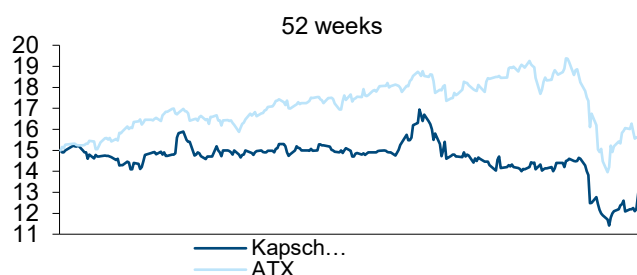


Kapsch TrafficCom

from Accumulate to Buy

EUR mn	2021	2022e	2023e	2024e
Net sales	505.2	507.5	509.2	601.9
EBITDA	-67.1	29.0	37.6	47.1
EBIT	-123.2	8.6	20.2	29.3
Net result after min.	-102.9	1.4	9.4	15.8
EPS (EUR)	-7.91	0.10	0.72	1.22
CEPS (EUR)	-5.10	1.69	2.02	2.57
BVPS (EUR)	7.02	7.12	7.85	9.06
Div./share (EUR)	0.00	0.00	0.00	1.00
EV/EBITDA (x)	-5.7	12.6	9.4	7.5
P/E (x)	nm	136.9	19.8	11.8
P/CE (x)	-2.9	8.4	7.1	5.6
Dividend Yield	0.0%	0.0%	0.0%	7.0%



Performance	12M	6M	3M	1M
in EUR	-4.7%	-2.7%	-2.7%	11.9%

Share price (EUR) close as of 29/03/2022	14.3	Reuters	KTCG.VI	Free float	36.7%
Number of shares (mn)	13.0	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Market capitalization (EUR mn)	185.9	Div. Ex-date			
Enterprise value (EUR mn)	364.0	Target price	22.0	Homepage:	www.kapsch.net

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German compensation outweighs delayed recovery

The prospect of receiving a sizeable compensation from the illegally scrapped German ETC system outweighs the expected delay of business recovery due to the ongoing issues with troubled projects in the US, the still subdued tender activity, and sanction risks related to the Belarus ETC system. Consequently, we **raise our target price to EUR 22** (from EUR 17.5 previously) and **our recommendation to Buy** (from Accumulate).

With the cancellation of the German ETC contract assessed as illegal, the publicly available ETC contract clearly states the related compensation for awarded companies. The compensation claims of EUR 560mn for the JV of KTC and Eventim translate into a **net claim of EUR 240mn for KTC** alone, in our view. We expect it will take two more years until the claim is settled. We have so far **reflected EUR 100mn net compensation** in the DCF; the current share price reflects about EUR 25mn.

Business-wise, we expect the **business pickup to be delayed by a year**. Two profitable PL ETC system contracts were finalized in 2/3Q21, the South African ETC operations contract is expected to fade out gradually, and subdued tender activity poses the risk that revenue, and especially profitability, cannot be replaced short-term, even if the profitable component business should pick up going forward. The ETC system operations in Belarus are prone to new sanctions.

KTC should benefit from the favorable dynamics in the ITS market in the medium term. We want to see this kick in before reflecting it in our model.

Investment story

German compensation vs delayed business pick-up

The positive ruling on receiving a significant compensation for the scrapped German ETC system for personal cars outweighs the expected delay of business picking up due to the Covid related delay in tender activity and not yet concluded troubled project in the US. Even though we do not expect KTC to receive the compensation in the immediate future, we have high confidence it will be significant, as the publicly available contract is very clear about the illegal cancellation that has just been confirmed by the arbitration tribunal.

Arbitral tribunal confirmed claim to receive compensation for illegally scrapped German ETC system contract

The arbitral tribunal has decided that autoTicket is entitled to damages and reimbursement of expenses for the scrapped German ETC system for personal cars. autoTicket, the JV of KTC and CTS Eventim, has asserted claims for compensation in the amount of approx. EUR 560mn against the Federal Republic of Germany. The arbitral tribunal confirmed the claims asserted by autoTicket, said that the unilateral cancellation of the contract was unlawful without compensation and rejected the poor performance of autoTicket as a reason for the termination. The first phase of the two-stage arbitral proceedings has thus been concluded. In a second stage, the amount of compensation needs to be decided upon.

