Kepler Cheuvreux | Equity Research

Sponsored Research

S&T

Germany | IT software & services | Mcap EUR 153.6m

19 March 2015

Buy (Buy)

Target Price	**EUR 5.60**
Current Price	EUR 3.55
Up/downside	57.7%
Change in TP	47.37%
Change in EPS	4.5% 2014E

Quality growth ahead

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Based on our updated valuation, S&T still offers plenty of catch-up potential, even after the recent share price rally (+40% since October 2014). At 10x 2015E earnings and a 50% average discount to peers, the stock remains attractive. Given the all-time high backlog and potential for further strong value creation, we reiterate our Buy rating and lift our TP from EUR3.8 to EUR5.6 based on a less conservative scenario.

Getting more ambitious

We have significantly raised our sales growth forecasts for the smart grid division to better reflect the huge potential ahead (+16% sales over CAGR 2014-20E vs. 9% previously). The deployment of smart grids – driven by EU regulation requiring 80% of EU 27 utility customers to have a smart meter by 2020 – should begin to gain traction as of next year with the bulk of installations taking place in 2017-19. With S&T already contending for large project RFPs, the product mix is likely to improve faster than initially expected, translating into higher EBIT margins (+200bps by 2020E) and sound EPS growth (+22% and +27% in 2015E and 2016E, respectively).

Credible player in smart grid

Thanks to the integration of NES (and the recent increase in stake to 65%), S&T is seen as a prominent player in smart grid. The group has strong assets including: 1) proven technological know-how; 2) an "end-to-end" positioning allowing it to participate in large projects; 3) the development of valuable industrial partnerships with large utility contractors (Schneider, LG, Mitsubishi); and 4) geographical exposure to eastern Europe, where incentives for grid modernisation are strong. In addition, the licensing of its proprietary OSGP technology - one of the two most widely used networking standards in smart grid infrastructure - should ensure recurring and ultra-high margin revenues in the form of annual royalties (minimum of USD2.0 per meter installed).

Equity story remains intact

The investment case has lost none of its appeal, in our view: S&T continues to climb the value chain, thanks to smart investments in fast-growing segments of IT security and smart energy. The company is about to leverage its strong existing customer relations in Central and especially eastern Europe to sell higher-margin IT solutions, thereby boosting its returns.

Market data

Market cap (EURm)	154
Free float	66%
No. of shares outstanding (m)	43
Avg. daily trading volume('000)	31
YTD abs performance	10.2%
52-week high (EUR)	3.75
52-week low (EUR)	2.54

FY to 31/12 (EUR)	2014E	2015E	2016E
Sales (m)	380.0	467.7	503.3
EBITDA adj (m)	19.5	26.4	32.8
EBIT adj (m)	14.2	18.9	23.7
Net profit adj (m)	12.3	15.0	19.1
Net fin. debt (m)	11.3	5.5	-9.2
FCF (m)	-2.7	6.1	15.0
EPS adj. and fully dil.	0.30	0.35	0.44
Consensus EPS	0.28	0.33	0.40
Net dividend	0.06	0.06	0.08

FY to 31/12 (EUR)	2014E	2015E	2016E
P/E (x) adj and ful. dil.	11.9	10.2	8.1
EV/EBITDA (x)	8.6	6.1	4.5
EV/EBIT (x)	11.8	8.6	6.2
FCF yield	-1.7%	4.0%	9.7%
Dividend yield	1.7%	1.7%	2.3%
Net fin.debt/EBITDA	0.6	0.2	-0.3
Gearing	11.9%	4.9%	-6.8%
ROIC	11.7%	13.0%	15.0%
EV/IC (x)	1.6	1.4	1.2

KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer.

Company summary

Founded in 1990, the S&T group is one of the leading supplliers of IT solutions in Central and Eastern Europe. The company has a comprehensive portfolio of products and services. These includes the development, implementation, operation and maintenance of client of customer-specific solutions in the hardware and software areas as well as the handling of IT outsourcing, integration and consulting commissions. The Appliances segment shapes hardware, software and knowhow into customized solutions. In 2014, S&T penetrated the industry of Smart Energy through external acquisitions.

Market data

Market cap (EUR)	153.6m
Free float market cap (EUR)	101.4m
No. of shares outstanding (m)	43
3m avg. daily vol ('000)	30
YTD abs. performance	10.2%
52-week high (EUR)	3.75
52-week low (EUR)	2.54

Management

Hannes Niederhauser, CEO
Michael Jeske / Dr. Peter Sturz, COO
Richard Neuwirth, CFO

Key shareholders

Managers and supervisory board 34.0%
Free Float 66.0%

Strengths

- Strong expertise in IT security
- Unique geographical exposure in Central & Eastern Europe
- "end-to-end" positioning in Smart Energy

Weaknesses

- Limited size versus major competitors in Smart Grid
- Uncertainty remains about rollout of smart grids in a few EE countries

Opportunities

- Growth in smart energy
- Growth in cloud & security
- capitalize on extracting full value from leading smart meter software
- Product-mix improvement

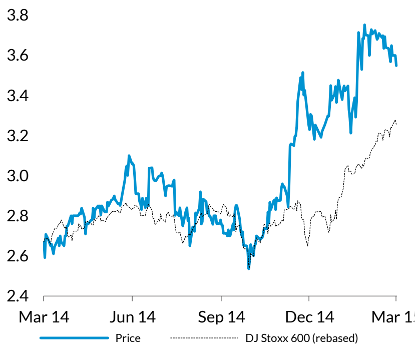
Threats

- Wrong technology investments
- Russian economy slowdown
- EU smart grid regulation delayed

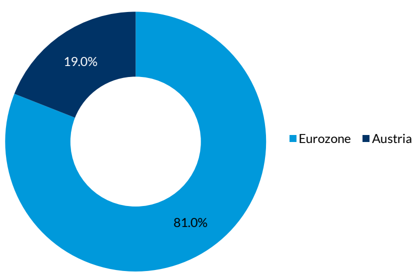
Key financials (please see the end of this report for full financials)

Per share data	2011	2012	2013	2014E	2015E	2016E
EPS adj and fully diluted	0.30	0.23	0.30	0.30	0.35	0.44
Cash flow per share	0.06	0.39	0.28	0.17	0.41	0.64
Book value per share	2.12	1.92	1.76	2.24	2.53	3.03
DPS	0.00	0.00	0.06	0.06	0.06	0.08
Valuation						
P/E adjusted and fully diluted	8.0	10.0	8.0	11.9	10.2	8.1
P/CF	38.9	6.0	8.5	21.5	8.6	5.6
P/BV	1.1	1.2	1.4	1.6	1.4	1.2
Dividend yield (%)	0.0%	0.0%	2.5%	1.7%	1.7%	2.3%
FCF yield (%)	-2.4%	10.1%	5.6%	-1.7%	4.0%	9.7%
EV/Sales	0.6	0.3	0.3	0.4	0.3	0.3
EV/EBITDA	7.1	6.5	5.3	8.6	6.1	4.5
Income statement (EURm)						
Sales	153.2	339.5	337.9	380.0	467.7	503.3
% Change	89.8%	121.6%	-0.5%	12.4%	23.1%	7.6%
EBITDA adjusted	12.2	16.6	20.1	19.5	26.4	32.8
EBIT adjusted	9.5	11.1	14.3	14.2	18.9	23.7
Adjusted EBIT margin (%)	6.2%	3.3%	4.2%	3.7%	4.0%	4.7%
Net profit reported	6.9	7.3	11.7	12.3	15.0	19.1
Net profit adjusted	6.9	7.3	11.7	12.3	15.0	19.1
Cash flow statement (EURm)						
CF from operating activities	1.4	12.3	11.1	6.8	17.8	27.6
Capex	-2.8	-3.2	-5.8	-9.5	-11.7	-12.6
Free cash flow	-1.4	9.1	5.3	-2.7	6.1	15.0
Balance sheet (EURm)						
Intangible assets	40.9	38.8	44.8	56.2	58.7	60.8
Tangible assets	11.1	9.9	9.0	11.8	13.4	14.8
Fin. & other non-current assets	13.6	13.7	13.9	13.9	13.9	13.9
Total shareholders' equity	54.6	63.1	71.2	95.5	112.4	134.1
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	172.5	150.0	148.9	171.8	191.9	202.4
Net financial debt	23.6	14.9	9.3	11.3	5.5	-9.2
Working capital requirement	23.2	24.3	23.9	36.0	42.8	46.4
Invested capital	75.2	73.1	77.6	103.9	115.0	122.0
Ratios						
ROE	15.6%	12.4%	17.5%	14.8%	14.4%	15.5%
ROIC	13.6%	11.3%	14.2%	11.7%	13.0%	15.0%
EV/IC	1.1	1.5	1.4	1.6	1.4	1.2
Gearing	43.2%	23.6%	13.1%	11.9%	4.9%	-6.8%
Net fin. debt / EBITDA	1.9	0.9	0.5	0.6	0.2	-0.3

