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04-August-22

Q2 review and CC feedback

- **Q2 results were roughly in-line for sales while beating expectations on the bottom-line.** Chip shortages continue to burden growth, with the order overhang amounting to € 127m as of Q2. Still, organic growth was a solid c.10%, excluding FX and divestments in Russia. **Management expects to reduce the overhang to € 50m by the end of the year,** as chips become increasingly available and product re-designs take effect. **This should support growth in H2'22.**

EUR	Q2'22	Q2'22 est	Q2'22 cons.	Q2'21	yoy	Q1'22	qoq	H1'22	H1'21	yoy
Sales	331	330	338	306	8%	330	0%	661	601	10%
IoT Solutions Europe	166	168	na	159	4%	164	2%	330	311	6%
IoT Solutions America	31	29	na	25	26%	23	34%	54.8	47	17%
IT Services	134	133	na	123	9%	143	-6%	276	243	14%
EBITDA	33.1	31.7	31.3	30.1	10%	29.4	13%	62.6	58.3	7%
EBITDA margin	10.0%	9.6%	9.3%	9.8%	+ 0.2 pp	8.9%	+ 1.1 pp	9.5%	9.7%	- 0.2 pp
IoT Solutions Europe	21.1	20.1	na	18.1	17%	21.0	0%	42.1	36.8	14%
margin	12.7%	12.0%	-	11.4%	+ 1.3 pp	12.8%	- 0.1 pp	12.8%	11.8%	+ 0.9 pp
IoT Solutions America	1.0	1.0	na	1.5	-33%	-0.1	n.a.	0.9	1.0	-13%
margin	3.2%	3.4%	-	6.0%	- 2.9 pp	-0.4%	+ 3.6 pp	1.6%	2.2%	- 0.6 pp
IT Services	11.0	10.6	na	10.4	6%	8.5	29%	19.6	20.5	-4%
margin	8.2%	8.0%	-	8.5%	- 0.2 pp	6.0%	+ 2.3 pp	7.1%	8.4%	- 1.3 pp
Net after minorities	12.8	12.2	11.7	10.4	23%	11.6	10%	20.5	n.a.	n.a.
Net margin	3.9%	3.7%	3.5%	3.4%	+ 0.5 pp	3.5%	+ 0.3 pp	0.0%	3.4%	- 3.4 pp

- IoT Europe (50% of sales) continues to be **most affected by chip shortages**, with € 67m of overdue orders attributable to this segment, while also impacted by divestments in Russia (€ 6m revenue impact in Q2). Still, orders in this segment remained strong, **reflected in a Q2 book-to-bill of 1.36x**, underpinning healthy demand. The segment EBITDA margin rose by 1.3pp yoy to 12.7%, as Kontron managed to pass on most of the component price inflation to customers, highlighting its bargaining power as single source supplier with lock-in effects. **Margin strength in IoT Europe was the main reason for the EBITDA outperformance vs. expectations** on group level.
- IoT Americas (9% of sales) **benefitted from FX effects** of almost € 3m (on revenue), though the product mix was weak, leading to soft margins. Importantly, **the Avionics end-market is finally reviving post Corona**. Backed by rising order intake, end-market revenue is set to rise to \$ 20m this year and \$ 40m in FY'23E vs. \$ 12m in 2021, according to management. It is a 45% gross margin business, hence rising revenue should drive up segment profitability: management targets segment EBITDA margins of 5% in FY'22E and 10%+ in FY'23E.
- **Operating cash flow was again weak** (Q2: € -11m vs. € 14m a year ago) due to rising inventories, which reflect non-shippable products and security stocks. Management expects to recover € 50m of w/c by the end of the year, **targeting € 20-50m positive operating cash flow in FY'22E** (vs. € 95m in FY'21).
- Kontron is in advanced negotiations with potential IT Services buyers and targets a **final yes / no decision before the end of Q3**. Several Private Equity buyers have dropped out due to rising interest rates; a strategic buyer is hence more likely. The company confirmed it would not sell "at all cost", which to us means that **no deal will happen, if offers are below € 550m / € 600m**.
- **FY'22E guidance confirmed** (€ 1.5bn sales / € 150m EBITDA / in-line with eCons): expectations for a stronger second half are based on (I) a reduction of the order overhang, (II) avionics growth and (III) margin improvements in IT Services as demand for implementation services should naturally rise following strong demand for (low-margin) hardware in H1'22. Sound execution **could yield upside** to our conservative FY'22E estimates (€ 1.43bn sales / 136m EBITDA).