Compensation amount to be decided in phase two of arbitral tribunal proceeding

This is very positive news for KTC, even though it might take more time until the compensation amount is decided upon and transferred to KTC. It is also positive that the allegation of autoTicket having provided a poor performance implementing the contract has been rejected by the court. KTC's share of the claimed compensation of autoTicket is 50% or EUR 280mn. This claim does not yet include the smaller tolling enforcement contract, which KTC was awarded alone. There is a separate arbitral tribunal for the enforcement contract, and as the contract is set up differently, it does not necessarily mean that KTC will also be entitled to receive compensation for it as well. We expect there is a low double-digit EURmn compensation in the cards for the enforcement contract if the arbitral tribunal decides in favor of KTC.

Compensation at around EUR 560mn covered by ETC contract

We have reviewed the publicly available German ETC implementation and operation contract. An illegal cancellation of the contract, as was just confirmed by the arbitral tribune, is explicitly mentioned entitling the contracting partners to receive compensation amounting to the Equity Value of the contract plus equity. Consequently, we are fairly certain it is just a question of time when this compensation is awarded. As the first phase of arbitral proceedings took two years, we would assume a similar period for the second phase as a best guess, unless all parties agree on a compromise regarding the amount in order to shorten the proceedings. The compensation amount is adjusted for inflation with 2% or EUR 11mn p.a., so far adding about EUR 22mn to the EUR 560mn claimed compensation or to any reported compensation, respectively, and is subject to local taxes.

Legal costs of proceedings continuously reflected in P&L

Costs related to the compensation (e.g. legal costs) have been continuously reflected in KTC's P&L and we expect them to continue to be reflected as long as the proceedings are not concluded. In FY20/21, autoTicket reported a loss of EUR 7.7mn, translating into a loss of EUR 3.85mn for KTC reflected at equity (in OOR). This covers running operating costs related to the legal proceedings as well as financial costs related to the funding received from the JV partners for operations. These costs will obviously be omitted once the compensation is settled.

Compensation alone could have value of EUR 18.5 per share

KTC's 100% subsidiary, MTS Maut & Telematik Services, deals with the enforcement contract and reported a loss of EUR 0.7mn for FY20/21. This loss also stems from the costs for the legal proceedings and financing. In any case, it should be clear that the compensation payment is significant when reflecting KTC's current market cap of EUR 184mn (as of March 30). The claimed compensation of EUR 560mn translates into EUR 21.5 per share before tax and inflationary adjustments, about 150% of the current share price. German corporate income tax is 15% plus a solidarity tax of 5.5%. Reflecting both the inflationary adjustment of 2% p.a., assuming a final settlement two years from now and four years after starting the legal proceedings, as well as the tax, we arrive at a net compensation of EUR 240mn or EUR 18.5 per share for KTC. This does not reflect tax losses carried forward, which could add up to some EUR 30mn for autoTicket until the dispute is settled. A potential compensation for the enforcement contract could come on top, but is definitely marginal compared to the implementation and operations contract.

Business development

3Q21/22 indicates delay in business pickup

Our findings from 3Q21/22 are that recovery will take longer, even though the turnaround after the heavy restructuring was to a large extent concluded in the last FY20/21. On one hand, KTC is still working off troubled projects in the US. On the other hand, market dynamics have not yet picked up sufficiently in order to raise business levels and enable economies of scale. While we regard the topic of road pricing, traffic management and the digitization of transport as secular trends with huge opportunities for KTC, public procurement (especially in Europe) has been seeing delays in tender activity due to COVID. The US market activity has picked up, though, but KTC needs to finalize troubled projects in order to free capacity for new business. This does not mean that order intake in the US has not improved, but it should rather increase in dynamics going forward.