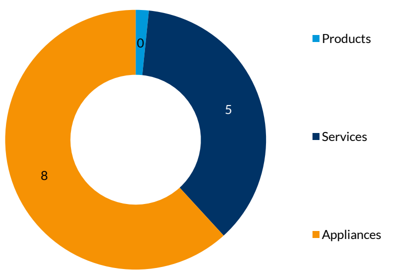
1 year performance



Sales breakdown 2013

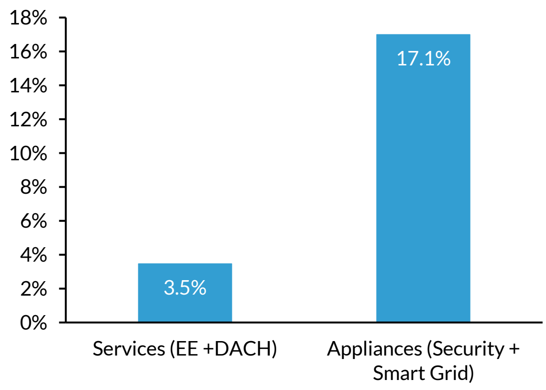


Profit breakdown 2013



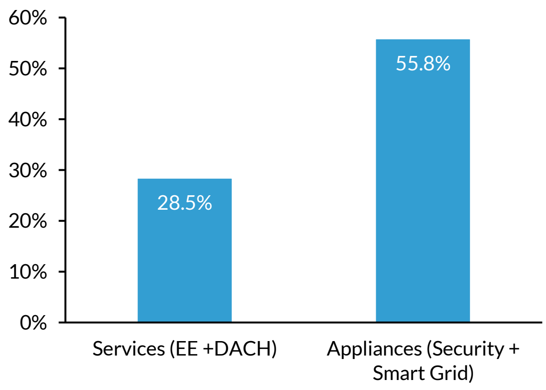
Investment case in six charts

Chart 1: Gross margin by division (after 9M 2014)



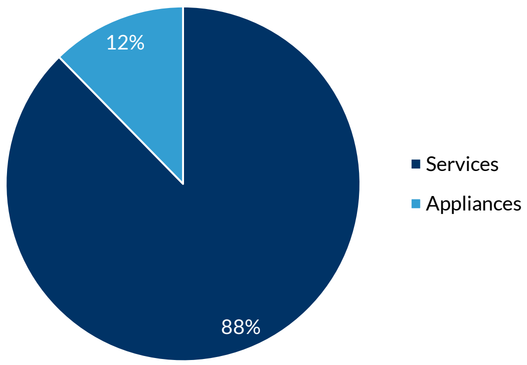
Source: Kepler Cheuvreux

Chart 2: Gross margin by division (after 9M 2014)



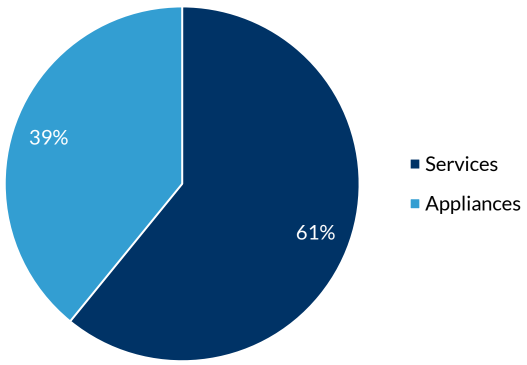
Source: Kepler Cheuvreux

Chart 3: Product mix - 2013A



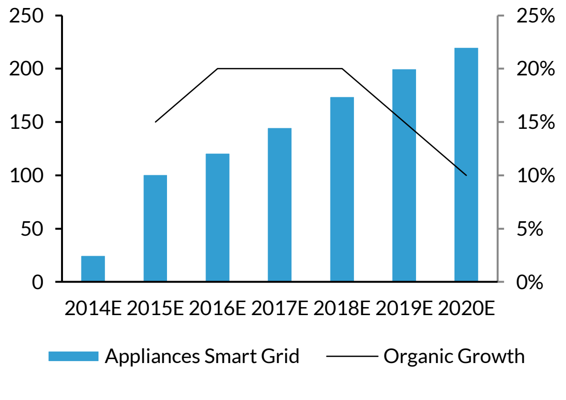
Source: Kepler Cheuvreux

Chart 4: Product mix - 2016E



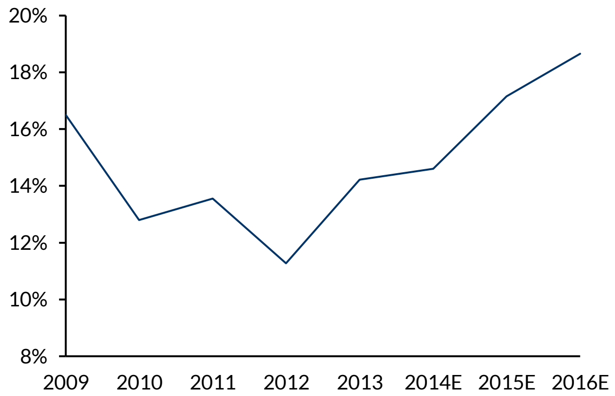
Source: Kepler Cheuvreux

Chart 5: Smart Grid division - sales growth forecasts



Source: Kepler Cheuvreux

Chart 6: Return on invested capital (ROIC) - forecasts



Source: Kepler Cheuvreux

Contents

Investment case summary

Very undemanding valuation, S&T deserves an upgrade

Based on an updated valuation, S&T still offers plenty of catch-up potential, even after the recent share price rally (+40% since October 2014). In our view, the average 50% discount applied to S&T versus its peers is unjustified in the light of: 1) real growth opportunities in the fields of smart energy and IT security (double-digit organic growth expected in the next three years); and 2) the relevance of the company's value-driven strategy. A weighted mix of both methods derives an equity fair value of EUR5.6, which is confirmed by the EV/IC=ROIC/WACC approach on our 2019 estimates.

Value-driven strategy comes with greater returns

The attractiveness of the equity story remains intact. S&T continues to climb the value chain thanks to its smart investments (including several value-accretive acquisitions) in IT security and more recently smart grid. The company is about to leverage its strong existing customer relations in Central and especially Eastern Europe to sell higher-margin IT solutions to those customers (small and medium-sized companies in IT security, governments and municipalities in smart grid), thereby further increasing its returns.

Incentive EU regulation as a key driver for growth

The future deployment of advanced metering infrastructure (AMI) will be driven by the European Union regulation requiring 80% of EUR 27 utility customers to have a smart meter by 2020 wherever it is cost-effective to do so (the 80% target is described as binding for politicians and regulators). The consequent instalment of at least 200 million smart meters represents an accumulated investment of EUR35bn in the addressable market, in which S&T, together with other companies using OSGP technology, is targeting a substantial share in excess of one-third. Only 23% of the installations required by 2020 have so far been implemented. We have significantly raised our sales growth forecasts for the smart grid division to better reflect the huge potential ahead (+15% sales CAGR 2014-20E vs. 9% previously). The deployment of smart grids should begin to gain faster traction from next year with the bulk of installations taking place in 2017-19. With S&T already contending for large project RFPs, the product mix is likely to improve faster than initially expected, translating into higher EBIT margins (+220bps by 2020E) and sound EPS growth (+22% and +27% in 2015E and 2016E respectively).

S&T a credible player in smart grid

We believe S&T is in a position to maintain itself among the top players thanks to: 1) its proven technological know-how inherited from Echelon, which it will develop through a base of qualified engineers and its existing expertise in security solutions; 2) an "end-to-end" offering, positioning it as a one-stop shop for large advanced metering infrastructure projects; 3) the development of valuable industrial partnerships with large utility contractors such as Schneider, Mitsubishi and LG to strengthen its hand in tendering procedures; and 4) its geographical exposure to Eastern European countries, where we believe incentives for the deployment of smart metering facilities are even greater than anywhere else in Europe. In addition, the licensing of its proprietary OSGP technology - one of the two most widely used networking standards in smart grid infrastructure - should ensure recurring revenues in the form of annual royalties (minimum of USD2.0 per meter).

Execution risks contained

Potential execution risks relate to: 1) possible delays in smart metering rollout and regulation within the EUR 27, especially in Eastern Europe where S&T intends to play a key role; and 2) intensifying competition. Overall, we believe the risk of S&T not delivering as expected in smart grid (KECH: +16% CAGR during 2014-20E) is moderate. In addition, it should be noted that acquisitions have been made at minimal cost (c. EUR9.5m) when considering new subsidiaries are expected to contribute positively to FY 2015 earnings (EUR1m expected in net profit), thus making the risk/reward profile even more attractive. On project financing, we would not be surprised if S&T concluded further partnerships with large contractors where it supplies high-margin software, with all turnkey project risk borne by its partners.

