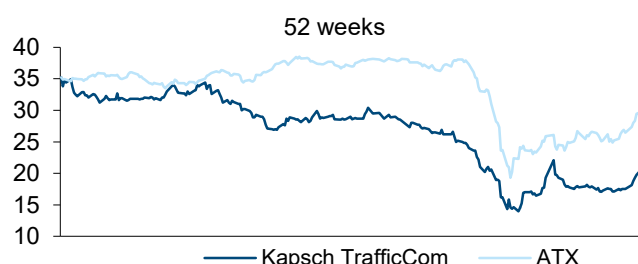


Kapsch TrafficCom

from Hold to Accumulate

EUR mn	2019	2020e	2021e	2022e
Net sales	737.8	730.8	705.6	744.9
EBITDA	71.5	18.4	50.7	67.6
EBIT	57.0	-38.0	21.9	38.6
Net result after min.	47.8	-34.0	7.5	20.5
EPS (EUR)	3.68	-2.61	0.58	1.57
CEPS (EUR)	4.76	1.77	2.83	3.85
BVPS (EUR)	19.78	15.31	15.64	16.21
Div./share (EUR)	1.50	0.25	1.00	1.50
EV/EBITDA (x)	6.9	23.0	7.7	5.8
P/E (x)	8.2	nm	35.1	12.9
P/CE (x)	6.3	11.5	7.2	5.3
Dividend Yield	5.0%	1.2%	4.9%	7.4%
Share price (EUR) close as of 11/06/2020				20.3
Number of shares (mn)				13.0
Market capitalization (EUR mn)				263.9
Enterprise value (EUR mn)				424.4



Performance	12M	6M	3M	1M
in EUR	-42.3%	-29.3%	8.0%	16.7%
Reuters	KTCG.VI	Free float	21.7%	
Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)	
Div. Ex-date	13/09/20			Axxion SA (8.4%)
Target price	23.0	Homepage:	www.kapsch.net	

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Green Deal means green light

The Green Deal and the Green Recovery are bright spots on the horizon with the potential to provide KTC's business model a significant boost going forward. This should help raising attention within the investment community, which is why we raise KTC to **Accumulate** (from Hold) even when reducing the **target price to EUR 23** (from EUR 30).

Many projects have not developed as expected and it might take some more quarters for KTC to return to growth and compensate the loss Czech ETC system business, the adverse development in Zambia and the understaffing in the US.

The recovery post COVID-19 and the shaping of the Green Deal adds significant funds to be also used to decarbonize road transport. KTC is best positioned for Intelligent Transportation initiatives both in urban areas and highways.

The project pipeline looks attractive, both in Europa and the US. The Croatian and Polish ETC system tenders seem next to be kicked off in Europe. The positive dynamics in the US continues.

The reimbursement of the cancelled German ETC tender remains a sizeable potential for KTC that could add about 50% to the market cap.

KTC will publish FY19/20 figures on June 16, which should confirm prelim, figures. The focus will be on the outlook.

Is COVID-19 accelerator for KTC?

One cannot say that KTC has been extremely fortunate recently. The cancellation of the German ETC contracts came alongside the South African ETC tender that saw KTC as the best bidder, the lack of cooperation from the Zambian authorities (halting the implementation of the largest IMS project in KTC's portfolio), the lack of staff to implement the good order intake in the US, and delays implementing a software solution for one of the US projects.

While the above-mentioned project and related issues had the potential to (over-)compensate for the maturing large-scale contracts (e.g. the Czech, or - going forward - the Polish ETC projects) at KTC, their unfavorable development prevented it. The reason why these projects have not met expectations are various and KTC needs to at least neutralize their development and focus on new potentials in order to return to growth mode at reasonable profitability.

And now COVID-19 comes on top...lockdown and unemployment

The most obvious negative short-term impacts seem to be a delay of new tenders or even a halt and hence the delay of running projects that would have KTC bear at least part of the costs. The increasing unemployment numbers in the US could, on the other hand, help KTC to finally add the needed staff to work off the growing order book. The strongest negative impact could stem from a halt and hence delay of running projects that would have KTC bear at least part of the costs.

