

Kapsch TrafficCom

from Hold to Accumulate

Analyst: Daniel Lion, CIIA +43 (0)5 0100 - 17420 daniel.lion@erstegroup.com

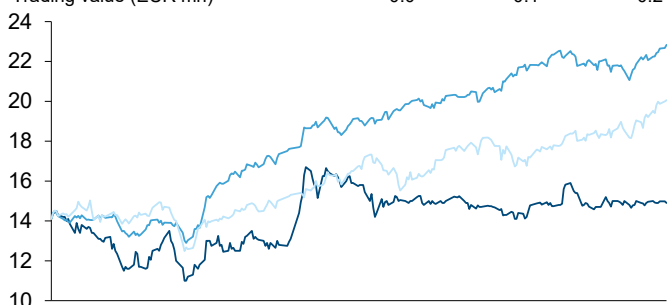
Share price (EUR) close as of 10/08/2021	14.9	Reuters	KTCG.VI	Free float	29.6%
Number of shares (mn)	13.0	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Market capitalization (EUR mn)	193.7	Div. Ex-date		Shareholder Value Mgmt AG (7.1%)	
Enterprise value (EUR mn)	383.3	Target price	17.5	Homepage:	www.kapsch.net

Key figures Overview

EUR mn	2021	2022e	2023e	2024e
Net sales	505.2	543.0	611.1	673.8
EBITDA	-67.1	41.0	56.5	61.9
EBIT	-123.2	20.0	36.9	40.5
EBT	-133.1	12.3	29.5	34.7
Net profit	-102.9	10.4	24.5	27.6
EPS (EUR)	-7.91	0.80	1.88	2.12
CEPS (EUR)	-5.10	2.46	3.81	4.42
BVPS (EUR)	7.02	7.81	9.70	11.82
Dividend/Share (EUR)	0.00	0.00	0.00	1.00
EV/EBITDA (x)	-5.68	9.34	6.66	5.52
P/E (x)	nm	18.71	7.92	7.02
P/CE (x)	-2.92	6.06	3.91	3.37
Dividend yield (%)	0.00	0.00	0.00	6.71
EBITDA margin (%)	-13.46	7.56	9.24	9.19
Operating margin (%)	-24.68	3.68	6.05	6.01
Net profit margin (%)	-21.10	1.82	4.00	4.28

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	3,332	4,602	16,301
Trading value (EUR mn)	0.0	0.1	0.2



—Kapsch TrafficCom

Price performance:	1M	3M	6M	12M
in EUR	-0.7%	3.0%	-5.7%	5.7%

Financial Strength

	2021	2022e	2023e	2024e
ROE (%)	-73.64	10.74	21.49	19.73
ROCE (%)	-28.73	5.26	9.63	10.41
Equity ratio (%)	14.29	16.59	20.12	25.39
Net debt (EUR mn)	194.43	196.55	188.98	153.55
Gearing (%)	229.39	207.73	158.70	103.83

First signs of improvement

KTC has returned to profitability in 1Q22 after five consecutive quarters of losses on EBITDA level. Our increased estimates lift our target price to EUR 17.5 (from EUR 15 previously), and our recommendation to Accumulate (Hold).

KTC has clearly demonstrated in 1Q22 that its lower cost base enables it to generate a healthy, while not targeted, profitability on lower revenue. Despite the still lagging market activity that we expect to gradually pick up going forward, we see the reached turnaround enabling the company to refocus on business expansion helping margin improve further.

Business environment has never been better for KTC when reflecting on various infrastructure budgets especially in Europe and the US aiming to curb CO₂ emissions and digitalizing the transportation sector.

We expect KTC to prove it can monetize on the favorable environment and further transform towards a software and service-oriented company that would fuel KTC's mid- term target of EUR 1bn in revenue at >10% EBIT margin. So far, we remained well below this target.

An EV/EBITDA of 6.7 and 5.5x, and a P/E of 8x and 7x for FY23 and FY24, respectively, easily justifies an Accumulate recommendation in our view.

