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Research comment

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Analyst Awards

STS Group AG

Prospect of a strong fourth quarter – despite economic headwinds

Rating: Buy (unchanged) | Price: 3.76 € | Price target: 17.00 € (prev.: 18.60 €)

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Current business development



Basic data

Based in:	Hagen
Sector:	Automotive supplier
Headcount:	1,300
Accounting:	IFRS
Ticker:	SF3:GR
ISIN:	DE000A1TNU68
Price:	3.76 Euro
Market segment:	General Standard
Number of shares:	6.5 m
Market Cap:	24.4 m Euro
Enterprise Value:	58.7 m Euro
Free Float:	25.6 %
Price high/low (12 M):	7.25 / 3.22 Euro
Øturnover (12 M Xetra):	11,600 Euro

FY ends: 31.12.	2023	2024e	2025e
Sales (m Euro)	277.9	296.9	308.5
EBITDA (m Euro)	20.5	24.6	27.6
Net profit	-1.2	-0.5	1.6
EpS	-0.18	-0.08	0.25
Dividend per share	0.04	0.04	0.04
Sales growth	18.2%	6.9%	3.9%
Profit growth	-	-	-
PSR	0.09	0.08	0.08
PER	-	-	15.3
PCR	0.8	1.7	1.1
EV / EBITDA	2.9	2.4	2.1
Dividend yield	1.1%	1.1%	1.1%

Market weak in the third quarter

The positive effects from working off the order backlog that had built up across the industry in 2022/2023 due to material bottlenecks have finally come to an end in the truck market in the current year. Instead, the weak industrial economy in the most important markets took full effect in the third quarter. Total truck sales in the EU fell by 28 percent compared to the previous year, meaning that growth of 3 percent in the first half of the year turned into a decline by 7.5 percent after nine months. In the heavy truck segment, which is particularly relevant for STS, the decline in volume was even more pronounced at -9.5 percent (data source: ACEA). Market development in the heavy class in China was similarly weak, with declines of 20 percent in Q3 and 6 percent in the period from January to September (data source: cvworld.cn/Steel- Orbis), while sales in the USA were still relatively robust at -3 percent in the third quarter – but in the nine-month period, the decline totalled -6 percent as well (data source: YCharts).

Quarterly sales significantly below previous year

The weak market trend has also led to a significant decline in revenue at STS. At EUR 53.5 m, sales in the period from July to September were 19.8 percent below the previous year's figure. EBITDA developed almost in line with this and fell by 20.6 percent to EUR 5.0 m, meaning that the operating margin was maintained at a high level of 9.3 percent (previous year: 9.4 percent).

Margin improved

In combination with the 7 percent increase in sales in the first half of the year, this resulted in a slight decline in revenue of 1.5 percent to EUR 207 m over the first nine months. Revenue in the largest segment, Plastics, even increased by 1.0 percent thanks to tool deliveries as part of new customer projects, but the weak environment took its toll on the other two segments, Ma-

terials (-7.1 percent) and China (-5.8 percent). At EBITDA level, the company also benefited significantly from the first half of the year (+40 percent) and was still able to report EBITDA growth of 14.2 percent to EUR 16.8 m at the end of September, which equates to an increase in the margin from 7.0 to 8.1 percent.

Fourth quarter expected to be strong

The forecast issued for the full year envisaging an EBITDA margin in the high single-digit range appears thus to be easily achievable. The gap to the targeted sales growth in the high single-digit percentage range is significantly larger. Nevertheless, this target was also confirmed by the management. This implies a strong fourth quarter with sales significantly above the previous year. This expectation is supported by the postponement of sales to the final months as part of the ramp-up process for the new US plant.

