

COMPANY UPDATE

Kapsch TrafficCom

Buy

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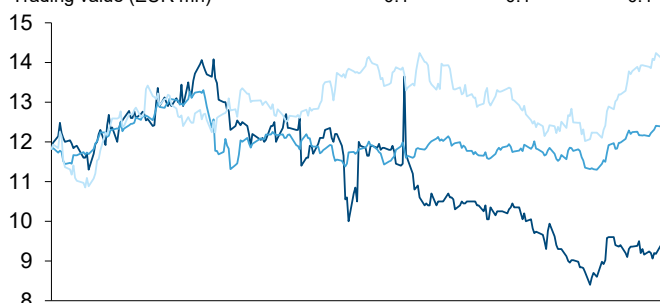
Share price (EUR) close as of 08/12/2023	9.20	Reuters	KTCG.VI	Free float	36.7%
Number of shares (mn)	14.3	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Market capitalization (EUR mn)	131.6	Div. Ex-date			
Enterprise value (EUR mn)	240.6	Target price	15.1	Homepage:	www.kapsch.net

Key figures Overview

EUR mn	2023	2024e	2025e	2026e
Net sales	553.4	568.7	568.0	590.7
EBITDA	29.4	109.0	38.6	44.4
EBIT	7.6	90.2	20.2	26.4
EBT	-9.9	69.9	11.2	19.0
Net profit	-24.8	52.7	10.2	14.7
EPS (EUR)	-1.91	4.02	0.72	1.03
CEPS (EUR)	0.20	5.80	2.07	2.39
BVPS (EUR)	4.33	8.44	9.16	10.19
Dividend/Share (EUR)	0.00	0.00	0.00	0.34
EV/EBITDA (x)	12.39	2.21	6.05	5.07
P/E (x)	nm	2.29	12.84	8.95
P/CE (x)	61.11	1.59	4.45	3.86
Dividend yield (%)	0.00	0.00	0.00	3.70
EBITDA margin (%)	5.30	19.16	6.79	7.52
Operating margin (%)	1.37	15.86	3.56	4.47
Net profit margin (%)	-4.36	9.09	1.45	2.35

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	11,128	8,239	8,524
Trading value (EUR mn)	0.1	0.1	0.1



—Kapsch TrafficCom —ATX —DJ EURO STOXX Technology

Price performance:	1M	3M	6M	12M
in EUR	-1.9%	-11.1%	-23.3%	-22.2%

Financial Strength

	2023	2024e	2025e	2026e
ROE (%)	-35.56	59.56	8.14	10.62
ROCE (%)	5.87	26.51	6.26	8.01
Equity ratio (%)	10.69	24.72	26.37	28.50
Net debt (EUR mn)	206.90	115.08	109.65	102.68
Gearing (%)	403.27	100.32	89.21	75.07

Restructuring trend continues apace

Incorporating the 10% capital increase and fine-tuning our estimates for the compensation payment from Germany and the higher financial costs related to the early redemption of the refinancing, we arrive at a new target price of EUR 15.1 (previously EUR 17.0), confirming our Buy call.

In addition to the already received EUR 80mn in cash inflow from compensation proceeds from Germany, we assume a further EUR 25mn in dividends upon the liquidation of autoticket, the JV vehicle with Eventim, before YE23/24.

Compensation for the German enforcement contract is not yet included and could amount to some EUR 10-15mn, in our view.

The order book, at EUR 1.4bn following an order intake of EUR 480mn in 1H23/24 (+250% y/y), shows that KTC is benefitting from improving market demand dynamics.

There is an attractive tender pipeline that could further help improve visibility on business expansion in the coming quarters.