Social distancing has influenced mobility, as people have been sticking to private transport such as personal cars, but also to more environmentally friendly (e-)biking or walking. As social distancing measures are likely to stay with us for some time, it will pose a challenge to managing city transport in light of the trend towards environmentally friendly mobility solutions in the short term.

Obviously, there are expectations that cashless tolling will receive a boost in demand, to the detriment of manual tolling booths (e.g. [Maryland](#), [Illinois](#), [Bristol](#)). There are already cases with a permanent shift to electronic tolling only (e.g. [Pennsylvania turnpike](#), [Maryland Bay Bridge](#)), due to the need to cut back OPEX sustainably. This argument adds to smoother and more environmentally friendly travel on toll roads as compared to manual tolling booths that require drivers to slow down, eventually queue, and stop to pay the toll.

It is not by chance that we have only picked examples in the US, as the dynamic is very high with regards to new electronic tolling initiatives. Given the fragmented landscape of public and private road authorities, the US is much more agile than Europe, where tolling is very much in the hands of public authorities.

In medium / long term...

From a more sustainable point of view, COVID-19 could be the trigger to rethink current mobility concepts and accelerate the implementation of intermodal mobility, especially in cities. That is where smart mobility solutions with access to real-time information, processing huge data volumes simultaneously for urban mobility within the social distancing context come into play. Transport on-demand solutions will help meet different users' needs. The tendency to reduce the use of private transport through the adoption of innovative vehicle technologies, traffic

management systems, interconnected and interoperable applications that will allow dealing with mobility as a service (MaaS), is expected to prevail.

Green Deal & Green Recovery

The Green Deal is starting to take shape and it will also have an impact on transportation. The at least EUR 1tn investment volume aims to reach climate neutrality by 2050 (net-zero greenhouse gas emissions). Major cornerstones that would also fuel demand for KTC would be:

- Multimodal transport in urban areas (i.e. MaaS)
- Digitalization of transport infrastructure (Intelligent Transportation System)
- Road pricing (user and polluter pays principle).

The Green Recovery aims to combine the post COVID-19 economic stimulation and the ideas of the Green Deal. In total, a EUR 750bn recovery package was announced by the EU. We have not yet seen any breakdown on environmental transport project volumes, but it seems clear to us that KTC will be a beneficiary of such a development. To what extent and when we will see increasing demand translating into an increasing order book and business for KTC is hard to assess at the moment.

Case study: London mobility zones to be expanded countrywide

The first three cities/zones for the concept of a future transport zone have been chosen. It will be the West of England Combined Authority (Portsmouth & Southampton), Derby and Nottingham. The combined budget is GBP 90mn (EUR 102mn) for all three zones, so some GBP 30mn each. In a call for evidence on micro mobility, three areas are being investigated as part of a future urban mobility concept:

- micro mobility vehicles (e.g. e-Scooters)
- flexible bus services
- mobility as a service (MaaS)

For KTC, the gradual expansion of mobility zones (not only in the UK), which are parts of an integral Smart City concept, represent growth potential going forward within its IMS division's smart mobility offer in general, or its MaaS and Urban Mobility Solutions specifically for the new UK mobility zones.

UK Clean Air Zones

Another development in the UK is the introduction of Clean Air Zones (CAZ) in multiple regions/cities. These projects aim to introduce a levy (toll) for entering specific zones for heavy goods vehicles (HGV) and taxis, but not personal cars. While Cities like Southampton, Derby and Bristol are continuing to implement such zones, others such as Greater Manchester, Bath, Coventry and Birmingham have delayed a solution, due to COVID-19. Last but not least, London is aiming to create one of the largest car-free zones in any capital city worldwide.

Change in estimates

Our new estimates obviously reflect the already published [preliminary figures for FY19/20p](#) (FY20p) and the assumed impact from understaffing in the US that is likely to continue well into 1H20/21.

The staffing situation in the US seems to have already improved quite a bit, as the number of open jobs for the US entities only amount to 26 to-date on LinkedIn. A few months ago, KTC was still in need of 50-70 additional employees. Once the new staff is on board, it will likely take some 3-6 months until they generate the required output.