KTC: Adjustments in FY20/21 and FY21/22

(EURmn)	FY20/21	1H 21/22	3Q 21/22*	1-3Q 21/22*	4Q21/22e	FY21/22e	FY21/22e y/y
Revenue reported	505.1746	255.169	123.931	379.1	128.8	507.9	0.5%
Project impairments	79		9.5	9.5		9.5	-88.0%
Revenue adjusted	584.1746	255.169	133.431	388.6	128.8	517.4	-11.4%
EBITDA reported	-67.1	21.4	0.8	22.2	6.8	29.0	-143.2%
Settlement patent case		3		3		3	
leasing sale		-3.1		-3.1		-3.1	
Customer project settlement		4		4		4	
Severance pay for Laux			1.7	1.7		1.7	
Margin adjustments US			10.6	10.6		10.6	
Total adjustments EBITDA	114.3	3.9	12.3	16.2	0	16.2	-85.8%
EBITDA adjusted	47.2	25.3	13.1	38.4	6.8	45.2	-4.1%
ordinary depreciation	31.2	10.7	5.7	16.4	4.0	20.4	
GW impairment	24.8					0.0	
EBIT reported	-123.2	10.6	-4.8	5.8	2.7	8.6	nm
Total adjustments EBIT	139.1	3.9	12.3	16.2	0.0	16.2	-88.4%
EBIT adjusted	15.9	14.5	7.5	22.0	2.7	24.8	55.6%
adj. EBITDA margin	8.1%	9.9%	9.9%	9.9%	5.2%	8.7%	
adj. EBIT margin	2.7%	5.7%	5.6%	5.7%	2.1%	4.8%	
reported EBITDA margin	-13.3%	8.4%	0.7%	5.9%	5.2%	5.7%	
reported EBIT margin	-24.4%	4.2%	-3.9%	1.5%	2.1%	1.7%	

* Revenue impact from margin adjustment based on our assumptions

Source: Company, EGR

Profitable PL contracts need to be compensated

When digging deeper into the 3Q21/22 figures, reflecting on the ended tolling contracts in Poland (September and November), and adjusting for one-offs, we see that revenue, and especially profitability, does not look too bad. It might be too early, though, to start assuming that the adjusted profitability will become the reported profitability as of now, as there is a risk of further contract margin adjustments in the US that cannot be ruled out. We will also need to see the extent to which the concluded PL ETC contracts, which we assume to have had attractive profitability, can be replaced by increasing component sales and new business going forward.

Belarus ETC operations could be at risk

In addition to the effects mentioned above, the war in Ukraine has put the Belarus ETC (Electronic Toll Collection) system operations contract at risk. While it is too early to say how this will play out, as sanctions against Belarus have not yet restricted KTC from operating the ETC system, such a situation might still be in the cards. In a worst-case scenario, KTC might let go of the Belarus ETC operations, which we estimate to generate about EUR 40-45mn in revenue and at least some EUR 6-10mn in EBIT. So far, we have not reflected such a development in our model.

South African ETC operations likely to fade out

Finally, the South African ETC operation contract is likely to start fading out. Discussions on either replacing the ETC system in Gauteng with a nationwide fuel levy or at least stopping the system are becoming louder. It might also be possible that another ETC operator will take over, as KTC has already expressed its intention to quit doing business in Africa. The current ETC operation contract has been prolonged until February 2022 (from December 2021) and is now being extended on a monthly basis until a decision is taken on how to proceed with the system. Revenue from this project is estimated at some EUR 30-35mn p.a.; currently, the EBIT contribution is likely at some EUR 1-3mn.

Market update

Immense budgets to fuel growth in the mid-term

Overall, there is a long list of national and supranational infrastructure funding programs supporting the digitization and decarbonization of the transport industry that have been introduced since 2020 or will become effective in the coming years:

- **American Rescue Plan Act (ARP)** and COVID-19 Emergency Funding to State and Local Governments: **USD 350bn.**
- **The European 2027 budget including the NextGenerationEU** recovery plan amounts to **EUR 2bn** at current prices (EUR 1.8bn at 2018 prices; of which EUR 750mn NextGenEU). In this overall budget, the green deal is reflected with a third of the total, amounting to EUR 600bn in current prices.
- **EU road charging regulation update:** The EU parliament passed a new road pricing regulation in February 2022, aiming to phase out time-based road user charging for heavy-duty vehicles on the core Trans-European Network by 2030 in favor of distance-based. This regulation update also covers the EU-wide standardization of emission-based charging.