First signs of improvement

After two years of restructuring, with five consecutive quarters of negative EBITDA, KTC managed its turn-around. While KTC hinted at a still slow order intake, also seen at the decreased revenue in the Tolling segment y/y, the already achieved costs savings led to a positive surprise on profitability in both of its reporting segments. The tolling segment showed an EBIT margin of 3.5%, while the Traffic Management Segment even achieved an EBIT margin of 9.2%, which is already ahead of KTC's mid-term guidance of some 8% for this segment. Operating cash flow from the result was positive in 1Q22 with EUR 5.5mn, while OCF including changes in WC remained negative at EUR -10.2mn.

1Q22 vs 1Q21 vs share of our updated FY22 estimates

30.06.2021	Quarterly			Cons.	EGR	KTC vs	EGR estimates	FY22
EURmn	1Q 22	1Q 21	y/y	1Q 22e	1Q 22e	EGR	FY22e	1Q22% of FY22 EGR
Revenues	126.8	138.5	-8.4%	130.9	120.0	5.7%	543.0	23.4%
- Tolling segment	89.6	106.0	-15.5%		-	n.a.	391.1	22.9%
- Traffic Mgmt segment	37.2	32.5	14.5%		-	n.a.	151.9	24.5%
EBITDA	12.0	-4.7	nm	-	8.0	n.a.	41.0	29.2%
EBIT	6.6	-11.3	nm	2.0	2.0	229%	20.0	33.0%
- Tolling segment	3.1	-8.9	nm		-	n.a.	15.1	20.8%
- Traffic Mgmt segment	3.4	-2.4	nm		-	n.a.	4.8	71.0%
Adj. EBIT	6.6	-2.3	nm	-	2.0	229%	17.0	38.8%
PTP	4.5	-4.1	nm	-	0.0	n.a.	12.3	36.4%
Net profit	3.2	-10.2	nm	-	-1.3	-346%	10.4	30.9%
Adj. Net profit	3.2	-3.4	nm	-	-1.3	-346%	8.1	39.5%
EBITDA %	9.5%	-3.4%		-	6.7%		7.6%	
EBIT%	5.2%	-8.2%		1.5%	1.7%		3.7%	
adj. EBIT%	5.2%	-1.7%			1.7%			

Source: Company, Erste Group Research

Balance sheet-wise, 1Q22 showed an improvement of the equity ratio to 16.3% from 14.3% at YE21. It is the first sequential improvement of the equity ratio since 4Q19 and was mainly achieved by reducing the balance sheet total following the debt repayment of EUR 49.5mn, which was to a big extent funded by own cash.

Net debt increased somewhat to EUR 181mn from EUR 170mn in the last quarter but decreased from EUR 204mn a year ago.

Can we thus already call it a successful turnaround? KTC has made a big step forward with the posted result albeit it remains to be seen, if the posted profitability can be repeated in the coming quarters. The reason for being cautious is the still slow tender activity that might impact profitability to some extent in 2H22.

On the other hand, it needs to be mentioned that the positive EBIT contribution was achieved despite a reduction of On-Board-Unit (OBU) sales from 2.9mn last year to EUR 2mn in 1Q22. OBU sales are among the highest margin products of KTC and are reflected in the Tolling Segment.

The reasons for the OBU decline are twofold: 1) ETC operators are delaying new orders due still reduced traffic volumes in some parts of the world (mainly US). 2) KTC suffers from chip shortages for manufacturing OBUs. Consequently, we would assume OBU sales to pick gradually up as orders pick up and the chip shortage eases.

KTC has not yet fully concluded its restructuring program, hence we should expect the cost base to decrease a little bit further.

