

Kapsch TrafficCom

Accumulate

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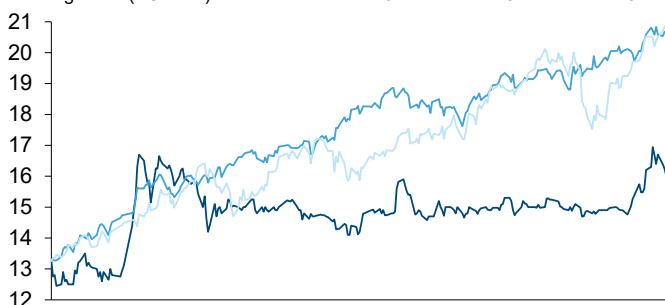
Share price (EUR) close as of 17/11/2021	16.0	Reuters	KTCG.VI	Free float	29.6%
Number of shares (mn)	13.0	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Market capitalization (EUR mn)	208.0	Div. Ex-date		Shareholder Value Mgmt AG (7.1%)	
Enterprise value (EUR mn)	400.1	Target price	17.5	Homepage:	www.kapsch.net

Key figures Overview

EUR mn	2021	2022e	2023e	2024e
Net sales	505.2	547.6	611.2	673.8
EBITDA	-67.1	38.2	56.4	61.9
EBIT	-123.2	17.1	36.9	40.5
EBT	-133.1	9.4	29.4	34.7
Net profit	-102.9	8.0	24.4	27.5
EPS (EUR)	-7.91	0.62	1.88	2.12
CEPS (EUR)	-5.10	2.28	3.80	4.42
BVPS (EUR)	7.02	7.64	9.52	11.63
Dividend/Share (EUR)	0.00	0.00	0.00	1.00
EV/EBITDA (x)	-5.68	10.48	6.96	5.79
P/E (x)	nm	25.84	8.52	7.55
P/CE (x)	-2.92	7.02	4.21	3.62
Dividend yield (%)	0.00	0.00	0.00	6.25
EBITDA margin (%)	-13.46	6.97	9.23	9.18
Operating margin (%)	-24.68	3.12	6.04	6.01
Net profit margin (%)	-21.10	1.38	3.99	4.27

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	6,289	10,107	13,412
Trading value (EUR mn)	0.1	0.2	0.2



—Kapsch TrafficCom —ATX —DJ EURO STOXX Technology

Price performance:	1M	3M	6M	12M
in EUR	6.8%	5.3%	11.4%	20.8%

Financial Strength

	2021	2022e	2023e	2024e
ROE (%)	-73.64	8.45	21.90	20.04
ROCE (%)	-28.73	4.50	9.62	10.39
Equity ratio (%)	14.29	16.18	19.80	25.08
Net debt (EUR mn)	194.43	199.12	191.48	156.11
Gearing (%)	229.39	215.70	164.04	107.30

Post-restructuring phase confirmed

With its 2Q21/22 figures **KTC confirmed its successful turn-around**. Due to some **negative adjustments we lowered our FY21/22 estimates but confirm both our Accumulate recommendation as well as our target price of EUR 17.5**

2021/22 guidance introduced: KTC introduced a FY22 guidance of EUR 550mn in revenue at 3% EBIT margin or EUR 16.5mn EBIT in absolute terms.

The new FY22 guidance implies growing revenue in 2H vs 1H22, while EBIT margin is expected to decrease due especially to the concluded, highly profitably PL ETC operation contract.

While KTC still needs to prove it can expand its business and monetize on the very favorable environment, we believe KTC has the right approach and solutions for decarbonizing the transport industry and it should just be a matter of time until we see this strong market position translate into growing business.

We should also not forget that a settlement in Germany could be only months / quarters ahead, potentially compensating KTC dearly for the cancelled ETC contract

Post-restructuring phase confirmed

2Q21/22 (“2Q22”) has more or less lived up or even exceeded our expectations, on both top and profitability lines, when adjusting the posted figures for the communicated negative one-offs amounting to EUR ~5mn (terminated customer project) on the top line and EUR 4mn (terminated lease contract, stopped customer project, patent dispute settlement) on EBIT level. On the CC, KTC mentioned an order intake of EUR 140mn in 1H22, explaining the decrease of the order backlog to EUR 1.3bn vs EUR 1.4bn seen in 1H21.

Segment view: The segment detail discloses a strong favorable development for traffic management, especially when reflecting on the double digit EBIT margin displayed the second quarter in a row. The tolling segment still suffers from lower profitability (adj. EBIT margin in 2Q/1H22 of 1.7%/2.0%) from especially lower OBU / component sales and a lacking overall scale.

