

S&T

Germany | IT software & services | MCAP EUR 344.2m

03 August 2016

Buy

Target Price EUR 8.00
Current Price EUR 7.91
Up/downside 1.2%
Change in TP none
Change in EPS none 2015E

Double-digit growth in half-year earnings

S&T's H1 earnings were in line with the management roadmap.

Earnings up double digit, faster than revenues

In line with management guidance, earnings grew faster than sales in first half. EBITDA is up 21% at EUR13.1m, slightly above our expectations (EUR12.8m) thanks to a clear acceleration in Q2 (+36% QoQ). Increase in EBITDA is particularly visible in the technology segment (IT security appliances and Smart Energy) but also in Services divisions where efficiency programs are stimulating profitability. Revenues are up 4% in first half with balanced performance among quarters. Guidance of EUR500m on a full year basis would suggest an acceleration of growth in second half of at least 8% HOH.

Healthy backlog allow for growth acceleration in 2017

Based on increasing backlog and pipeline of projects, especially in the high margin segments. S&T mentioned that a growth in sales of more than 15% in 2017 would be a realistic assumption. The objective reflects management optimism in the near term and exceeds our current 2017E sales forecast (+7.5% YOY). Other than that, usual guidance were reiterated, i.e sales of above EUR500m this year corresponding to a 7% growth rate, with earnings to rise even more strongly. Particular confidence resides in the security in the Internet of Things where it sees strong underlying growth allowing for the dedicated segment to grow of more than 20% in 2016 in and "in the years following that".

Baptiste de Leudeville

Equity Research Analyst

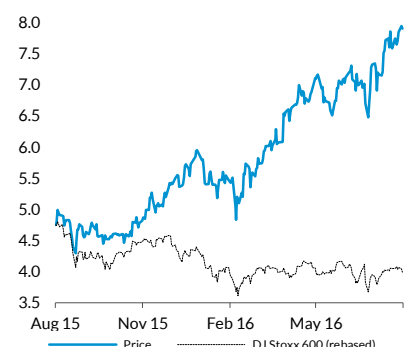
bdeleudeville@keplercheuvreux.com
 +41 22 994 1573

Market data

| Bloomberg: SANT GR | Reuters: SANT1.DE |
|-------------------------------|-------------------|
| Market cap (EURm) | 344 |
| Free float | 66% |
| No. of shares outstanding (m) | 44 |
| Avg. daily volume (EURm) | 0.8 |
| YTD abs performance | 32.9% |
| 52-week high/low (EUR) | 7.95/4.30 |

| FY to 31/12 (EUR) | 12/16E | 12/17E | 12/18E |
|-------------------------|--------|--------|--------|
| Sales (m) | 516.2 | 554.9 | 589.7 |
| EBITDA adj (m) | 35.9 | 40.5 | 45.1 |
| EBIT adj (m) | 27.4 | 31.3 | 35.4 |
| Net profit adj (m) | 21.5 | 25.8 | 30.8 |
| Net fin. debt (m) | -23.5 | -42.1 | -65.8 |
| FCF (m) | 19.0 | 24.3 | 32.0 |
| EPS adj. and fully dil. | 0.49 | 0.59 | 0.72 |
| Consensus EPS | 0.44 | 0.51 | 0.57 |
| Net dividend | 0.11 | 0.13 | 0.15 |

| FY to 31/12 (EUR) | 12/16E | 12/17E | 12/18E |
|-----------------------|--------|--------|--------|
| P/E adj and ful. dil. | 16.2 | 13.5 | 10.9 |
| EV/EBITDA | 9.0 | 7.5 | 6.2 |
| EV/EBIT | 11.8 | 9.7 | 7.9 |
| FCF yield | 5.5% | 7.1% | 9.3% |
| Dividend yield | 1.4% | 1.6% | 1.8% |
| Net fin.debt/EBITDA | -0.7 | -1.0 | -1.5 |
| Gearing | -19.2% | -28.9% | -37.9% |
| ROIC | 22.2% | 24.0% | 25.8% |
| EV/IC | 3.4 | 3.0 | 2.7 |



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.

