

S&T

Germany | IT software & services | MCAP EUR 355.3m

04 August 2016

Buy

Target Price EUR 9.30 (8.00)
Current Price EUR 8.16
Up/downside 13.9%
Change in TP 16.3%
Change in EPS -9.4% 2016E

Raising TP after including stronger growth next year

Following yesterday's H1 earnings, we raise our TP from EUR8.0 to EUR9.30. Although we lower our estimates for 2016E, we increase those for 2017-18E in light of growing confidence in S&T's ability to accelerate revenue growth in technology segments faster than we had thought before.

New vs. old estimates

	2016E new	2016E old	2017E new	2017E old	2018E new	2018E old
Revenue	501.2	516.2	561.7	554.9	612.5	589.7
Growth	7.0%	10.3%	12.1%	7.5%	9.0%	6.3%
EBITDA	33.7	35.9	41.1	40.5	48.3	45.1
Growth	18.7%	26.6%	22.2%	12.8%	17.4%	11.4%
Margin	6.7%	7.0%	7.3%	7.3%	7.9%	7.7%
EPS	0.44	0.49	0.58	0.59	0.71	0.65
Growth	23.1%	36.1%	30.9%	20.4%	23.0%	10.2%

Source: Kepler Cheuvreux

Lowering estimates for 2016E, increasing 2017-18E forecasts

In the wake of interim results, we assume S&T will meet its full-year guidance, but it is unlikely to outperform (i.e. EUR500m in revenues along with a margin increase). In fact, we factor in stronger revenue growth in 2017E and 2018E given fresh management guidance of 15% growth in revenues in 2017E, which reflects high confidence in the technology segments where the group took steps in a variety of IoT niches in the industry (aircraft, robots, smart energy grids, etc.) to secure and network operations. Based on a healthy backlog and pipeline of projects (+10% and +24%, respectively, YTD), S&T mentioned it was targeting 30% revenue growth in technology segments (IT Security Appliances, Smart Energy). We move our forecasts towards these objectives without matching it completely (+12% revenue growth YOY in 2017E), as we view the guidance as already quite ambitious.

Increasing TP

Based on renewed assumptions, an update of our DCF model leads to a 16% change in our TP, from EUR8.0 previously to EUR9.30. A WACC assumptions and our DCF are presented on the next page.

Baptiste de Leudeville

Equity Research Analyst

bdeleudeville@keplercheuvreux.com

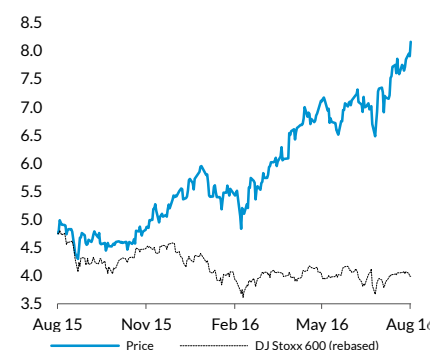
+41 22 994 1573

Market data

	Bloomberg: SANT GR	Reuters: SANT1.DE
Market cap (EURm)		355
Free float		66%
No. of shares outstanding (m)		44
Avg. daily volume (EURm)		0.8
YTD abs performance		37.2%
52-week high/low (EUR)		8.17/4.30

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	501.2	561.7	612.5
EBITDA adj (m)	33.7	41.1	48.3
EBIT adj (m)	25.4	31.9	38.2
Net profit adj (m)	19.5	25.5	32.4
Net fin. debt (m)	-20.7	-36.2	-58.7
FCF (m)	15.7	21.0	30.4
EPS adj. and fully dil.	0.44	0.58	0.76
Consensus EPS	0.43	0.53	0.58
Net dividend	0.10	0.13	0.16

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	18.4	14.1	10.8
EV/EBITDA	10.0	7.9	6.3
EV/EBIT	13.3	10.2	7.9
FCF yield	4.4%	5.9%	8.6%
Dividend yield	1.2%	1.6%	1.9%
Net fin. debt/EBITDA	-0.6	-0.9	-1.2
Gearing	-17.4%	-25.7%	-35.1%
ROIC	24.6%	28.8%	32.3%
EV/IC	3.5	3.1	2.8



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.

DCF update

Table 1: WACC Summary

Pretax cost of debt	4.0%
Marginal tax rate	15.0%
After tax cost of debt	3.4%
Risk-free rate (Rf)	2.0%
Market Return (Rm)	8.0%
Market premium (Rm-Rf)	6.0%
Beta	1.50
Cost of Equity	11.0%
Debt (% of EV)	14%
Equity (% of EV)	86%
WACC	10.0%
Terminal growth	1.0%

