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Research comment

SMC Research
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# STS Group AG

## On track towards full-year targets with strong Q1 figures

**Rating:** Buy (unchanged) | **Price:** 5.85 € | **Price target:** 20.80 € (prev.: 20,30 €)

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# Current business development


## Basic data

| | |
|---|---|
| **Based in:** | Hagen |
| **Sector:** | Automotive supplier |
| **Headcount:** | 1,392 |
| **Accounting:** | IFRS |
| **Ticker:** | SF3:GR |
| **ISIN:** | DE000A1TNU68 |
| **Price:** | 5.85 Euro |
| **Market segment:** | General Standard |
| **Number of shares:** | 6.5 m |
| **Market Cap:** | 38.0 m Euro |
| **Enterprise Value:** | 72.3 m Euro |
| **Free Float:** | 25.6 % |
| **Price high/low (12 M):** | 7.25 / 4.20 Euro |
| **Øturnover (12 M Xetra):** | 13,200 Euro |

| FY ends: 31.12. | 2023 | 2024e | 2025e |
|---|---|---|---|
| Sales (m Euro) | 277.9 | 294.4* | 315.8* |
| EBITDA (m Euro) | 20.5 | 26.0 | 28.4 |
| Net profit | -1.2 | 3.0 | 5.6 |
| EpS | -0.18 | 0.46 | 0.86 |
| Dividend per share | 0.04 | 0.04 | 0.04 |
| Sales growth | 18.2% | 5.9%* | 7.2%* |
| Profit growth | - | - | 88.1% |
| PSR | 0.14 | 0.13 | 0.12 |
| PER | - | 12.8 | 6.8 |
| PCR | 1.2 | 3.1 | 1.9 |
| EV / EBITDA | 3.5 | 2.8 | 2.5 |
| Dividend yield | 0.7% | 0.7% | 0.7% |

**without tools sales USA*

## Around 10 percent growth in Q1

After significant growth in the most important regions in 2023, the truck market is developing unevenly in the current year, as expected. In the first three months, sales in the EU and the USA fell by around 4 percent each. In contrast, the upward trend in China continued with a strong growth rate of 9 percent. The STS Group has a strong position in China with three plants and is thus participating in the positive market development, which has led to a 6.1 percent growth in the corresponding segment revenue in the first three months. The other two segments grew even more strongly, with the growth rate in the Plastics segment amounting to 8.7 percent. The growth in the third segment, Materials, which is not explicitly mentioned, must have been disproportionately high, as consolidated group sales increased by 9.4 percent to EUR 80.9 m in the first three months. STS benefited in particular from higher tool sales, although these were not quantified precisely either.

## EBITDA increases by more than 80 %

STS was able to translate this strong growth into a disproportionately high rise in earnings in the first three months and increased EBITDA from EUR 3.0 m to EUR 5.5 m. This improved the operating margin from 4.1 percent in the previous year to 6.8 percent. This progress is likely to be the result of rising capacity utilisation and cost increases passed on to customers on the one hand and the improvements achieved in efficiency and cost structures on the other hand.

## Annual targets confirmed

The strong quarterly figures are remarkable not only because of the weaker market development in Europe and the USA, but also especially in view of the fact that production at the new US plant is just starting up, which is likely to have a negative impact on earnings. So far, the output has been limited to “first parts”. Series production will only be ramped up towards the end of the first half of the year, meaning that a significant contribution to revenue can be expected from the second half of the year. STS is thus well on track to fulfil its annual targets, which envisage sales growth in the higher single-digit percentage range and an EBITDA margin in the high single-digit percentage range and which were confirmed with the quarterly figures. Another major order that has been won for the plant in Mexico and that will, according to the company, ensure high capacity utilisation there, is expected to provide additional impetus from the end of the year.

