

November 10th, 2020  
Research comment

**SMC** Research  
**Small and Mid Cap Research**



# STS Group AG

## Stabilisation through shrinking

**Rating:** Speculative Buy (prev.: Hold) | **Price:** 3.48 € | **Price target:** 5.70 € (prev.: 4.30 €)

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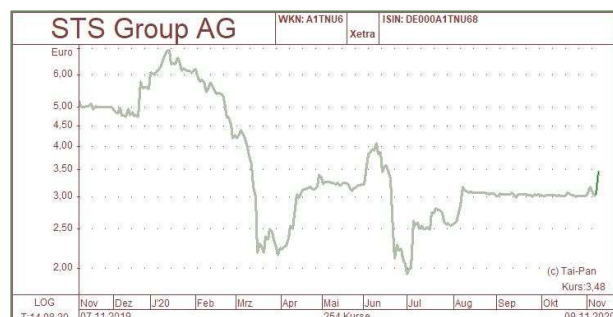
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# Normalisation in Europe, growth in China



## Basic data

<b>Based in:</b>	Hallbergmoos
<b>Sector:</b>	Automotive technology
<b>Headcount:</b>	approx. 1.600
<b>Accounting:</b>	IFRS
<b>Bloomberg:</b>	SF3:GR
<b>ISIN:</b>	DE000A1TNU68
<b>Price:</b>	3.48 Euro
<b>Market segment:</b>	General Standard
<b>Number of shares:</b>	6.5 m
<b>Market Cap:</b>	22.6 m Euro
<b>Enterprise Value:</b>	83.1 m Euro
<b>Free Float:</b>	approx. 27 %
<b>Price high/low (12 M):</b>	6.959 / 1.735 Euro
<b>Øturnover (12 M Xetra):</b>	101,400 Euro

FY ends: 31.12.	2019	2020e	2021e
Sales (m Euro)	362.8	288.4	250.9
EBIT (m Euro)	-6.5	-30.9	3.5
Net profit	-12.1	-36.7	-2.8
EpS	-2.02	-6.11	-0.47
Dividend per share	0.00	0.00	0.00
Sales growth	-9.6%	-20.5%	-13.0%
Profit growth	-	-	-
PSR	0.05	0.07	0.08
PER	-	-	-
PCR	0.5	-	1.4
EV / EBIT	-	-	23.5
Dividend yield	0.0%	0.0%	0.0%

## Current development

As of November 1, STS completed the sale of the Acoustics business unit to the Adler Pelzer Group agreed in August, making thus significant progress in the restructuring that had become necessary due to the market distortions in the current year. STS is also on the road to recovery in other respects: After the sharp drop in sales in the first half of the year, revenues of EUR 82.5 m were generated between July and September, at the same level as in the previous year. This was driven by strong growth in China (+128 percent year-on-year) and a significant recovery in the other business areas compared to Q2 (Acoustics +67 percent, Plastics +40 percent, Materials +164 percent). The recovery in sales was accompanied by a noticeable improvement in adjusted Group operating profitability (Adj. EBITDA) from EUR -1.0 m (Q2) to EUR 4.1 m. Even including negative one-off effects, EBITDA in Q3 was almost balanced again at EUR -0.2 m. Group liquidity also improved significantly in the third quarter from EUR 22.8 m to EUR 31.8 m, with net financial debt at EUR 48.9 m on the reporting date.

## Sharp decline after nine months

Over the first nine months, however, the after-effects of the slump in business are still clearly visible. During this period, revenues decreased by 20.9 percent to EUR 218.5 m and adjusted EBITDA decreased by 86.5 percent to EUR 1.9 m. However, the biggest loss-maker in this period was the Acoustics division (adj. EBITDA EUR -5.3 m), which has since been sold. In contrast, business in China is very profitable, with adjusted earnings before interest, taxes, depreciation and amortisation of EUR 12.5 m (+191 percent year-on-year) and an adjusted EBITDA margin of almost 21 percent. The reported EBITDA of STS (EUR -4.1 m, previous year: EUR +13.2 m) and the net result (EUR -35.3 m, previous year: EUR -4.9 m) were, however, heavily burdened in the first nine months by special effects in connection with the restructuring of the Group headquarters and one-off

effects from the sale of the Acoustics unit. In future, however, the sale of the division will significantly reduce the burden on consolidated earnings.

### Adjustment of estimates

Overall, the quarterly figures turned out slightly better than we had expected. We have significantly increased our revenue estimates for 2020 (from EUR 257.5 m to EUR 288.4 m), but this is mainly due to the fact that the Acoustics business unit has remained in the Group for longer than we had previously hypothetically assumed. We raise our estimate for adjusted EBITDA from EUR 5.2 m to EUR 6.1 m and thus assume that the fourth quarter will be at about the same level as Q3. Despite the rampant second Covid-19 wave and the partial lockdown in Europe, this seems sufficiently cautious in view of the completed Acoustics sale. With unchanged assumed one-off effects, our estimate of EBITDA thus increases from EUR -2.8 to -1.9 m. We have also revised our estimates of debt and liquidity; on balance, the situation here has developed better than we expected.

### Conclusion

STS has suffered a sharp drop in business in the current year, which has led to restructuring and the sale of a loss-making division. However, the current figures now show a clear improvement in the situation. In particular, the very profitable and rapidly growing business in China is providing support to put the Group back on a profitable expansion path. Overall, the third quarter was slightly better than we had expected, which led to several adjustments to our estimates for 2020. We have left the estimates from 2021 unchanged for the time being and are waiting for the company forecast to be published in the coming weeks. Overall, the update of the model has led to an increase in the price target from EUR 4.30 to EUR 5.70. The low valuation of the company thus continues to offer significant upside potential. However, the risks are still well above average due to the massive losses this year, which have severely impacted equity, and the high level of net financial debt. After the recent progress, however, we are nevertheless upgrading the share from "Hold" to "Speculative Buy".

