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Research comment

SMC Research

Small and Mid Cap Research



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STS Group AG

Strong increase in sales and earnings in the first quarter

Rating: Buy (unchanged) | **Price:** 5.70 € | **Price target:** 16.00 € (unchanged)

Analyst: Dipl.-Kfm. Holger Steffen
sc-consult GmbH, Alter Steinweg 46, 48143 Münster

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Phone: +49 (0) 251-13476-93
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com
Internet: www.sc-consult.com

Current business development



Basic data

Based in:	Hagen
Sector:	Automotive supplier
Headcount:	1,422
Accounting:	IFRS
Ticker:	SF3:GR
ISIN:	DE000A1TNU68
Price:	5.70 Euro
Market segment:	General Standard
Number of shares:	6.5 m
Market Cap:	37.1 m Euro
Enterprise Value:	52.5 m Euro
Free Float:	25,6 %
Price high/low (12 M):	6.30 / 3.52 Euro
Øturnover (12 M Xetra):	11,200 Euro

FY ends: 31.12.	2022	2023e	2024e
Sales (m Euro)	235.1	256.1	278.6
EBITDA (m Euro)	9.6	16.0	20.2
Net profit	-9.9	-1.9	2.2
EpS	-1.53	-0.28	0.34
Dividend per share	0.00	0.00	0.00
Sales growth	-2.9%	8.9%	8.8%
Profit growth	-	-	-
PSR	0.16	0.14	0.13
PER	-	-	16.6
PCR	5.7	2.8	3.0
EV / EBITDA	5.5	3.3	2.6
Dividend yield	0.0%	0.0%	0.0%

Significant improvements

STS Group increased its sales in the first quarter by 24.9 percent to EUR 74 m compared to the previous year. Contributing factors were both further growth in Europe thanks to a continued recovery of the truck market and a trend reversal in China, where the commercial vehicle market had slumped sharply in 2022 following the expiry of a special stimulus. STS was able to translate the growth into a significant improvement in EBITDA from EUR 0.4 m to EUR 3.0 m, which in the first three months had already exceeded the figure for the entire first half of 2022, although this had been very weak. With the operating profit jump, the EBITDA margin recovered from 1.1 to 4.1 percent. It is satisfactory that the China business, after a small deficit in the full year 2022, has now already made a positive contribution to earnings again. In addition, the efficiency improvement measures introduced last year had a positive impact in all regions. Following the successful start to the year, management has reaffirmed its forecast for 2023, which envisages a slight increase in sales and a significant improvement in adjusted EBITDA (no special effects are expected and adjusted EBITDA is expected to correspond to the reported figure).

Price target remains EUR 16.00

We expect the trend towards improved results to continue in the coming quarters. This should be helped on the one hand by the continued passing on of higher input costs to customers and on the other hand by a further market recovery in China. In response to the quarterly figures, we have increased our assumed revenue growth for 2023 from the previous 4.8 percent to 8.9 percent, but at the same time lowered the EBITDA margin from 6.5 to 6.3 percent. We therefore continue to expect EBITDA of EUR 16.0 m. For the following years, at unchanged growth rates, this results in a higher sales projection, the earnings impact of which we have levelled out by lower margin assumptions. Our assessment of operating profit growth in the coming years is thus unchanged; we continue

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	256.1	278.6	303.0	315.0	330.3	342.9	354.1	365.8
Sales growth		8.8%	8.8%	4.0%	4.9%	3.8%	3.3%	3.3%
EBITDA	16.0	20.2	24.8	26.7	28.3	29.7	30.7	31.7
EBIT	0.9	5.6	10.5	13.0	15.2	17.0	18.2	19.3
Tax rate	0.0%	0.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Adjusted tax payments	0.0	0.0	3.1	3.8	4.4	4.9	5.3	5.6
NOPAT	0.9	5.6	7.5	9.3	10.8	12.1	12.9	13.7
+ Depreciation & Amortisation	15.1	14.6	14.3	13.6	13.1	12.7	12.5	12.4
+ Increase long-term accruals	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	16.3	20.5	22.0	23.2	24.2	25.1	25.7	26.4
- Increase Net Working Capital	-3.3	-7.8	-5.5	-4.4	-4.0	-3.4	-3.5	-3.7
- Investments in fixed assets	-12.5	-13.4	-11.4	-11.1	-11.5	-11.9	-12.2	-12.5
Free cash flow	0.4	-0.8	5.2	7.7	8.7	9.8	10.0	10.2