Set to create more value

S&T continues to climb the value chain, thanks to its smart investments (including several value-accretive acquisitions) in IT security and more recently smart grid. The company is about to leverage its strong existing customer relations in Central and especially Eastern Europe, to sell higher-margin IT solutions to those customers (small and medium-sized companies in IT security, governments and municipalities in smart grid), thereby further increasing its returns.

Continuing to climb the value chain

Initially centred on the distribution of hardware/software produced by third parties and proprietary brands, S&T was able to scale up its business model over the years thanks to smart investments and value-driven strategic decisions. The company's gradual shift into more technology, with a focus on proprietary-developed appliances, enabled it to mitigate deflation in traditional IT products and services while positioning itself in higher value-added and fast growing businesses (IT security, cloud computing, smart grid).

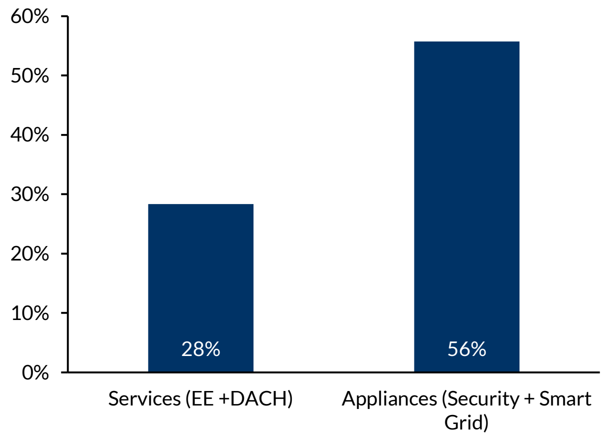
The transformation of S&T's business model since 2009 can be summarised as follows:

- **Portfolio shift towards more technology (from 2009):** from early 2009, S&T's investments (either directly through staff training or in the form of corporate takeovers) have gone towards the appliances segment, featuring proprietary-developed software and hardware in security and cloud computing for selected vertical markets (automation, infotainment, etc.).
- **S&T takeover (2012):** the takeover of former S&T in the field of IT services (integration, outsourcing, consulting) enabled the company to position itself as a one-stop-shop for large IT projects in Eastern Europe. The deal was a milestone, catapulting S&T into a new dimension: revenues almost tripled between 2011 and 2012 to reach EUR340m.
- **External growth in smart energy (2014):** 2014 marked a new acceleration in S&T's transformation, supported by investments in smart energy. The group made three acquisitions (Ubitronix, RT Soft and NES) that are likely to drive revenues from 2015 and beyond. The smart grid division, supported by strong underlying growth, should account for a growing share of the product mix.

Mechanical increase of returns

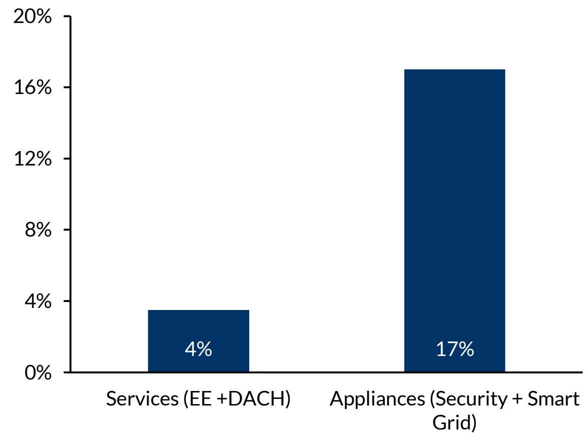
In order to assess the impact that S&T's strategy may have on future returns, we looked at gross and EBITDA margins, since these indicators are well suited to reflect the share of added value featured in a company's activity. In S&T's case, the figures are straightforward: appliances in the fields of security and smart grid generate 56% gross margin compared with "only" 28% for services. Similarly, EBITDA margin is much higher in appliances (17% vs. 4% in services).

Chart 7: EBITDA margin by division



Source: Kepler Cheuvreux

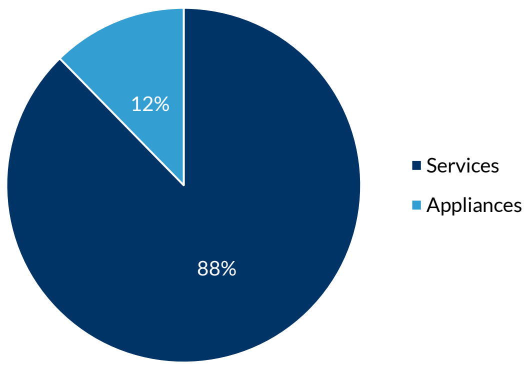
Chart 8: Gross margin by division



Source: Kepler Cheuvreux

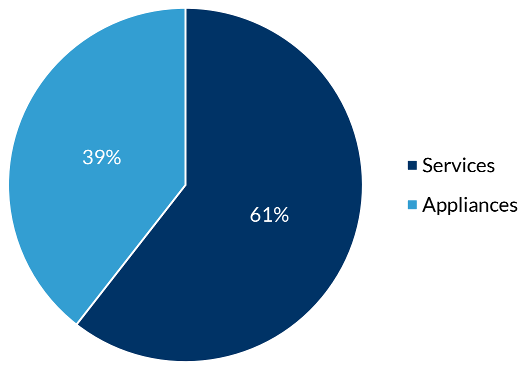
Thanks to revenues from newly-acquired subsidiaries and superior growth prospects in IT security and smart grid, we expect the product mix to improve dramatically. The share of high-margin appliances in total sales was 12% in 2013, and should be about 39% in 2015E, on our estimates.

Chart 9: Product mix 2013A



Source: Kepler Cheuvreux

Chart 10: Product mix 2015E



Source: Kepler Cheuvreux

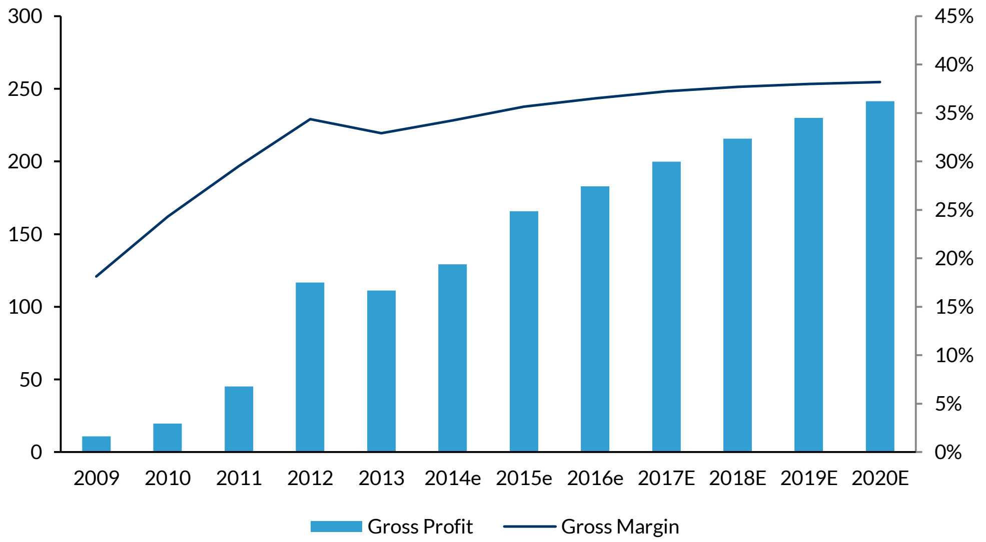
S&T has so far managed to lift its gross margin from 18% in 2009 to 33% in 2013 while gross profit has increased from EUR11m to EUR111m. This trend looks set to continue, in the light of:

1) the growing share of appliances in the product mix; and

2) the strong emphasis on restoring and even improving profitability in services.

S&T's management has said that it intends to reach a 40% gross margin at cruising speed, without giving a specific timeframe. We have adopted a more conservative approach (38.4% long-term gross margin factored in).

