

Kapsch TrafficCom

Buy

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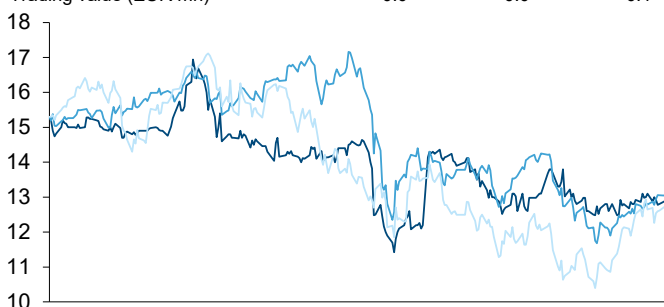
Share price (EUR) close as of 16/08/2022	12.9	Reuters	KTCG.VI	Free float	36.7%
Number of shares (mn)	13.0	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Market capitalization (EUR mn)	167.4	Div. Ex-date			
Enterprise value (EUR mn)	339.0	Target price	20.0	Homepage:	www.kapsch.net

Key figures Overview

EUR mn	2022	2023e	2024e	2025e
Net sales	519.8	514.6	607.2	642.9
EBITDA	32.7	32.1	47.9	56.0
EBIT	11.0	12.6	29.7	38.0
EBT	5.3	7.7	23.3	31.5
Net profit	-9.3	5.6	15.6	20.6
EPS (EUR)	-0.72	0.43	1.20	1.59
CEPS (EUR)	0.98	1.92	2.58	3.11
BVPS (EUR)	6.40	6.83	8.03	8.61
Dividend/Share (EUR)	0.00	0.00	1.00	1.00
EV/EBITDA (x)	11.12	10.56	7.07	6.00
P/E (x)	nm	30.09	10.75	8.11
P/CE (x)	14.53	6.72	4.99	4.14
Dividend yield (%)	0.00	0.00	7.76	7.76
EBITDA margin (%)	6.32	6.24	7.88	8.71
Operating margin (%)	2.13	2.45	4.89	5.90
Net profit margin (%)	-1.19	1.08	2.76	3.53

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	771	1,772	6,432
Trading value (EUR mn)	0.0	0.0	0.1



—Kapsch TrafficCom —ATX —DJ EURO STOXX Technology

Price performance:	1M	3M	6M	12M
in EUR	0.6%	0.8%	-11.2%	-15.8%

Financial Strength

	2022	2023e	2024e	2025e
ROE (%)	-10.68	6.47	16.13	19.09
ROCE (%)	-4.55	3.87	7.48	9.18
Equity ratio (%)	15.21	16.16	18.36	19.35
Net debt (EUR mn)	182.48	176.81	175.10	170.66
Gearing (%)	234.24	211.84	174.67	155.23

Cost pressure building up in transition year

The 1Q22/23 (“1Q23”) trading statement revealed a **margin decline due to intensifying cost pressure building up from increasing personal costs. We expect cost pressure to impact profitability going forward and reduce our target price to EUR 20, from EUR 22 previously.**

Our Buy call is confirmed as we continue to expect KTC to receive **sizeable triple digit EURmn compensation** for the unlawfully cancelled German ETC contract.

1Q23 recap: Revenue up 3% y/y, driven by an increasing component business and FX tailwind (USD). EBIT margin at 0.4%, down from 5.2% last year.

FY23e: While confirming our top line assumptions, we lowered our EBIT margin expectations to 2.5% from 4% previously, reflecting on the increasing pax cost pressure. We see an increased risk of further project impairments due to the increasing cost pressure.

We have left our estimates for FY24ff rather unchanged.

We continue to regard FY23 as transition year. KTC needs to increase business volumes in order to expand margins. For now, Americas and APAC show good market dynamics, in Europa market activity is still muted.

Post 1Q22/23 adjustments

1Q23 recap – cost pressure building up

KTC's business development in 1Q23 was impacted by several, partially adverse factors:

