

Preview Q2 – still good growth prospects ahead

We expect above average top line growth in Q2 due to good potential from overdue orders and a firm USD. The EBITDA margin might still be burdened by the chip shortage and from the unwinding of KTN's business activities in the Ukraine and Russia, though. Nevertheless, we see good mid-term potential in the stock. Our PT is EUR 30, offering substantial upside to the current share price of EUR 14.

Q2 numbers due on August 4th

Kontron (the former S&T AG) will report Q2 numbers on August 4th. Due to a large pile of overdue orders, we expect above average top line growth in the coming quarters despite the currently deteriorating macro environment. On top of that, we anticipate some tailwind from the USD in the quarter. All in, the total expected growth is ~12% in Q2. The EBITDA margin might remain below the targeted 10% of sales in Q2, because of ongoing burdens from the chip shortage and from the unwinding of KTN's business activities in the Ukraine and Russia, that stood for 6% of Kontron's group revenues before the war.

No M&A deals so far in 2022

M&A activities will not contribute meaningfully to Q2 numbers. For the full year, we had so far expected that upcoming purchases will contribute EUR 150m to the top line, but this number looks clearly ambitious in the meantime as there haven't been any deals in H1. Regarding the envisioned sale of the IT Service business ("project focus"), KTN said after Q1 it was still on course to complete the deal in autumn 2022. However, we believe that the worsening macro environment won't make it easier to realize the target price range of EUR 500-700m.

Three reasons to own the stock

There are three reasons why we see good mid-term potential in the stock (please refer to our latest update [here](#)): First of all, S&T is one of only a handful of players in the young, but strongly growing IoT business. Second, the disposal of the IT Service business offers significant re-rating potential for the stock, we think. Third, the share trades at a steep discount to its historical valuation and the Tec Dax, which looks unwarranted to us, even if S&T keeps the IT Service business.

EURm	2020	2021	2022e	2023e	2024e
Revenues	1,255	1,342	1,653	1,902	2,116
EBITDA	130	126	162	190	222
EBIT	68	63	92	105	124
EPS	0.85	0.75	1.04	1.20	1.40
EPS adj	0.85	0.75	1.04	1.20	1.40
DPS	0.30	0.35	0.48	0.56	0.65
EV/EBITDA	9.5	7.5	5.9	5.3	4.5
EV/EBIT	18.0	15.2	10.4	9.5	8.1
P/E adj	22.6	19.4	13.2	11.5	9.8
P/B	3.09	2.23	1.90	1.73	1.56
ROE (%)	14.3	11.7	15.0	15.7	16.7
Div yield (%)	1.6	2.4	3.5	4.0	4.7
Net debt	(20)	14	72	117	121

Source: Pareto Securities

Target price (EUR)	30.0	▲	BUY
Share price (EUR)	13.8	–	HOLD
		▼	SELL

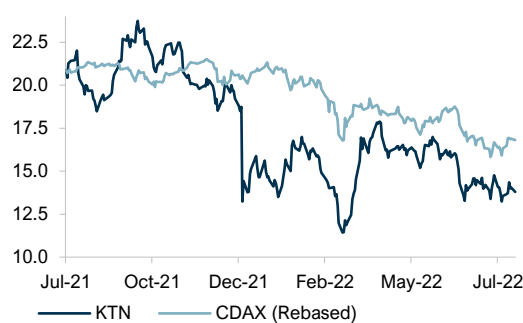
Forecast changes

%	2022e	2023e	2024e
Revenues	-	-	-
EBITDA	-	-	-
EPS reported	-	-	-
EPS adj	-	-	-

Source: Pareto Securities

Ticker	KTN.DE, KTN GY
Sector	Hardware & Equipment
Shares fully diluted (m)	63.6
Market cap (EURm)	878
Net debt (EURm)	72
Minority interests (EURm)	5
Enterprise value 22e (EURm)	955
Free float (%)	68

Performance



Source: FactSet

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Analysts

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Preview Q2

Kontron (the former S&T AG) will report Q2 numbers on August 4th. As a reminder, Kontron reported 12% organic growth in Q1, although the company faced overdue orders of EUR 108m after Q1, up from EUR 77m at the end of 2021, which shall be reduced to around EUR 30m until the end of the year. Accordingly, we expect above average top line growth in the coming quarters despite the currently deteriorating macro environment. In detail, we assume around 9% organic growth in Q2. On top of that, we anticipate some tailwind from the USD in the quarter, which appreciated more than 13% in Q2 compared to last year. As the IoT segments realize roughly one third of their revenues in USD, we expect this effect to add approximately another 3 percentage points to the top line on group level in Q2, resulting in a total expected growth of ~12%.