Source: Kepler Cheuvreux

Table 2: DCF Summary

EURm	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2025+
Sales	501.2	561.7	612.5	659.6	698.7	721.6	744.2	766.6	789.6	813.2	821.4
Growth	21.5%	12.1%	9.0%	7.7%	5.9%	3.3%	3.1%	3.0%	3.0%	3.0%	1.0%
EBITDA	33.7	41.1	48.3	55.5	61.3	63.4	65.5	67.4	69.5	71.5	72.3
EBITDA margin	6.1%	6.7%	7.3%	7.9%	8.4%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
EBIT	25.4	31.9	38.2	44.6	49.8	51.5	53.2	54.8	56.4	58.1	57.5
margin	4.4%	5.1%	5.7%	6.2%	6.8%	7.1%	7.1%	7.1%	7.1%	7.1%	7.0%
NOPAT	23.6	29.6	35.5	40.1	44.8	46.4	47.9	49.3	50.8	52.3	48.9
add back D&A	8.3	9.3	10.1	10.9	11.5	11.9	12.3	12.7	13.0	13.4	13.6
% of sales	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%
Change in WC	-2.6	-4.3	-3.2	-2.6	-1.7	-1.9	-1.9	-1.9	-2.0	-2.0	-0.7
Capital expenditures	-11.3	-11.2	-10.7	-11.5	-11.9	-12.3	-12.7	-13.0	-13.4	-13.8	-14.0
% of sales	2.3%	2.0%	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Free cash-flow	18.1	23.3	31.7	36.9	42.8	44.1	45.6	47.0	48.4	49.9	47.8
% of sales	3.6%	4.2%	5.2%	5.6%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	5.8%
Discounted FCF	17.2	20.2	25.0	26.4	27.8	26.1	24.5	23.0	21.5	20.2	
Sum of discounted FCF	232.0										
Terminal Value	214.6										
Value of operations	446.7										
Cash	34.0										
Debt	57.1										
Minorities	16.5										
Equity Value	407.1										
Equity value per share (€)	9.3										

Source: Kepler Cheuvreux

Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Per share data								
EPS adjusted	0.29	0.26	0.30	0.32	0.41	0.45	0.59	0.74
EPS adj and fully diluted	0.29	0.26	0.30	0.31	0.40	0.44	0.58	0.76
% Change	54.6%	-11.8%	17.0%	4.4%	27.7%	10.5%	30.9%	30.8%
EPS reported	0.29	0.26	0.30	0.32	0.36	0.45	0.59	0.74
Cash flow per share	0.06	0.43	0.28	0.50	0.61	0.62	0.74	0.95
Book value per share	2.09	2.16	1.76	2.12	2.29	2.68	3.18	3.79
Dividend per share	0.00	0.00	0.06	0.07	0.08	0.10	0.13	0.16
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	11.0	18.2	13.9	11.0
P/E adjusted and fully diluted	8.2	8.9	7.9	9.1	11.1	18.4	14.1	10.8
P/BV	1.1	1.1	1.4	1.3	1.9	3.0	2.6	2.2
P/CF	39.5	5.3	8.4	5.7	7.3	13.1	11.0	8.6
Dividend yield (%)	0.0%	0.0%	2.5%	2.5%	1.8%	1.2%	1.6%	1.9%
FCF yield (%)	-2.5%	14.0%	5.7%	12.6%	8.9%	4.4%	5.9%	8.6%
EV/Sales	0.6	0.2	0.3	0.3	0.4	0.7	0.6	0.5
EV/EBITDA	7.0	5.0	5.2	5.3	6.6	10.0	7.9	6.3
EV/EBIT	9.0	7.4	7.3	7.3	9.1	13.3	10.2	7.9
Income Statement (EURm)								
Sales	153.2	339.5	338.0	385.5	468.2	501.2	561.7	612.5
% Change	89.8%	121.6%	-0.4%	14.1%	21.5%	7.0%	12.1%	9.0%
EBITDA adjusted	12.2	16.6	20.1	22.8	28.4	33.7	41.1	48.3
EBITDA margin (%)	8.0%	4.9%	6.0%	5.9%	6.1%	6.7%	7.3%	7.9%
EBIT adjusted	9.5	11.1	14.4	16.6	20.6	25.4	31.9	38.2
EBIT margin (%)	6.2%	3.3%	4.2%	4.3%	4.4%	5.1%	5.7%	6.2%
Net financial items & associates	-1.0	-1.4	-2.2	-1.8	-2.2	-2.5	-2.5	-2.5
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-0.3	-0.3	-0.1	-0.8	-0.8	-1.6	-2.1	-2.5
Net profit from continuing operations	8.1	9.4	12.0	14.0	17.6	21.3	27.3	33.2
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	21.3	27.3	34.2
Net profit reported	6.9	7.3	11.8	12.9	15.8	19.5	25.5	32.4
Net profit adjusted	6.9	7.3	11.8	12.9	17.6	19.5	25.5	32.4
Cash Flow Statement (EURm)								
Cash flow from operating activities	1.4	12.3	11.2	20.5	26.7	27.0	32.3	41.1
Capex	-2.8	-3.2	-5.8	-5.8	-9.5	-11.3	-11.2	-10.7
Free cash flow	-1.4	9.1	5.4	14.8	17.2	15.7	21.0	30.4
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	-4.3	-5.6	-6.9
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	11.5	15.4	23.5
Balance Sheet (EURm)								
Intangible assets	40.9	38.8	44.8	57.1	72.8	75.3	77.3	78.6
Tangible assets	11.1	9.9	9.0	11.4	15.2	16.7	17.6	17.9
Financial & other non-current assets	13.6	13.7	13.9	17.4	33.1	33.1	33.1	33.1
Total shareholders' equity	54.6	63.1	71.2	89.7	102.2	119.3	141.0	167.3
Pension provisions	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Liabilities and provisions	172.5	150.0	148.9	183.3	216.8	220.8	227.6	232.5
Net debt	23.6	14.9	9.3	1.6	-9.3	-19.7	-34.2	-55.7
Working capital requirement	23.2	24.3	23.9	22.3	1.6	4.1	8.5	11.6
Invested Capital	75.2	73.1	77.6	90.8	89.5	96.0	103.3	109.1
Ratios								
ROE (%)	16.7%	13.2%	18.1%	16.6%	18.9%	18.0%	20.0%	21.3%
ROIC (%)	16.3%	13.5%	17.1%	17.7%	20.6%	24.6%	28.8%	32.3%
Net fin. debt / EBITDA (x)	1.9	0.9	0.5	0.1	-0.3	-0.6	-0.9	-1.2
Gearing (%)	43.2%	23.6%	13.1%	1.7%	-9.1%	-17.4%	-25.7%	-35.1%

