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Research comment

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STS Group AG

Forecast raised after very strong Q3 figures

Rating: Buy (unchanged) | **Price:** 4.68 € | **Price target:** 19.80 € (prev.: 19.50 €)

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Current business development

Basic data

Based in:	Hagen
Sector:	Automotive supplier
Headcount:	>1,400
Accounting:	IFRS
Ticker:	SF3:GR
ISIN:	DE000A1TNU68
Price:	4.68 Euro
Market segment:	General Standard
Number of shares:	6.5 m
Market Cap:	30.4 m Euro
Enterprise Value:	35.4 m Euro
Free Float:	22.4 %
Price high/low (12 M):	6.30 / 4.03 Euro
Øturnover (12 M Xetra):	12,200 Euro

FY ends: 31.12.	2022	2023e	2024e
Sales (m Euro)	235.1	273.2	281.9
EBITDA (m Euro)	9.6	20.0	22.2
Net profit	-9.9	1.2	2.8
EpS	-1.53	0.18	0.43
Dividend per share	0.00	0.00	0.00
Sales growth	-2.9%	16.2%	3.2%
Profit growth	-	-	137.6%
PSR	0.13	0.11	0.11
PER	-	25.9	10.9
PCR	4.7	1.5	3.3
EV / EBITDA	3.7	1.8	1.6
Dividend yield	0.0%	0.0%	0.0%

Growth rate sustained high

STS Group developed very positively in the third quarter and increased its revenue by 21.9 percent year-on-year to EUR 66.7 m. As a result, the pace of growth in the first half of the year (+22.3 percent) was maintained, so that sales increased by 22.2 percent to EUR 210.2 m after nine months. A very important driver at present is business in China, which is benefiting from a rapid recovery in the market following last year's slump. Sales of heavy trucks have increased by 37 percent so far this year (as at the end of October), and in September and October sales figures were even 55 and 60 percent up on the previous year (source: Steelorbis). But the company is also benefiting from the market momentum in the other segments and is reporting, among other things, a continued recovery in Europe and Mexico, without publishing detailed figures for the segment performance as at the end of September.

Result greatly improved

In line with higher customer demand, margins have also improved again, which has been helped in particular by the significant expansion of the high-margin Chinese business. The positive trend was reinforced by the efficiency improvement measures introduced last year. Overall, EBITDA in the third quarter increased significantly more than revenue, rising by around 54 percent to EUR 6.3 m. The EBITDA margin (in relation to sales) has thus improved from 7.5 to 9.4 percent. After nine months, it now stands at 7.0 percent, compared to 4.1 percent in the previous year, which is accompanied by a 110 percent increase in earnings before interest, taxes, depreciation and amortisation to EUR 14.7 m.

Forecast raised

Due to the continued strong development, the management has slightly raised and specified the forecast for the full year. After previously targeting only slight sales growth, there is now the prospect of a revenue

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	273.2	281.9	305.9	317.7	333.1	345.7	356.8	368.4
Sales growth		3.2%	8.5%	3.9%	4.8%	3.8%	3.2%	3.2%
EBITDA	**20.0**	**22.2**	**25.7**	**27.6**	**29.0**	**30.4**	**31.4**	**32.4**
EBIT	6.8	8.2	12.4	14.8	16.6	18.3	19.4	20.4
Tax rate	35.0%	30.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Adjusted tax payments	2.4	2.5	3.6	4.3	4.8	5.3	5.6	5.9
NOPAT	**4.4**	**5.7**	**8.8**	**10.5**	**11.8**	**13.0**	**13.8**	**14.5**
+ Depreciation & Amortisation	13.2	14.0	13.3	12.9	12.4	12.1	12.0	12.0
+ 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	17.9	20.0	22.4	23.7	24.5	25.4	26.1	26.8
- Increase Net Working Capital	1.4	-11.3	-5.5	-4.4	-4.0	-3.5	-3.6	-3.7
- Investments in fixed assets	-7.8	-9.3	-11.5	-11.2	-11.6	-12.0	-12.3	-12.6
Free cash flow	**11.6**	**-0.6**	**5.4**	**8.0**	**8.8**	**10.0**	**10.2**	**10.5**