Key financials

| FY to 31/12 (EUR) | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|--|-------|--------|-------|-------|-------|--------|--------|--------|
| Per share data | | | | | | | | |
| EPS adjusted | 0.29 | 0.26 | 0.30 | 0.32 | 0.41 | 0.49 | 0.59 | 0.71 |
| EPS adj and fully diluted | 0.29 | 0.26 | 0.30 | 0.31 | 0.40 | 0.49 | 0.59 | 0.72 |
| % Change | 54.6% | -11.8% | 17.0% | 4.4% | 27.7% | 21.9% | 19.8% | 23.3% |
| EPS reported | 0.29 | 0.26 | 0.30 | 0.32 | 0.36 | 0.49 | 0.59 | 0.71 |
| Cash flow per share | 0.06 | 0.43 | 0.28 | 0.50 | 0.61 | 0.67 | 0.80 | 0.98 |
| Book value per share | 2.09 | 2.16 | 1.76 | 2.12 | 2.29 | 2.75 | 3.30 | 3.94 |
| Dividend per share | 0.00 | 0.00 | 0.06 | 0.07 | 0.08 | 0.11 | 0.13 | 0.15 |
| Number of shares, YE (m) | 23.54 | 28.28 | 39.20 | 41.00 | 43.51 | 43.51 | 43.51 | 43.51 |
| Valuation | | | | | | | | |
| P/E adjusted | 8.2 | 8.9 | 7.9 | 9.0 | 19.5 | 16.0 | 13.4 | 11.2 |
| P/E adjusted and fully diluted | 8.2 | 8.9 | 7.9 | 9.1 | 19.7 | 16.2 | 13.5 | 10.9 |
| P/BV | 1.1 | 1.1 | 1.4 | 1.3 | 3.4 | 2.9 | 2.4 | 2.0 |
| P/CF | 39.5 | 5.3 | 8.4 | 5.7 | 12.9 | 11.8 | 9.9 | 8.1 |
| Dividend yield (%) | 0.0% | 0.0% | 2.5% | 2.5% | 1.0% | 1.4% | 1.6% | 1.8% |
| FCF yield (%) | -2.5% | 14.0% | 5.7% | 12.6% | 5.0% | 5.5% | 7.1% | 9.3% |
| EV/Sales | 0.6 | 0.2 | 0.3 | 0.3 | 0.7 | 0.6 | 0.5 | 0.5 |
| EV/EBITDA | 7.0 | 5.0 | 5.2 | 5.3 | 11.9 | 9.0 | 7.5 | 6.2 |
| EV/EBIT | 9.0 | 7.4 | 7.3 | 7.3 | 16.4 | 11.8 | 9.7 | 7.9 |
| Income Statement (EURm) | | | | | | | | |
| Sales | 153.2 | 339.5 | 338.0 | 385.5 | 468.2 | 516.2 | 554.9 | 589.7 |
| % Change | 89.8% | 121.6% | -0.4% | 14.1% | 21.5% | 10.3% | 7.5% | 6.3% |
| EBITDA adjusted | 12.2 | 16.6 | 20.1 | 22.8 | 28.4 | 35.9 | 40.5 | 45.1 |
| EBITDA margin (%) | 8.0% | 4.9% | 6.0% | 5.9% | 6.1% | 7.0% | 7.3% | 7.7% |
| EBIT adjusted | 9.5 | 11.1 | 14.4 | 16.6 | 20.6 | 27.4 | 31.3 | 35.4 |
| EBIT margin (%) | 6.2% | 3.3% | 4.2% | 4.3% | 4.4% | 5.3% | 5.6% | 6.0% |
| Net financial items & associates | -1.0 | -1.4 | -2.2 | -1.8 | -2.2 | -2.6 | -2.0 | -1.2 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Tax | -0.3 | -0.3 | -0.1 | -0.8 | -0.8 | -1.7 | -2.1 | -3.4 |
| Net profit from continuing operations | 8.1 | 9.4 | 12.0 | 14.0 | 17.6 | 23.0 | 27.3 | 31.8 |
| Net profit from discontinuing activities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Net profit before minorities | 8.1 | 9.4 | 12.0 | 14.0 | 17.6 | 23.0 | 27.3 | 32.8 |
| Net profit reported | 6.9 | 7.3 | 11.8 | 12.9 | 15.8 | 21.5 | 25.8 | 30.8 |
| Net profit adjusted | 6.9 | 7.3 | 11.8 | 12.9 | 17.6 | 21.5 | 25.8 | 30.8 |
| Cash Flow Statement (EURm) | | | | | | | | |
| Cash flow from operating activities | 1.4 | 12.3 | 11.2 | 20.5 | 26.7 | 29.3 | 34.8 | 42.6 |
| Capex | -2.8 | -3.2 | -5.8 | -5.8 | -9.5 | -10.3 | -10.5 | -10.6 |
| Free cash flow | -1.4 | 9.1 | 5.4 | 14.8 | 17.2 | 19.0 | 24.3 | 32.0 |
| Acquisitions & Divestments | -11.6 | 0.4 | 5.5 | -2.9 | -0.2 | 0.0 | 0.0 | 0.0 |
| Dividend paid | -0.1 | -0.3 | -0.3 | -3.8 | -4.1 | -4.7 | -5.7 | -6.3 |
| Others | 1.4 | 0.0 | -3.1 | 7.7 | -2.7 | 0.0 | 0.0 | 0.0 |
| Change in net financial debt | -11.6 | 9.3 | 7.4 | 15.8 | 10.1 | 14.2 | 18.6 | 25.7 |
| Balance Sheet (EURm) | | | | | | | | |
| Intangible assets | 40.9 | 38.8 | 44.8 | 57.1 | 72.8 | 73.7 | 74.4 | 74.8 |
| Tangible assets | 11.1 | 9.9 | 9.0 | 11.4 | 15.2 | 16.1 | 16.7 | 17.2 |
| Financial & other non-current assets | 13.6 | 13.7 | 13.9 | 17.4 | 19.0 | 19.0 | 19.0 | 19.0 |
| Total shareholders' equity | 54.6 | 63.1 | 71.2 | 89.7 | 102.2 | 122.3 | 145.9 | 173.8 |
| Pension provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities and provisions | 172.5 | 150.0 | 148.9 | 183.3 | 208.9 | 215.1 | 220.8 | 226.0 |
| Net debt | 23.6 | 14.9 | 9.3 | 1.6 | -9.3 | -23.5 | -42.1 | -65.8 |
| Working capital requirement | 23.2 | 24.3 | 23.9 | 22.3 | 1.6 | 5.5 | 9.2 | 12.5 |
| Invested Capital | 75.2 | 73.1 | 77.6 | 90.8 | 89.5 | 95.3 | 100.3 | 105.5 |
| Ratios | | | | | | | | |
| ROE (%) | 16.7% | 13.2% | 18.1% | 16.6% | 18.9% | 19.6% | 19.6% | 19.6% |
| ROIC (%) | 13.6% | 11.3% | 14.3% | 14.8% | 17.2% | 22.2% | 24.0% | 25.8% |
| Net fin. debt / EBITDA (x) | 1.9 | 0.9 | 0.5 | 0.1 | -0.3 | -0.7 | -1.0 | -1.5 |
| Gearing (%) | 43.2% | 23.6% | 13.1% | 1.7% | -9.1% | -19.2% | -28.9% | -37.9% |