## Figures support positive scenario

STS has fully met our expectations in the first three months with significant sales growth and a strong improvement in earnings. For the full year 2024, we had hitherto expected revenue growth of 12.2 percent to EUR 311.9 m, including tool sales for the new plant in the USA (EUR 21.6 m), which are largely a transitory item. Adjusted for this figure, our estimate of revenue growth was 4.5 percent (to EUR 290.3 m). STS has not specified what proportion of revenue in the first three months was attributable to US tool deliveries. For the time being, we still consider our annual estimate for this figure to be plausible and are leaving it unchanged. In contrast, we have slightly increased our estimates for the Plastics (from EUR 195.0 m to EUR 203.1 m) and Materials (from EUR 39.5 m to EUR 41.5 m) segments following the positive start to the year, while reducing them for China (from EUR 61 m to EUR 55 m). In total, our revenue estimate is now slightly higher at EUR 294.4 m. We see the margin unchanged at 8.8 percent, so that our expected EBITDA of EUR 26.0 m is also above the hitherto assumed figure (EUR 25.6 m). We have not adjusted the expected revenue growth rates for the subsequent periods, which is why the revenue paths for the Plastics and Materials divisions are slightly above the previous level and the one for China below, resulting in higher estimated revenue overall, with a new target figure of EUR 393.0 m (previously: EUR 390.3 m) at the end of the detailed forecast period. With an unchanged target margin of 9.2 percent, this results in a profit before interest, taxes and depreciation of EUR 36.2 m (previously: EUR 35.9 m). The expansion of production in the USA will be a major growth driver in the coming years, but the foreseeably higher capacity utilisation in Mexico also supports our positive scenario. The table below shows the expected development of segment revenues in the detailed forecast period and the table at the top of the next page illustrates the development of the key cash flow figures up to 2031. Further details can be found in the Annex.

## Price target now EUR 20.80

With unchanged parameters for the discount rate (WACC 6.7 percent) and the terminal value (discount on the target margin of 25 percent and perpetual growth of 1.0 percent), the model adjustments result in a fair value of EUR 135.5 m or EUR 20.84 per share. On this basis, we are raising our price target slightly from EUR 20.30 to EUR 20.80 (a sensitivity analysis of the price target can be found in the Annex). The moderate upward revision is due to the discounting effect since the last update in April and the overall slightly higher sales projection with unchanged margin assumptions. On a scale of 1 (low) to 6 (high), we continue to classify the forecast risk as slightly above average at 4 points, which is primarily due to the in-

| **Revenue model (m Euro)** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** |
|---|---|---|---|---|---|---|---|---|
| Plastics | 203.1 | 203.1 | 206.3 | 212.7 | 219.1 | 224.6 | 230.2 | 236.0 |
| China | 55.0 | 60.5 | 64.1 | 68.0 | 72.1 | 75.7 | 79.4 | 83.4 |
| Materials | 41.5 | 41.8 | 42.4 | 43.7 | 45.0 | 46.1 | 47.2 | 48.4 |
| USA | 10.0 | 26.0 | 31.2 | 36.0 | 37.8 | 39.7 | 41.7 | 43.8 |
| consolidation | -15.1 | -15.6 | -16.1 | -16.5 | -17.0 | -17.6 | -18.1 | -18.6 |
| **Sales ongoing business** | **294.4** | **315.8** | **328.0** | **343.8** | **356.9** | **368.5** | **380.5** | **392.9** |
| Tools sales* | 21.6 | 27.0 | | | | | | |
| **Total sales** | **316.0** | **342.8** | **328.0** | **343.8** | **356.9** | **368.5** | **380.5** | **392.9** |