SMC estimation model

growth in the low double-digit percentage range. At the same time, EBITDA is to increase significantly – this wording has already been used in the past – so that an EBITDA margin of between 6.5 and 7.5 percent is to be achieved – this specification is new. Next year, growth will be stimulated by the start of production in the USA. Series production at the new plant is still scheduled to start in the first half of the year, laying the foundations for dynamic expansion in North America.

Sales reduced, margin higher

The very strong improvement in earnings at STS in the third quarter is a positive surprise for us. As a result, we are increasing our EBITDA margin estimate for the full year from 6.2 percent to 7.3 percent. At the same time, we have lowered our estimate for sales from EUR 280.4 m to EUR 273.2 m, taking into account the weak economy in Europe (in the form of a reduction in growth in the Plastics segment). The combination of these adjustments results in a new EBITDA estimate of EUR 20.0 m (previously: EUR 17.3 m). According to our calculations, this will be sufficient for a net profit of EUR 1.2 m in the current year, whereas we had previously expected a loss of EUR 0.8 m. For next year, thanks to China and the USA, we expect a further increase in sales of 3.2 percent to EUR 281.9 m (we have also reduced the assumptions for Europe here) and an improvement in EBITDA to EUR 22.2 m (margin: 7.9 percent). By the end of the detailed forecast period, revenue is expected to increase by an average of 4.6 percent p.a. to a target value of EUR 368 m; for the EBITDA margin, we assume a further increase to 8.8 percent (which is less than was already achieved in Q3). The table at the top of this page shows the development of the key cash flow indicators up to 2030; further details can be found in the Annex.

Price target now EUR 19.80

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 128.8 m or EUR 19.81 per share. On this basis, we are raising our price target slightly from EUR 19.50 to EUR 19.80 (a sensitivity analysis of the price target 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 has presented very strong figures for the third quarter. While sales increased by 22 percent to EUR 66.7 m, EBITDA even rose by 54 percent to EUR 6.3 m, equivalent to an improvement in the margin from 7.5 to 9.4 percent. After nine months, STS has also increased sales by 22 percent to EUR 210.2 m and the margin from 4.1 to 7.0 percent.

As a result, the management has raised and concretised its forecast for the year. Instead of a slight sales growth, an increase in the low double-digit percentage range is now expected, which is still expected to lead to a significant increase in EBITDA, with the target margin now set at 6.5 to 7.5 percent.

For us, the very strong earnings performance in the third quarter is a particularly positive surprise. We have significantly increased our margin estimates, but at the same time lowered our sales forecasts slightly to take greater account of the weak economy in Europe.

Overall, our price target has increased slightly from EUR 19.50 to EUR 19.80. We therefore see a substantial undervaluation of the STS share, which is also reflected in an estimated enterprise value/EBITDA of just 1.8 (estimate for 2023), all the more so as the company has promising growth prospects thanks to its strong market position in China and a new plant in the USA. Our rating remains “Buy”.

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 progress made, the EBITDA margin is still low at 7.0 percent (9M 23). It remains to be seen whether the strong Q3 figure (9.4 percent) is sustainable.
- The net result was recently still negative and is likely to be at most slightly positive in the full year 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 increase in the growth forecast for 2023 is evidence of continued strong momentum.
- Together with Adler Pelzer, there are good opportunities for further market share gains in China and for a successful market entry in the USA.
- 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 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.