KTC: 2Q & 1H22 business trend y/y

30.06.2021	Quarterly			YTD			Cons.	EGR	KTC vs
EURmn	2Q 22	2Q 21	y/y	1-2Q 22	1-2Q 21	y/y	2Q 22e	2Q 22e	EGR
Revenues	128.4	119.0	7.9%	255.2	257.5	-0.9%	133.9	127.2	0.9%
- Tolling segment	91.4	84.6	8.0%	181.0	190.6	-5.0%	-	-	n.a.
- Traffic Mgmt segment	37.0	34.4	7.6%	74.2	66.9	10.9%	-	-	n.a.
EBITDA	9.4	-15.6	nm	21.4	-20.3	nm	-	12.0	n.a.
EBIT	4.0	-46.5	nm	10.6	-57.8	nm	6.2	6.6	-39%
- Tolling segment	-1.8	-43.2	nm	1.3	-52.1	nm	-	-	n.a.
- Traffic Mgmt segment	5.9	-3.3	nm	9.3	-5.7	nm	-	-	n.a.
Adj. EBIT	8.0	-2.5	nm	14.6	-4.8	nm	-	6.6	21%
PTP	3.2	-62.1	nm	7.7	-66.2	nm	-	0.0	n.a.
Net profit	-0.2	-43.8	nm	3.0	-54.0	nm	-	3.8	-105%
Adj. Net profit	2.8	-10.8	nm	6.0	-14.2	nm	-	3.8	-26%
EBITDA %	7.3%	-13.1%		8.4%	-7.9%		-	9.5%	
EBIT%	3.1%	-39.1%		4.2%	-22.4%		4.6%	5.2%	
ETC EBIT %	-2.0%	-51.1%		0.7%	-27.3%		-	-	
IMS EBIT %	15.8%	-9.6%		12.5%	-8.5%		-	-	
adj. EBIT%	6.0%	-1.8%		5.6%	-1.7%		-	5.2%	

Source: company data, Erste Group Research

FY22 guidance introduced: KTC announced a FY22 guidance of EUR 550mn in revenue at 3% EBIT margin or EUR 16.5mn EBIT in absolute terms. This new guidance reflects the severance payment of about EUR 2.5mn related to leaving COO André Laux and the above mentioned negative one-offs to some extent. It also reflects on the concluded ETC PL operations contract, which seems to have carried a favorable profitability.

2H22 implied: The communicated FY22 guidance implies a revenue of about EUR 290mn, which translates into an increase of about 12% in 2H vs the adj. 1H22 of EUR 260mn. On EBIT level, KTC expects an adj. EBIT of EUR 9mn (adj. relates to EUR 2.5mn severance payment) vs. the adjusted EUR 14.5mn. Margin-wise, the guidance implies an adj. EBIT margin of 2.9% in 2H22 vs. 5.6% in 1H22.

The higher revenue in 2H22 is expected to come from an increasing tolling segment vs. 1H22, e.g a design&build contract was mentioned on the CC (EUR 16mn tolling contract in Colombia) and a gradually improving component, especially OBU business, albeit the chip shortages continue to hamper full OBU production (currently 85% capacity utilization, a few millions of undelivered OBU orders on the book). The guided implied profitability decline hints either at a **very** profitable PL operations contract in

Poland or some caution regarding OBU sales and profitability of order intake in the coming months, as no additional one-offs are now expected for 2H22.

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	547.6	543.0	0.9%	611.2	611.1	0.0%	673.8	673.8	0.0%
EBITDA	38.2	41.0	-7.0%	56.4	56.5	-0.1%	61.9	61.9	-0.1%
EBITDA margin	7.0%	7.6%	-7.8%	9.2%	9.2%	-0.1%	9.2%	9.2%	-0.1%
EBIT	17.1	20.0	-14.4%	36.9	36.9	-0.1%	40.5	40.5	-0.1%
EBIT margin	3.1%	3.7%	-15.1%	6.0%	6.0%	-0.1%	6.0%	6.0%	-0.1%
Net profit	8.0	10.4	-22.3%	24.4	24.5	-0.2%	27.5	27.6	-0.2%
Net margin	1.5%	1.9%	-22.9%	4.0%	4.0%	-0.2%	4.1%	4.1%	-0.2%
EPS	0.62	0.80	-22.3%	1.88	1.88	-0.2%	2.12	2.12	-0.2%
EPS adjusted	0.99	0.80	24.1%	1.88	1.88	-0.2%	2.12	2.12	-0.2%
DPS	0.00	0.00	nm	0.00	0.00	nm	1.00	1.00	0.0%

Source: Erste Group Research

We have slightly adjusted our estimates for FY22 to cope with the latest developments. For the coming years are all but worth mentioning as there is no change in visibility that we could start reflecting in our estimates. In any case, our estimates beyond FY22 will strongly depend on KTC's ability to monetize on the very favorable environment for solutions supporting decarbonization.