Estimates updated

In response to the nine-month figures and the market situation, we have lowered our sales estimate for 2024 from EUR 316.0 m to EUR 297.0 m, including revenue from tool deliveries. On this basis, we now see

EBITDA at EUR 24.8 m (previously: EUR 25.3 m), resulting in a margin of 8.4 percent. We are thus following the management's lead and expect a strong fourth quarter against the market trend, mainly due to rising revenue from the ramp-up process at the new US plant and more extensive tool deliveries. We have also lowered our estimates for next year to EUR 308.5 m in sales (including tool deliveries, previously: EUR 315.8 m) and EUR 27.6 m in EBITDA (previously: EUR 28.4 m), reflecting the risk that the headwinds from the overall market will continue. Nevertheless, we are confident that STS will continue to grow, primarily due to the series production in the USA over a period of twelve months and the positive effects of a newly acquired major order for the plant in Mexico. Overall, we see the ongoing internationalisation as a stable growth driver, which should enable average revenue growth of 3.0 percent (CAGR25/31) to a target revenue of EUR 369 m by the end of the detailed forecast period. On this basis, we also expect EBITDA to develop positively to a target figure of EUR 34 m (margin: 9.2 percent). As a result of the more cautious estimates at the beginning of the detailed forecast period, which we have not compensated for with higher growth rates in later years, the target figures are therefore below the previous level (sales EUR 393 m,

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	296.9	308.5	308.7	323.6	335.7	346.5	357.6	369.2
Sales growth		3.9%	0.0%	4.8%	3.7%	3.2%	3.2%	3.2%
EBITDA	24.6	27.6	28.1	29.8	30.9	31.9	32.9	34.0
EBIT	9.4	11.7	12.5	14.6	16.0	17.2	18.3	19.4
Tax rate	40.0%	32.0%	31.0%	30.0%	29.0%	29.0%	29.0%	29.0%
Adjusted tax payments	3.8	3.8	3.9	4.4	4.6	5.0	5.3	5.6
NOPAT	5.6	8.0	8.7	10.2	11.4	12.2	13.0	13.8
+ Depreciation & Amortisation	15.2	15.9	15.6	15.2	14.9	14.7	14.6	14.6
+ 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	20.9	23.9	24.2	25.4	26.2	26.9	27.6	28.3
- Increase Net Working Capital	-7.3	-4.2	-4.2	-3.1	-3.2	-3.4	-3.5	-3.6
- Investments in fixed assets	-14.0	-13.5	-12.9	-13.3	-13.7	-14.0	-14.3	-14.7
Free Cashflow	-0.5	6.2	7.1	9.0	9.3	9.5	9.8	10.1

SMC estimation model

EBITDA: EUR 36.2 m). The table at the bottom of the previous page shows our expected development of the key cash flow figures in the detailed forecast period. Further details can be found in the Annex.

Price target now EUR 17.00

With unchanged parameters for the discount rate (WACC 7.0 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 111.2 m or EUR 17.10 per share. We are therefore lowering our price target from EUR 18.60 to EUR 17.00 (a sensitivity analysis to determine the price target can be found in the Annex). The downward revision is due in particular to the market-related more cautious estimates at the beginning of the detailed forecast period. 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 influence of the fairly high volatility of the truck market.

Conclusion

STS has felt considerable headwinds from market developments in the third quarter, which is why sales and EBITDA were below the previous year's figures. After nine months, sales fell moderately as a result, by 1.5 percent to EUR 207 m, but EBITDA nevertheless rose by 14.2 percent to EUR 16.8 m thanks to the optimisation and restructuring measures carried out

in the previous year. The operating margin thus increased from 7.0 to 8.1 percent.

Despite the current difficult market situation, the management has confirmed its forecast for the full year, which envisages sales growth in the higher and EBITDA growth in the high single-digit percentage range. This corresponds with a strong final quarter, in which sales and earnings should be significantly higher than in the previous year. This is likely to be based in particular on further tool deliveries and the ramp-up of the production in the USA.

We have reduced our estimates due to the weak market development and now expect sales growth of 7 percent to EUR 297 m and a 20 percent improvement in EBITDA to EUR 24.6 m for the full year, which would mean that the company is performing very well. And we expect the positive trend to continue in 2025 thanks to the successful internationalisation – with the new plant in the USA and a major order won for the plant in Mexico.

After the update, the fair value of EUR 17.00 is below our last price target (EUR 18.60), but well above the current price, which does not take STS's resilience into account at all. We therefore continue to see very high upside potential for the share 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.

Opportunities

- The new US plant is now providing important growth impetus, which is why management expects a strong Q4 and a high single-digit percentage increase in revenue for 2024.
- 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.