## Annex I: DCF and revenue model

<b>m Euro</b>	<b>12 2020</b>	<b>12 2021</b>	<b>12 2022</b>	<b>12 2023</b>	<b>12 2024</b>	<b>12 2025</b>	<b>12 2026</b>	<b>12 2027</b>
Sales	288.4	250.9	283.7	302.7	321.6	342.4	365.1	390.3
Sales growth	-20.5%	-13.0%	13.1%	6.7%	6.3%	6.4%	6.7%	6.9%
EBIT margin	-10.7%	1.4%	4.0%	4.3%	4.5%	4.8%	5.0%	5.3%
<b>EBIT</b>	<b>-30.9</b>	<b>3.5</b>	<b>11.3</b>	<b>13.0</b>	<b>14.6</b>	<b>16.4</b>	<b>18.4</b>	<b>20.6</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	3.3	3.8	4.2	4.8	5.3	6.0
<b>NOPAT</b>	<b>-32.4</b>	<b>2.0</b>	<b>8.0</b>	<b>9.2</b>	<b>10.4</b>	<b>11.7</b>	<b>13.1</b>	<b>14.6</b>
+ Depreciation & Amortisation	29.1	15.1	13.3	13.3	13.3	13.3	13.3	13.3
+ 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>-3.4</b>	<b>17.0</b>	<b>21.3</b>	<b>22.5</b>	<b>23.7</b>	<b>24.9</b>	<b>26.3</b>	<b>27.9</b>
- Increase Net Working Capital	3.2	2.4	-2.1	-1.2	-1.2	-1.3	-1.5	-1.6
- Investments in fixed assets	-11.5	-13.0	-11.2	-11.8	-12.3	-12.9	-13.6	-14.3
<b>Free cash flow</b>	<b>-11.7</b>	<b>6.5</b>	<b>8.0</b>	<b>9.5</b>	<b>10.1</b>	<b>10.7</b>	<b>11.3</b>	<b>11.9</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	98.9	96.8	94.8	93.3	92.3	92.0	92.3	93.3
1. Intangible assets	23.8	11.0	9.2	9.2	9.2	9.2	9.2	9.2	9.2
2. Tangible assets	102.9	78.2	77.9	75.8	74.3	73.4	73.0	73.3	74.4
II. Total current assets	120.0	109.6	105.6	115.6	125.1	135.4	146.6	158.9	172.3
<b>LIABILITIES</b>									
I. Equity	68.6	31.9	29.1	34.2	40.6	48.3	57.3	67.9	80.2
II. Accruals	21.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
III. Liabilities									
1. Long-term liabilities	33.3	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7
2. Short-term liabilities	132.8	131.1	127.8	130.6	132.3	134.0	135.8	137.8	139.9
<b>TOTAL</b>	<b>256.5</b>	<b>208.5</b>	<b>202.4</b>	<b>210.3</b>	<b>218.3</b>	<b>227.7</b>	<b>238.6</b>	<b>251.2</b>	<b>265.6</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	288.4	250.9	283.7	302.7	321.6	342.4	365.1	390.3
Total operating revenues	369.6	288.4	250.9	283.7	302.7	321.6	342.4	365.1	390.3
Gross profit	160.3	128.1	110.4	124.8	133.2	141.5	150.6	160.7	171.7
EBITDA	17.6	6.1	20.5	24.6	26.3	27.9	29.7	31.7	33.9
EBIT	-6.5	-30.9	3.5	11.3	13.0	14.6	16.4	18.4	20.6
EBT	-9.9	-34.7	-0.8	7.1	9.0	10.8	12.8	14.9	17.3
EAT (before minorities)	-12.1	-36.7	-2.8	5.1	6.4	7.7	9.1	10.6	12.3
EAT	-12.1	-36.7	-2.8	5.1	6.4	7.7	9.1	10.6	12.3
EPS	-2.02	-6.11	-0.47	0.85	1.06	1.28	1.51	1.77	2.04

## 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	-4.4	14.7	16.2	18.4	19.8	21.0	22.4	23.9
CF from investments	-15.0	-11.5	-13.0	-11.2	-11.8	-12.3	-12.9	-13.6	-14.3
CF financing	-35.6	13.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity beginning of year	33.2	17.2	14.3	16.0	21.0	27.7	35.1	43.2	52.0
Liquidity end of year	17.2	14.3	16.0	21.0	27.7	35.1	43.2	52.0	61.6

### 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%	-20.5%	-13.0%	13.1%	6.7%	6.3%	6.4%	6.7%	6.9%
EBITDA margin	4.9%	2.1%	8.2%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
EBIT margin	-1.8%	-10.7%	1.4%	4.0%	4.3%	4.5%	4.8%	5.0%	5.3%
EBT margin	-2.7%	-12.0%	-0.3%	2.5%	3.0%	3.4%	3.7%	4.1%	4.4%
Net margin (after minorities)	-3.3%	-12.7%	-1.1%	1.8%	2.1%	2.4%	2.7%	2.9%	3.1%

# 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 10.11.2020 at 11:30 and published on 10.11.2020 at 11:40.

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Date	Rating	Target price	Conflict of interests
14.08.2020	Hold	4.30 Euro	1), 3), 4)
14.05.2020	Speculative Buy	7.00 Euro	1), 3), 4)
04.05.2020	Speculative Buy	7.00 Euro	1), 3), 4)
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)
14.08.2019	Speculative Buy	10.00 Euro	1), 3), 4)
21.05.2019	Speculative Buy	14.10 Euro	1), 3)
15.04.2019	Speculative Buy	15.10 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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