For Zambia, we have become very cautious and have almost eliminated all revenues for the time being, as KTC has completely written off the project. We have nevertheless increased our top line estimates going forward (compared to our previous assumptions), due to the obvious potentials from the Green Deal, Green Recovery and positive dynamics for electronic toll collection and intelligent transportation systems. Compared to FY19/20, we expect the current year to witness a small drop in revenues and a return to growth in FY21/22e.

The project pipeline in Europe has a number of ETC system tenders to be launched going forward: Croatia (microwave), Poland (satellite), the Netherlands and France. Ultimately, the EU aims to have electronic, interoperable road user charging implemented in all European countries by 2026/27.

Profitability-wise, we have scaled back our expectations to reflect the understaffing in the US and the lacking business to compensate for the very profitable Czech ETC contract that expired in early December 2019 (3Q19/20). We should still see a sound improvement in FY20/21e y/y, as many negative profitability contributions still seen in FY19/20p have been eliminated or reduced. Going forward, we remain well below KTC's EBIT margin target of 10%, as we need to gain better visibility in this respect before we pencil such an improvement into our model.

After the already announced DPS of EUR 0.25 for FY19/20, we expect KTC to return to its dividend policy of paying out at least EUR 1.00 per share in the coming years.

Net debt is a bit elevated and definitely higher than one would expect for KTC, but payment schedules of running projects (e.g. Bulgaria, US) and improved EBITDA should help reduce net debt in the current FY20/21.

Change in estimates

Consolidated, IFRS (EUR, mn)	2019/20p = FY20p			2020/21e = FY21e			2021/22e = FY22e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Revenues	730.8	775.7	-5.8%	706.0	687.7	2.7%	745.3	697.4	6.9%
EBITDA	18.4	69.3	-73.4%	50.7	60.9	-16.8%	67.7	71.8	-5.8%
EBITDA margin	2.5%	8.9%	-71.8%	7.2%	8.9%	-19.0%	9.1%	10.3%	-11.8%
EBIT	-38.0	35.1	-208.2%	21.9	32.5	-32.5%	38.6	44.9	-14.1%
EBIT margin	-5.2%	4.5%	-214.9%	3.1%	4.7%	-34.3%	5.2%	6.4%	-19.6%
Net profit	-34.0	20.4	-266.9%	7.5	16.3	-53.9%	20.5	26.8	-23.4%
Net margin	-4.7%	2.6%	-277.2%	1.1%	2.4%	-55.1%	2.7%	3.8%	-28.4%
EPS	-2.61	1.57	-266.9%	0.58	1.26	-53.9%	1.58	2.06	-23.4%
EPS adjusted	0.56	1.57	-64.3%	0.58	1.26	-53.9%	1.58	2.06	-23.4%
DPS	0.25	1.00	-75.0%	1.00	1.00	0.0%	1.50	1.50	0.0%

Source: Erste Group Research

Valuation

We continue to assume EUR 30mn as a reimbursement from the cancelled German ETC system in our TV assumptions. This compares to overall claims of both JV partners of EUR 560mn, but does not cover claims for the enforcement of the German ETC system that was awarded to KTC alone. We believe KTC has good chances to receive a net reimbursement in a triple-digit EUR mn amount, which would translate into about 50% of the current market value. It still seems that the arbitration tribunal will take some time until it comes to a decision.

Opportunistically, we believe that it makes sense to build up a position in KTC even if there is not much visibility. The general market environment is brightening, offering interesting growth potential for KTC.