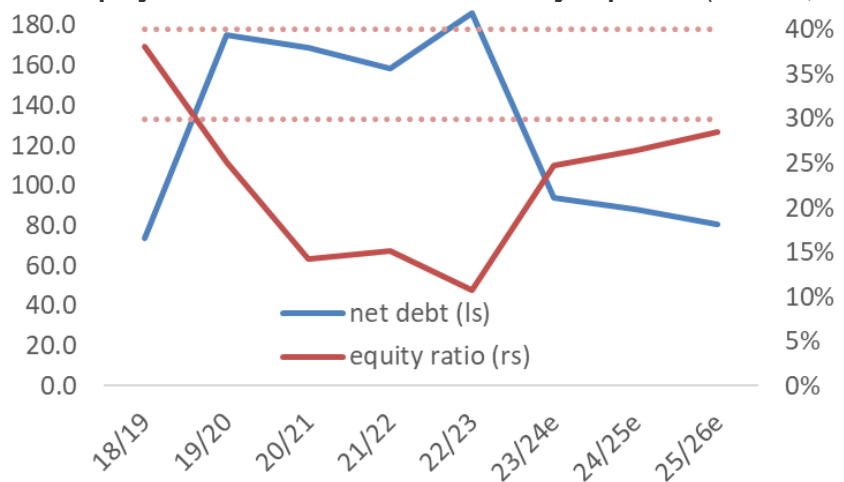
KTC continues well on its restructuring trend. Valuation at a mid-single-digit EV/EBITDA for FY24/25 and P/E falling below 9x in FY25/26 are far from demanding.

Balance sheet restored

The compensation payment from Germany, with a cash effect of some EUR 80mn, and the 10% capital increase, adding about EUR 12mn to equity, helped to restore KTC's balance sheet. There are still further positive effects expected going forward. On one hand, the liquidation of the autoticket JV in 4Q23/24 (March quarter) should add about EUR 25mn in dividends to KTC still this FY. On the other hand, the decision on a compensation payment related to the also scrapped enforcement contract for the German ETC system is still pending, as it is currently dealt with in a separate arbitration court proceeding. Taking the relative size of the compensation payment for the operation contract as a proxy, we would expect a compensation payment amounting to some EUR 10-15mn. While we have included the liquidation / dividend of autoticket in our estimates, we have not yet reflected any proceeds from the enforcement contract. If our assumptions materialize, the impact on the share price would be about EUR 1 per share.

Based on the recent development and our estimates, KTC should post an equity ratio of around 25% by YE23/24, net debt of around EUR 100mn and a net debt / EBITDA of some 2.6x when excluding the German compensation impact on EBITDA (i.e. EUR 72mn).

KTC: Equity ratios and net debt substantially improved (EURmn; %)



Source: Company; Erste Group Research

Order intake and book finally growing

Similarly important, the improving market dynamics are starting to be seen in KTC's order intake and book. Order intake in 1H23/24 reached EUR 480mn (250% y/y), boosted by two large orders with a lifetime value in excess of EUR 100mn each. The order book was at EUR 1.4bn in 1H23/24, up almost 20% compared to YE22/23. Important to note: One of the large orders just signed will start contributing already next FY24/25, while the other is said to contribute once the infrastructure is constructed.

The tender pipeline remains positive. This relates to tenders in Switzerland, Croatia, France and the Netherlands, but also tolling potentials in Asia and the US. We also expect the South African e-toll contract in Gauteng to be extended again, as there is political consent on how to cover SANRAL's (highway association) debt balance in case the electronic toll system is

discontinued. For now, we have assumed an extension of the contract by one quarter to March 2024, but would not be surprised to see it continue beyond this date.

Change in estimates

Consolidated, IFRS (EUR, mn)	2023/24e = FY24e			2024/25e = FY25e			2025/26e = FY26e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Revenues	568.7	568.7	0.0%	568.0	568.0	0.0%	590.7	590.7	0.0%
EBITDA	109.0	110.3	-1.2%	38.6	38.7	-0.3%	44.4	44.7	-0.7%
EBITDA margin	19.2%	19.4%	-1.2%	6.8%	6.8%	-0.3%	7.5%	7.6%	-0.7%
EBIT	90.2	90.6	-0.5%	20.2	19.1	5.6%	26.4	25.3	4.2%
EBIT margin	15.9%	15.9%	-0.5%	3.6%	3.4%	5.6%	4.5%	4.3%	4.2%
Net profit	52.7	73.6	-28.4%	10.2	10.6	-3.8%	14.7	14.3	2.7%
Net margin after min.	9.3%	12.9%	-28.4%	1.8%	1.9%	-3.8%	2.5%	2.4%	2.7%
EPS	4.02	5.66	-29.0%	0.72	0.82	-12.5%	1.03	1.10	-6.6%
DPS	0.00	0.00	nm	0.00	0.00	nm	0.34	0.33	3.0%

Source: Erste Group Research

The major changes in our estimates in FY23/24e relate to costs of the debt restructuring and early redemption in 1H23/24. Apart from that, we have only fine-tuned our estimates.