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	543.0	550.9	-1.4%	611.1	626.0	-2.4%	673.8	696.1	-3.2%
EBITDA	41.0	37.5	9.3%	56.5	58.5	-3.4%	61.9	62.7	-1.3%
EBITDA margin	7.6%	6.8%	10.9%	9.2%	9.3%	-1.1%	9.2%	9.0%	2.0%
EBIT	20.0	15.0	33.3%	36.9	35.1	5.2%	40.5	38.7	4.7%
EBIT margin	3.7%	2.7%	35.3%	6.0%	5.6%	7.7%	6.0%	5.6%	8.2%
Net profit	10.4	7.1	46.6%	24.5	22.6	8.5%	27.6	24.3	13.7%
Net margin	1.9%	1.3%	48.7%	4.0%	3.6%	11.1%	4.1%	3.5%	17.5%
EPS	0.80	0.54	46.6%	1.88	1.74	8.5%	2.12	1.87	13.7%
EPS adjusted	0.80	0.54	46.6%	1.88	1.74	8.5%	2.12	1.87	13.7%
DPS	0.00	0.00	nm	0.00	0.00	nm	1.00	1.00	0.0%

Source: Erste Group Research

We have adjusted our estimates mainly for the current year, but to some extent also for the years to come. Our main adjustments are described in the following:

- **FY22e:** We have slightly reduced our revenue expectations in the Tolling segment given the lower order intake mentioned by KTC and in spite of a slight increase of revenue and profit from the Polish ETC contracts, as the satellite tolling system was launched in early July ahead of schedule and both systems will be run in parallel until the end of September.
Profitability-wise, we upped our EBIT margin expectations from 2.7% to 3.7%, owing to the posted EBIT margin in the Traffic Management segment of 9.5% in 1Q22. We have so far refrained from extrapolating such a profitability level going forward given the Segment's strong volatility in the past. There might be upside revision potential for our profitability estimates for the segment once we get more visibility.
- **FY23e and FY24e:** Our positive earnings revisions are to a major extent owed to the changes implemented for FY22e.

Guidance check

FY22: KTC issued a rather vague guidance for FY22. It expects growing revenue y/y and a low single digit EBIT margin. KTC refrains from providing more distinct figures given the lacking visibility regarding order intake that might burden profitability in 2H22 in case it does not improve. Our assumptions point to KTC being able to achieve both revenue and profitability targets, laying ground for further improvements in FY23ff.

2027 mid-term guidance: To be frank, business trends have never looked better for KTC when especially reflecting on environmental budgets readied in Europe (Green Deal), the Infrastructure bill being prepared in the US (already passed the Senate), or the digitalization of the transportation sector in general (EETS, mobile tolling, smart cities).

We still continue to refrain from pencilling in the targeted EUR 1bn in revenue at a more than 10% EBIT margin as we need to see KTC is able to monetize on the underlying market trends and further transform its business model towards a software and services oriented provider of tolling and traffic management solutions.

Valuation

We continue to rely on DCF for depicting our 12-month target price for KTC as the peer group remains too heterogenous to be applied for a multiple valuation. Based on the posted turn-around in 1Q22, we have slightly adjusted our DCF assumptions.

- **Cost of Equity** down to 12.7% (from 13.9%) in the detailed period and to 12.2% (from 13%) in the terminal value. There is still a substantial risk premium reflected that has further room to be decreased following a respected business / visibility development.
- **Equity weight** remains at 45% in the detailed period and 80% in the terminal value. We would expect KTC to again be net cash going forward and increase its equity ratio to the targeted 30-40% level. A higher equity weight will reduce the risk premium in our DCF.
- Our TV EBIT margin is at 6%, while it ranges between 3.7-6.6% in our detailed period.
- We have again refrained from including any compensation payment from the cancelled German electronic tolling system. The compensation could well be in the triple digit EURmn area. Such a compensation would significantly help reduce net debt and add value.
- No additional costs for the patent infringement case in the US (Transcore) above the provisioned EUR 8mn in 4Q21 assumed.