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Buy

Price target: EUR 27.00

Price: EUR 14.38

Close price as of: 02.08.2022

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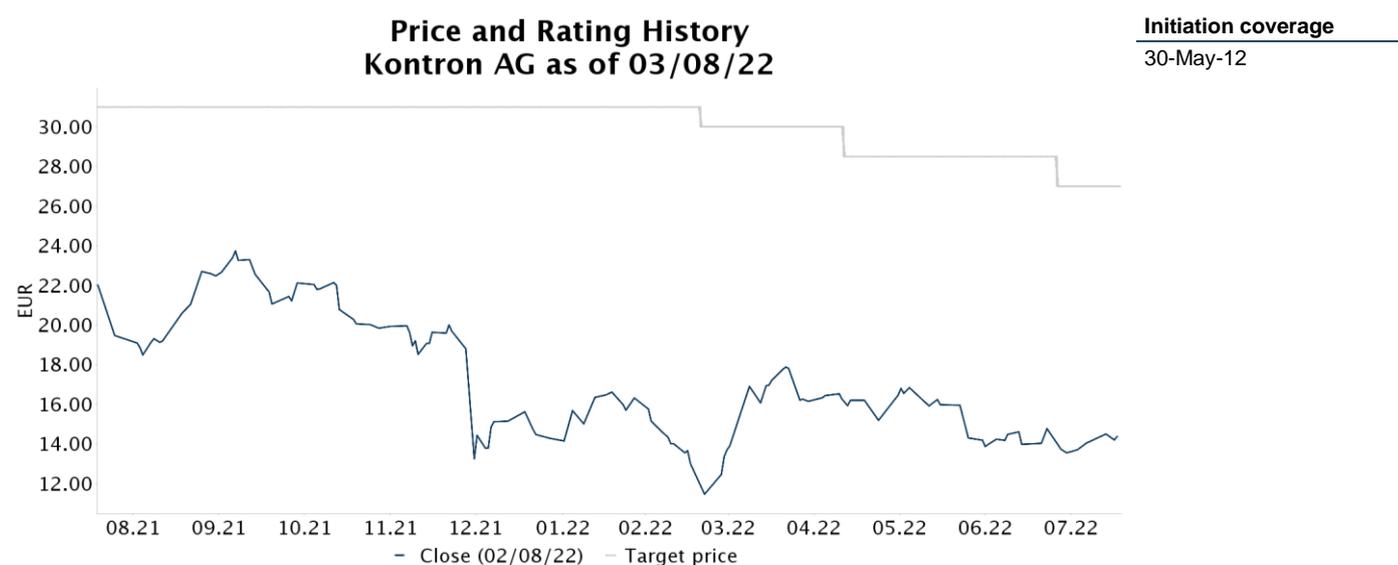
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Company	Disclosure
Kontron AG	

Historical target price and rating changes for Kontron AG in the last 12 months



Company	Date	Analyst	Rating	Target price	Close
Kontron AG	28.07.2022	Wunderlich, CFA, Tim	Buy	EUR 27,00	EUR 14,04
	13.07.2022	Wunderlich, CFA, Tim	Buy	EUR 27,00	EUR 13,73
	17.05.2022	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 16,80
	28.04.2022	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 15,93
	05.04.2022	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 17,77

22.03.2022	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 13,90
09.03.2022	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 11,46
15.02.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 16,32
01.02.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 16,48
26.01.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 15,01
18.01.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 14,66
11.01.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 14,47
10.01.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 14,47
03.01.2022	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 15,62
24.12.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 15,12
23.12.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 15,12
22.12.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 14,85
20.12.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 13,78
17.12.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 14,43
10.11.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 20,02
26.10.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,82
12.10.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,22
10.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 22,70
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
06.08.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 22,02

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Buy	76.69 %	96.43 %
Sell	4.29 %	0.00 %
Hold	19.02 %	3.57 %

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