Chart 11: Gross profit and gross margin forecasts



Source: Kepler Cheuvreux

Assessing risk/reward in smart grid

By increasing its equity stake from 40% to 65% in February 2015, S&T has prepared the way to fully consolidate its US acquisition NES (carve-out of Echelon's smart grid division), a market leader in smart meters in Europe (4m smart meters installed). While all competitors stand to benefit from the favourable regulatory framework implemented by the EU Commission, S&T is well placed to remain among the top players, thanks to: 1) its proven technological know-how inherited from Echelon, which it will develop through a base of qualified engineers and its existing expertise in security solutions; 2) an "end-to-end" offering, positioning it as a one-stop shop for large advanced metering infrastructure projects; 3) the development of valuable industrial partnerships with large utility contractors, such as Schneider and LG, to strengthen its hand in tendering procedures; and 4) its geographical exposure to eastern Europe, where we believe incentives for the deployment of smart metering facilities are even greater than anywhere else in Europe.

Binding EU regulation to drive growth through 2020

The future deployment of advanced metering infrastructure (AMI) will be driven by the European Union regulation that requires 80% of EUR 27 utility customers to have a smart meter by 2020 wherever it is cost-effective to do so (the 80% target is described as binding for politicians and regulators). The consequent instalment of at least 200 million smart meters represents an accumulated investment of EUR35bn in the addressable market, in which S&T, together with other companies using OSGP technology, is targeting a substantial share in excess of one-third. Only 23% of the installations required by 2020 have so far been implemented.

Smart metering is being rolled out at differing speeds by European countries. Most of the projects being implemented are located in western and southern Europe, with half of the allocated budget going to three countries: France, the UK and Spain. The situation is much more contrasted in Eastern Europe, where smart grid projects account for barely 1% of total investments.

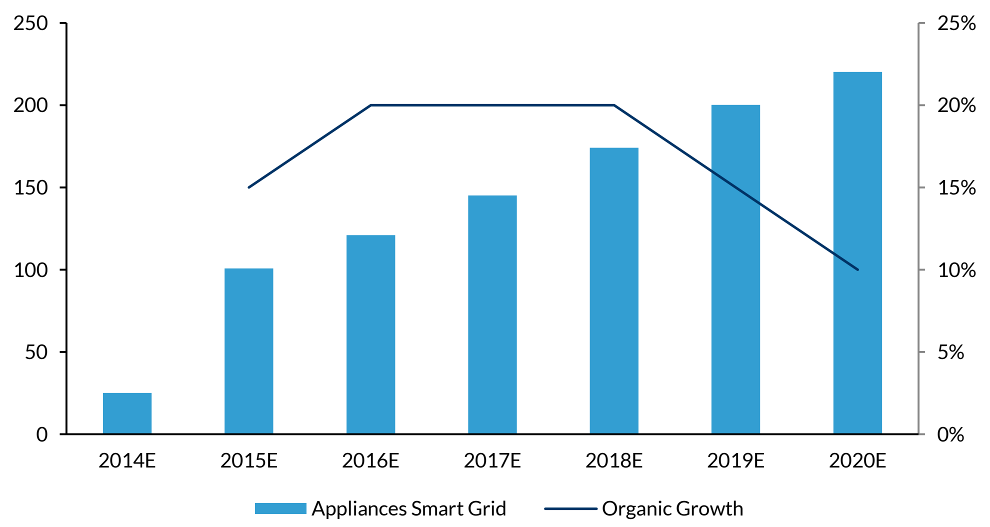
- Sixteen EU member states (**Austria**, **Denmark**, **Estonia**, **Finland**, **France**, **Greece**, **Ireland**, **Italy**, **Luxemburg**, **Malta**, **Netherlands**, **Poland**, **Romania**, **Spain**, **Sweden** and the **UK**) have decided on a national rollout of smart metering by 2020 or have already completed it (e.g. Finland, Italy and Sweden).
- **Germany**, **Latvia** and **Slovakia** are opting for a selective smart metering rollout, economically justified for a specific group of customers.
- **Belgium**, the **Czech Republic**, **Portugal** and **Lithuania** have decided not to proceed, at least for the time being and under current conditions, with a large-scale rollout of smart metering due to a negative cost-benefit analysis outcome.
- Finally, no cost benefit analysis or concrete national rollout plan has been available for **Bulgaria**, Cyprus, **Hungary** and **Slovenia**.

S&T to take its share of the pie

As one of the most ambitious and prominent players in the European smart grid business, we expect S&T to play an active role in the development of the market across the continent. At group level, smart energy is set to be S&T's main growth driver. Over the 2014-20 period, we expect S&T to generate 16% of annual sales growth in smart grid. We expect the deployment of smart grids to gain faster traction from next year, with the bulk of installations taking place in 2017-19.

Until now, the most significant order was secured in the city of Wroclaw (Poland) with LG for the supply of 330,000 smart meters and the management software required to operate them. The order is worth some USD20m to S&T with delivery of the items starting in Q1 2005. The contract may have far-reaching benefits since it gives S&T a foothold in Poland's USD1bn AMI market. There could be good news in the near future, as S&T is participating in the final stages of various tendering processes, notably in Eastern Europe and Scandinavia.

Chart 12: Growth forecasts for S&T's smart grid business (2014-20E)



Source: Kepler Cheuvreux

Execution risks contained

Execution risks comprise: 1) potential delays to smart metering rollout and regulation within the EUR 27, especially in Eastern Europe where S&T intends to play a key role; and 2) intensifying competition. Overall, we believe the risk of S&T not delivering as expected in smart grid (KECH: +12% CAGR for 2014-20E) is relatively low, for several reasons: first, acquisitions have been made at minimal cost (c. EUR9.5m) when considering new subsidiaries are expected to contribute positively to FY 2015 earnings (EUR1m expected in net profit); second, S&T is likely to conclude further partnerships with large contractors under which it will supply high-margin software while all turnkey project risks are borne by its partners.

Delays to EU regulations: what if?

S&T, like its competitors, is exposed to potential delays in the deployment of smart grids. As far as smart grid deployment is concerned, key obstacles and challenges still appear to be social and regulatory rather than technical in nature. Indeed, uncertainty persists in several countries over roles and responsibilities in new smart grid applications, sharing of costs and benefits and new business models.

Among Central and Eastern European countries (where S&T intends to focus), only Austria, Poland and Romania have so far fully committed to meeting EU targets, while other countries have either opted for a selective smart metering rollout (Germany, Latvia and Slovakia) or decided not to proceed for the time being (Czech Republic and Lithuania). For some countries such as Bulgaria, Hungary and Slovenia, no concrete national rollout plan is available.

On this point, we could argue that:

- **S&T has enough on its plate already**. In a short-term prospective, S&T will have no issue finding smart grid projects to run as a candidate. The company claims to have EUR800m projects in the pipeline for the coming three years. Of this amount, S&T could in any case handle only a small portion, given its current human and financial resources.
- **There are further incentives to deploy smart grid capabilities in Eastern Europe.** Eastern European countries are considered to offer the best potential for smart grid and smart metering development since, in many cases, power infrastructure is outdated and not compatible with a fully integrated European power market. Distribution losses and power outages are a real concern in the region, creating further incentives for utilities to deploy smart meters and smart grid capabilities. Furthermore, CEE countries are set to benefit from knowledge spillover from Western Europe: many utilities in CEE are owned by French, German and Italian utilities, which already have extensive experience in deploying smart grid infrastructure. These companies have had a presence in CEE countries for many years, making them familiar with local practices.
- Our view is that **smart grid technologies are disruptive** in many respects (energy savings and efficiency, distribution network efficiency). Therefore, the wide-scale implementation of such advanced metering infrastructure is to become the norm. We expect CEE countries to eventually adopt the EU regulations into their national framework, imposing a smart meter mandate.

Competitiveness: S&T a credible player in smart grid

With turnover of about EUR100m expected for 2015, S&T is a relatively small player compared with the largest pure players in the field: Landis+Gyr (Switzerland), Elster (Germany) and Itron (US), which have reported sales of above USD1.5bn in 2013. Nevertheless, the acquisition of NES from Echelon gives S&T a prominent position in the European market, where Echelon has 4 million meters installed, not including the 27 million smart meters that Italian utility Enel now operates using Echelon-based technology.

From a technological point of view, S&T is able to compete on large orders and act as a one-stop shop for a single project even if, in most cases, it joins forces with large contractors such as LG, Mitsubishi and Schneider in order to have a better chance in the early stages of the tender and to secure financing for projects of great magnitude.

S&T can provide end-to-end solutions across the entire spectrum of the value chain (meter-to-cash): from supplying adequate hardware/software packages "on the field" (smart meters, data concentrators, load management devices and associated software) to the development and marketing of big data management solutions allowing utilities to monitor simultaneously around a million distinct meters from a single platform.

We believe S&T's main sources of competitive advantage reside in the fields of: **1) security** where it will benefit from massive cross-selling opportunities as both of its technologies –smart grid software and security - come together; and **2) network communication:** the licensing of its proprietary OSGP technology - one of the two most widely used networking standards in smart grid infrastructure - should ensure recurring revenues in the form of annual royalties (min. USD2.0 per meter installed).

