

June 2nd, 2022
Research comment

SMC Research

Small and Mid Cap Research



Platz 1



Platz 2



Platz 1

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Refinitiv Analyst Awards

STS Group AG

A strong signal for further expansion

Rating: Speculative Buy (unchanged) | Price: 5.30 € | Price target: 12.90 € (prev.: 10.90 €)

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Current business development



Basic data

Based in:	Hagen
Sector:	Automotive supplier
Headcount:	1,516
Accounting:	IFRS
Ticker:	SF3:GR
ISIN:	DE000A1TNU68
Price:	5.30 Euro
Market segment:	General Standard
Number of shares:	6.5 m
Market Cap:	34.5 m Euro
Enterprise Value:	46.2 m Euro
Free Float:	23.3 %
Price high/low (12 M):	9.20 / 4.37 Euro
Øturnover (12 M Xetra):	27,300 Euro

FY ends: 31.12.	2021	2022e	2023e
Sales (m Euro)	242.0	229.1	248.3
EBIT (m Euro)	3.7	-3.9	0.4
Net profit	1.8	-5.2	-1.3
EpS	0.28	-0.80	-0.20
Dividend per share	0.04	0.04	0.04
Sales growth	3.0%	-5.3%	8.4%
Profit growth	-	-	-
PSR	0.14	0.15	0.14
PER	19.1	-	-
PCR	1.0	2.5	3.2
EV / EBIT	12.5	-	113.8
Dividend yield	0.8%	0.8%	0.8%

New plant planned in China

With the support of its new major shareholder Adler Pelzer, the STS Group is pushing ahead with its expansion in the important Chinese market. Together, the companies have signed a Memorandum of Understanding with the Taixing City Government regarding the construction of a new plant. In future, parts for the interior and exterior trim of cars and trucks will be produced there, with a focus on injection moulding. STS intends to use innovative solutions here that are already established in the European plants. According to plan, production is to have a high degree of automation, cover not only parts production but also painting and address especially the market for light commercial vehicles and electric cars more strongly. This will further expand the service portfolio in China, where STS already operates three plants and a research and development centre. Although the planning is still at an early stage, an important intermediate step has already been achieved by securing political support. Once the planning has been completed, previous experience with STS manufacturing facilities in China suggests that the plant construction is likely to be implemented fairly quickly and also involve manageable investments. We assume that the additional expenditure will be in the single-digit million range and that production could start in 2023.

Growth acceleration targeted

The management sees the measure as a first milestone in the organic growth roadmap drawn up after the takeover by Adler Pelzer, which is intended to ensure accelerated sales and earnings growth in the coming years. Another component of STS's expansion is the construction of a new plant in the USA, which is being driven forward in the current year. According to the company, the project is on schedule, so production is expected to start next year. STS had already acquired a first major order for the new plant (a complete truck roof system made of fibre-reinforced plastic) in 2019.

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	229.1	248.3	279.1	298.6	314.6	330.7	344.4	356.5
Sales growth		8.4%	12.4%	7.0%	5.4%	5.1%	4.1%	3.5%
EBIT margin	-1.7%	0.2%	2.2%	3.1%	3.8%	4.4%	4.7%	4.9%
EBIT	-3.9	0.4	6.1	9.2	12.0	14.5	16.1	17.5
Tax rate	0.0%	30.0%	20.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Adjusted tax payments	0.0	0.1	1.2	2.7	3.5	4.2	4.7	5.1
NOPAT	-3.9	0.3	4.9	6.6	8.5	10.3	11.5	12.5
+ Depreciation & Amortisation	15.8	16.5	16.5	16.2	15.7	15.0	14.5	14.2
+ Increase long-term accruals	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	12.4	17.2	21.8	23.1	24.7	25.7	26.4	27.1
- Increase Net Working Capital	0.0	-7.4	-8.4	-6.0	-5.0	-4.6	-4.1	-4.3
- Investments in fixed assets	-15.9	-18.2	-13.1	-12.3	-12.1	-12.6	-12.9	-13.3
Free cash flow	-3.5	-8.4	0.4	4.9	7.5	8.5	9.3	9.5