KTC has seen the trough and we expect it to gradually improve revenue but especially earnings in the years to come. This situation justifies lifting our target price to EUR 17.5 from EUR 15 previously, translating into an Accumulate rating. We believe the current share price proves to be favorable considering a compelling story based on products and services helping to curb CO² emissions and digitalizing the transportation industry going forward. In addition to our DCF, we also feel that a higher share price reasonably justifiable by FY23ff multiples.

Target price composition

	DCF	Multiple	Weight	12-month target price	act. share price	upside to target price	Recommendation
Kapsch TrafficCom	17.5	29.7	100/0	17.5	14.9	17.4%	Accumulate

Source: Bloomberg, Erste Group Research

Multiple valuation

Peers	MarketC (EURmn)	P/E			EV/EBITDA			EV/EBIT		
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Q-FREE ASA	107	25.0x	18.1x	14.1x	11.4x	9.9x	8.5x	25.4x	19.2x	19.2x
SENSYS GATSO GROUP A	95	17.6x	13.2x	-	10.6x	7.6x	6.5x	17.3x	11.0x	11.0x
TAGMASTER AB	45	-	-	-	13.3x	8.4x	6.2x	32.0x	12.3x	12.3x
ITERIS INC	231	45.7x	33.7x	-	23.0x	13.5x	-	-	-	-
IVU TRAFFIC TECHNOLOGI	361	34.6x	31.4x	30.4x	21.5x	20.2x	18.1x	26.4x	24.5x	24.5x
CONDUENT INC	1,229	10.0x	10.0x	8.7x	5.5x	5.5x	5.3x	10.7x	10.3x	10.3x
TRAFFIC SYSTEMS SE	482	33.7x	27.5x	23.4x	17.7x	14.7x	14.7x	25.5x	20.5x	20.5x
MEDIAN broader peers		29.3x	22.8x	18.7x	13.3x	9.9x	7.5x	25.4x	15.7x	15.7x
Kapsch TrafficCom	188.0	18.7x	7.9x	7.0x	9.3x	6.7x	5.5x	19.2x	10.2x	8.4x
prem. / disc median		-36.2%	-65.3%	-62.5%	-30.0%	-32.6%	-26.0%	-24.5%	-35.4%	-46.5%
Peers	Share price	P/B			ROE			Dividend yield		
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Q-FREE ASA	1.0	-	-	-	-	-	-	-	-	-
SENSYS GATSO GROUP A	0.1	-	-	-	20.5%	11.0%	-	-	-	-
TAGMASTER AB	3.1	0.3x	0.2x	0.2x	-	-	-	-	-	-
ITERIS INC	5.5	3.1x	2.6x	-	-	-	-	-	-	-
IVU TRAFFIC TECHNOLOGI	20.4	4.8x	4.2x	3.7x	14.9%	14.1%	12.8%	0.9%	1.0%	1.0%
CONDUENT INC	5.8	1.1x	1.1x	1.0x	11.6%	11.5%	12.5%	0.0%	0.0%	0.0%
TRAFFIC SYSTEMS SE	48.0	4.9x	4.4x	3.8x	14.9%	18.0%	20.0%	1.1%	1.2%	1.2%
MEDIAN broader peers		3.1x	2.6x	2.3x	14.9%	12.8%	12.8%	0.9%	1.0%	1.0%
Kapsch TrafficCom	14.5	1.9x	1.5x	1.3x	10.7%	21.5%	19.7%	0.0%	0.0%	6.7%
prem. / disc median		-38.3%	-41.7%	-45.6%	-28%	67.7%	54.2%	-100.0%	-100.0%	584.6%
Per KTC share (EUR) 2022e		24.9								
Per KTC share (EUR) 2023e		32.0								
Per KTC share (EUR) 2024e		32.3								
Period weight		80%	20%	0%						
NPV as of Aug 2021 EUR		26.3								
Cost of Equity		12.7%								
NPV as of Aug 2022 EUR		29.7								

