITDA margin	10.0%	9.2%	9.3%	9.3%	+ 0.7 pp	9.3%	+ 0.8 pp	9.6%	9.4%	+ 0.3 pp
Net after minorities	10.1	7.9	7.3	8.8	14%	9.5	6%	19.6	18.2	8%
Net margin	3.8%	3.1%	3.0%	3.6%	+ 0.2 pp	3.5%	+ 0.2 pp	3.6%	3.8%	- 0.2 pp
EPS	0.15	0.12	0.12	0.13	14%	0.14	6%	0.30	0.28	8%

Source: Company data, Hauck & Aufhäuser

- **Q2 results beat expectations.** Sales rose by 8% yoy to € 269m, well ahead of expectations (eCons: € 241m / eH&A: € 255m). Key driver was IoT Europe, which grew by 23% yoy to € 129m, driven by strength in medical applications and the Kapsch take-over. Group organic growth came in at 4% yoy.
- **Q2 EBITDA rose by 16% yoy to € 27.0m**, with the margin up 0.7pp yoy to 10.0%. Again, this easily beat expectations (eCons: € 22.3m / € 23.5m). The margin expansion was carried by gross margin strength (+2.7pp to 40.0%) and € 4.5m cost savings from short-term work. Cost savings to the tune of € 3.0m should continue in Q3'20. Gross margin improvements reflect the positive impact of the software strategy. During the CC, management for the first time stated that they want to **improve the gross margin to 50-60% within 5 years** (not included in eH&A) by emphasizing a recurring license fee model for their IoT Solutions.
- **Q2 cash flow arrived at € 21m**, up from € 1m last year, showing the positive impact of the PEC efficiency program. Q2 FCF came in at € 12m. Note that S&T incurred a € 2.3m payout for the settlement of the Kapsch project in Hungary. Hence, the underlying FCF would have been ever stronger.
- **Current trading remains firm.** Management expects Q3 to be stronger than Q2, and noted that it has seen a promising start to the quarter. **The outlook remains bright** considering the order backlog of € 910m (+4% qoq / +20% yoy) which provides visibility on the next 7-8 months. Also, several customers which were cautious at the beginning of 2020 due to COVID-19 are coming alive again. This includes Amazon Twitch, which we expect to contribute up to \$ 20m to sales in H2'20. Hence, IoT Americas should bounce back strongly from a weak H1'20 (segment sales down 25% yoy). At the same time, M&A targets Iskratel and CITYCOMP should make initial revenue contributions in Q4.
- **FY'20E guidance reiterated – but expect an upgrade soon.** The current FY'20 guidance (€ 1,150m sales / € 115m EBITDA) looks much too conservative in light of the strong H1'20 results. Indeed, S&T would reach the FY'20 guidance even if sales and EBITDA were to drop by 6% yoy in H2'20. This is extremely unrealistic given the strong current trading and backlog as laid out above. As such, a guidance upgrade in the coming months looks inevitable – **we see at least 5% upside to eCons for 2020.**

Reiterate BUY with a EUR 28.00 PT based on DCF.

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Buy

Price target: EUR 28.00

Price: EUR 24.60*

Price as of 11:00 am CET on 06.08.2020

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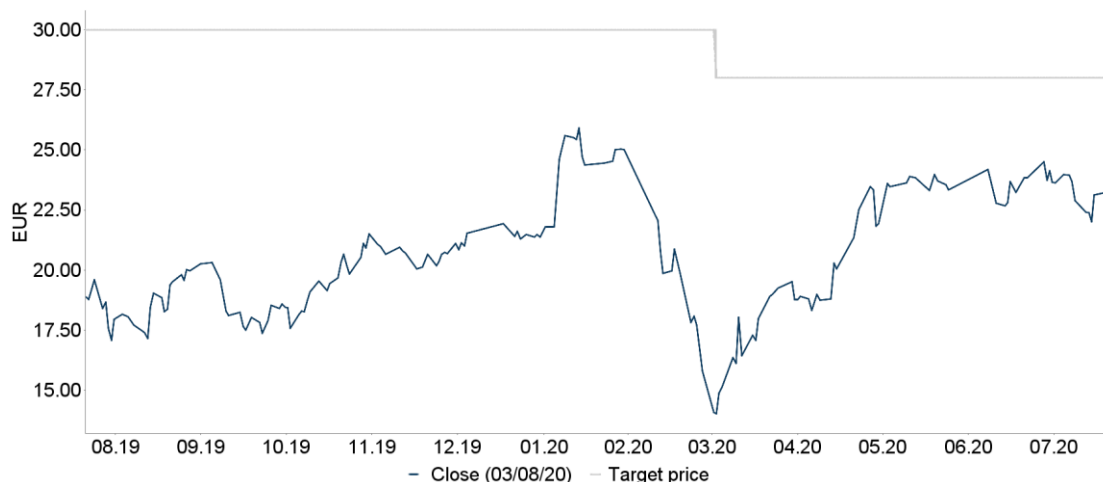
Company	Disclosure
S&T AG	3

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

Price and Rating History S&T AG as of 05/08/20

Initiation coverage

30-May-12



Company	Date	Analyst	Rating	Target price	Close
S&T AG	05.08.2020	Wunderlich, CFA, Tim	Buy	EUR 28,00	EUR 23,20
	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

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Hold	23.02 %	20.83 %

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