Valuation

Following the cash compensation from Germany, we have adjusted our DCF valuation assumptions accordingly.

- We lifted the equity ratio assumption to 88% in the detailed period and to 80% in the TV, from previously 60% and 70%, respectively.
- We lowered the equity risk premium to 8.5% in the detailed period and to 8.0% in the TV, from 8.7% and 8.2%, respectively.
- We have obviously adjusted our valuation for the new number of shares post-SPO to 14.3mn shares (previously: 13.0mn).

Target price composition

	DCF	Multiple	Weight	12-month target price	act. share price	upside to target price	Recom- mendation
Kapsch TrafficCom	15.1	17.8	100/0	15.1	9.2	64.1%	Buy

Source: Bloomberg, Erste Group Research

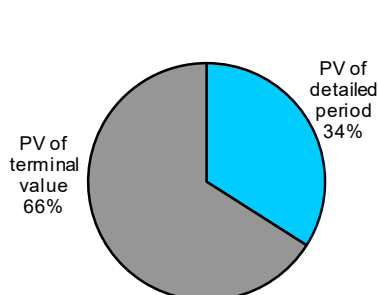
WACC calculation

	2025e	2026e	2027e	2028e	2029e	2030e (TV)
Risk free rate	4.0%	3.8%	3.5%	3.3%	3.2%	2.9%
Equity risk premium	8.5%	8.5%	8.5%	8.5%	8.5%	8.0%
Beta	1.5	1.5	1.5	1.5	1.5	1.4
Cost of equity	16.3%	16.1%	15.8%	15.6%	15.5%	14.1%
Cost of debt	6.5%	6.3%	6.0%	5.8%	5.7%	5.4%
Effective tax rate	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
After-tax cost of debt	5.0%	4.9%	4.6%	4.5%	4.4%	4.2%
Equity weight	88%	88%	88%	88%	88%	80%
WACC	15.0%	14.8%	14.5%	14.3%	14.1%	12.1%

DCF valuation

(EUR mn)	2025e	2026e	2027e	2028e	2029e	2030e (TV)
Sales growth	-0.1%	4.0%	4.0%	4.1%	4.1%	2.0%
EBIT	20.2	26.4	33.7	34.4	37.9	33.9
EBIT margin	3.6%	4.5%	5.5%	5.4%	5.7%	5.0%
Tax rate	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Taxes on EBIT	-4.6	-6.1	-7.8	-7.9	-8.7	-7.8
NOPLAT	15.6	20.3	26.0	26.5	29.2	26.1
+ Depreciation	18.4	18.0	17.8	17.7	17.5	17.5
Capital expenditures / Depreciation	22.5%	23.0%	23.3%	23.6%	23.8%	25.0%
+/- Change in working capital	-4.0	-9.9	-9.2	-3.5	-3.6	-0.7
Chg. working capital / chg. Sales	567.4%	-43.6%	-38.6%	-13.9%	-13.6%	-5.0%
- Capital expenditures	-4.1	-4.1	-4.2	-4.2	-4.2	-4.4
Free cash flow to the firm	25.8	24.3	30.4	36.5	39.0	38.6
Terminal value growth						2.0%
Terminal value						389.8
Discount factor	0.87	0.76	0.66	0.58	0.51	0.51
Discounted free cash flow - Mar 31 2024	22.4	18.4	20.1	21.1	19.8	197.8
Enterprise value - Mar 31 2024	299.7					
Minorities	-8.0					
Non-operating assets	0.0					
Net debt	115.1					
Equity value - Mar 31 2024	192.7					
Number of shares outstanding (mn)	14.3					
Cost of equity	16.3%					
12M target price per share (EUR)	15.1					
Current share price (EUR)	9.2					
Up/Downside	64.1%					

Enterprise value breakdown Sensitivity (per share)



Source: Factset, Erste Group research

		Terminal value EBIT margin				
		4.0%	4.5%	5.0%	5.5%	6.0%
WACC	11.1%	14.5	15.6	16.8	18.0	19.1
	11.6%	13.7	14.8	15.9	17.0	18.1
	12.1%	13.0	14.0	15.1	16.1	17.2
	12.6%	12.4	13.4	14.4	15.4	16.4
	13.1%	11.8	12.7	13.7	14.7	15.6
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	11.1%	14.9	15.8	16.8	17.9	19.1
	11.6%	14.2	15.0	15.9	16.9	18.0
	12.1%	13.6	14.3	15.1	16.0	17.0
	12.6%	13.0	13.6	14.4	15.2	16.1
	13.1%	12.4	13.0	13.7	14.4	15.2