Source: Bloomberg, Erste Group Research

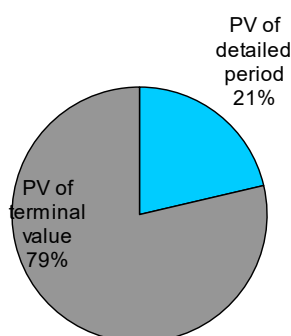
WACC calculation

	2022e	2023e	2024e	2025e	2026e	2027e (TV)
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%	1.5%
Equity risk premium	8.7%	8.7%	8.7%	8.7%	8.7%	8.2%
Beta	1.4	1.4	1.4	1.4	1.4	1.3
Cost of equity	12.7%	12.7%	12.7%	12.7%	12.7%	12.2%
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	7.0%	7.0%	7.0%	7.0%	7.0%	10.3%

DCF valuation

(EUR mn)	2022e	2023e	2024e	2025e	2026e	2027e (TV)
<i>Sales growth</i>	7.5%	12.6%	10.2%	7.6%	4.5%	2.0%
EBIT	20.0	36.9	40.5	46.3	50.3	46.4
<i>EBIT margin</i>	3.7%	6.0%	6.0%	6.4%	6.6%	6.0%
<i>Tax rate</i>	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-5.0	-9.2	-10.1	-11.6	-12.6	-11.6
NOPLAT	15.0	27.7	30.4	34.8	37.7	34.8
+ Depreciation	21.1	19.5	21.4	22.9	24.1	24.1
<i>Capital expenditures / Depreciation</i>	117.5%	148.0%	135.3%	126.7%	120.6%	100.0%
+/- Change in working capital	-16.5	-5.3	12.7	-3.9	4.0	-0.8
<i>Chg. working capital / chg. Sales</i>	-43.5%	-7.8%	20.3%	-7.6%	12.5%	-5.0%
- Capital expenditures	-24.8	-28.9	-28.9	-29.0	-29.1	-24.1
Free cash flow to the firm	-5.2	13.1	35.5	24.7	36.8	34.0
<i>Terminal value growth</i>						2.0%
Terminal value						417.0
<i>Discount factor</i>	0.93	0.87	0.82	0.76	0.71	0.71
Discounted free cash flow - Mar 31 2021	-4.8	11.4	29.0	18.9	26.3	297.7
Enterprise value - Mar 31 2021	378.5					
Minorities	-6.5					
Non-operating assets	0.0					
Net debt	194.4					
Equity value - Mar 31 2021	190.6					
Number of shares outstanding (mn)	13.0					
Cost of equity	12.7%					
12M target price per share (EUR)	17.5					
Current share price (EUR)	14.9					
<i>Up/Downside</i>	17.4%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC	9.3%	15.9	18.6	21.2	23.8	26.5
	9.8%	14.3	16.7	19.2	21.7	24.2
	10.3%	12.8	15.1	17.5	19.8	22.1
	10.8%	11.5	13.7	15.9	18.1	20.3
	11.3%	10.4	12.5	14.5	16.6	18.7
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	9.3%	17.2	19.1	21.2	23.6	26.4
	9.8%	15.7	17.3	19.2	21.3	23.8
	10.3%	14.3	15.8	17.5	19.4	21.5
	10.8%	13.1	14.4	15.9	17.6	19.5
	11.3%	12.0	13.2	14.5	16.0	17.7

Source: Factset, Erste Group research

Erste Group Research – Company Update

Kapsch TrafficCom | Technology Hardware | Austria

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Contacts

Group Research

Head of Group Research
Friedrich Mostböck, CEFA

+43 (0)5 0100 11902

CEE Macro/Fixed Income Research

Head: Juraj Kotian (Macro/FI)
Zoltan Arokszállasi, CFA (Fixed income)
Katarzyna Rzentarzewska (Fixed income)
Malgorzata Krzywicka (Fixed income, Poland)

