

S&T

Germany | IT software & services

Buy (Buy)

Target price
EUR 3.80

Current price
EUR 2.73

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Well on track

- Growth driven by appliances as expected
- Red flag programme well on track, gross profit improved
- Sales guidance confirmed for FY 2014 and FY 2015
- Trading at an unjustified discount – Buy

Growth driven by appliances as usual

Sales for Q3 came up 10% YOY, above our expectations at EUR88.8m (vs. EUR85.7m expected). For the first nine months of the financial year, revenues are up 6.4% at EUR253.6 (vs. EUR250.5m expected). The Appliances division, boosted by the recent acquisitions made in the “Smart Grid” business, lead the pack with EUR45.7m generated in 9M versus EUR27.5m a year ago. As expected, Services Eastern Europe recorded steady growth (+2.2%). Finally, the Services DACH (that includes the former Products business) drops by 9% at EUR63.6m in line with the company’s strategy to downsize.

Red flag programme well on track, GP improved

Gross profitability is evolving positively as we expected. GP/sales is up to 33.5% for the first 9M vs. 32.5% a year ago. It is the result of 1) the implementation of the Red flag programme launched in April, which aims to wind up low-margin products not capable of meeting profitability targets; and 2) an improved product mix stemming from the growing share of high-margin appliances in total sales. The Red Flag programme is working well, as indicated by the gross margin in the Service DACH division, which rose significantly from 19.6% to 23.1%.

Orders on hand provide good visibility, guidance confirmed

S&T expressed its confidence about reaching the sales growth guidance expressed at the beginning of the year (at least EUR375m in FY14E and EUR465m in FY15E) thanks to the strong growth expected in appliances (internal and external growth). Our forecasts are in line with the company’s objectives as we believe S&T will overcome the further deflation in hardware. The substantial rise of orders in hand to a record EUR157.3m (up from the EUR106m three months ago) gives credit to that scenario.

Trading at an unjustified discount – Buy

S&T is trading at a significant discount to peers (7.3x 2015E EPS), which we think is unjustified. We reiterate our Buy rating with a TP of EUR3.8, implying 38% upside from current prices.

Front page

Reuters SANT1.DE
Bloomberg SANT GR
Index DJ Stoxx 600

Market data

Market cap (EURm)	118
Free float	62%
No. of shares outstanding (m)	43
Avg. daily trading volume('000)	33
YTD abs performance	0.6%
52-week high (EUR)	3.10
52-week low (EUR)	2.54



FY to 31/12 (EUR)	2014E	2015E	2016E
Sales (m)	380.0	469.4	490.7
EBITDA adj (m)	22.9	29.8	33.9
EBIT adj (m)	16.5	20.9	24.1
Net profit adj (m)	11.8	16.1	19.8
Net fin. debt (m)	10.5	13.8	8.6
FCF (m)	1.4	1.1	9.6
EPS adj. and fully dil.	0.27	0.37	0.46
Consensus EPS	0.28	0.36	0.42
Net dividend	0.06	0.06	0.06

FY to 31/12 (EUR)	2014E	2015E	2016E
P/E (x) adj and ful. dil.	10.0	7.3	6.0
EV/EBITDA (x)	6.0	4.9	4.2
EV/EBIT (x)	8.4	6.9	5.9
FCF yield	1.2%	0.9%	8.1%
Dividend yield	2.2%	2.2%	2.2%
Net debt/EBITDA (x)	0.8	0.8	0.6
Gearing	11.4%	13.0%	6.9%
ROIC	16.8%	18.6%	20.2%
EV/IC (x)	1.4	1.3	1.3