Threats

- The difficult economic situation in Europe could lead to a renewed decline in the truck market.
- There are also high economic risks in China, which could have a stronger impact on the commercial vehicle market again.
- In a recessionary environment, the pressure on margins could increase again.
- The start-up of the new plant 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	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current	83.2	77.7	73.1	71.3	69.6	68.8	68.7	69.0	69.6
1. Intangible assets	18.7	18.0	17.4	16.9	16.5	16.2	15.9	15.7	15.4
2. Tangible assets	60.2	55.4	51.4	50.0	48.8	48.3	48.5	49.0	49.9
II. Total current assets	128.4	152.4	163.1	171.6	180.6	189.9	199.5	212.1	226.5
LIABILITIES									
I. Equity	49.5	50.4	53.2	59.8	68.3	78.2	89.6	102.0	115.4
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	59.6	59.7	57.8	55.2	52.4	49.3	47.3	46.0
2. Short-term liabilities	104.0	108.6	111.5	113.1	114.3	115.4	116.4	118.5	121.1
TOTAL	**211.6**	**230.1**	**236.2**	**242.8**	**250.2**	**258.7**	**268.2**	**281.1**	**296.1**

P&L estimation

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	235.1	273.2	281.9	305.9	317.7	333.1	345.7	356.8	368.4
Total output	242.3	285.2	284.9	305.9	317.7	333.1	345.7	356.8	368.4
Gross profit	91.6	102.3	104.8	112.9	117.6	123.2	128.2	132.4	136.7
EBITDA	9.6	20.0	22.2	25.7	27.6	29.0	30.4	31.4	32.4
EBIT	-6.6	6.8	8.2	12.4	14.8	16.6	18.3	19.4	20.4
EBT	-9.1	2.9	5.1	9.3	12.0	13.9	16.0	17.5	18.8
EAT (before minorities)	-9.9	1.2	2.8	6.6	8.5	9.9	11.4	12.4	13.4
EAT	-9.9	1.2	2.8	6.6	8.5	9.9	11.4	12.4	13.4
EPS	-1.53	0.18	0.43	1.01	1.31	1.52	1.75	1.91	2.06

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	20.1	9.1	18.0	20.4	21.8	23.2	23.7	24.3
CF from investments	-8.7	-7.8	-9.3	-11.5	-11.2	-11.6	-12.0	-12.3	-12.6
CF financing	-0.2	-10.1	-3.2	-6.6	-7.7	-8.2	-8.5	-5.9	-4.7
Liquidity beginning of year	28.3	25.6	27.8	24.3	24.3	25.7	27.6	30.3	35.8
Liquidity end of year	25.6	27.8	24.3	24.3	25.7	27.6	30.3	35.8	42.8

Key figures

percent	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	-2.9%	16.2%	3.2%	8.5%	3.9%	4.8%	3.8%	3.2%	3.2%
Gross margin	39.0%	37.4%	37.2%	36.9%	37.0%	37.0%	37.1%	37.1%	37.1%
EBITDA margin	4.1%	7.3%	7.9%	8.4%	8.7%	8.7%	8.8%	8.8%	8.8%
EBIT margin	-2.8%	2.5%	2.9%	4.0%	4.7%	5.0%	5.3%	5.4%	5.6%
EBT margin	-3.9%	1.1%	1.8%	3.0%	3.8%	4.2%	4.6%	4.9%	5.1%
Net margin (after minorities)	-4.2%	0.4%	1.0%	2.2%	2.7%	3.0%	3.3%	3.5%	3.6%

Annex IV: Sensitivity analysis

	Perpetual cash flow growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
5.7%	32.12	28.48	25.61	23.29	21.38
6.2%	27.44	24.67	22.43	20.58	19.04
6.7%	23.76	21.60	**19.81**	18.32	17.04
7.2%	20.80	19.07	17.62	16.39	15.33
7.7%	18.35	16.95	15.76	14.74	13.85

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 15.11.2023 at 10:45 and published on 15.11.2023 at 11:15.

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Date	Investment recomm.	Target price	Conflict of interests
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)
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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The publishing dates for the financial analyses are not yet fixed at the present moment.

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