Business potential is slowly gaining in dynamics

Tolling potentials – market dynamics:

Overall, there is a large number of potential projects of all sizes, ranging from small, very local traffic management solutions to nationwide electronic tolling systems. There are potentially both greenfield and brownfield

	<p>projects for Multi Lane Free Float (MLFF) solutions based on DSRC (Microwave) or GNSS (Satellite) technology.</p>
EV penetration calls for road pricing and traffic management	<p>We should also not forget that the transition to electric vehicles (EV) is punching significant holes in national budgets. While EVs receive state funding when bought, they cannibalize fuel tax income that at some point will need to be replaced by other means of (tax) income. Distance-based road pricing is seen as a necessity to compensate for the expected decrease in fuel tax as it has already been implemented in Norway, the country with the highest EV penetration globally. Traffic management solutions would be complementary to distance-based road pricing.</p>
NA shows strongest market activity	<p>Regional market activity update North America: Strong market activity, several small / mid-sized projects in the pipeline or on the horizon. Partial replacement of plaza (manual) tolling solutions with DSRC and smart phone-based tolling solutions. KTC's smart tolling app uproad! is gradually gaining traction and KTC is aiming to expand its cooperation with car OEMs to add users to its solution. So far, Ford is the only officially announced smartphone tolling cooperation partner in the US.</p>
LatAM: Small-scale projects, digitization of tolling	<p>LatAM: Plaza tolling is still the dominant technology and KTC is also implementing plaza tolling solutions. Gradually, some of these manual tolling solutions are being replaced by MLFF (Multi Lane Free Float) tolling solutions.</p>
Europe with huge catch-up potential	<p>Europe: There is a wide range of opportunities, but current market activity is rather low. In France and Spain, the transition from plaza tolling is now moving to MLFF. Some national ETC systems are planned in several countries in Europe; there is also the switch to GNSS from Microwave or the introduction of city tolling. The EETS directive is set to build a trans-European tolling network, simplifying tolling when driving across Europe. EETS (European Electronic Tolling Service) is slowly increasing in dynamics. KTC has been adding countries to its network (e.g. Poland), recently, while others in which KTC is already running pilots should be added soon. The more countries that become operational for KTC under the EETS regime, the easier it will be to acquire new (logistics) clients for its EETS solution, bringing it closer to a positive EBIT contribution.</p>
Asia: New opportunities to be tapped, Australia strong	<p>Asia: KTC seems to be slowly gaining a foothold in the Asian market, supplying smaller DSRC and IR (infrared) tolling solutions. There are bigger potentials as well, while countrywide ETC solutions are also being discussed (e.g. India). Australia remains the country with the highest market share for KTC in APAC of some 70% of ETC systems supplied.</p>
M&A suggests companies betting on market pick-up, increasing competition	<p>M&A is picking up, signaling the upcoming market potential in the field of traffic management and electronic tolling. The most prominent recent deals are the acquisition of Transcore, the market leader in transportation solutions in North America, by Singapore-based ST Engineering in October 2021, and the acquisition of Yunex, a Siemens subsidiary offering traffic management solutions, by Atlantia (mother company of Italy-based autostrade) in January 2022. While it is expected to take some time to generate synergies from these acquisitions, both acquirers should benefit from cross-selling going forward. The advantage of KTC vs. peers is the already integrated product offering, covering the full value chain of traffic management and tolling solutions. Going forward, we assume competition to intensify to some extent, but we also see high market entry barriers as references play a major role in public tenders.</p>

Change in estimates

Outlook: Strong mid/long term, weak short term

While the market environment for KTC looks very promising with regards to business potentials for the medium and long term, the short term is still marked with delays in new tenders on one hand and some potential impact from the troubled projects in the US on the other hand. The latter could lead to further impairments in the coming quarters, which we have not yet reflected in our estimates.