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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	8.17

Source: Factset closing prices of 03/08/2016

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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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

Rating system (issuer or instrument level)

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Hold: The analyst has a stable credit fundamental opinion on the issuer and/or performances of the debt securities over a 6 months period.

Sell: The analyst expects of a widening of the credit spread to some or all debt securities of the issuer and/or a negative fundamental view over a 6 months period.

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Valuation methodology and risks

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Amsterdam

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

Frankfurt

Kepler Cheuvreux Germany
Taususanlage 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

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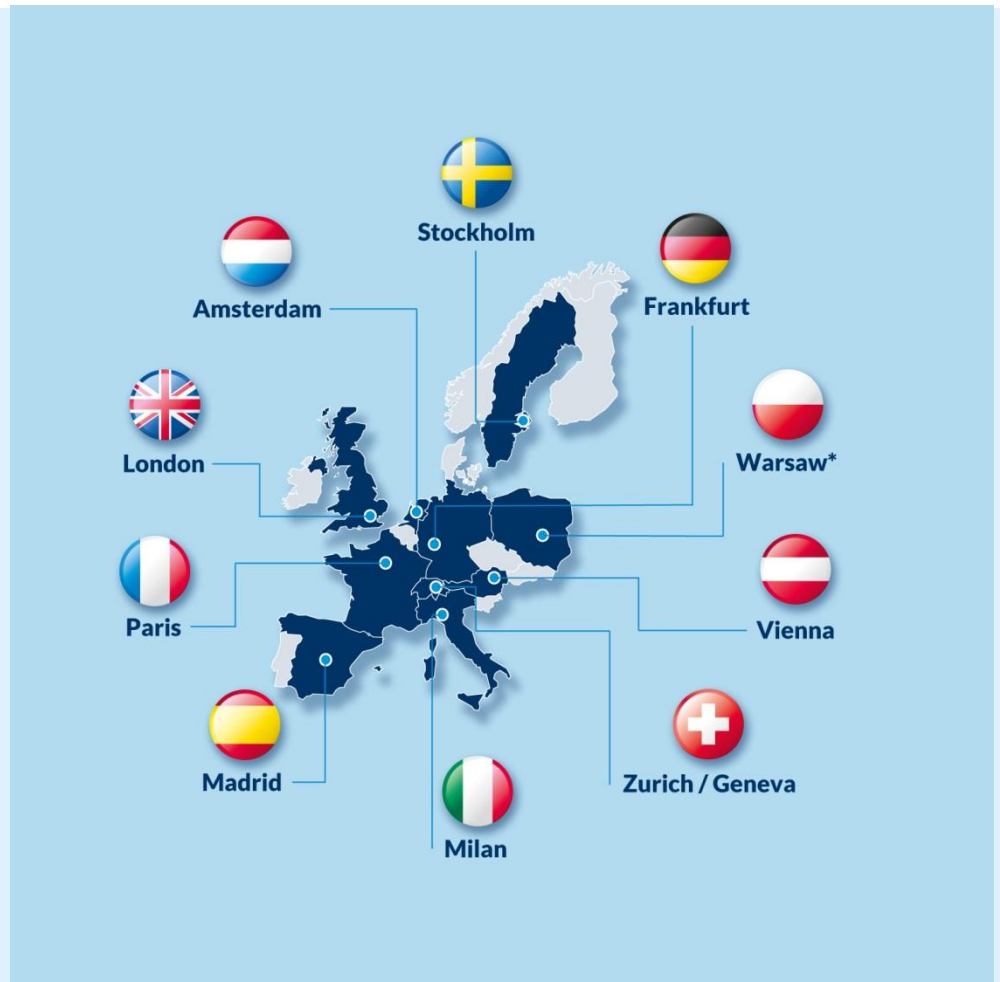
Kepler Cheuvreux Nordic
Regeringsgatan 38
10393 Stockholm
+468 723 5100

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