*Estimates SMC-Research; *one-off business mainly for the start of the US plant*

| m Euro | 12 2024 | 12 2025 | 12 2026 | 12 2027 | 12 2028 | 12 2029 | 12 2030 | 12 2031 |
|---|---|---|---|---|---|---|---|---|
| Sales | 294.4* | 315.8* | 328.0 | 343.8 | 356.9 | 368.5 | 380.5 | 392.9 |
| Sales growth | | 7.2% | 3.9% | 4.8% | 3.8% | 3.2% | 3.3% | 3.3% |
| **EBITDA** | **26.0** | **28.4** | **29.8** | **31.6** | **32.8** | **33.9** | **35.0** | **36.2** |
| EBIT | 10.7 | 13.8 | 15.4 | 17.4 | 18.8 | 19.9 | 21.0 | 22.1 |
| Tax rate | 30.0% | 29.0% | 29.0% | 29.0% | 29.0% | 29.0% | 29.0% | 29.0% |
| Adjusted tax payments | 3.2 | 4.0 | 4.5 | 5.1 | 5.4 | 5.8 | 6.1 | 6.4 |
| **NOPAT** | **7.5** | **9.8** | **10.9** | **12.4** | **13.3** | **14.1** | **14.9** | **15.7** |
| + Depreciation & Amortisation | 15.2 | 14.6 | 14.4 | 14.2 | 14.1 | 14.0 | 14.0 | 14.0 |
| + Increase long-term accruals | 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 |
| **Gross operating cash flows** | 22.7 | 24.4 | 25.4 | 26.6 | 27.4 | 28.1 | 28.9 | 29.7 |
| - Increase Net Working Capital | -11.7 | -5.6 | -4.5 | -3.3 | -3.5 | -3.6 | -3.7 | -3.8 |
| - Investments in fixed assets | -11.0 | -13.1 | -12.8 | -13.2 | -13.6 | -13.9 | -14.3 | -14.6 |
| **Free Cashflow** | **0.1** | **5.8** | **8.1** | **10.0** | **10.3** | **10.6** | **11.0** | **11.3** |

*SMC estimation model; *without tools sales USA*

fluence of the above-average volatility of the truck market.

## Conclusion

STS has made a perfect start to the current financial year. Although the truck market in Europe and the USA shrank by around 4 percent each, the company was able to increase its revenue by 9.4 percent to EUR 80.9 m. All three segments grew, and especially the higher tool sales made a substantial contribution to growth.

Thanks to the increased capacity utilisation, the cost increases passed on to customers and improved cost structures, the rise in sales led to a disproportionately high improvement in EBITDA, which almost doubled from EUR 3.0 m to EUR 5.5 m, increasing the operating margin from 4.1 to 6.8 percent within the space of a year.

The outlook for the rest of the year is optimistic, especially as series production at the new US plant is due to start at the end of the first half of the year, so that significant revenue can already be expected in the second half of the year. At the end of the year, positive impetus could also come from a newly acquired major order for the plant in Mexico. Management has therefore confirmed its forecast for the full year, which envisages sales growth in a higher single-digit percentage range and an EBITDA margin in the high single-digit percentage range.

STS has fully met our expectations with these strong figures. We have slightly raised our revenue estimates and now expect – with an unchanged estimate of the operating margin – sales growth of 13.7 percent to EUR 316 m (including tool sales) and an increase in EBITDA of 27 percent to EUR 26 m in the current year. We also see good opportunities for further sales and earnings growth beyond this, particularly as a result of the foreseeable expansion of US production.

Given a price/sales ratio of just 0.13 and a ratio of enterprise value to EBITDA of 2.8 (both key figures estimated for 2024), these positive prospects are not even remotely reflected in the share price. We see a heavy undervaluation, which is reflected in our slightly higher price target of EUR 20.80, and reiterate 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 a strong market position 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.

## Weaknesses

- Despite the recent improvement, the EBITDA margin is still low at 7.4 percent. The net result was thus still negative in 2023, and further progress is needed to achieve a profit.
- The balance sheet debt is fairly high (equity ratio 17.5 percent). However, the multiple of net financial debt to EBITDA was only a moderate 1.4 in 2023.
- 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.