Multiple valuation

Peers	MarketC (EURmn)	P/E			EV/EBITDA			EV/EBIT		
		2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Q-FREE ASA	112	-	-	-	-	-	-	-	-	-
SENSYS GATSO GROUP A	72	39.0x	10.8x	8.2x	11.9x	6.4x	5.2x	30.2x	9.3x	7.3x
EDENRED	13,273	26.7x	22.2x	19.3x	13.7x	11.9x	10.5x	16.4x	14.1x	12.5x
CEPTON INC	66	-	19.2x	2.2x	-	5.9x	2.0x	-	23.1x	3.0x
SINGAPORE TECH ENGINE	8,087	19.9x	17.2x	15.2x	12.8x	11.7x	10.8x	21.7x	19.2x	17.8x
ITERIS INC	182	17.6x	13.4x	-	12.9x	9.8x	-	30.2x	15.8x	-
INIT INNOVATION IN TRAFF	311	20.5x	16.4x	13.8x	10.4x	-	7.4x	15.7x	12.2x	10.1x
IVU TRAFFIC TECHNOLOGI	259	23.5x	19.5x	16.8x	12.2x	10.6x	9.4x	15.3x	13.6x	11.6x
TAGMASTER AB	27	34.5x	20.7x	12.2x	7.7x	5.8x	4.7x	27.2x	15.4x	9.8x
WAG PAYMENT SOLUTIONS	730	16.8x	13.2x	10.1x	9.5x	7.8x	6.5x	14.7x	11.5x	9.4x
MEDIAN broader peers		22.0x	17.2x	13.0x	12.1x	8.8x	7.0x	19.1x	14.1x	10.0x
Kapsch TrafficCom	131.6	2.3x	12.8x	9.0x	2.2x	6.0x	5.1x	2.7x	11.5x	8.5x
prem. / disc median		-89.6%	-25.4%	-31.1%	-81.7%	-31.4%	-27.5%	-86.0%	-17.9%	-14.4%
Peers	Share price	P/B			ROE			Dividend yield		
		2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Q-FREE ASA	1.0	-	-	-	-	-	-	-	-	-
SENSYS GATSO GROUP A	6.2	89.0x	1.1x	1.0x	15.0%	10.0%	11.0%	-	-	-
EDENRED	53.2	-	-	44.7x	-73.5%	-161.7%	263.8%	2.1%	2.4%	2.6%
CEPTON INC	4.2	0.7x	0.7x	-	-	-	-	-	-	-
SINGAPORE TECH ENGINE	2.6	4.7x	4.4x	4.0x	23.9%	26.4%	27.9%	4.3%	4.4%	4.6%
ITERIS INC	4.3	2.8x	2.5x	-	-	-	-	-	-	-
INIT INNOVATION IN TRAFF	31.0	2.5x	2.3x	2.0x	11.0%	14.5%	16.9%	2.2%	2.3%	2.5%
IVU TRAFFIC TECHNOLOGI	14.6	-	-	-	-	-	-	1.8%	1.9%	2.1%
TAGMASTER AB	1.8	-	-	-	4.0%	5.0%	8.0%	-	-	-
WAG PAYMENT SOLUTIONS	1.1	2.2x	2.0x	1.7x	13.2%	15.5%	18.0%	0.0%	0.0%	0.0%
MEDIAN broader peers		2.7x	2.1x	2.0x	12.1%	12.3%	17.5%	2.1%	2.3%	2.5%
Kapsch TrafficCom	9.2	1.1x	1.0x	0.9x	59.6%	8.1%	10.6%	0.0%	0.0%	3.7%
prem. / disc median		-59.0%	-52.9%	-54.5%	393%	-33.5%	-39.2%	nm	nm	47.8%
Per KTC share (EUR) 2024e		77.0								
Per KTC share (EUR) 2025e			15.3							
Per KTC share (EUR) 2026e				15.2						
Period weight		0%	80%	20%						
NPV as of Dec 2023 EUR		15.3								
Cost of Equity		16.3%								
NPV as of Dec 2024 EUR		17.8								

Source: Bloomberg, Erste Group Research

Group Research

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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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