SMC estimation model

to expect EBITDA to rise to almost EUR 32 m by the end of the detailed forecast period. The table above shows the development of the key cash flow data resulting from these assumptions in the detailed forecast period. An overview of the estimated development of the balance sheet, income statement and cash flow is also provided in the Annex. In conjunction with an unchanged discount rate of 6.7 percent, our estimates result in a likewise unchanged target price of EUR 16.00 (a sensitivity analysis for the determination of the target price can be found in the Annex). We continue to rate the forecast risk as slightly above average at 4 points on a scale of 1 (low) to 6 (high).

Conclusion

STS achieved a successful start in the first quarter. Revenue for the first three months increased by 24.9 percent to EUR 74 m, which enabled a significant improvement in EBITDA from EUR 0.4 to EUR 3.0 m. The company was able to grow in all sales regions and

benefited both from the efficiency improvement measures implemented last year and from a recovery in the Chinese market. For the full year, management continues to expect slight revenue growth and a significant increase in adjusted EBITDA.

We have raised our sales estimates after the publication of the figures but lowered our margin expectations somewhat in return. The continued recovery of the China business and the passing on of higher input costs should support the earnings development in the coming quarters, so we still expect EBITDA to rise to EUR 16 m in 2023. Against this background, STS is very favourably valued with a current enterprise value of EUR 54 m. We continue to see the price target at EUR 16.00, well above the current price level, and confirm our “Buy” rating.

Annex I: SWOT analysis

Strengths

- STS has established itself as a global tier-one truck supplier for plastic parts.
- The company has expertise and flexibility in the application of a wide range of manufacturing techniques (SMC, thermocompression and injection moulding), materials and batch sizes and is increasingly becoming a system supplier.
- Successful international expansion with strong growth in China and the acquisition of a major order from the USA.
- Proved competence in acquisition and integration of companies as well as in the implementation of efficiency enhancement measures.
- With Adler Pelzer, the company has a strong parent company.

Opportunities

- With the new major shareholder at its side, STS's chances for further market share gains in China and a successful market entry in the USA have increased significantly.
- The construction of new plants in the USA and possibly also in China creates high growth potential in the medium term.
- Electromobility and new emission regulations (Europe, China) act as growth drivers.
- Adler Pelzer could transfer its hard-trim activities to STS; further acquisitions to strengthen its market position are conceivable.
- If STS establishes a growth path with rising margins, the share could be revalued.

Weaknesses

- Following a significant decline in revenue in China, STS is currently still operating at a loss at the net result level.
- The Materials division has been suffering from low profitability for some time.
- Due to the long lead time from order placement to revenue generation, sales initiatives only show up in group revenue with a significant delay.
- Structural growth dynamics in the still important European commercial vehicle market are low.
- In the wake of the takeover by Adler Pelzer, the liquidity of the share has decreased.

Threats

- The speed of the market recovery in China is still difficult to assess. It will probably take longer to reach the level of the years before 2022.
- If the global economy continues to deteriorate, this could dampen investment in heavy-duty vehicles.
- The costs of building the new plants in the USA and China could exceed the budget.
- Adler Pelzer could decide to delist the share.
- International trade conflicts (especially with China) could make business development more difficult.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current	83.2	80.6	79.5	76.6	74.1	72.6	71.7	71.5	71.6
1. Intangible assets	18.7	17.9	17.3	16.7	16.3	15.9	15.6	15.3	15.1
2. Tangible assets	60.2	58.4	57.9	55.6	53.6	52.4	51.9	51.9	52.2
II. Total current assets	128.4	135.6	142.6	150.9	159.4	168.1	177.2	189.1	202.9
LIABILITIES									
I. Equity	49.5	47.4	49.6	54.8	61.8	70.4	80.4	91.6	103.8
II. Accruals	11.2	11.5	11.8	12.1	12.4	12.7	13.0	13.3	13.6
III. Liabilities									
1. Long-term liabilities	46.9	59.9	60.1	58.7	56.8	54.5	52.1	50.6	49.6
2. Short-term liabilities	104.0	97.4	100.5	101.8	102.5	103.0	103.4	105.0	107.4
TOTAL	211.6	216.2	222.1	227.5	233.5	240.6	248.9	260.6	274.5

