

May 15th, 2020  
Research comment

**SMC** Research  
Small and Mid Cap Research



# STS Group AG

## The pandemic is leaving its mark

**Rating:** Speculative Buy (unchanged) | **Price:** 3.20 € | **Price target:** 7.00 € (unchanged)

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Please take notice of the disclaimer at the end of the document!

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# EBITDA and net result negative in Q1



## Basic data

<b>Based in:</b>	Hallbergmoos
<b>Sector:</b>	Automotive technology
<b>Headcount:</b>	2,500
<b>Accounting:</b>	IFRS
<b>Bloomberg:</b>	SF3:GR
<b>ISIN:</b>	DE000A1TNU68
<b>Price:</b>	3.20 Euro
<b>Market segment:</b>	Prime Standard
<b>Number of shares:</b>	6,0 m
<b>Market Cap:</b>	19.2 m Euro
<b>Enterprise Value:</b>	78.8 m Euro
<b>Free Float:</b>	approx. 35 %
<b>Price high/low (12 M):</b>	11.75 / 3.531 Euro
<b>Øturnover (12 M Xetra):</b>	101,400 Euro

FY ends: 31.12.	2019e	2020e	2021e
Sales (m Euro)	362.8	327.6	349.2
EBIT (m Euro)	-6.5	-11.6	-0.4
Net profit	-12.1	-15.4	-4.2
EpS	-2.02	-2.57	-0.71
Dividend per share	0.00	0.00	0.00
Sales growth	-9.6%	-9.7%	6.6%
Profit growth	-	-	-
PSR	0.05	0.06	0.05
PER	-	-	-
PCR	0.5	1.8	1.1
EV / EBIT	-	-	-
Dividend yield	0.0%	0.0%	0.0%

## Current development

Due to a sharp decline in demand in Europe and China (30 and 42 percent, respectively), and as a result of the Covid-19 pandemic, the STS Group's first-quarter revenues fell from EUR 95.5 m to EUR 74.3 m. While both the Acoustics and Plastics segments suffered considerably and had to cope with sales losses of between 20 and 30 percent, STS was able to gain market share in China and to increase both sales (+2.9 percent) and EBITDA (+ 118 percent) year-on-year despite plant closures.

At Group level, profitability has dropped sharply, so that both EBITDA (EUR -1.2 m) and the result for the period (EUR -8.6 m) are now negative. With regard to the company's solvency, it is good news that liquidity was maintained at a level of EUR 17.3 m and that a put option to sell an undisclosed business area in case of emergency was concluded with Mutares.

By now, all plants have been reopened. While production capacity in China is already very well utilised again, capacity utilisation in Europe is only at an estimated 50 percent. The effects of the six-week closure of the European plants in the first weeks of Q2 and the current underutilisation in Europe lead the management to believe that, before a recovery in the second half of the year, there could be a further decline in sales and earnings in the second quarter of the current year.

## Conclusion

In our opinion, the opportunities in China and the risks, especially in Europe, currently still balance each other out. Accordingly, for the time being, we leave our model assumptions unchanged. The low valuation continues to offer potential, and our assessment therefore remains "Speculative Buy" with a price target of EUR 7.00.

## Annex I: DCF and revenue model

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales	327.6	349.2	384.0	403.0	421.9	442.5	465.3	490.4
Sales growth	-9.7%	6.6%	10.0%	4.9%	4.7%	4.9%	5.1%	5.4%
EBIT margin	-3.5%	-0.1%	1.7%	2.6%	3.3%	3.6%	3.8%	4.0%
<b>EBIT</b>	<b>-11.6</b>	<b>-0.4</b>	<b>6.5</b>	<b>10.5</b>	<b>14.0</b>	<b>15.9</b>	<b>17.7</b>	<b>19.6</b>
Tax rate	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Adjusted tax payments	1.5	1.5	1.9	3.0	4.1	4.6	5.1	5.7
<b>NOPAT</b>	<b>-13.1</b>	<b>-1.9</b>	<b>4.6</b>	<b>7.4</b>	<b>9.9</b>	<b>11.3</b>	<b>12.6</b>	<b>13.9</b>
+ Depreciation & Amortisation	18.7	18.0	18.0	17.3	16.7	16.4	16.2	16.1
+ 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
<b>Gross operating cash flows</b>	<b>5.6</b>	<b>16.1</b>	<b>22.6</b>	<b>24.7</b>	<b>26.7</b>	<b>27.7</b>	<b>28.8</b>	<b>30.1</b>
- Increase Net Working Capital	4.5	1.6	-2.2	-1.2	-1.2	-1.3	-1.5	-1.6
- Investments in fixed assets	-14.0	-18.0	-13.1	-13.7	-14.3	-15.0	-15.8	-16.7
<b>Free cash flow</b>	<b>-3.9</b>	<b>-0.3</b>	<b>7.3</b>	<b>9.8</b>	<b>11.1</b>	<b>11.3</b>	<b>11.5</b>	<b>11.8</b>