Valuation

The changes in our valuation assumptions relate mainly to the adjusted months for compounding the discounted FCF. For the time being we do not see a reason to change our stance on the stock, nor have our minor adjustments have had an impact on our target price.

We believe KTC should be one of the beneficiaries of the decarbonization of the transport industry, albeit the company still needs to prove it can successfully grow its business. Consequently, we confirm our Accumulate rating at a target price of EUR 17.5.

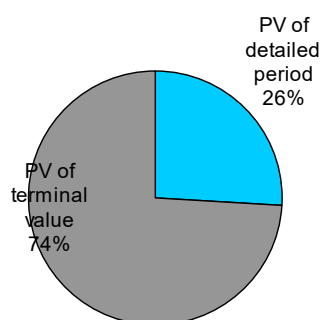
WACC calculation

	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%	1.5%
Equity risk premium	8.9%	8.9%	8.9%	8.9%	8.9%	8.4%
Beta	1.4	1.4	1.4	1.4	1.4	1.3
Cost of equity	13.0%	13.0%	13.0%	13.0%	13.0%	12.4%
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	45%	45%	45%	45%	45%	80%
WACC	7.1%	7.1%	7.1%	7.1%	7.1%	10.5%

DCF valuation

(EUR mn)	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Sales growth	11.6%	10.2%	7.9%	4.4%	3.4%	2.0%
EBIT	36.9	40.5	46.5	50.4	53.2	48.0
EBIT margin	6.0%	6.0%	6.4%	6.6%	6.8%	6.0%
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-9.2	-10.1	-11.6	-12.6	-13.3	-12.0
NOPLAT	27.7	30.4	34.9	37.8	39.9	36.0
+ Depreciation	19.5	21.4	22.9	24.1	25.1	25.1
Capital expenditures / Depreciation	127.1%	135.0%	126.3%	120.2%	115.8%	100.0%
+/- Change in working capital	-16.9	-5.0	12.7	-4.2	4.1	-0.8
Chg. working capital / chg. Sales	-26.6%	-8.0%	23.8%	-13.1%	15.9%	-5.0%
- Capital expenditures	-24.8	-28.9	-28.9	-29.0	-29.1	-25.1
Free cash flow to the firm	5.5	17.9	41.5	28.7	40.0	35.2
Terminal value growth						2.0%
Terminal value						421.5
Discount factor	0.93	0.87	0.81	0.76	0.71	0.71
Discounted free cash flow - Mar 31 2021	5.2	15.6	33.8	21.8	28.4	299.2
Enterprise value - Mar 31 2021	404.0					
Minorities	-6.5					
Non-operating assets	0.0					
Net debt	199.1					
Equity value - Mar 31 2021	211.3					
Number of shares outstanding (mn)	13.0					
Cost of equity	13.0%					
12M target price per share (EUR)	17.5					
Current share price (EUR)	15.5					
Up/Downside	12.9%					

Enterprise value breakdown



Source: Factset, Erste Group research

Sensitivity (per share)

		Terminal value EBIT margin				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC	9.5%	16.0	18.4	20.7	23.1	25.5
	10.0%	14.5	16.8	19.0	21.2	23.5
	10.5%	13.3	15.4	17.5	19.6	21.7
	11.0%	12.1	14.1	16.1	18.1	20.1
	11.5%	11.1	13.0	14.9	16.8	18.6
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	9.5%	17.2	18.9	20.7	22.9	25.4
	10.0%	15.9	17.3	19.0	20.9	23.0
	10.5%	14.7	16.0	17.5	19.1	21.0
	11.0%	13.6	14.8	16.1	17.6	19.3
	11.5%	12.6	13.7	14.9	16.2	17.7

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Kapsch TrafficCom | Technology Hardware | Austria
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Erste Group Research – Company Update

Kapsch TrafficCom | Technology Hardware | Austria

19 November 2021

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 a 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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