Profitability was held back in Q1 by (1) the chip shortage, that burdened results by EUR 1.1m and (2) the impact of the war in the Ukraine that led to an EUR 4m impairment of receivables against subsidiaries in the region. Accordingly, we expect the EBITDA margin to remain below the targeted 10% of sales also in Q2.

Preview Q2

Kontron AG		Actual Q2 2021	Pareto Q2 2022e	yoy (%)
Revenues	EURm	307	343	11.9
Gross profit	EURm	117.0	126.5	8.1
margin	%	38.2%	36.9%	-127 bps
EBITDA	EURm	30.1	31.2	3.6
margin	%	9.8%	9.1%	-72 bps
EBIT	EURm	13.9	16.5	19.1
margin	%	4.5%	4.8%	29 bps

Source: Company, Pareto Securities

M&A activities will not contribute meaningfully to Q2 numbers. For the full year, we had so far expected that upcoming purchases will contribute EUR 150m to the top line, but this number looks clearly ambitious in the meantime as there haven't been any deals in H1, and we will probably have to cut back that number after the analyst call. Regarding the envisioned sale of the IT Service business ("project focus"), KTN said after Q1 it was still on course to complete the deal in autumn 2022. However, we believe that the worsening macro environment won't make it easier to realize the target price range of EUR 500-700m.

There are three reasons why we see potential in the stock (please refer to our latest update [here](#)): First of all, S&T is one of only a handful of players in the young, but strongly growing IoT business. Second, the disposal of the IT Service business offers significant re-rating potential for the stock, we think. Third, the share trades at a steep discount to its historical valuation and the Tec Dax, which looks unwarranted to us, even in the current set-up.

PROFIT & LOSS (fiscal year) (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Revenues	882	991	1,123	1,255	1,342	1,653	1,902	2,116
EBITDA	68	91	112	130	126	162	190	222
Depreciation & amortisation	(26)	(29)	(50)	(62)	(64)	(70)	(85)	(98)
EBIT	42	62	62	68	63	92	105	124
Net interest	(6)	(5)	(8)	(8)	(8)	(11)	(11)	(12)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	35	56	54	61	54	81	94	112
Taxes	(6)	(8)	(5)	(6)	(5)	(14)	(17)	(22)
Minority interest	(7)	(3)	(0)	1	(1)	(1)	(1)	(1)
Net profit	23	45	49	56	48	66	76	89
EPS reported	0.43	0.70	0.74	0.85	0.75	1.04	1.20	1.40
EPS adjusted	0.43	0.70	0.74	0.85	0.75	1.04	1.20	1.40
DPS	0.13	0.16	-	0.30	0.35	0.48	0.56	0.65
BALANCE SHEET (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Tangible non current assets	32	37	38	80	86	117	144	156
Other non-current assets	195	273	392	403	424	475	511	534
Other current assets	361	366	483	481	545	643	721	788
Cash & equivalents	217	172	312	282	297	239	194	189
Total assets	805	848	1,226	1,247	1,352	1,473	1,569	1,667
Total equity	332	367	385	409	423	468	514	569
Interest-bearing non-current debt	115	113	283	262	311	311	311	311
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	356	366	549	565	608	684	734	778
Total liabilities & equity	805	848	1,226	1,247	1,352	1,473	1,569	1,667
CASH FLOW (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Cash earnings	46	48	82	112	84	112	133	156
Change in working capital	(1)	(12)	2	29	12	(35)	(28)	(24)
Cash flow from investments	(39)	(63)	(56)	(77)	(66)	(113)	(119)	(101)
Cash flow from financing	93	(21)	84	(66)	(20)	(22)	(31)	(35)
Net cash flow	91	(45)	141	(30)	15	(58)	(45)	(4)
VALUATION (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Share price (EUR end)	18.0	15.8	21.3	19.3	14.7	13.8	13.8	13.8
Number of shares end period	63	66	66	65	64	64	64	64
Net interest bearing debt	(102)	(58)	(30)	(20)	14	72	117	121
Enterprise value	1,066	998	1,385	1,232	951	955	1,001	1,006
EV/Sales	1.2	1.0	1.2	1.0	0.7	0.6	0.5	0.5
EV/EBITDA	15.7	11.0	12.4	9.5	7.5	5.9	5.3	4.5
EV/EBIT	25.5	16.2	22.4	18.0	15.2	10.4	9.5	8.1
P/E reported	41.5	22.6	28.6	22.6	19.4	13.2	11.5	9.8
P/E adjusted	41.5	22.6	28.6	22.6	19.4	13.2	11.5	9.8
P/B	3.7	2.9	3.8	3.1	2.2	1.9	1.7	1.6
FINANCIAL ANALYSIS	2017	2018	2019	2020	2021	2022e	2023e	2024e
ROE adjusted (%)	7.9	12.9	13.1	14.0	11.6	14.9	15.5	16.5
Dividend yield (%)	0.7	1.0	-	1.6	2.4	3.5	4.0	4.7
EBITDA margin (%)	7.7	9.1	9.9	10.4	9.4	9.8	10.0	10.5
EBIT margin (%)	4.7	6.2	5.5	5.4	4.7	5.6	5.5	5.9
NIBD/EBITDA	(1.50)	(0.64)	(0.26)	(0.16)	0.11	0.45	0.62	0.55
EBITDA/Net interest	10.72	17.56	14.54	16.89	15.03	14.54	16.58	18.95