## Opportunities

- The launch of the new US plant in 2024 will provide important growth impetus, which is why management is forecasting an increase in revenue in the high single-digit percentage range.
- Despite the plant start-up, the forecast EBITDA margin in the high single-digit range offers potential for further margin improvement.
- Together with Adler Pelzer, there are good opportunities for order acquisition in the USA and further market share gains in China.
- Electromobility and new emission regulations act as growth drivers.
- The STS share is very low-priced and offers very high upside potential as soon as investors gain confidence in STS's sustainable growth prospects.

## Threats

- The declining truck market in Europe could slow down growth of STS somewhat over the course of the year.
- There are also high economic risks in China, which could have a stronger impact on the commercial vehicle market again.
- Increasing headwinds from the markets could delay the leap into the profit zone in terms of net income.
- The start of series production in the USA could incur higher costs than expected.
- International conflicts (especially with China) could make business development more difficult.
- Adler Pelzer could decide to delist the share.

# Annex II: Balance sheet and P&L estimation

## Balance sheet estimation

| m Euro | 2023 act. | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| I. Total non-current | 111.7 | 107.4 | 105.9 | 104.2 | 103.3 | 102.8 | 102.7 | 102.9 | 103.5 |
| 1. Intangible assets | 19.1 | 19.6 | 20.1 | 20.5 | 20.8 | 21.1 | 21.3 | 21.5 | 21.7 |
| 2. Tangible assets | 86.9 | 82.1 | 80.1 | 78.0 | 76.7 | 76.0 | 75.7 | 75.7 | 76.1 |
| II. Total current assets | 154.8 | 141.4 | 122.5 | 132.7 | 144.5 | 156.9 | 170.0 | 183.8 | 198.3 |
| **LIABILITIES** | | | | | | | | | |
| I. Equity | 46.6 | 49.3 | 54.6 | 61.8 | 70.3 | 79.9 | 90.4 | 101.8 | 114.1 |
| II. Accruals | 10.0 | 10.1 | 10.2 | 10.3 | 10.4 | 10.6 | 10.7 | 10.8 | 10.9 |
| III. Liabilities | | | | | | | | | |
| 1. Long-term liabilities | 80.6 | 71.9 | 65.6 | 64.7 | 64.2 | 63.6 | 63.0 | 62.5 | 61.9 |
| 2. Short-term liabilities | 129.3 | 117.6 | 97.9 | 100.1 | 102.8 | 105.7 | 108.7 | 111.7 | 114.9 |
| **TOTAL** | **266.5** | **248.9** | **228.3** | **236.9** | **247.7** | **259.7** | **272.7** | **286.7** | **301.7** |

## P&L estimation

| m Euro | 2023 act. | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e |
|---|---|---|---|---|---|---|---|---|---|
| Sales | 277.9 | 294.4 | 315.8 | 328.0 | 343.8 | 356.9 | 368.5 | 380.5 | 392.9 |
| Total output | 286.8 | 297.4 | 315.8 | 328.0 | 343.8 | 356.9 | 368.5 | 380.5 | 392.9 |
| Gross profit | 100.5 | 110.5 | 116.8 | 121.4 | 127.2 | 132.1 | 136.3 | 140.8 | 145.4 |
| EBITDA | 20.5 | 26.0 | 28.4 | 29.8 | 31.6 | 32.8 | 33.9 | 35.0 | 36.2 |
| EBIT | 6.8 | 10.7 | 13.8 | 15.4 | 17.4 | 18.8 | 19.9 | 21.0 | 22.1 |
| EBT | 0.5 | 5.4 | 8.6 | 10.5 | 12.3 | 13.8 | 15.1 | 16.5 | 17.8 |
| EAT (before minorities) | -1.2 | 3.0 | 5.6 | 7.4 | 8.8 | 9.8 | 10.8 | 11.7 | 12.6 |
| EAT | -1.2 | 3.0 | 5.6 | 7.4 | 8.8 | 9.8 | 10.8 | 11.7 | 12.6 |
| EPS | -0.18 | 0.46 | 0.86 | 1.15 | 1.35 | 1.51 | 1.65 | 1.80 | 1.94 |