Change in estimates

Consolidated, IFRS (EUR, mn)	2021/22e = FY22e			2022/23e = FY23e			2023/24e = FY24e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Revenues	507.9	543.0	-6.5%	509.8	611.1	-16.6%	602.4	673.8	-10.6%
EBITDA	29.0	41.0	-29.3%	37.7	56.5	-33.3%	47.2	61.9	-23.8%
EBITDA margin	5.7%	7.6%	-24.5%	7.4%	9.2%	-20.0%	7.8%	9.2%	-14.8%
EBIT	8.6	20.0	-56.9%	20.2	36.9	-45.2%	29.3	40.5	-27.7%
EBIT margin	1.7%	3.7%	-54.0%	4.0%	6.0%	-34.3%	4.9%	6.0%	-19.1%
Net profit	1.4	10.4	-86.6%	9.4	24.5	-61.5%	15.8	27.6	-42.6%
Net margin	0.3%	1.9%	-85.7%	1.8%	4.0%	-53.8%	2.6%	4.1%	-35.9%
EPS	0.11	0.80	-86.6%	0.72	1.88	-61.5%	1.22	2.12	-42.6%
EPS adjusted	0.48	0.80	-40.3%	0.72	1.88	-61.5%	1.22	2.12	-42.6%
DPS	0.00	0.00	nm	0.00	0.00	nm	1.00	1.00	0.0%

Source: Erste Group Research

Lower estimates due to delayed recovery and troubled projects

Based on KTC's latest developments, we have substantially lowered our expectations for FY21/22 and shifted our expected business pick-up by a year. The main reasons for the shift are the longer than expected finalization of the troubled US projects and delays in new tenders being awarded. Overall, we have reduced our expectations for KTC's growth dynamics going forward, arriving at revenue of EUR 716mn in FY26/27, when KTC targets to generate revenue of EUR 1bn.

Downside risk stemming from RSA and BLR operations

Regarding our estimates, we see downside risk in the short term in the case that the finalized projects in Poland and eventual fading out of the South African ETC operations are not offset with new orders immediately, or if the sanctions imposed on Belarus start having an impact on the ETC operations.

We have not yet fully reflected the impact of a compensation from Germany in our detailed estimates, but rather reflect the compensation in the DCF assuming a compensation amount.

Valuation

Compared to our last report, we have adjusted our valuation assumptions to reflect the increased risk of seeing further project impairments, trouble with the Belarus ETC operations, and difficult to assess order intake dynamics. The increase in inflation and starting interest rate cycle has also been reflected. Consequently, we have:

- Increased our TV RFR to 2.5%, while still leaving the RFR in the forecast period at 0.5%.
- Changed the beta to 1.5 (previously 1.4) in the forecast period and 1.4 (1.3) in the TV.

- Set the equity weight at 50% (45%) in the forecast period and 70% (85%) in the TV, reflecting the slower business growth dynamics in our model.
- Set the TV EBIT margin at 5% (6%).
- We assumed EUR 100mn for now as a net impact from the German ETC contract compensation. Reflecting the entire net compensation of EUR 240mn would add a further EUR 12 to our target price cet. par.
- The increase in beta is to some extent contradicting the expected compensation. We want to see the business finally picking up before potentially lowering the risk related view on KTC.

EuroWAG and ST Engineering added to peer group

We have also adjusted our peer group, as we have added Edenred, whose subsidiary UTA is an EETS supplier and provider of mobility and fleet solutions. Similarly, EuroWAG (WAG payment solutions) is a newly listed (10/2021) payment service provider, EETS supplier and provider of On-Board-Units. Lastly, we have added Singapore Technology Engineering (ST Engineering), which acquired Transcore in late 2021, strongly bolstering its position in the North American tolling and traffic management market. We are aware that none of these newly added peers is a perfect fit with regards to the offered business model, but at least a substantial part of the business is related to KTC's offering. It remains difficult to set up a well-fitting peer group for KTC, with Q-Free the best peer with regards to the offered product portfolio. This might change going forward once the ITS (Intelligent Transportation Market) grows in size and allows current market players, which are often subsidiaries of big groups, to become independent, or alternatively, smaller, partially already listed players attract interest for broader market coverage or tap the market to finance further growth.

Target price composition

	DCF	Multiple	Weight	12-month target price	act. share price	upside to target price	Recommendation
Kapsch TrafficCom	22.0	14.0	100/0	22.0	14.3	53.8%	Buy

Source: bbg, EGR

Despite the currently limited business visibility, which makes it difficult to assess the timing of the generally expected business expansion, the expected compensation from Germany outweighs the lagging business in the short term, prompting us to raise KTC to Buy (from Accumulate). We have so far only incorporated about 40% of the possible compensation in our DCF model.

