

# Kapsch TrafficCom

Buy

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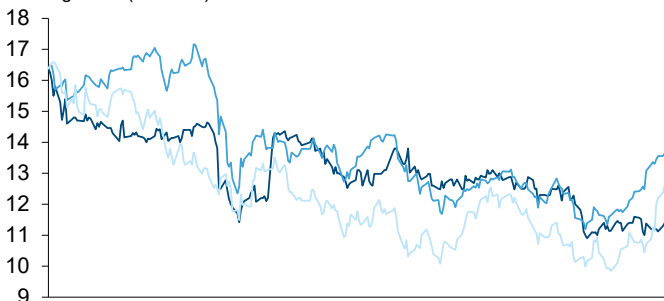
Share price (EUR) close as of 15/11/2022	11.4	Reuters	KTCG.VI	Free float	36.7%
Number of shares (mn)	13.0	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Market capitalization (EUR mn)	148.2	Div. Ex-date			
Enterprise value (EUR mn)	320.0	<b>Target price</b>	<b>20.0</b>	Homepage:	www.kapsch.net

## Key figures Overview

EUR mn	2022	2023e	2024e	2025e
Net sales	519.8	536.4	586.1	641.8
EBITDA	32.7	38.0	47.8	55.9
EBIT	11.0	18.5	29.6	37.9
EBT	5.3	13.6	23.2	31.5
Net profit	-9.3	9.8	15.5	20.6
EPS (EUR)	-0.72	0.76	1.19	1.59
CEPS (EUR)	0.98	2.21	2.58	3.11
BVPS (EUR)	6.40	7.15	8.35	8.94
Dividend/Share (EUR)	0.00	0.00	1.00	1.00
EV/EBITDA (x)	11.12	8.42	6.55	5.60
P/E (x)	nm	15.10	9.55	7.19
P/CE (x)	14.53	5.17	4.42	3.66
Dividend yield (%)	0.00	0.00	8.77	8.77
EBITDA margin (%)	6.32	7.08	8.15	8.71
Operating margin (%)	2.13	3.45	5.05	5.90
Net profit margin (%)	-1.19	1.83	2.86	3.53

## Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	5,777	5,243	5,539
Trading value (EUR mn)	0.1	0.1	0.1



—Kapsch TrafficCom

<b>Price performance:</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>in EUR</b>	<b>2.3%</b>	<b>-11.5%</b>	<b>-10.2%</b>	<b>-30.4%</b>

## Financial Strength

	2022	2023e	2024e	2025e
ROE (%)	-10.68	11.14	15.41	18.36
ROCE (%)	-4.55	5.39	7.42	9.19
Equity ratio (%)	15.21	16.62	19.27	19.95
Net debt (EUR mn)	182.48	177.06	169.06	166.98
Gearing (%)	234.24	201.85	161.84	146.32

## Improving market activity – but still a long way to go

A better than expected business and margin development along with slowly improving market dynamics in 2Q22/23 surprised us positively. Still, we regard the German compensation payment for the illegally scrapped ETC contract as the major trigger and the only reason, we **confirm our Buy** recommendation and a **target price of EUR 20** for the stock at the moment.

For FY22/23 we anticipate a low single-digit revenue growth y/y and a slightly improving operating profitability. The margin improvement is largely owed to a book gain from disposing non-core assets.

The balance sheet remains tight, equity and liquidity ratios hit new lows as of 1H22/23, but we expect them to improve somewhat until YE on the back of a working capital reduction and the non-core asset sale.

We continue to reflect EUR 100mn as a net compensation payment in our DCF. We believe a compensation in a range of EUR 70-150mn could be realistic. Only the timing is difficult to assess. The gross compensation of EUR 560mn for the JV and the publicly available ETC contract serve as a basis for our assumption.

## Market activity picking up

2Q22/23 (“2Q23”) surprised on the positive side with regards to revenue development and the announcement that market activity is slightly improving. Recently signed orders include a Multi-Lane-Free-Float to be implemented in Gothenburg (volume of EUR 20-40mn), Smart City platform for mobility and safety management in Lima/Peru, and an intelligent transportation management system in Sharjah.

Shortages of components for especially On-Board-Units prevented a stronger sales development in the quarter, as supplies could not satisfy reviving market demand. KTC is currently reporting an order book for OBUs covering billings of three quarters. Capacities are currently being adjusted in order to satisfy these orders going forward.

From a regional perspective, North America was the strongest revenue driver from an absolute point of view (+24% y/y; +EUR 24mn), while growth in APAC was most dynamic (+41% y/y; +EUR 4.5mn) but from a low base.