P&L estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	235.1	256.1	278.6	303.0	315.0	330.3	342.9	354.1	365.8
Total operating revenue	242.3	262.6	281.6	303.0	315.0	330.3	342.9	354.1	365.8
Gross profit	91.6	103.3	112.4	124.2	129.4	135.7	140.8	145.5	150.2
EBITDA	9.6	16.0	20.2	24.8	26.7	28.3	29.7	30.7	31.7
EBIT	-6.6	0.9	5.6	10.5	13.0	15.2	17.0	18.2	19.3
EBT	-9.1	-1.9	2.8	7.4	9.8	12.1	14.2	15.8	17.2
EAT (before minorities)	-9.9	-1.9	2.2	5.2	7.0	8.6	10.1	11.2	12.2
EAT	-9.9	-1.9	2.2	5.2	7.0	8.6	10.1	11.2	12.2
EPS	-1.53	-0.28	0.34	0.81	1.07	1.32	1.55	1.72	1.88

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
CF operating	6.5	13.1	12.3	17.7	20.0	21.6	22.9	23.4	24.0
CF from investments	-8.7	-12.5	-13.4	-11.4	-11.1	-11.5	-11.9	-12.2	-12.5
CF financing	-0.2	-3.1	-2.4	-6.5	-8.0	-8.6	-8.8	-6.3	-5.0
Liquidity beginning of year	28.3	25.6	23.0	19.4	19.2	20.2	21.6	23.9	28.8
Liquidity end of year	25.6	23.0	19.4	19.2	20.2	21.6	23.9	28.8	35.2

Key figures

percent	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	-2.9%	8.9%	8.8%	8.8%	4.0%	4.9%	3.8%	3.3%	3.3%
Gross margin	39.0%	40.4%	40.3%	41.0%	41.1%	41.1%	41.1%	41.1%	41.1%
EBITDA margin	4.1%	6.3%	7.2%	8.2%	8.5%	8.6%	8.7%	8.7%	8.7%
EBIT margin	-2.8%	0.3%	2.0%	3.5%	4.1%	4.6%	5.0%	5.1%	5.3%
EBT margin	-3.9%	-0.7%	1.0%	2.4%	3.1%	3.7%	4.1%	4.5%	4.7%
Net margin (after minorities)	-4.2%	-0.7%	0.8%	1.7%	2.2%	2.6%	2.9%	3.2%	3.3%

Annex IV: Sensitivity analysis

WACC	Perpetual cash flow growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
5.7%	27.62	24.27	21.63	19.50	17.74
6.2%	23.25	20.70	18.64	16.95	15.53
6.7%	19.80	17.82	16.19	14.82	13.65
7.2%	17.03	15.46	14.13	13.01	12.04
7.7%	14.75	13.47	12.39	11.46	10.64

Disclaimer

Editor

sc-consult GmbH
Alter Steinweg 46
48143 Münster
Internet: www.sc-consult.com

Phone: +49 (0) 251-13476-94
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com

Responsible analyst

Dipl.-Kfm. Holger Steffen

Charts

The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 30.05.2023 at 9:45 and published on 30.05.2023 at 10:15.

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07.12.2022	Buy	12.60 Euro	1), 3), 4), 10)
17.08.2022	Hold	11.80 Euro	1), 3), 10)
02.06.2022	Speculative Buy	12.90 Euro	1), 3), 10)
19.04.2022	Speculative Buy	10.90 Euro	1), 3), 10)

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