Peer Group valuation

Peers	MarketC (EURmn)	P/E			EV/EBITDA			EV/EBIT		
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Q-FREE ASA	89	15.5x	29.6x	18.3x	9.9x	9.0x	7.5x	21.2x	18.7x	13.6x
SENSYS GATSO GROUP A	87	23.9x	12.3x	9.9x	11.1x	8.0x	6.0x	20.2x	12.4x	8.1x
EDENRED	11,274	32.2x	28.8x	25.3x	16.5x	15.9x	14.2x	20.4x	19.6x	17.3x
ITERIS INC	115	27.5x	15.1x	9.7x	14.2x	9.4x	5.7x	-	26.2x	8.3x
SINGAPORE TECH ENGINE	8,553	20.5x	22.0x	19.7x	12.7x	12.8x	11.3x	20.5x	19.9x	17.2x
ITERIS INC	115	27.5x	15.1x	9.7x	14.2x	9.4x	5.7x	-	26.2x	8.3x
TRAFFIC SYSTEMS SE	334	26.6x	26.6x	20.2x	13.0x	-	10.4x	20.5x	19.7x	14.7x
MU TRAFFIC TECHNOLOGI	340	32.5x	29.5x	28.7x	19.7x	18.5x	16.6x	23.7x	21.7x	19.7x
CONDUENT INC	991	45.8x	13.0x	10.1x	6.7x	5.5x	5.2x	88.0x	12.6x	10.8x
WAG PAYMENT SOLUTION	781	20.9x	17.8x	14.1x	10.9x	8.8x	7.1x	15.7x	12.5x	9.8x
MEDIAN broader peers		27.0x	19.9x	16.2x	12.8x	9.4x	7.3x	20.5x	19.6x	12.2x
Kapsch TrafficCom	185.9	136.9x	19.8x	11.8x	12.6x	9.4x	7.5x	42.5x	17.6x	12.1x
prem. / disc median		nm	-0.6%	-27.5%	-2.2%	-0.1%	2.6%	107.1%	-10.5%	-1.1%
Peers	Share price	P/B			ROE			Dividend yield		
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Q-FREE ASA	0.8	2.0x	1.8x	1.6x	15.4%	6.3%	9.4%	0.0%	-	-
SENSYS GATSO GROUP A	0.1	1.6x	1.4x	1.2x	6.0%	10.0%	13.0%	0.0%	-	-
EDENRED	45.2	-	-	-	-	-43.9%	-75.1%	2.2%	2.2%	2.4%
ITERIS INC	2.7	1.6x	1.5x	1.4x	-	-	-	-	-	-
SINGAPORE TECH ENGINE	2.7	4.9x	5.1x	4.8x	24.3%	23.1%	24.7%	4.0%	3.6%	3.6%
ITERIS INC	2.7	1.6x	1.5x	1.4x	-	-	-	-	-	-
TRAFFIC SYSTEMS SE	33.3	3.2x	3.1x	2.9x	12.9%	12.9%	17.2%	1.7%	1.6%	1.7%
MU TRAFFIC TECHNOLOGI	19.2	4.5x	3.9x	3.4x	-	-	-	0.9%	1.0%	1.1%
CONDUENT INC	4.6	1.0x	0.7x	0.6x	-2.4%	8.2%	8.4%	0.0%	0.0%	0.0%
WAG PAYMENT SOLUTION	1.1	2.9x	2.5x	2.2x	23.0%	14.4%	15.9%	0.3%	0.0%	0.0%
MEDIAN broader peers		2.0x	1.8x	1.6x	14.1%	10.0%	13.0%	0.6%	1.3%	1.4%
Kapsch TrafficCom	14.3	2.0x	1.8x	1.6x	1.5%	9.7%	14.4%	0.0%	0.0%	7.0%
prem. / disc median		-1.7%	1.6%	-3.5%	-90%	-3.5%	10.6%	nm	nm	nm
Per KTC share (EUR) 2022e		8.0								
Per KTC share (EUR) 2023e			15.1							
Per KTC share (EUR) 2024e				15.7						
Period weight		40%	50%	10%						
NPV as of Mar 2022 EUR		12.3								
Cost of Equity		13.5%								
NPV as of Mar 2023 EUR		14.0								