- **Security**: Security appliances, in which S&T has developed extensive expertise, are expected to play a key role in protecting smart grids. As utilities deploy AMI, there is a risk that consumer information can leak into the hands of unscrupulous parties, that hackers can use the smart metering system to destabilise the grid, or that consumers themselves can find a way to systematically cheat the utility company. To safeguard the system and ensure its security, the system needs to be designed with strong end-to-end security in mind. S&T has the knowledge to secure communications between utility meters and utility companies' back-end meter data management infrastructure by providing data encryption and integrity validation of individual metering data as well as strong authentication of metering commands.
- **Communication standards (OSGP):** Through the NES transaction, S&T inherited the OSGP technology (Open Smart Grid Protocol), one of the two most widely used networking standards in smart grid infrastructure (estimated market share of one-third). OSGP is optimised to provide reliable and efficient delivery of command and control information for smart meters, load control modules and other smart grid devices. Related benefits for S&T are reflected in the collection of recurring revenues in the form of annual royalties from utilities and electricity distributors (USD2 to USD5 for every meter installed). In 2015, an estimated EUR6m is expected from this. For now, S&T's policy is to keeps OSGP fees low in order to and impose it as the main networking standard in Europe.

Chart 13: S&T's end-to-end solution after integration of NES

Big data solutions	• The **UIEM platform** (Unified Intelligent Energy Management) supports all essential processes necessary for rollout, operation and maintenance of the smart grid. • **Element manager:** management solution for utility provider (real-time performance dashboards and reports, mapping).
On the field	• **Smart meters** record electricity consumption and allow communication between the electricity provider and the meter thanks to a built-in two-way communication structure. • **Data concentrators** acquire and securely aggregate data (consumption, load profiles, power quality measurements) from a large number of meters, and send this data to the utility servers via a communication network (PLC, Ethernet, GSM,GPRS, WiMAX, telecom networks). • **Load management devices and software** allows for the operation of load management devices and a reduction in energy consumption during peak periods by targeted connecting and disconnecting of loads (switching programs).
Communications	• The **OSGP Protocol** (for Open Smart Grid Protocol), developped by Echelon, is the most common data transmission protocol. The technology allows interoperability between systems and parties connected to the energy infrastructure. • **Security** appliances protecting from breaches, hacking of smart meter, data transmissions and potential malicious attacks.

Source: Kepler Cheuvreux

Top-line growth

Excellent visibility on 2014-15 backlog

Our revenue forecasts of EUR380m for 2014E (+12%, 5% LFL) and EUR468m for 2015E (+23%, +4% LFL) remain in line with the group's guidance (at least EUR375m and EUR465m). The all-time-high backlog reported at the end of September 2014 (EUR157m from EUR97 a year earlier) gives us confidence in the group's ability to reach that target.

Accounting for Russian exposure: cut in RT Soft estimates

A solid backlog should more than compensate for the negative impact from the Russian rouble at RT Soft. We cut our 2015 revenue forecasts for the Russian subsidiary by EUR5m, from EUR59m to EUR54m considering that 20% of revenues are at risk, especially the embedded computer business division. Excluding the rouble effect, sales at RT Soft in 2014 are still expected to slightly increase. On a long-term view, we believe S&T is fairly well hedged against Russian exposure since its main clients are well-established utilities (Federal Grid, Gazprom) with whom it holds long-term contractual agreements. In order to mitigate the effect, the group has started to allocate Russian engineers (paid in roubles) to assignments in Western Europe, especially Germany (revenues in euros).

Table 1:sales estimates

EURm	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR 2014/20
Revenues	**380.0**	**467.7**	**503.3**	**539.8**	**577.7**	**613.0**	**642.5**	
Growth	*12.4%*	*23.1%*	*7.6%*	*7.2%*	*7.0%*	*6.1%*	*4.8%*	*9.1%*
Organic growth	*5.0%*	*4.1%*	*7.6%*	*7.2%*	*7.0%*	*6.1%*	*4.8%*	*6.1%*
Services EE	**210.7**	**217.0**	**223.5**	**228.0**	**232.6**	**237.2**	**242.0**	
% Sales	*55.4%*	*46.4%*	*44.4%*	*42.2%*	*40.3%*	*38.7%*	*37.7%*	
Growth	*NA*	*3.0%*	*3.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.3%*
Organic growth	*NA*	*3.0%*	*3.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.3%*
Services DACH	**84.5**	**81.1**	**81.1**	**81.1**	**81.1**	**81.1**	**81.1**	
% Sales	*22.2%*	*17.3%*	*16.1%*	*15.0%*	*14.0%*	*13.2%*	*12.6%*	
Growth	*NA*	*-4.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-0.7%*
Organic growth	*NA*	*-4.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-0.7%*
Appliances Security	**59.5**	**68.4**	**77.3**	**85.1**	**89.3**	**93.8**	**98.5**	
% Sales	*15.7%*	*14.6%*	*15.4%*	*15.8%*	*15.5%*	*15.3%*	*15.3%*	
Growth	*NA*	*15.0%*	*13.0%*	*10.0%*	*5.0%*	*5.0%*	*5.0%*	*8.8%*
Organic growth	*NA*	*15.0%*	*13.0%*	*10.0%*	*5.0%*	*5.0%*	*5.0%*	*8.8%*
Appliances Smart Grid	**25.3**	**101.1**	**121.3**	**145.6**	**174.7**	**200.9**	**221.0**	
% Sales	*6.7%*	*21.6%*	*24.1%*	*27.0%*	*30.2%*	*32.8%*	*34.4%*	
Growth	*NA*	*299.6%*	*20.0%*	*20.0%*	*20.0%*	*15.0%*	*10.0%*	*43.5%*
Organic growth	*NA*	*15.0%*	*20.0%*	*20.0%*	*20.0%*	*15.0%*	*10.0%*	*16.6%*

Source: Kepler Cheuvreux

Organic sales growth of 6% in 2014-20

We raise our long-term revenue growth estimates for the smart grid business (KECH: 16% organic CAGR 2014-20E vs. 10% previously) as our initial expectations now look too conservative, given the huge pipeline S&T is contending for. At the same time, we lower our growth estimates for both services divisions, since we have had confirmation that emphasis will be on restoring operating efficiency. All in all, we expect revenues to grow organically by 6% during the 2014-20E period.

Gross profit

Getting more ambitious on product mix

A consequence of our revised top-line forecasts is a faster than previously expected improvement in product mix. We assume S&T will lift gross margin to 38% by 2020E (compared with 33% in 2013). Our expectations still remain short of management's long-term guidance (40% long-term gross margin) as we prefer to be cautious.

Further room to improve efficiency in services

Beyond the expected shift in product mix, S&T has room to improve efficiency in the "Services DACH" division (Deutschland-Austria-Germany). At the moment, this business segment has the lowest profitability in the group (22.5% gross margin; 3% EBITDA). This can be explained by the fact that "Services DACH" has included the non-core hardware trading and manufacturing business (former "Products" division) since 2014, when S&T redefined its portfolio segmentation.

The challenge for S&T will be to achieve convergence with "Services EE" (Eastern Europe), which currently records higher profitability (32% gross margin and 7% EBITDA). From 23% gross margin in 2015E (=3% EBITDA), the group intends to lift "Services DACH" to 27% in the medium term, before reaching full convergence between both service divisions. We believe the objective is achievable, given:

1) S&T has a good record of implementing efficient restructuring measures. Between September 2014 and September 2015, gross margin in the "Services DACH" segment was successfully improved, rising from 19.6% to 22.1% (+250bps).

2) We see no obvious obstacles (macro or specific market trends) that could prevent "Services DACH" from converging with "Services EE", using cost-efficient resources.