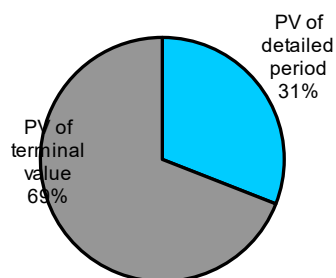
WACC calculation

	2021e	2022e	2023e	2024e	2025e	2026e (TV)
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%	1.5%
Equity risk premium	8.3%	8.3%	8.3%	8.3%	8.3%	7.5%
Beta	1.4	1.4	1.4	1.4	1.4	1.3
Cost of equity	12.1%	12.1%	12.1%	12.1%	12.1%	11.3%
Cost of debt	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%
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%	3.0%
Equity weight	85%	85%	85%	85%	85%	100%
WACC	10.6%	10.6%	10.6%	10.6%	10.6%	11.3%

DCF valuation

(EUR mn)	2021e	2022e	2023e	2024e	2025e	2026e (TV)
Sales growth	-3.4%	5.6%	2.6%	3.4%	3.4%	2.0%
EBIT	21.9	38.6	50.2	51.3	54.1	58.3
EBIT margin	3.1%	5.2%	6.6%	6.5%	6.6%	7.0%
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-5.5	-9.7	-12.5	-12.8	-13.5	-14.6
NOPLAT	16.4	29.0	37.6	38.5	40.6	43.8
+ Depreciation	28.8	29.1	29.3	29.5	29.7	29.7
Capital expenditures / Depreciation	103.6%	103.0%	102.5%	102.2%	101.9%	100.0%
+/- Change in working capital	33.1	-7.1	-4.9	-5.1	-5.4	-0.8
Chg. working capital / chg. Sales	-133.3%	-18.0%	-25.4%	-19.7%	-20.3%	-5.0%
- Capital expenditures	-29.8	-29.9	-30.0	-30.1	-30.2	-29.7
Free cash flow to the firm	48.4	21.0	32.0	32.7	34.6	42.9
Terminal value growth						2.0%
Terminal value						471.0
Discount factor	0.90	0.82	0.74	0.67	0.60	0.60
Discounted free cash flow - Mar 31 2020	43.8	17.2	23.6	21.8	20.9	284.1
Enterprise value - Mar 31 2020	411.5					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	175.5					
Q-Free@BV + Germany (EUR 30mn)	34.7					
Equity value - Mar 31 2020	270.7					
Number of shares outstanding (mn)	13.0					
Cost of equity	12.1%					
12M target price per share (EUR)	23.0					
Current share price (EUR)	20.3					
Up/Downside	13.3%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		6.0%	6.5%	7.0%	7.5%	8.0%
WACC	10.3%	22.0	24.0	26.0	28.0	30.0
	10.8%	21.0	22.0	24.0	26.0	28.0
	11.3%	19.0	21.0	23.0	25.0	26.0
	11.8%	18.0	20.0	22.0	23.0	25.0
	12.3%	17.0	19.0	21.0	22.0	24.0
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	10.3%	23.0	24.0	26.0	28.0	30.0
	10.8%	21.0	23.0	24.0	26.0	28.0
	11.3%	20.0	22.0	23.0	24.0	26.0
	11.8%	19.0	20.0	22.0	23.0	25.0
	12.3%	18.0	19.0	21.0	22.0	23.0

Source: Factset, Erste Group research

Erste Group Research – Company Report
Kapsch TrafficCom | Technology Hardware | Austria
15 June 2020