*SMC valuation model*

## Annex II: Balance sheet and P&L estimation

### Balance sheet estimation

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
<b>ASSETS</b>									
I. Total non-current	136.4	131.8	131.8	126.8	123.2	120.8	119.5	119.1	119.6
1. Intangible assets	23.8	23.4	23.0	21.5	20.4	19.6	18.9	18.5	18.3
2. Tangible assets	102.9	98.7	99.1	95.6	93.1	91.6	90.8	90.9	91.7
II. Total current assets	120.0	110.2	110.9	121.5	132.3	145.1	161.0	178.0	196.2
<b>LIABILITIES</b>									
I. Equity	68.6	53.2	49.0	51.6	57.2	65.4	75.1	86.2	98.7
II. Accruals	21.8	24.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8
III. Liabilities									
1. Long-term liabilities	33.3	33.3	33.3	33.3	33.3	33.5	34.8	36.4	38.1
2. Short-term liabilities	132.8	130.7	132.6	135.7	137.3	139.2	142.8	146.7	151.2
<b>TOTAL</b>	<b>256.5</b>	<b>242.0</b>	<b>242.6</b>	<b>248.3</b>	<b>255.6</b>	<b>265.9</b>	<b>280.5</b>	<b>297.1</b>	<b>315.8</b>

### P&L estimation

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales	362.8	327.6	349.2	384.0	403.0	421.9	442.5	465.3	490.4
Total operating revenues	369.6	327.6	349.2	384.0	403.0	421.9	442.5	465.3	490.4
Gross profit	160.3	145.1	153.7	168.9	177.3	185.6	194.7	204.7	215.8
EBITDA	17.6	13.1	20.6	24.5	27.8	30.8	32.3	33.9	35.7
EBIT	-6.5	-11.6	-0.4	6.5	10.5	14.0	15.9	17.7	19.6
EBT	-9.9	-14.4	-3.2	3.8	7.8	11.6	13.6	15.6	17.7
EAT (before minorities)	-12.1	-15.4	-4.2	2.7	5.6	8.2	9.7	11.1	12.6
EAT	-12.1	-15.4	-4.2	2.7	5.6	8.2	9.7	11.1	12.6
EPS	-2.02	-2.57	-0.71	0.44	0.93	1.37	1.61	1.85	2.09

## Annex III: Cash flows estimation and key figures

### Cash flows estimation

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
CF operating	36.6	10.7	18.2	21.3	24.5	26.6	27.6	28.8	30.2
CF from investments	-15.0	-14.0	-18.0	-13.1	-13.7	-14.3	-15.0	-15.8	-16.7
CF financing	-35.6	-2.9	-2.9	-2.9	-2.9	-2.4	0.2	0.6	0.9
Liquidity beginning of year	33.2	17.2	11.0	8.4	13.8	21.7	31.6	44.3	57.9
Liquidity end of year	17.2	11.0	8.4	13.8	21.7	31.6	44.3	57.9	72.3

### Key figures

percent	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales growth	-9.6%	-9.7%	6.6%	10.0%	4.9%	4.7%	4.9%	5.1%	5.4%
EBITDA margin	4.9%	4.0%	5.9%	6.4%	6.9%	7.3%	7.3%	7.3%	7.3%
EBIT margin	-1.8%	-3.5%	-0.1%	1.7%	2.6%	3.3%	3.6%	3.8%	4.0%
EBT margin	-2.7%	-4.4%	-0.9%	1.0%	1.9%	2.7%	3.1%	3.4%	3.6%
Net margin (after minorities)	-3.3%	-4.7%	-1.2%	0.7%	1.4%	1.9%	2.2%	2.4%	2.6%

# Disclaimer

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## *Charts*

The charts were made with Tai-Pan ([www.lp-software.de](http://www.lp-software.de)).

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## *II) Preparation and updating*

The present financial analysis was prepared by: Dr. Bastian Brand

Participants in the preparation of the present financial analysis: Dipl.-Kfm. Holger Steffen

The present analysis was finished on 15.05.2020 at 9:30 and published on 15.05.2020 at 9:40.

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12.03.2020	Speculative Buy	7.50 Euro	1), 3), 4)
13.01.2020	Speculative Buy	10.00 Euro	1), 3), 4)
19.11.2019	Speculative Buy	10.00 Euro	1), 3), 4)
10.10.2019	Speculative Buy	10.00 Euro	1), 3), 4)
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