Table 2: Gross profit and gross margin estimates

GP by division	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Gross profit	**130.1**	**166.7**	**183.8**	**201.0**	**217.5**	**232.6**	**244.8**
Gross margin	34.2%	35.6%	36.5%	37.2%	37.7%	37.9%	38.1%
Services EE	**67.4**	**65.1**	**67.1**	**68.4**	**69.8**	**71.2**	**72.6**
Gross margin	*32.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
% of total gross profit	*51.8%*	*39.1%*	*36.5%*	*34.0%*	*32.1%*	*30.6%*	*29.7%*
Services DACH	**19.0**	**18.7**	**20.3**	**21.5**	**22.3**	**23.1**	**23.5**
Gross margin	*22.5%*	*23.0%*	*25.0%*	*26.5%*	*27.5%*	*28.5%*	*29.0%*
% of total gross profit	*14.6%*	*11.2%*	*11.0%*	*10.7%*	*10.3%*	*9.9%*	*9.6%*
Appliances Security	**31.5**	**34.9**	**39.4**	**43.4**	**45.1**	**46.9**	**49.2**
Gross margin	*53.0%*	*51.0%*	*51.0%*	*51.0%*	*50.5%*	*50.0%*	*50.0%*
% of total gross profit	*24.2%*	*20.9%*	*21.5%*	*21.6%*	*20.7%*	*20.2%*	*20.1%*
Appliances Smart Grid	**12.1**	**48.0**	**57.0**	**67.7**	**80.4**	**91.4**	**99.4**
Gross margin	*48.0%*	*47.5%*	*47.0%*	*46.5%*	*46.0%*	*45.5%*	*45.0%*
% of total gross profit	*9.3%*	*28.8%*	*31.0%*	*33.7%*	*36.9%*	*39.3%*	*40.6%*

Source: Kepler Cheuvreux

Valuation, target price and risks

We have updated our valuation based on a peer comparison and a standard DCF approach. Both methods lead to similar conclusions: S&T still offers plenty of catch-up potential, even after the recent share price rise. We see little justification for the severe discount currently applied to S&T. A weighted mix of both methods yields an equity fair value of EUR5.6, offering an attractive 50% upside from the current share price.

Peers: valuation still undemanding

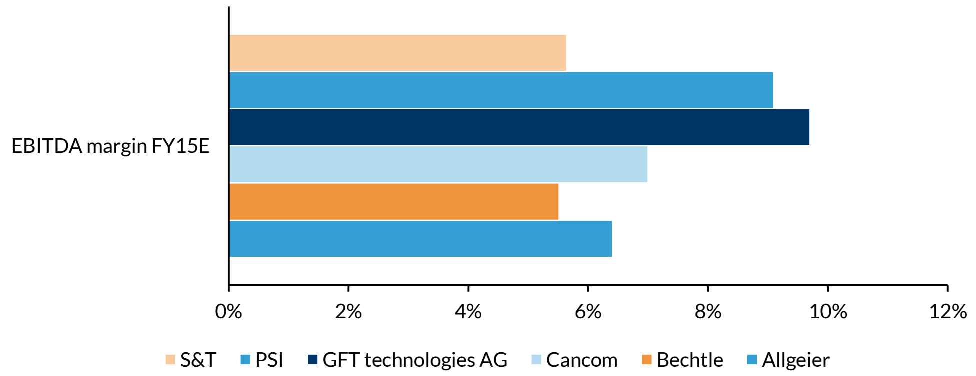
Peer sample selection

We have based our analysis on similarly sized IT companies active in Central and Eastern Europe. We deliberately narrowed our sample and excluded global players such as HP, IBM and Cisco against which S&T does not compete directly. We have enlarged our sample compared with our initiation report (+GFT and PSI).

- **PSI AG (market cap EUR196m)** is a Germany-based supplier of software solutions and complete systems for energy management (gas, oil, electricity, heat, energy trading), production management (raw materials extraction, metal production, automotive, mechanical engineering, logistics) and infrastructure management for transport and safety. PSI employs 1,700 people around the world. In 2013, the company made about half of its revenues in Germany (EUR83m out of EUR176m).
- **Allgeier (market cap EUR140m)** is a Germany-based holding company operating in the IT services sector. It is composed of three business segments: IT Solutions (sales and consultancy services connected around ECM, ERP and security), IT Services & Recruiting, and Project Solutions. Around 80% of its revenues are generated in Germany.
- **Bechtle (market cap EUR1,525m)** is a German IT company whose business model combines IT sales (e-commerce segment) and system house services. It is mostly active throughout the DACH region, where it supplies IT applications to small and medium-sized companies, large corporate groups, financial service providers and public institutions.
- **Cancom (market cap EUR539m)** is a large independent IT cloud business transformation partner in Europe. The group has a turnover of over EUR700m and has 30 locations in Germany and Austria. Formed in 1992, and now one of the leading suppliers of IT infrastructure and professional services, Cancom has transformed from a pure supplier of hardware and software products into an important integrated IT services provider and cloud business.
- **GFT Technologies (market cap EUR442m)** is a Germany-based company that specialises in designing and implementing IT solutions for the financial services industry. It is engaged in the design, delivery and maintenance of customised IT solutions. The company also designs business models to optimise and mobilise banking processes for the financial sector. In addition, it is engaged in sourcing IT specialists for companies in various sectors.

In our selection process for our sample constituents, we paid special attention to picking stocks with comparable levels of operating profitability.

Chart 14: EBITDA margin consensus forecasts 2015E



Source: Kepler Cheuvreux, Thomson Reuters

Extremely cheap valuation

Multiples are based on the forecasts shown below.

Table 3: Estimates

	Sales			EBITDA			EBIT			EPS		
EURm	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
Allgeier	432	462	493	25.2	29.6	33.5	12.7	19.0	24.1	0.7	1.0	1.4
Bechtle	2753	2920	3132	151.8	164.5	178.9	124.3	135.5	145.1	4.2	4.6	5.1
Cancom	808	897	917	51.7	62.5	71.4	27.4	38.7	53.0	1.1	1.9	2.4
GFT technologies AG	431	459	489	44.2	47.9	52.2	37.3	43.5	46.5	0.9	1.1	1.2
PSI	184	201	209	13.1	17.7	21.1	9.2	13.7	16.9	0.4	0.6	0.8
S&T	468	503	540	26.4	32.8	39.0	18.9	23.7	29.3	0.3	0.4	0.5

Source: Kepler Cheuvreux,Thomson Reuters

S&T is trading at undemanding levels (10.5x 2015E earnings and 6.6x 2015E EBITDA). The stock shows an average 50% discount to peers.

Table 4:multiples

	EV/Sales			EV/EBITDA			EV/EBIT			P/E		
EURm	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
Allgeier	0.5	0.5	0.4	8.6	7.3	6.5	17.2	11.4	9.0	25.9	16.3	12.1
Bechtle	0.6	0.5	0.5	10.0	9.3	8.5	12.3	11.3	10.5	17.7	16.1	14.6
Cancom	0.7	0.6	0.6	10.2	8.4	7.4	19.2	13.6	9.9	33.5	19.9	15.6
GFT technologies AG	1.2	1.1	1.0	11.4	10.5	9.7	13.5	11.6	10.9	18.5	15.6	14.3
PSI	1.0	0.9	0.9	14.4	10.6	8.9	20.5	13.8	11.2	34.7	21.0	16.7
Mean	0.8	0.7	0.7	10.9	9.2	8.2	16.5	12.3	10.3	26.1	17.8	14.7
Median	0.7	0.6	0.6	10.2	9.3	8.5	17.2	11.6	10.5	25.9	16.3	14.6
S&T	**0.4**	**0.3**	**0.3**	**6.6**	**5.3**	**4.5**	**9.2**	**7.4**	**6.0**	**10.5**	**8.3**	**6.7**
Discount	-52%	-52%	-53%	-39%	-42%	-45%	-44%	-40%	-42%	-60%	-53%	-54%

Source: Kepler Cheuvreux, Thomson Reutersx

Based on FY 2015E multiples and adjusted for non-operating assets, non-equity claims and minority positions, we arrive at a peer-based fair value of **EUR6.9** per share.

DCF indicates fair value of EUR5.2

We derive an equity value of **EUR5.2** per share from our DCF valuation.

Beyond assumptions associated with top-line and product mix (see Deconstructing the forecasts), we make the assumption that personnel expenses will grow faster than revenues since the strategy of moving up the value chain will imply a better qualified labour force (engineers, R&D). We estimate S&T will be able to lift EBIT margin to 6.4% by 2020E (versus 4.2% in 2013).