# Annex III: Cash flows estimation and key figures

## Cash flows estimation

| m Euro | 2023 act. | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e |
|---|---|---|---|---|---|---|---|---|---|
| CF operating | 30.5 | 12.1 | 20.2 | 22.8 | 25.4 | 26.1 | 26.8 | 27.5 | 28.3 |
| CF from investments | -14.3 | -11.0 | -13.1 | -12.8 | -13.2 | -13.6 | -13.9 | -14.3 | -14.6 |
| CF financing | -2.9 | -7.7 | -7.9 | -7.7 | -7.3 | -7.2 | -7.2 | -7.1 | -7.1 |
| Liquidity beginning of year | 25.6 | 39.3 | 32.8 | 32.0 | 34.3 | 39.3 | 44.6 | 50.3 | 56.5 |
| Liquidity end of year | 39.3 | 32.8 | 32.0 | 34.3 | 39.3 | 44.6 | 50.3 | 56.5 | 63.1 |

## Key figures

| percent | 2023 act. | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e |
|---|---|---|---|---|---|---|---|---|---|
| Sales growth | 18.2% | 5.9% | 7.2% | 3.9% | 4.8% | 3.8% | 3.2% | 3.3% | 3.3% |
| Gross margin | 36.2% | 37.5% | 37.0% | 37.0% | 37.0% | 37.0% | 37.0% | 37.0% | 37.0% |
| EBITDA margin | 7.4% | 8.8% | 9.0% | 9.1% | 9.2% | 9.2% | 9.2% | 9.2% | 9.2% |
| EBIT margin | 2.4% | 3.6% | 4.4% | 4.7% | 5.1% | 5.3% | 5.4% | 5.5% | 5.6% |
| EBT margin | 0.2% | 1.8% | 2.7% | 3.2% | 3.6% | 3.9% | 4.1% | 4.3% | 4.5% |
| Net margin | -0.4% | 1.0% | 1.8% | 2.3% | 2.5% | 2.8% | 2.9% | 3.1% | 3.2% |

# Annex IV: Sensitivity analysis

| | Perpetual cash flow growth | | | | |
|---|---|---|---|---|---|
| WACC | **2.0%** | **1.5%** | **1.0%** | **0.5%** | **0.0%** |
| **5.7%** | 33.97 | 30.12 | 27.09 | 24.64 | 22.63 |
| **6.2%** | 28.95 | 26.02 | 23.66 | 21.72 | 20.09 |
| **6.7%** | 25.00 | 22.72 | **20.84** | 19.27 | 17.93 |
| **7.2%** | 21.81 | 20.00 | 18.48 | 17.19 | 16.07 |
| **7.7%** | 19.19 | 17.72 | 16.47 | 15.40 | 14.47 |

# Disclaimer

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*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 06.06.2024 at 7:40 am and published on 06.06.2024 at 10:15 am.

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| | |
|---|---|
| Strong Buy | We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points). |
| Buy | We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points). |
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| | |
|---|---|
| | than 10 percent, but explicitly mentioned temporary factors prevent a short-term realisation of the price potential. |
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The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
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In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

| Date | Investment recomm. | Target price | Conflict of interests |
|---|---|---|---|
| 12.04.2024 | Buy | 20.30 Euro | 1), 3), 10) |
| 15.11.2023 | Buy | 19.80 Euro | 1), 3), 10) |
| 02.10.2023 | Buy | 19.50 Euro | 1), 3), 10) |
| 09.08.2023 | Buy | 19.50 Euro | 1), 3), 4), 10) |
| 30.05.2023 | Buy | 16.00 Euro | 1), 3), 10) |
| 26.04.2023 | Buy | 16.00 Euro | 1), 3), 10) |
| 07.12.2022 | Buy | 12.60 Euro | 1), 3), 4), 10) |
| 17.08.2022 | Hold | 11.80 Euro | 1), 3), 10) |

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: two updates and one comment.

The publishing dates for the financial analyses are not yet fixed at the present moment.

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