+43 (0)5 0100 17357
+361 373 2830
+43 (0)5 0100 17356
+43 (0)5 0100 17338

Croatia/Serbia

Alen Kovac (Head)
Mate Jelić
Ivana Rogic

+385 72 37 1383
+385 72 37 1443
+385 72 37 2419

Czech Republic

David Navrátil (Head)
Jiri Polansky
Michal Skorepa

+420 956 765 439
+420 956 765 192
+420 956 765 172

Hungary

Orsolya Nyeste

+361 268 4428

Romania

Ciprian Dascalu (Head)
Eugen Sinca
Dorina Ilasco
Iulian George Misu

+40 3735 10108
+40 3735 10435
+40 3735 10436
+40 758484043

Slovakia

Maria Valachyova (Head)
Katarina Muchova

+421 2 4862 4185
+421 2 4862 4762

Major Markets & Credit Research

Head: Gudrun Egger, CEFA
Ralf Burchert, CEFA (Sub-Sovereigns & Agencies)
Hans Engel (Global Equities)
Margarita Grushanina (Austria, Quant Analyst)
Peter Kaufmann, CFA (Corporate Bonds)
Heiko Langer (Financials & Covered Bonds)
Stephan Lingnau (Global Equities)
Carmen Riefler-Kowarsch (Financials & Covered Bonds)
Rainer Singer (Euro, US)
Bernadett Povazsai-Römhild, CEFA (Corporate Bonds)
Elena Stelov, CIIA (Corporate Bonds)
Gerald Walek, CFA (Euro, CHF)

+43 (0)5 0100 11909
+43 (0)5 0100 16314
+43 (0)5 0100 19835
+43 (0)5 0100 11957
+43 (0)5 0100 11183
+43 (0)5 0100 85509
+43 (0)5 0100 16574
+43 (0)5 0100 19632
+43 (0)5 0100 17331
+43 (0)5 0100 17203
+43 (0)5 0100 19641
+43 (0)5 0100 16360

CEE Equity Research

Head: Henning Eßkuchen
Daniel Lion, CIIA (Technology, Ind. Goods&Services)
Michael Marschallinger, CFA
Nora Nagy (Telecom)
Christoph Schultes, MBA, CIIA (Real Estate)
Thomas Unger, CFA (Banks, Insurance)
Vladimira Urbankova, MBA (Pharma)
Martina Valenta, MBA

+43 (0)5 0100 19634
+43 (0)5 0100 17420
+43 (0)5 0100 17906
+43 (0)5 0100 17416
+43 (0)5 0100 11523
+43 (0)5 0100 17344
+43 (0)5 0100 17343
+43 (0)5 0100 11913

Croatia/Serbia

Mladen Dodig (Head)
Anto Augustinovic
Magdalena Dolenec
Davor Spoljar, CFA

+381 11 22 09178
+385 72 37 2833
+385 72 37 1407
+385 72 37 2825

Czech Republic

Petr Bartek (Head)
Jan Safranek

+420 956 765 227
+420 956 765 218

Hungary

József Miró (Head)
András Nagy
Tamás Pletser, CFA

+361 235 5131
+361 235 5132
+361 235 5135

Poland

Tomasz Duda (Head)
Cezary Bernatek
Konrad Grygo
Emil Poplawski
Marcin Gomik

+48 22 330 6253
+48 22 538 6256
+48 22 330 6254
+48 22 330 6252
+48 22 330 6251

Romania

Caius Rapanu

+40 3735 10441

Group Institutional & Retail Sales

Group Institutional Equity Sales

Head: Brigitte Zeitberger-Schmid

+43 (0)5 0100 83123

Cash Equity Sales

Werner Fuerst
Josef Kerekcs
Cormac Lyden

+43 (0)5 0100 83121
+43 (0)5 0100 83125
+43 (0)5 0100 83120

Institutional Equity Sales Croatia

Damir Eror

+385 72 37 28 36

Institutional Equity Sales Czech Republic

Head: Michal Rizek
Pavel Krabicka
Martin Havlan
Jiri Feres

+420 224 995 537
+420 224 995 411
+420 224 995 551
+420 224 995 554

Institutional Equity Sales Hungary

Levente Nándori
Balázs Zánkay
Krisztián Kandik

+361 235 5141
+361 235 5156
+361 235 5140

Institutional Equity Sales Poland

Jacek Jakub Langer (Head)
Tomasz Galanciak
Wojciech Wysocki
Przemyslaw Nowosad
Grzegorz Stepien