Table 5: WACC summary

Pretax cost of debt	5.2%
Marginal tax rate	25.0%
After tax cost of debt	**3.9%**
Risk-free rate (Rf)	2.0%
Market return (Rm)	7.5%
Market premium (Rm-Rf)	5.5%
Beta	2.00
Cost of Equity	**13.0%**
Debt (% of EV)	34%
Equity (% of EV)	66%
WACC	**10.0%**
Terminal growth	1.0%

Source: Kepler Cheuvreux

Table 6:DCF summary

(EURm)	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Sales	**467.7**	**503.3**	**539.8**	**577.7**	**613.0**	**642.5**	**654.7**	**667.2**	**680.0**	**693.0**
growth	*23.1%*	*7.6%*	*7.2%*	*7.0%*	*6.1%*	*4.8%*	*1.9%*	*1.9%*	*1.9%*	*1.9%*
EBITDA	26.4	32.8	39.0	44.2	48.7	51.4	52.4	53.4	54.3	55.3
margin	*5.6%*	*6.5%*	*7.2%*	*7.7%*	*7.9%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
EBIT	18.9	23.7	29.3	33.8	37.6	39.8	40.6	41.4	42.1	42.8
margin	*4.0%*	*4.7%*	*5.4%*	*5.9%*	*6.1%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*
EBIT after tax	17.2	21.5	26.6	30.6	34.0	36.0	36.7	37.4	38.0	38.7
add back D&A	7.5	9.1	9.7	10.4	11.0	11.6	11.8	12.0	12.2	12.5
% of sales	*1.6%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*
WCR	46.8	50.3	54.0	57.8	61.3	64.3	65.5	66.7	68.0	69.3
% of revenues	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Change in WC	-6.9	-3.6	-3.6	-3.8	-3.5	-3.0	-1.2	-1.2	-1.3	-1.3
Capex	-11.7	-12.6	-13.5	-14.4	-15.3	-16.1	-16.4	-16.7	-17.0	-17.3
% of sales	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Free cash-flow	**6.1**	**14.5**	**19.1**	**22.8**	**26.2**	**28.6**	**30.9**	**31.5**	**32.0**	**32.5**
Acquisitions	-10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of sales	*3.4%*	*2.9%*	*3.5%*	*3.9%*	*4.3%*	*4.4%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*
Discounted FCF	-3.5	11.9	14.4	15.6	16.3	16.1	15.9	14.7	13.6	12.5
Sum of discounted FCF	127.4									
PV Terminal Value	10.2									
Terminal Value	113.5									
Enterprise Value	240.9									
Cash and cash equivalents	33.4									
Other non operating assets	4.3									
Debt	44.0									
Other non equity claims	8.1									
Equity Value	226.6									
Equity value per share (€)	**5.2**									

Source: Kepler Cheuvreux

Table 7: Sensitivity table

		Perpetual growth					LT EBIT margin		
		0.0%	1.0%	2.0%			5.5%	6.3%	7.0%
WACC	12.0%	4.0	4.1	4.3	WACC	12.0%	3.9	4.1	4.3
	11.0%	4.4	4.6	4.9		11.0%	4.3	4.6	4.9
	10.0%	5.0	5.2	5.6		10.0%	4.9	5.2	5.6
	9.0%	5.7	6.0	6.5		9.0%	5.6	6.0	6.4
	8.0%	6.5	7.0	7.7		8.0%	6.5	7.0	7.5

Source: Kepler Cheuvreux

Best-case scenario, stock could reach double digits

Our most optimistic, but still realistic scenario - based on 10% annual growth until 2019 with the EBIT margin rising to 8% in the same time frame - indicates the stock could even reach double-digit levels by the end of the decade (TP EUR10). The EV/IC=ROIC/WACC approach for 2019Es yields a TP of EUR7.0, meaning the stock has the potential to double from its current price if the company successfully delivers on its strategy.

Valuation summary: EUR5.6 TP

Our target price of **EUR5.6** is a combination of the absolute DCF valuation approach (EUR5.2) and peer multiples (EUR7.2) with respective weightings of 75% and 25%. The EV/IC=ROIC/WACC approach for 2017E and 2018E derives fair values of EUR5.4 and EUR6.2, thus confirming strong upside if S&T delivers as planned.

Valuation

FY to 31/12 (EUR)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Per share data								
EPS adjusted	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% Change		high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS adjusted and fully diluted	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% Change		high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS reported	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% Change		high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS Consensus						0.28	0.33	0.40
Cash flow per share	high	-0.17	0.06	0.39	0.28	0.17	0.41	0.64
Book value per share	high	1.82	2.12	1.92	1.76	2.24	2.53	3.03
DPS	0.00	0.00	0.00	0.00	0.06	0.06	0.06	0.08
Number of shares, YE (m)	13.7	22.2	24.1	39.3	39.3	43.3	43.3	43.3
Number of shares, fully diluted, YE (m)	13.7	22.2	24.1	39.3	39.3	43.3	43.3	43.3
Share price								
Latest price / year end	1.5	2.6	1.8	2.3	2.7	3.2	3.6	3.6
52 week high (Year high)	1.7	3.2	3.1	2.7	3.1	3.5		
52 week low (Year low)	0.7	1.4	1.8	1.8	2.0	2.5		
Average price (Year)	1.1	2.1	2.4	2.3	2.4	2.9		
Enterprise value (EURm)								
Market capitalisation	15.3	47.7	57.5	90.4	94.1	123.5	153.6	153.6
Net financial debt	-9.3	-5.7	23.6	14.9	9.3	11.3	5.5	-9.2
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market value of minorities	0.0	0.6	5.4	2.2	2.1	3.1	3.1	3.1
Market value of equity affiliates (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise value	6.0	42.6	86.4	107.5	105.5	168.0	162.2	147.6
Valuation								
P/E adjusted	0.0	10.4	8.0	10.0	8.0	11.9	10.2	8.1
P/E adjusted and fully diluted	0.0	10.4	8.0	10.0	8.0	11.9	10.2	8.1
P/E consensus						12.9	10.9	8.9
P/BV	0.0	1.2	1.1	1.2	1.4	1.6	1.4	1.2
P/CF	0.0	na	38.9	6.0	8.5	21.5	8.6	5.6
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	2.5%	1.7%	1.7%	2.3%
FCF yield (%)	5.0%	-8.6%	-2.4%	10.1%	5.6%	-1.7%	4.0%	9.7%
ROE (%)		14.4%	15.6%	12.4%	17.5%	14.8%	14.4%	15.5%
ROIC (%)		12.8%	13.6%	11.3%	14.2%	11.7%	13.0%	15.0%
EV/Sales	0.10	0.53	0.56	0.32	0.31	0.44	0.35	0.29
EV/EBITDA	2.4	9.5	7.1	6.5	5.3	8.6	6.1	4.5
EV/EBIT	3.4	13.3	9.1	9.6	7.4	11.8	8.6	6.2

Income statement

FY to 31/12 (EURm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales	**59.9**	**80.7**	**153.2**	**339.5**	**337.9**	**380.0**	**467.7**	**503.3**
% Change	na	34.8%	89.8%	121.6%	-0.5%	12.4%	23.1%	7.6%
EBITDA reported	**2.6**	**4.5**	**12.2**	**16.6**	**20.1**	**19.5**	**26.4**	**32.8**
% Change	na	76.5%	171.4%	35.5%	21.3%	-2.7%	35.0%	24.3%
Depreciation and amortisation	-0.8	-1.3	-2.8	-5.4	-5.8	-5.3	-7.5	-9.1
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT reported	**1.8**	**3.2**	**9.5**	**11.1**	**14.3**	**14.2**	**18.9**	**23.7**
% Change	na	79.9%	195.4%	17.9%	28.2%	-0.5%	33.0%	25.6%
Net financial items	-0.4	-0.4	-1.0	-1.4	-2.2	-1.7	-1.7	-1.7
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before tax	**1.4**	**2.8**	**8.4**	**9.8**	**12.1**	**12.5**	**17.2**	**22.1**
% Change	na	105.4%	201.1%	15.8%	23.7%	3.8%	37.4%	28.1%
Tax	1.9	1.2	-0.3	-0.3	-0.1	0.0	-1.7	-2.2
Net profit from continuing operations	**3.3**	**4.0**	**8.1**	**9.4**	**11.9**	**12.5**	**15.5**	**19.9**
% Change	na	22.6%	103.5%	15.8%	26.8%	4.9%	23.6%	28.1%
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	**3.3**	**4.0**	**8.1**	**9.4**	**11.9**	**12.5**	**15.5**	**19.9**
Minorities	0.0	-0.3	-1.3	-2.2	-0.2	-0.2	-0.5	-0.8
Net profit reported	**3.3**	**3.7**	**6.9**	**7.3**	**11.7**	**12.3**	**15.0**	**19.1**
% Change	na	13.4%	85.4%	6.0%	61.3%	5.0%	21.7%	27.1%
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit adjusted	**3.3**	**3.7**	**6.9**	**7.3**	**11.7**	**12.3**	**15.0**	**19.1**
% Change	na	13.4%	85.4%	6.0%	61.3%	5.0%	21.7%	27.1%
Gross profit	10.8	19.6	45.2	116.6	111.2	130.1	166.7	183.8
EBITDA adjusted	2.6	4.5	12.2	16.6	20.1	19.5	26.4	32.8
EBIT adjusted	1.8	3.2	9.5	11.1	14.3	14.2	18.9	23.7
Gross profit margin (%)	18.1%	24.3%	29.5%	34.4%	32.9%	34.2%	35.6%	36.5%
EBITDA margin (%)	4.3%	5.6%	8.0%	4.9%	5.9%	5.1%	5.6%	6.5%
EBIT margin (%)	3.0%	4.0%	6.2%	3.3%	4.2%	3.7%	4.0%	4.7%
Net profit margin (%)	5.5%	4.6%	4.5%	2.1%	3.5%	3.2%	3.2%	3.8%
Tax rate (%)	139.4%	42.9%	3.4%	3.4%	1.1%	0.0%	10.0%	10.0%
Payout ratio (%)	na	0.0%	1.7%	4.0%	4.3%	2.7%	2.6%	2.1%
EPS reported (EUR)	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% change	na	high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS adjusted (EUR)	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% change	na	high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS adj and fully diluted(EUR)	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% change	na	high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
DPS (EUR)	0.00	0.00	0.00	0.00	0.06	0.06	0.06	0.08
% change	na	na	na	na	na	0.0%	0.0%	33.3%
Consensus Sales (EURm)						373.0	458.2	489.4
Consensus EBITDA (EURm)						23.2	28.6	32.0
Consensus EBIT (EURm)						16.9	19.9	22.9
Consensus EPS (EUR)						0.28	0.33	0.40
Consensus DPS (EUR)						0.08	0.08	0.08