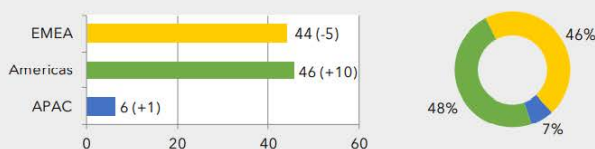
- **Tender activity:** Favorable dynamics in the Americas and APAC, still muted in Europe
- **Revenue:** Increasing component business and FX tailwind (USD) helped off-set especially the concluded Polish ETC business in 2H22. Revenue in 1Q23 was up 3% overall, y/y.
- **Divisional development:**
 - **Tolling:** Implementation (+19% y/y) and component business (On-board-units; +23% y/y) picked up, Tolling business up 7% y/y, EBIT but profitability now negative due to especially US personal costs.
 - **Traffic Management:** Operations (+13% y/y) increased, implementation and components declined (-30% and -14% y/y, respectively). Segment revenue down 7% y/y, EBIT margin still at very favorable 6% (-3pp y/y), albeit down as well.
- **Operating profitability:** Personal costs (Americas) increases showed responsible for the margin pressure.
- **Net debt at about flattish y/y, at EUR 184mn.** Equity ratio down to 14%, (FY22: 15%; 1Q22: 16%).
- **The seasonal pattern looks similar to last year and also historically the starting quarter is one of the weaker ones during a fiscal year.**

1Q23 KTC segment development

TOLLING.

	2021/22	Q1 2021/22	Q1 2022/23	+/-
Revenues	370	90	96	7%
Implementation	89	20	24	19%
Operations	205	54	52	-2%
Components	76	16	20	23%
EBIT	3	3	-2	n.a.
EBIT margin	1%	4%	-2%	-5pp

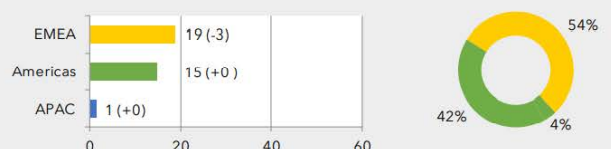
Revenues by region



TRAFFIC MANAGEMENT.

	2021/22	Q1 2021/22	Q1 2022/23	+/-
Revenues	150	37	35	-7%
Implementation	60	16	11	-30%
Operations	85	19	22	13%
Components	5	2	1	-14%
EBIT	8	3	2	-0.369
EBIT margin	5%	9%	6%	-3pp

Revenues by region



Source: Company

Personal cost pressure to further mount

KTC has not changed its FY23 guidance of flattish revenue and improved EBIT margin. We believe, the personal cost pressure could become a more prominent issue as the increased input costs will to be major extent only be passed on with newly acquired projects. While it has mainly been the USD denominated personal costs that impacted profitability y/y, we expect this topic to also start spilling over to the European business once salaries start to be adjusted for inflation. In Austria, valorisation of minimum salaries is effective as of Jan 1, remaining salaries with July 1. For 2022 this is 3.1% for employees in IT companies. Consequently, we would also not rule out further project impairments in the course of the year.

Change in estimates Consolidated, IFRS (EUR, mn)	2022/23e = FY23e			2023/24e = FY24e			2024/25e = FY25e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
	Revenues	514.6	509.2	1.1%	607.2	601.9	0.9%	642.9	638.0
EBITDA	32.1	37.6	-14.7%	47.9	47.1	1.6%	56.0	55.8	0.4%
EBITDA margin	6.2%	7.4%	-15.6%	7.9%	7.8%	0.7%	8.7%	8.7%	-0.3%
EBIT	12.6	20.2	-37.5%	29.7	29.3	1.5%	38.0	37.6	1.0%
EBIT margin	2.5%	4.0%	-38.1%	4.9%	4.9%	0.6%	5.9%	5.9%	0.3%
Net profit	5.6	9.4	-40.8%	15.6	15.8	-1.4%	20.6	20.0	3.1%
Net margin	1.1%	1.8%	-41.4%	2.6%	2.6%	-2.3%	3.2%	3.1%	2.3%
EPS	0.43	0.72	-40.8%	1.20	1.22	-1.4%	1.59	1.54	3.1%
EPS adjusted	0.43	0.72	-40.8%	1.20	1.22	-1.4%	1.59	1.54	3.1%
DPS	0.00	0.00	nm	1.00	1.00	0.0%	1.00	1.00	0.0%

Source: Erste Group Research

EBIT margin now expected at 2.5% in FY23

As for now, we have just adjusted our margin expectations for this fiscal year in order to reflect the increased risk from more cost pressure in the course of the year. On the other hand, when we reflect on last year's adjusted EBIT margin of 7.8% or EBIT of EUR 42.5mn, our approach might turn out too conservative. As a supporting argument we bear the adj. EBIT in 4Q22 in mind, which was EUR 20mn and did no longer reflect any of the Polish contracts that were concluded by 3Q22 at the latest. EUR 20mn of EBIT was our former FY23 EBIT estimate that we now lower to EUR 12.6mn.