Source: Bloomberg, Erste Group Research

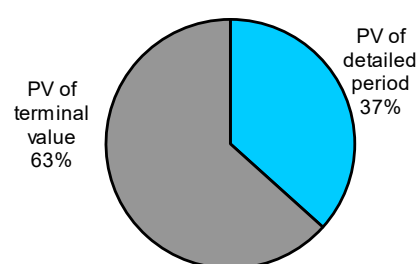
WACC calculation

	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%	2.5%
Equity risk premium	8.7%	8.7%	8.7%	8.7%	8.7%	8.2%
Beta	1.5	1.5	1.5	1.5	1.5	1.4
Cost of equity	13.5%	13.5%	13.5%	13.5%	13.5%	14.0%
Cost of debt	3.0%	3.0%	3.0%	3.0%	3.0%	5.0%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After-tax cost of debt	2.3%	2.3%	2.3%	2.3%	2.3%	3.8%
Equity weight	50%	50%	50%	50%	50%	70%
WACC	7.9%	7.9%	7.9%	7.9%	7.9%	10.9%

DCF valuation

(EUR mn)	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Sales growth	0.3%	18.2%	6.0%	5.0%	6.8%	2.0%
EBIT	20.2	29.3	37.6	41.5	46.3	36.5
EBIT margin	4.0%	4.9%	5.9%	6.2%	6.5%	5.0%
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-5.0	-7.3	-9.4	-10.4	-11.6	-9.1
NOPLAT	15.1	21.9	28.2	31.1	34.7	27.4
+ Depreciation	17.4	17.8	18.2	18.5	18.8	18.8
Capital expenditures / Depreciation	33.2%	32.8%	32.6%	32.4%	32.4%	100.0%
+/- Change in working capital	-3.6	-15.6	-6.3	-4.8	-6.7	-0.7
Chg. working capital / chg. Sales	-204.0%	-16.9%	-17.5%	-14.9%	-14.6%	-5.0%
- Capital expenditures	-5.8	-5.9	-5.9	-6.0	-6.1	-18.8
Free cash flow to the firm	23.2	18.3	34.1	38.9	40.8	26.7
Terminal value growth						2.0%
Terminal value						305.6
Discount factor	0.93	0.86	0.80	0.74	0.68	0.68
Discounted free cash flow - Mar 31 2022	21.5	15.7	27.2	28.7	27.9	209.1
Enterprise value - Mar 31 2022	330.1					
Minorities	-7.0					
Non-operating assets	0.0					
Net debt	185.1					
Germany compensation assumption	100.0					
Equity value - Mar 31 2022	252.0					
Number of shares outstanding (mn)	13.0					
Cost of equity	13.5%					
12M target price per share (EUR)	22.0					
Current share price (EUR)	14.3					
Up/Downside	53.8%					

Enterprise value breakdown



Source: Factset, Erste Group research

Sensitivity (per share)

		Terminal value EBIT margin				
		4.0%	4.5%	5.0%	5.5%	6.0%
WACC	9.9%	20.1	22.2	24.3	26.4	28.5
	10.4%	19.1	21.1	23.1	25.1	27.1
	10.9%	18.3	20.1	22.0	23.9	25.8
	11.4%	17.5	19.3	21.0	22.8	24.6
	11.9%	16.8	18.5	20.2	21.8	23.5
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	9.9%	21.8	23.0	24.3	25.8	27.5
	10.4%	20.9	21.9	23.1	24.4	25.9
	10.9%	20.0	21.0	22.0	23.2	24.5
	11.4%	19.2	20.1	21.0	22.1	23.3
	11.9%	18.5	19.3	20.2	21.1	22.2