Cash flow statement

FY to 31/12 (EURm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Net profit before minorities	3.3	4.0	8.1	9.4	11.9	12.5	15.5	19.9
Depreciation and amortisation	0.8	1.3	2.8	5.4	5.8	5.3	7.5	9.1
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	4.6	-9.2	-2.3	-2.1	-0.9	-12.1	-6.9	-3.6
Others	-7.0	0.8	-7.2	-0.5	-5.7	1.0	1.7	2.2
Cash Flow from operating activities	**1.6**	**-3.1**	**1.4**	**12.3**	**11.1**	**6.8**	**17.8**	**27.6**
% Change	na	na	na	763.8%	-9.5%	-38.5%	161.4%	54.5%
Capex	-0.8	-1.0	-2.8	-3.2	-5.8	-9.5	-11.7	-12.6
Free cash flow	**0.8**	**-4.1**	**-1.4**	**9.1**	**5.3**	**-2.7**	**6.1**	**15.0**
% Change	na	na	na	na	-41.6%	na	na	143.9%
Acquisitions	0.9	-1.2	-11.6	-0.2	4.6	-10.0	0.0	0.0
Divestments	0.1	0.0	0.0	0.6	0.9	0.0	0.0	0.0
Dividend paid	0.0	0.0	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3
Share buy back	0.0	0.0	0.0	0.0	-1.3	0.0	0.0	0.0
Capital increases	0.2	4.2	2.4	1.7	-0.1	11.0	0.0	0.0
Others	-0.5	-0.4	-1.0	-1.6	-3.1	0.0	0.0	0.0
Change in net financial debt	**1.5**	**-1.6**	**-11.6**	**9.3**	**6.0**	**-2.0**	**5.8**	**14.7**
Change in cash and cash equivalents	na	-0.6	14.7	0.0	13.0	-14.5	5.8	14.7
Attributable FCF	0.8	-4.1	-1.4	9.1	5.3	-2.7	6.1	15.0
Cash flow per share (EUR)	high	-0.17	0.06	0.39	0.28	0.17	0.41	0.64
% Change	na	na	na	530.5%	-27.0%	-41.4%	149.5%	54.5%
FCF per share (EUR)	high	-0.23	-0.06	0.29	0.14	-0.06	0.14	0.35
% Change	na	na	na	na	-52.9%	na	na	143.9%
Capex / Sales (%)	1.4%	1.2%	1.8%	0.9%	1.7%	2.5%	2.5%	2.5%
Capex / D&A (%)	109.9%	75.5%	102.2%	58.3%	100.0%	178.6%	156.3%	138.9%
Cash flow / Sales (%)	2.7%	-3.9%	0.9%	3.6%	3.3%	1.8%	3.8%	5.5%
FCF / Sales (%)	1.3%	-5.1%	-0.9%	2.7%	1.6%	-0.7%	1.3%	3.0%
FCF Yield (%)	5.0%	-8.6%	-2.4%	10.1%	5.6%	-1.7%	4.0%	9.7%
Unlevered FCF Yield (%)	9.4%	-9.1%	-0.2%	10.2%	7.6%	-0.6%	4.7%	11.2%

Balance sheet

FY to 31/12 (EURm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash and cash equivalents	15.8	15.2	29.9	29.9	42.9	28.4	34.3	48.9
Inventories	5.4	13.2	20.6	23.4	22.7	32.5	38.1	41.0
Accounts receivable	3.1	8.9	85.0	81.9	71.6	102.7	120.4	129.6
Other current assets	0.8	1.2	25.9	15.4	15.2	21.8	25.5	27.5
Current assets	**25.1**	**38.5**	**161.4**	**150.7**	**152.4**	**185.4**	**218.3**	**246.9**
Tangible assets	2.2	2.7	11.1	9.9	9.0	11.8	13.4	14.8
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangible assets	10.1	20.6	40.9	38.8	44.8	56.2	58.7	60.8
Financial assets	0.0	0.1	4.4	3.8	2.8	2.8	2.8	2.8
Other non-current assets	1.7	2.9	9.2	9.9	11.1	11.1	11.1	11.1
Non-current assets	**14.0**	**26.3**	**65.6**	**62.5**	**67.6**	**81.8**	**86.0**	**89.5**
Short term debt	3.5	3.1	34.2	37.8	28.4	15.9	15.9	15.9
Accounts payable	12.3	14.6	90.0	92.2	81.7	117.1	137.2	147.7
Other short term liabilities	1.3	2.7	18.4	4.2	3.9	3.9	3.9	3.9
Current liabilities	**17.1**	**20.4**	**142.5**	**134.3**	**114.0**	**136.9**	**157.0**	**167.5**
Long term debt	3.0	6.4	19.3	7.0	23.9	23.9	23.9	23.9
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term provisions	0.0	0.0	0.0	3.0	2.9	2.9	2.9	2.9
Other long term liabilities	0.9	4.7	10.7	5.7	8.1	8.1	8.1	8.1
Non-current liabilities	**3.9**	**11.1**	**30.0**	**15.7**	**34.9**	**34.9**	**34.9**	**34.9**
Shareholders' equity	18.1	32.8	49.2	61.0	69.2	92.4	109.3	131.0
Minority interests	0.0	0.6	5.4	2.2	2.1	3.1	3.1	3.1
Total equity	**18.1**	**33.4**	**54.6**	**63.1**	**71.2**	**95.5**	**112.4**	**134.1**
Balance sheet total	**39.1**	**64.8**	**227.0**	**213.1**	**220.1**	**267.2**	**304.3**	**336.5**
% Change	na	65.6%	250.3%	-6.1%	3.3%	21.4%	13.9%	10.6%
Book value per share (EUR)	high	1.82	2.12	1.92	1.76	2.24	2.53	3.03
% Change	na	high	16.4%	-9.6%	-8.5%	27.2%	12.9%	19.9%
Net debt	-9.3	-5.7	23.6	14.9	9.3	11.3	5.5	-9.2
Net financial debt	-9.3	-5.7	23.6	14.9	9.3	11.3	5.5	-9.2
Trade working capital	-3.7	7.6	15.7	13.1	12.6	18.1	21.2	22.8
Working capital	-4.2	6.1	23.2	24.3	23.9	36.0	42.8	46.4
Inventories/sales	9.1%	16.4%	13.5%	6.9%	6.7%	8.5%	8.1%	8.1%
Invested capital	8.1	29.4	75.2	73.1	77.6	103.9	115.0	122.0
Net fin. debt / EBITDA (x)	-3.6	-1.3	1.9	0.9	0.5	0.6	0.2	-0.3
Net fin. debt / FCF (x)	na	1.4	na	1.6	1.8	-4.2	0.9	-0.6
Gearing (%)	-51.0%	-17.0%	43.2%	23.6%	13.1%	11.9%	4.9%	-6.8%
Goodwill / Equity (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Allgeier	DE0005086300	nothing to disclose	EUR	16.46
Bechtle	DE0005158703	nothing to disclose	EUR	75.59
CANCOM	DE0005419105	nothing to disclose	EUR	35.9
GFT Technologies	DE0005800601	nothing to disclose	EUR	17.28
Itron	US4657411066	nothing to disclose	USD	36.04
PSI	DE000A0Z1JH9	nothing to disclose	EUR	12.065
S&T	AT0000A0E9W5	8	EUR	3.55

Source: Factset closing prices of 17/03/2015

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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Rating ratio Kepler Cheuvreux Q4 2014

Rating breakdown	A	B
Buy	43.0%	0.0%
Hold	32.0%	0.0%
Reduce	21.0%	0.0%
Not Rated/Under Review/Accept Offer	4.0%	0.0%
Total	100.0%	0.0%

Source: Kepler Cheuvreux
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