Weaknesses

- Despite the recent improvement, the EBITDA margin is still low at 8.1 percent. The net result is still negative, and further progress is needed to achieve a profit.
- The balance sheet debt is fairly high (equity ratio 17.2 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.

Threats

- If the headwinds from the overall market are unexpectedly strong in the final quarter or if there are further postponements in the USA, the company could miss its forecast for the year.
- China is struggling with structural problems that could have a lasting negative impact on the commercial vehicle market.
- Persistently weak economic conditions could delay the leap into the profit zone in terms of net income.
- Series production in the USA could initially cause even higher costs than expected.
- International (trade) conflicts could slow down development.
- 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	110.5	108.0	105.3	103.5	102.3	101.6	101.3	101.4
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	85.1	82.2	79.2	77.0	75.5	74.6	74.1	74.1
II. Total current assets	154.8	158.0	150.6	158.4	168.1	178.5	189.4	201.0	213.1
LIABILITIES									
I. Equity	46.6	45.8	47.1	50.9	56.5	63.4	71.3	80.1	89.8
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	75.2	74.2	73.4	73.0	72.5	72.0	71.5	70.9
2. Short-term liabilities	129.3	137.3	127.1	129.1	131.6	134.3	137.1	140.0	142.9
TOTAL	266.5	268.4	258.6	263.7	271.6	280.8	291.0	302.3	314.5

P&L estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	277.9	296.9	308.5	308.7	323.6	335.7	346.5	357.6	369.2
Total output	286.8	291.9	303.5	308.7	323.6	335.7	346.5	357.6	369.2
Gross profit	100.5	109.3	115.3	114.2	119.7	124.2	128.2	132.3	136.6
EBITDA	20.5	24.6	27.6	28.1	29.8	30.9	31.9	32.9	34.0
EBIT	6.8	9.4	11.7	12.5	14.6	16.0	17.2	18.3	19.4
EBT	0.5	2.7	4.0	6.2	8.6	10.1	11.4	12.7	14.0
EAT (before minorities)	-1.2	-0.5	1.6	4.1	5.8	7.2	8.1	9.0	9.9
EAT	-1.2	-0.5	1.6	4.1	5.8	7.2	8.1	9.0	9.9
EPS	-0.18	-0.08	0.25	0.62	0.90	1.11	1.25	1.39	1.53

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	14.2	21.4	22.1	24.5	25.4	25.9	26.6	27.2
CF from investments	-14.3	-14.0	-13.5	-12.9	-13.3	-13.7	-14.0	-14.3	-14.7
CF financing	-2.9	-7.5	-10.7	-8.9	-8.0	-8.0	-7.9	-7.9	-7.8
Liquidity beginning of year	25.6	39.3	32.1	29.3	29.7	32.9	36.6	40.6	45.0
Liquidity end of year	39.3	32.1	29.3	29.7	32.9	36.6	40.6	45.0	49.7

Key figures

percent	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales growth	18.2%	6.9%	3.9%	0.0%	4.8%	3.7%	3.2%	3.2%	3.2%
Gross margin	36.2%	36.8%	37.4%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
EBITDA margin	7.4%	8.3%	9.0%	9.1%	9.2%	9.2%	9.2%	9.2%	9.2%
EBIT margin	2.4%	3.2%	3.8%	4.1%	4.5%	4.8%	5.0%	5.1%	5.3%
EBT margin	0.2%	0.9%	1.3%	2.0%	2.7%	3.0%	3.3%	3.6%	3.8%
Net margin	-0.4%	-0.2%	0.5%	1.3%	1.8%	2.1%	2.3%	2.5%	2.7%

Annex IV: Sensitivity analysis

WACC	Perpetual cash flow growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
6.0%	27.06	24.17	21.86	19.97	18.39
6.5%	23.26	21.02	19.19	17.67	16.38
7.0%	20.22	18.45	17.10	15.72	14.65
7.5%	17.73	16.30	15.09	14.06	13.16
8.0%	15.66	14.49	13.49	12.62	11.86

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 3.12.2024 at 9:10 am and published on 3.12.2024 at 10:00 am.

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14.08.2024	Buy	18.60 Euro	1), 3), 10)
06.06.2024	Buy	20.80 Euro	1), 3), 10)
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)

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