SMC estimation model

Estimates raised

We see the latest development as confirming our assessment that STS will return to a sustainable and dynamic expansion path with rising margins in 2023 (after a decline in revenue and earnings in the current year due to the difficult conditions in the automotive industry), with the margin improvement next year resulting from an assumed higher capacity utilisation and further cost reduction measures. We have taken the new Chinese plant into account with a higher investment volume in 2022 and 2023 and at the same time increased our assumed revenues in China. For 2024, we had so far assumed sales of EUR 73.2 m, which we are now raising to EUR 80.9 m. At the end of the detailed forecast period in 2029, we now see sales in China at EUR 111.2 m (previously: EUR 92.9 m). As a result, the group's target sales in 2029 also increased from EUR 338.2 m to EUR 356.5 m. As STS generates above-average margins in China, we have also raised the EBIT target margin for the group (despite higher depreciation and amortisation) from the previous 4.6 to 4.9 percent.

Price target: 12.90 Euro

With the increase in the estimates as a result of the announced expansion of activities in China, our price target, with an unchanged discount rate of 6.4 percent, increased from EUR 10.90 to EUR 12.90 (a sensitivity analysis for determining the price target can be found in the Annex). Based on the intact growth prospects, we thus see a high recovery potential for the STS share. On a scale of 1 (low) to 6 (high), we continue to rate the forecast risk at 5 points and thus above average, since the development of the important US business is still under way and, in addition, the terminal value has a comparatively high share in the company value.

Conclusion

We see the latest announcement about the construction of a further plant in China as a clear indication of the path the Adler Pelzer Group will take with its new subsidiary STS. Growth in the Chinese market, where the company has already established a strong market position, will be accelerated, which is likely to be reflected in significant increases in sales and earnings in the coming years – the market potential in China is still huge. The same is true for the USA, where STS is

currently building a new plant that is scheduled to start production next year.

In our view, these initiatives support our assumption that STS will return to a sustainable expansion path next year, which will allow significant margin increases in the future.

After updating the model in response to the reported China plans, we now see the price target at EUR 12.90 (so far: EUR 10.90). From our perspective, the share price decline in the current year is therefore unjustified. We see this primarily as a reaction of investors to

a temporary decline in business this year, which is due to the difficult conditions in the automotive industry. But we expect the growth drivers at STS to reassert themselves next year and therefore see the reduced share price level as a very good buy opportunity. We therefore reiterate our "Speculative Buy" rating.

However, the reduced liquidity of the share in the wake of the takeover by Adler Pelzer must be taken into account as a risk factor. Furthermore, it is also still conceivable that Adler Pelzer will delist the STS share after all.

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.
- Proven 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 establishment of new plants in China and the USA 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

- The margin is still low, and in weaker years there is a risk of losses.
- The Materials division has not yet achieved the turnaround and is operating at a loss.
- Due to the long lead time from order placement to revenue generation, sales initiatives only show up in group revenues 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

- High raw material prices and material bottlenecks could weigh on margins and reduce growth.
- The economic downturn risks have recently increased with the Ukraine war and the Covid-19 problems in China.
- The Chinese commercial vehicle market is undergoing a consolidation that may take longer than expected.
- The costs of building the new plants in the USA and China could exceed the budget.
- Adler Pelzer could decide to delist the share.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
ASSETS									
I. Total non-current	92.7	92.8	94.5	91.1	87.2	83.7	81.2	79.7	78.8
1. Intangible assets	20.4	20.3	20.3	20.2	20.2	20.2	20.1	20.1	20.1
2. Tangible assets	67.1	67.3	69.1	65.7	61.9	58.3	55.9	54.4	53.5
II. Total current assets	106.6	107.2	110.5	119.1	127.9	137.3	147.1	157.2	167.7
LIABILITIES									
I. Equity	58.3	52.9	51.3	53.8	58.2	64.6	72.9	82.5	93.3
II. Accruals	14.1	14.5	15.0	15.4	15.9	16.3	16.7	17.2	17.6
III. Liabilities									
1. Long-term liabilities	30.8	32.5	34.3	34.0	32.6	30.6	28.4	25.9	23.5
2. Short-term liabilities	96.2	100.2	104.6	107.1	108.6	109.6	110.5	111.3	112.2
BILANZSUMME	199.4	200.1	205.1	210.3	215.3	221.1	228.5	236.9	246.6