Estimates for FY24 and beyond unchanged

Our estimates for FY24 and FY25 are left basically unchanged. We have not touched our assumption to see KTC starting to pay out dividends again (DPS of EUR 1.00 for FY24ff), but it should be noted that a dividend payout will only be resumed once the equity ratio returns above 30%. Such a situation will be achieved if KTC receives a net compensation from the unlawful German ETC tender cancellation in the amount of EUR 90mn, cet par., in FY24.

Valuation

RFR increased

We have finetuned our valuation assumptions to reflect the started interest rate cycle. Hence, we now use 1.5% risk-free rate in the detailed planning period and 3% in the TV.

EUR 100mn minimum compensation from Germany reflected

We continue to reflect EUR 100mn as a minimum net compensation from the cancelled German ETC tender. To recall: the arbitration court has already confirmed the unlawful cancellation of the tender and the contract clearly states that the compensation for the contracting parties is the equity value of the implementation and the 10y operations contract plus 2% inflationary adjustment p.a. KTC and JV partner Eventim claimed EUR 560mn.

Please note: We have only reflected this minimum compensation in the valuation but refrained from reflecting it in our estimates for the time being.

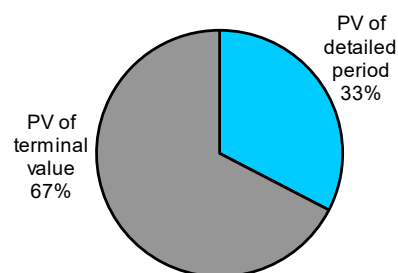
WACC calculation

	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Risk free rate	1.5%	1.5%	1.5%	1.5%	1.5%	3.0%
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	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%
Cost of debt	4.0%	4.0%	4.0%	4.0%	4.0%	5.5%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After-tax cost of debt	3.0%	3.0%	3.0%	3.0%	3.0%	4.1%
Equity weight	48%	48%	48%	48%	48%	70%
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	11.4%

DCF valuation

(EUR mn)	2023e	2024e	2025e	2026e	2027e	2028e (TV)
<i>Sales growth</i>	-1.0%	18.0%	5.9%	4.9%	6.7%	2.0%
EBIT	12.6	29.7	38.0	41.9	46.6	36.7
<i>EBIT margin</i>	2.5%	4.9%	5.9%	6.2%	6.5%	5.0%
<i>Tax rate</i>	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-3.2	-7.4	-9.5	-10.5	-11.7	-9.2
NOPLAT	9.5	22.3	28.5	31.4	35.0	27.5
+ Depreciation	19.5	18.2	18.1	18.0	17.9	17.9
<i>Capital expenditures / Depreciation</i>	45.9%	41.3%	42.0%	42.6%	43.2%	100.0%
+/- Change in working capital	-15.3	-18.2	-6.6	-5.1	-7.1	-0.7
<i>Chg. working capital / chg. Sales</i>	294.3%	-19.6%	-18.5%	-15.9%	-15.8%	-5.0%
- Capital expenditures	-8.9	-7.5	-7.6	-7.7	-7.7	-17.9
Free cash flow to the firm	4.7	14.8	32.3	36.7	38.0	26.8
<i>Terminal value growth</i>						2.0%
Terminal value						292.2
<i>Discount factor</i>	0.92	0.85	0.78	0.72	0.66	0.66
Discounted free cash flow - Mar 31 2022	4.3	12.5	25.3	26.4	25.3	194.0
Enterprise value - Mar 31 2022	287.8					
Minorities	-5.3					
Non-operating assets	0.0					
Net debt	182.5					
Equity value - Mar 31 2022	210.7					
Number of shares outstanding (mn)	13.0					
Cost of equity	14.5%					
12M target price per share (EUR)	20.0					
Current share price (EUR)	12.9					
<i>Up/Downside</i>	55.3%					

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	10.4%	18.0	20.0	22.0	24.0	26.0
	10.9%	17.0	19.0	21.0	23.0	25.0
	11.4%	16.0	18.0	20.0	21.0	23.0
	11.9%	15.0	17.0	19.0	20.0	22.0
	12.4%	15.0	16.0	18.0	20.0	21.0
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	10.4%	19.0	21.0	22.0	23.0	25.0
	10.9%	19.0	20.0	21.0	22.0	23.0
	11.4%	18.0	19.0	20.0	21.0	22.0
	11.9%	17.0	18.0	19.0	20.0	21.0
	12.4%	16.0	17.0	18.0	19.0	20.0

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Kapsch TrafficCom | Technology Hardware | Austria
18 August 2022

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Erste Group Research – Company Update

Kapsch TrafficCom | Technology Hardware | Austria

18 August 2022

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.