Income Statement	2017	2018	2019	2020e	2021e	2022e
(IAS, EUR mn, 31/03)	31/03/2017	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022
Net sales	648.48	693.26	737.79	730.80	705.58	744.90
Invent. changes + capitalized costs	4.96	3.19	20.87	0.00	0.00	0.00
Total revenues	653.44	696.44	758.66	730.80	705.58	744.90
Other operating revenues	25.05	21.03	15.31	18.27	17.64	18.62
Material costs	-242.15	-279.81	-323.47	-292.32	-275.18	-290.51
Personnel costs	-224.17	-237.88	-252.71	-214.80	-171.84	-154.66
Other operating expenses	-134.36	-134.91	-126.25	-223.51	-225.53	-250.71
EBITDA	77.82	64.87	71.54	18.44	50.68	67.65
Depreciation/amortization	-17.72	-14.81	-14.51	-56.42	-28.80	-29.08
EBIT	60.10	50.06	57.03	-37.98	21.88	38.57
Financial result	0.53	-5.86	-1.97	-15.58	-10.60	-10.61
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	60.64	44.20	55.06	-53.56	11.28	27.96
Income taxes	-17.95	-16.16	-8.49	3.03	-3.10	-6.08
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.93	0.65	1.25	16.54	-0.67	-1.41
Net result after minorities	43.61	28.68	47.82	-33.99	7.51	20.47
Balance Sheet	2017	2018	2019	2020e	2021e	2022e
(IAS, EUR mn, 31/03)						
Intangible assets	71.99	70.80	82.87	66.41	66.56	66.76
Tangible assets	23.75	21.79	46.14	79.95	80.85	81.51
Financial assets	24.13	33.48	36.97	30.97	30.97	30.97
Total fixed assets	119.87	126.07	165.98	177.33	178.37	179.24
Inventories	39.25	38.89	64.05	58.46	45.86	48.42
Receivables and other current assets	266.42	261.96	334.55	312.05	251.89	258.48
Other assets	11.94	12.40	18.46	18.46	18.46	18.46
Cash and cash equivalents	211.30	181.83	94.65	64.99	96.53	98.13
Total current assets	528.92	495.08	511.72	453.97	412.75	423.49
TOTAL ASSETS	648.79	621.15	677.70	631.30	591.12	602.73
Shareholders'equity	228.36	230.97	257.16	199.04	203.30	210.77
Minorities	-1.05	-1.05	1.51	-15.03	-14.36	-12.95
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	23.95	23.71	26.13	26.65	27.18	27.72
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	97.48	141.76	139.33	160.00	160.00	160.00
Other LT liabilities	23.27	15.11	18.34	10.32	9.30	9.41
Total long-term liabilities	120.76	156.87	157.67	170.32	169.30	169.41
Interest-bearing ST debts	97.90	26.67	29.93	55.00	50.00	50.00
Other ST liabilities	178.88	183.97	205.29	195.32	155.71	157.78
Total short-term liabilities	173.30	97.88	163.43	179.20	137.04	135.28
TOTAL LIAB. , EQUITY	648.79	621.15	677.70	631.30	591.12	602.73
Cash Flow Statement	2017	2018	2019	2020e	2021e	2022e
(IAS, EUR mn, 31/03)						
Cash flow from operating activities	54.97	41.82	-39.54	30.05	69.63	44.54
Cash flow from investing activities	-52.01	-23.03	-24.22	-33.05	-29.85	-29.94
Cash flow from financing activities	63.71	-43.89	-20.82	-26.66	-8.25	-13.00
CHANGE IN CASH , CASH EQU.	70.52	-29.46	-87.18	-29.66	31.54	1.60
Margins & Ratios	2017	2018	2019	2020e	2021e	2022e
Sales growth	23.3%	6.9%	6.4%	-0.9%	-3.5%	5.6%
EBITDA margin	11.9%	9.3%	9.4%	2.5%	7.2%	9.1%
EBIT margin	9.2%	7.2%	7.5%	-5.2%	3.1%	5.2%
Net profit margin	6.5%	4.0%	6.1%	-6.9%	1.2%	2.9%
ROE	19.3%	12.5%	19.6%	-14.9%	3.7%	9.9%
ROCE	18.8%	12.4%	15.3%	-13.4%	4.5%	8.8%
Equity ratio	35.0%	37.0%	38.2%	29.1%	32.0%	32.8%
Net debt	4.4	7.5	99.6	175.5	139.5	138.5
Working capital	343.7	384.8	329.8	256.3	257.2	269.7
Capital employed	255.0	252.5	376.6	369.8	337.8	345.7
Inventory turnover	6.5	7.2	6.3	4.8	5.3	6.2

Source: Company data, Erste Group estimates

Erste Group Research – Company Report
Kapsch TrafficCom | Technology Hardware | Austria
15 June 2020
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Company description

Kapsch TrafficCom is among the market leaders in Electronic Toll Collection (ETC) systems and the clear no.1 worldwide in Dedicated Short Range Communication (DSRC). KTC has an strong track record of winning 5 out of 11 nationwide ETC systems in Europe (SUI, AUT, CZE, POL, BLR) and supplies the worldwide biggest interoperable ETC system - the E-ZPass system in the USA. KTC's solutions combine an excellent performance rate & low operating costs. KTC always strives to be technologically independent.

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