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

Disclosure checklist - Potential conflict of interests

| Stock | ISIN | Disclosure (See Below) | Currency | Price |
|-------|--------------|------------------------|----------|-------|
| S&T | AT0000A0E9W5 | 8 | EUR | 7.91 |

Source: Factset closing prices of 02/08/2016

Companies mentioned

| Stock | Disclosure (See Below) |
|-------|------------------------|
| | nothing to disclose |

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Name of the Research Analyst(s) : Baptiste de Leudeville

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Kepler Cheuvreux rating distribution – Q2 2016

| Rating breakdown | A | B |
|-------------------------------------|--------|--------|
| Buy | 50.9% | 53.7% |
| Hold | 34.8% | 32.6% |
| Reduce | 12.1% | 8.4% |
| Not Rated/Under Review/Accept Offer | 2.2% | 5.3% |
| Total | 100.0% | 100.0% |

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

12 months rating history

The below table shows the history of recommendations and target prices changes issued by Kepler Cheuvreux research department (Equity and Credit) over a 12 months period.

| Company Name | Date | Business Line | Rating | Target Price | Closing Price |
|--------------|-----------------|-----------------|--------|--------------|---------------|
| S&T (EUR) | 12/23/2015 9:45 | Equity Research | Buy | 6.70 | 5.54 |
| | 2/29/2016 9:25 | Equity Research | Buy | 7.00 | 5.59 |
| | 3/31/2016 7:42 | Equity Research | Buy | 8.40 | 6.54 |
| | 7/6/2016 8:33 | Equity Research | Buy | 8.00 | 7.26 |

Credit research does not issue target prices. Left intentionally blank.

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Equity research

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Buy: The minimum expected upside is 10% over next 12 months (the minimum required upside could be higher in light of the company's risk profile).

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Reduce: There is an expected downside.

Accept offer: In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offer price is considered to be fairly valuing the shares.