P&L estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	242.0	229.1	248.3	279.1	298.6	314.6	330.7	344.4	356.5
Total operating revenues	247.5	229.1	248.3	279.1	298.6	314.6	330.7	344.4	356.5
Gross profit	102.8	91.2	100.8	115.0	123.3	130.2	136.9	142.6	147.6
EBITDA	19.2	11.9	16.9	22.6	25.4	27.7	29.4	30.6	31.7
EBIT	3.7	-3.9	0.4	6.1	9.2	12.0	14.5	16.1	17.5
EBT	1.1	-6.5	-2.1	3.4	6.5	9.4	12.0	13.9	15.5
EAT (before minorities)	1.8	-5.2	-1.3	2.7	4.6	6.7	8.5	9.9	11.0
EAT	1.8	-5.2	-1.3	2.7	4.6	6.7	8.5	9.9	11.0
EPS	0.28	-0.80	-0.20	0.42	0.71	1.03	1.31	1.52	1.70

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	36.1	13.6	10.9	14.1	18.0	20.5	21.8	23.0	23.5
CF from investments	-16.8	-15.9	-18.2	-13.1	-12.3	-12.1	-12.6	-12.9	-13.3
CF financing	-10.3	0.5	0.7	-3.6	-5.9	-7.1	-7.4	-7.6	-7.5
Liquidity beginning of year	20.0	28.3	26.6	20.0	17.4	17.3	18.5	20.4	22.8
Liquidity end of year	28.3	26.6	20.0	17.4	17.3	18.5	20.4	22.8	25.6

Key figures

percent	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	3.0%	-5.3%	8.4%	12.4%	7.0%	5.4%	5.1%	4.1%	3.5%
Gross margin	42.5%	39.8%	40.6%	41.2%	41.3%	41.4%	41.4%	41.4%	41.4%
EBITDA margin	7.9%	5.2%	6.8%	8.1%	8.5%	8.8%	8.9%	8.9%	8.9%
EBIT margin	1.5%	-1.7%	0.2%	2.2%	3.1%	3.8%	4.4%	4.7%	4.9%
EBT margin	0.5%	-2.8%	-0.9%	1.2%	2.2%	3.0%	3.6%	4.0%	4.4%
Net margin (after minorities)	0.7%	-2.3%	-0.5%	1.0%	1.6%	2.1%	2.6%	2.9%	3.1%

Annex IV: Sensitivity analysis

WACC	Perpetual cash flow growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
5.4%	24.65	21.10	18.34	16.14	14.35
5.9%	20.12	17.47	15.35	13.62	12.18
6.4%	16.62	14.58	12.91	11.52	10.35
6.9%	13.84	12.23	10.89	9.76	8.79
7.4%	11.58	10.29	9.19	8.26	7.45

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 02.06.2022 at 8:50 and published on 02.06.2022 at 9:30.

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Date	Investment recomm.	Target price	Conflict of interests
19.04.2022	Speculative Buy	10.90 Euro	1), 3), 10)
20.04.2021	Buy	11.60 Euro	1), 3), 4), 10)
17.03.2021	Speculative Buy	10.60 Euro	1), 3), 4)
23.11.2020	Speculative Buy	7.20 Euro	1), 3), 4)
10.11.2020	Speculative Buy	5.70 Euro	1), 3), 4)
14.08.2020	Hold	4.30 Euro	1), 3), 4)

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

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