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Selvaag Bolig	4,311,865	4,60%
Sparebank 1 Nord-Norge	4,421,827	4,40%
Sparebank 1 SMN	2,177,355	1,68%
Sparebank 1 SR-Bank	2,071,099	0,81%
Sparebank 1 Østfold Akerhus	1,232,429	9,95%
SpareBank 1 Østlandet	3,836,463	3,61%
Sparebanken Møre	705,030	1,43%
Sparebanken Sør	433,449	2,77%
Sparebanken Vest	6,861,419	6,39%
NEXT Biometrics	710,901	0,78%
Sparebank 1 Sørøst-Norge	1,771,308	2,81%

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Aker ASA	500	2,694
Aker BP	0	28,796
Aker Carbon Capture	0	4,926
Aker Horizons	0	180,838
Aprilia Bank ASA	0	22,675
ArcticZymes Technologies	0	684
Austevoll Seafood	0	1,898
Avance Gas	0	4,000
Awilco LNG	0	30,000
Bonheur	0	32,088
Borregaard ASA	0	650
Bouvet	0	1,240
BW Energy	0	116,561
BW Offshore	0	9,650
Circa Group	0	6,550
Cloudberry Clean Energy	0	100,250
Crayon	0	1,080
Desert Control	0	32,500
DNB	0	49,534
DNO	0	70,258
Elkem	0	95,817
Elmer a Group ASA	0	10,119
ELOP	0	140,000
Equinor	0	2,623
Europris	0	17,708
Flex LNG	0	717
Frontline	0	11,740
Gaming Innovation Group	0	25,912
Gjensidige Forsikring	0	7,671

Company	Analyst holdings*	Total holdings
GramCar Carriers	0	3,000
Grieg Seafood	0	5,334
Hafnia Ltd.	0	145,195
Huddly	0	959,514
HydrogenPro	0	36,641
Kitron	0	28,536
Komplett Bank	0	197,800
Kongsberg Gruppen	0	281
KWS	75	75
Lerøy Seafood Group	0	35,021
Meltwater	0	30,700
Mer cell	0	24,863
Mowi	0	859
MPC Container Ships	0	15,045
NEXT Biometrics	0	710,901
Nordic Semiconductor	0	10,532
Norco	0	500
Norse Atlantic	0	40,000
Norsk Hydro	0	84,189
Norske Skog	0	104,249
Northern Drilling Ltd.	0	181,419
Odfjell Drilling	0	28,581
Okeanis Eco Tankers	0	1,420
Orkla	0	24,336
Panoro Energy	0	28,373
Pareto Bank	0	1,334,731
Pexip Holding	0	310,883
Protector Forsikring	0	15,300
Pryme	0	7,401
Pyrum Innovations	0	100
Quantafuel	0	8,797
REC Silicon	0	31,391
Sailor	0	104
Sandnes Sparebank	0	3,731
Scatec	0	31,009
Seadrill Ltd	0	2,171
Sparebank 1 Nord-Norge	0	4,350
Sparebank 1 SMN	0	18,584
Sparebank 1 SR-Bank	0	17,509
SpareBank 1 Østfold Akerhus	0	1,252
SpareBank 1 Østlandet	0	12,921
Sparebanken Sør	0	16,140
Sparebanken Vest	0	16,538
Stolt-Nielsen	0	2,000
Storbrand	0	7,127
Subsea 7	0	35,132
Telenor	0	9,284
TGS	0	600
Vov	0	10,431
Vov Green Metals	0	19,681
Vår Energi	0	58,585
Wallenius Wilhelmsen	0	2,000
Yara	0	18,660
Zaptec	0	11,610

This overview is updated monthly (last updated 25.07.2022).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements in accordance with Article 6(1)(c)(iii) of Commission Delegated Regulation (EU) 2016/958