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Credit research

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|--|---|--------------|
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Amsterdam

Kepler Cheuvreux Benelux
Johannes Vermeerstraat 9
1071 DK Amsterdam
+31 20 573 06 66

Frankfurt

Kepler Cheuvreux Germany
Tausananlage 18
60325 Frankfurt
+49 69 756960

Geneva

Kepler Cheuvreux SA
Route de Crassier 11
1262 - Eysins
Switzerland
+41 22361 5151

London

Kepler Cheuvreux UK
5th Floor
95 Gresham Street
London EC2V 7NA
+44 20 7621 5100

Madrid

Kepler Cheuvreux Espana
Alcala 95
28009 Madrid
+3491 4365100

Milan

Kepler Cheuvreux Italia
Via C. Cornaggia 10
20123 Milano
+39 02 855 07 1

Paris

Kepler Cheuvreux France
112 Avenue Kleber
75016 Paris
+33 1 53653500

Stockholm

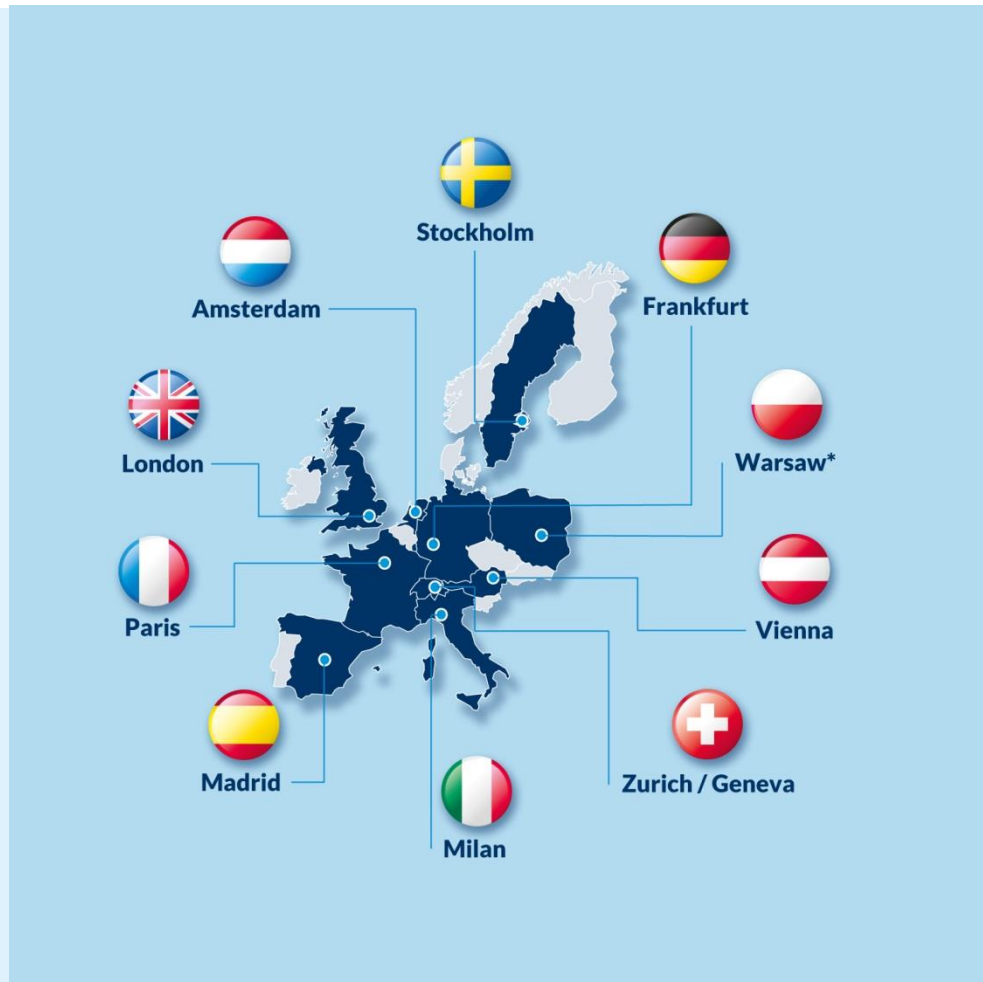
Kepler Cheuvreux Nordic
Regeringsgatan 38
10393 Stockholm
+468 723 5100

Vienna

Kepler Cheuvreux Vienna
Schottenring 16/2
Vienna 1010
+43 1 537 124 147

Zurich

Kepler Cheuvreux Switzerland
Stadelhoferstrasse 22
Postfach
8024 Zurich
+41 433336666



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North America

Boston

Kepler Capital Markets, Inc
225 Franklin Street, Floor 26
Boston, MA 02110
+1 617-217-2615

San Francisco

Kepler Capital Markets, Inc
50 California Street, Suite 1500
San Francisco, CA 94111
+1 415- 439-5253

New York

Kepler Capital Markets, Inc.
600 Lexington Avenue, Floor 28
10022 New York, NY USA
+1 212-710-7600