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Income Statement	2019	2020	2021	2022e	2023e	2024e
(IAS, EUR mn, 31/03)	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Net sales	737.79	731.18	505.17	507.50	509.25	601.88
Invent. changes + capitalized costs	20.87	-6.12	-6.23	0.00	0.00	0.00
Total revenues	758.66	725.07	498.94	507.50	509.25	601.88
Other operating revenues	15.31	11.35	5.86	12.69	12.73	15.05
Material costs	-323.47	-334.94	-243.46	-203.00	-203.70	-240.75
Personnel costs	-252.71	-269.17	-243.84	-236.53	-238.89	-244.86
Other operating expenses	-126.25	-118.67	-84.65	-51.70	-41.78	-84.20
EBITDA	71.54	13.63	-67.15	28.97	37.61	47.11
Depreciation/amortization	-14.51	-52.80	-56.01	-20.41	-17.41	-17.84
EBIT	57.03	-39.17	-123.16	8.56	20.20	29.27
Financial result	-1.97	-24.28	-9.97	-7.32	-7.15	-5.64
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	55.06	-63.45	-133.13	1.23	13.05	23.62
Income taxes	-8.49	7.73	27.84	-0.37	-3.65	-6.61
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	1.25	7.58	2.41	0.49	0.00	-1.21
Net result after minorities	47.82	-48.14	-102.88	1.36	9.39	15.80
Balance Sheet	2019	2020	2021	2022e	2023e	2024e
(IAS, EUR mn, 31/03)						
Intangible assets	82.87	59.92	36.23	36.03	37.05	37.96
Tangible assets	46.14	97.62	64.80	59.74	61.17	62.34
Financial assets	36.97	45.25	43.55	43.55	43.55	43.55
Total fixed assets	165.98	202.79	144.58	139.32	141.76	143.86
Inventories	64.05	55.66	41.73	42.12	42.27	49.96
Receivables and other current assets	334.55	319.82	261.95	249.30	240.27	279.88
Other assets	18.46	26.29	42.89	43.13	44.18	44.89
Cash and cash equivalents	94.65	122.63	102.01	76.10	75.67	18.00
Total current assets	511.72	524.40	448.58	410.65	402.38	392.73
TOTAL ASSETS	677.70	727.18	593.16	549.97	544.15	536.58
Shareholders'equity	257.16	188.16	91.24	92.60	101.99	117.79
Minorities	1.51	-5.68	-6.48	-6.97	-6.97	-5.76
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	26.13	27.61	25.43	25.93	26.45	26.98
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	139.33	235.29	156.59	176.59	176.59	146.59
Other LT liabilities	18.34	10.34	16.31	8.97	14.84	17.35
Total long-term liabilities	157.67	245.62	172.89	185.56	191.42	163.94
Interest-bearing ST debts	29.93	64.29	115.95	60.20	50.00	20.00
Other ST liabilities	205.29	207.17	194.13	192.65	181.25	213.64
Total short-term liabilities	163.43	210.91	258.72	201.25	179.48	172.44
TOTAL LIAB. , EQUITY	677.70	727.18	593.16	549.97	544.15	536.58
Cash Flow Statement	2019	2020	2021	2022e	2023e	2024e
(IAS, EUR mn, 31/03)						
Cash flow from operating activities	-39.54	33.38	11.11	29.62	29.62	22.27
Cash flow from investing activities	-24.22	-31.00	-6.79	-5.78	-5.86	-5.93
Cash flow from financing activities	-20.82	31.44	-26.83	-49.75	-24.20	-74.00
CHANGE IN CASH , CASH EQU.	-87.18	27.98	-20.62	-25.91	-0.43	-57.66
Margins & Ratios	2019	2020	2021	2022e	2023e	2024e
Sales growth	6.4%	-0.9%	-30.9%	0.5%	0.3%	18.2%
EBITDA margin	9.4%	1.9%	-13.5%	5.7%	7.4%	7.8%
EBIT margin	7.5%	-5.4%	-24.7%	1.7%	4.0%	4.9%
Net profit margin	6.1%	-7.7%	-21.1%	0.2%	1.8%	2.8%
ROE	19.6%	-21.6%	-73.6%	1.5%	9.7%	14.4%
ROCE	15.3%	-9.2%	-28.7%	2.1%	5.1%	7.2%
Equity ratio	38.2%	25.1%	14.3%	15.6%	17.5%	20.9%
Net debt	99.6	202.8	194.4	185.1	175.9	174.0
Working capital	329.8	287.2	147.0	166.3	178.7	175.4
Capital employed	376.6	395.6	295.5	279.7	285.7	303.4
Inventory turnover	6.3	5.6	5.0	4.8	4.8	5.2

Source: Company data, Erste Group estimates

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Company description

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