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Aker ASA	Salmon Evolution
Aker Clean Hydrogen	Sartorius-Herbst
Aker Offshore Wind	Seagems Norway
Alva Industries AS	Seajacks
Apila Bank ASA	Shamaran Petroleum
Arca Energy	State European Holdings
Barraunndi Group Pte. Ltd.	Swedencare
Biomega Group AS	TEMPTON GmbH
Bonheur	Tier klinik Hofheim GbR
Boreal Holding AS	Trønder energi AS
Brooge Petroleum and Gas	Vestby Logistikk Holding
BW LPG	Vår Energi
BW Offshore	Waldorf Production UK Ltd
Cabonline Group Holding AB	Waste Plastic Upcycling
Cavai AS	Wattif EV
Cloudberry Clean Energy	wheel.me
Dampskibsselskabet NORDEN A/S	Xeneta AS
DNO	Ymber AS
Documaster AS	ZTL Payment Solution AS
ELOP	Ørn Software
Enapter AG	
Ensurge Micropower	
Esmailizadeh Holding	
First Camp Group AB	
Flex LNG	
FREYR Battery	
Funkwerk AG	
Global Agrarjes (Fertiberia group)	
Golar LNG	
GramCar Carriers	
Green Transition Holding	
Greentood	
Grøntvedt AS	
Hafslund Eco	
Hagal AS	
HMH Holding	
Ice Group	
Immunopharma	
InoBat Auto	
International Petroleum Corporation	
JP/Politikken's Forlag	
Kalera	
Kebony	
Kentech Global Plc	
Keppel FELS Limited	
KMC Properties	
Komplett ASA	
Kruse Smith	
Kvitbjørn Varme	
Laker Holding AS	
Lerøy Seafood Group	
Lumina AS	
Mathesa Bostadsbolaget AB	
MerCell	
Mime Petroleum	
Modex AS	
Multitude SE	
Navios Maritime Acquisitions	
Navios Maritime Holdings	
Nordic Hallbut	
Noreco	
Norwegian Block Exchange	
Odjell Oceanwind	
Okea AS	
Otello Corporation	
Pandion Energy	
Pareto Bank	
PetroNor E&P	
PHM Group	
Ping Petroleum UK Limited	
poLight	
Pronofa AS	
Protector Forsikring	
Pryme	
Pyrum Innovations	
Qred Holding	
Quantafuel	
Saga Robotics	

This overview is updated monthly (this overview is for the period 31.05.2021 – 31.05.2022).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11 (4)

Distribution of recommendations

Recommendation	% distribution
Buy	78%
Hold	21%
Sell	1%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	89%
Hold	11%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public services in the previous 12 months

This overview is updated monthly (last updated 14.06.2022).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

ADDVise	Mentice	Studentbostäder i Norden
BioInvent	Media & Games Invest plc.	Swedencare
Cibus Nordic Real Estate AB	Oscar Properties	VEF
Egetis Therapeutics	Sedana Medical	VNV Global
Hexatronic	Shamaran Petroleum Corp	

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Energy Corp.	Media & Games Invest plc.	Shamaran Petroleum
ByggPartner i Dalarna Holding	Mentice AB	Surgical Science
Cibus Nordic Real Estate	Minesto	Tethys Oil
Isolof Medical	Sällängen Property Invest	VEF
Logistri Fastighets AB	SciBase Holding	
Magnolia Bostad	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

Member of the Pareto Group is providing Business Management services to the following companies:

Aarhus Residential's Denmark AB	Fleming Properties AB	Mälarsen AB
Backaheden Fastighets AB	Halmlätten Fastighets AB (publ)	One Publicus Fastighets AB
Bonäsudden Holding AB (publ)	Korsängen Fastighets AB (publ)	Origa Car AB (publ)
Borglunda Fastighets AB	Krona Public Real Estate AB	Preserium Property AB
Bosjö Fastigheter AB	Logistri Fastighets AB	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

This overview is updated monthly (last updated 15.07.2022).

Appendix E

Disclosure requirements in accordance with Article 6(1)(c)(i) of Commission Delegated Regulation (EU) 2016/958

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the

2G Energy *	Heidelberg Pharma *	Northern Data AG
Biotech *	Intershop Communications AG	OVH Holding AG
CORESTATE Capital Holding S.A.	Leifheit	Procredit Holding *
Daldrup & Söhne	Logwin *	PSI SOFTWARE AG *
Demi re	Manz AG *	PWO *
Epigenomics AG *	MAX Automation SE	S&T AG *
Gesco *	Merkur Bank	SMT Scharf AG *
Ger ry Weber	MLP *	Surteco Group *
GFT Technologies *	Mühl Produkt & Service AG	Szygy AG *
Gigaset *	mutares	Viscom *

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements in accordance with Article 6(1)(c)(iv) of Commission Delegated Regulation (EU) 2016/958

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and – in return – receives compensation.

Baywa	Ger ry Weber	Mynaric
BB Biotech	Hypoport AG	mutares
CLIQ Digital	Intershop Communications AG	Northern Data AG
Daldrup & Söhne	Leifheit	OHB SE
Dermapharma Holding SE	MAX Automation SE	OVH Holding AG
Enapter	Merkur Bank	Sieglried Holding AG
Expr es2ion Biotechnologies		

This overview is updated monthly (last updated 15.07.2022).