+4822 330 6265
+48 22 538 62 12
+4822 538 6219
+4822 538 6266
+4822 330 6211

Institutional Equity Sales Romania

Liviu George Avram

+40 3735 16569

Group Markets Retail and Agency Business

Head: Christian Reiss

+43 (0)5 0100 84012

Markets Retail Sales AT

Head: Markus Kaller

+43 (0)5 0100 84239

Group Markets Execution

Head: Kurt Gerhold

+43 (0)5 0100 84232

Retail & Sparkassen Sales

Head: Uwe Kolar

+43 (0)5 0100 83214

Corporate Treasury Prod. Distribution

Head: Christian Skopek

+43 (0)5 0100 84146

Group Securities Markets

Head: Thomas Einramhof

+43 (0)50100 84432

Institutional Distribution Core

Head: Jürgen Niemeier

+49 (0)30 8105800 5503

Institutional Distribution DACH+

Head: Marc Frieberthshäuser
Bernd Bolhof
Andreas Goll
Mathias Gindele
Ulrich Inhofner
Sven Kienle
Rene Klasen
Christopher Lampe-Traupe
Karin Rattay
Michael Schmolz
Klaus Vosseler

+49 (0)711 810400 5540
+49 (0)30 8105800 5525
+49 (0)711 810400 5561
+49 (0)711 810400 5562
+43 (0)5 0100 85544
+49 (0)711 810400 5541
+49 (0)30 8105800 5521
+49 (0)30 8105800 5523
+43 (0)5 0100 84118
+43 (0)5 0100 85542
+49 (0)711 810400 5560

Slovakia

Sarlota Šipulová
Monika Sméliková

+421 2 4862 5619
+421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ

Head: Antun Burić
Jaromir Malak

+385 (0)7237 2439
+43 (0)5 0100 84254

Czech Republic

Head: Ondrej Cech
Milan Bartoš
Barbara O'Donnell

+420 2 2499 5577
+420 2 2499 5562
+420 2 2499 5590

Croatia

Head: Antun Burić
Zvonimir Tukač
Natalija Zujic

+385 (0)7237 2439
+385 (0)7237 1787
+385 (0)7237 1638

Hungary

Head: Peter Csizmadia
Gábor Bálint
Ádám Szönyi

+36 1 237 8211
+36 1 237 8205
+36 1 237 8213

Romania and Bulgaria

Head: Ruxandra Lungu

+40 373516562

Institutional Asset Management Czech Republic

Head: Petr Holeček
Petra Maděrová
Martin Peřina
David Petráček
Blanca Weinerová
Petr Valenta

+420 956 765 453
+420 956 765 178
+420 956 765 106
+420 956 765 809
+420 956 765 317
+420 956 765 140

Group Fixed Income Securities Markets

Head: Goran Hobljaj

+43 (0)50100 84403

FISM Flow

Head: Aleksandar Doric
Margit Hraschek
Bernd Thaler
Ciprian Mitu
Christian Kienesberger
Zsuzsanna Toth

+43 (0)5 0100 87487
+43 (0)5 0100 84117
+43 (0)5 0100 84119
+43 (0)5 0100 85612
+43 (0)5 0100 84323
+36-1-237 8209

Poland:

Pawel Kielek
Michal Jarmakowicz

+48 22 538 6223
+43 50100 85611

Erste Group Research – Company Update

Kapsch TrafficCom | Technology Hardware | Austria

12 August 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 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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Head Office: Wien
Commercial Register No: FN 33209m
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