### 1H23 vs 1H22: Tolling Segment

All figures in € mn unless otherwise stated	2021/22	H1 2021/22	H1 2022/23	+/-
Revenues	369.9	181.0	195.3	8%
Implementation	89.2	38.5	54.2	41%
Operations	205.2	111.1	102.0	-8%
Components	75.5	31.4	39.2	25%
EBIT	3.3	1.3	2.5	85%
EBIT margin	0.9%	0.7%	1.3%	+1 pp

Region	Revenue (€ mn)	Change (€ mn)
EMEA	88	(-13)
Americas	94	(+23)
APAC	13	(+4)

### Traffic Management

All figures in € mn unless otherwise stated	2021/22	H1 2021/22	H1 2022/23	+/-
Revenues	149.9	74.1	69.4	-6%
Implementation	60.0	30.6	20.5	-33%
Operations	84.6	40.6	46.5	14%
Components	5.4	2.9	2.5	-12%
EBIT	7.7	9.3	2.3	-76%
EBIT margin	5.1%	12.6%	3.3%	-9pp

Region	Revenue (€ mn)	Change (€ mn)
EMEA	38	(-6)
Americas	29	(+1)
APAC	3	(+1)

Source: Company

FY23 guidance was confirmed and KTC expects also profitability to pick up somewhat in 2H23. While we believe this is a reasonable assumption when reflecting on the recent order intake and especially the pent-up On-Board-Unit demand, such a development is not carved in stone. Input cost pressure both from personal costs and materials remains a topic and KTC can only pass on higher costs with new contracts in many cases.

A special focus lies on the ETC contract in South Africa, which is currently contracted until December 2022. There is an ongoing discussion in South Africa to cancel the ETC system in Gauteng operated by KTC but the financing of the highway authority (SANRAL) has not yet been solved. Consequently, we think it is likely to see the contract, which in the meantime is a profitable one, to be extended for a few more month. At some point this contract might be discontinued. We estimate the contract to generate some EUR 30-35mn in revenue p.a. and EUR 3-5mn in EBIT.

The Belarus ETC system operation is currently rather unaffected by the war in the Ukraine. Still, the risk of additional sanctions also impacting business with Belarus cannot be ruled out.

### 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	536.4	514.6	4.2%	586.1	607.2	-3.5%	641.8	642.9	-0.2%
EBITDA	38.0	32.1	18.4%	47.8	47.9	-0.2%	55.9	56.0	-0.2%
EBITDA margin	7.1%	6.2%	13.6%	8.2%	7.9%	3.4%	8.7%	8.7%	0.0%
EBIT	18.5	12.6	46.8%	29.6	29.7	-0.3%	37.9	38.0	-0.2%
EBIT margin	3.5%	2.5%	40.8%	5.1%	4.9%	3.3%	5.9%	5.9%	-0.1%
Net profit	9.8	5.6	76.4%	15.5	15.6	-0.3%	20.6	20.6	-0.1%
Net margin	1.8%	1.1%	69.2%	2.6%	2.6%	3.3%	3.2%	3.2%	0.0%
EPS	0.76	0.43	76.4%	1.19	1.20	-0.3%	1.59	1.59	-0.1%
EPS adjusted	0.47	0.43	9.0%	1.19	1.20	-0.3%	1.59	1.59	-0.1%
DPS	0.00	0.00	nm	1.00	1.00	0.0%	1.00	1.00	0.0%

Source: Erste Group Research

We have adjusted our estimates for FY23 mainly to reflect the slightly higher than so far expected revenue development and the positive book gain of EUR 5mn related to the disposal of the Spanish public transportation business to Kontron. Closing is expected soon, which would be the trigger for the book gain becoming effective. Cash inflow is about EUR 8mn according to Kontron.

For FY24 we have slightly reduced our revenue expectation to match the disposed transportation business (EUR 13mn revenue p.a.). A discontinuation of the South African ETC system in Gauteng eventually happening in FY24 is not reflected in our estimates yet. On the other hand, our margin assumption could prove conservative in case KTC manages to finalize the remaining two troubled projects in the US and expand business as projected.

Among upcoming sizeable market potentials for both tolling and traffic management solutions we list the following countries. Timing can vary, of course. A Croatian highway tolling tender might be started soon. Also the just concluded pilot project for a modern tolling system concluded in Norway, aimed to generally replace the fuel tax with increasing EV penetration going forward should be seen positively for future demand for KTC.

Countries / regions with increasing market activity: Norway, Denmark, Croatia, Greece, South-East Asia, Australia, LatAM (ITS), North America.

## Valuation

The strongest growth driver for KTC remains the pending compensation payment from Germany, which could be a triple-digit EURmn amount for KTC. Such a compensation payment would be in the range of KTC's current market cap of EUR 150mn. We continue to believe that it will take some more time until this payment will be transferred – but most importantly it has legally already been confirmed by the arbitrary court in Germany. Such a payment will finally also help KTC substantially improving its really weak liquidity and equity kpi's. We would also only expect KTC to resume dividend payments once the compensation lifts the equity ratio to a more relaxed level of about 30% (now at 12.3% in 1H23). Hence, the DPS assumption of EUR 1 in FY24 could prove too optimistic.

Valuation-wise, we have just adjusted our valuation assumptions for the risk-free rate. We now use 2.5% for the detailed period and 3.5% for terminal value.

We continue to reflect EUR 100mn of compensation from Germany in the DCF, which is the only reason for our Buy recommendation at the moment.

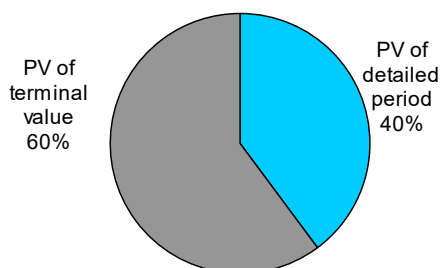
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	2024e	2025e	2026e	2027e	2028e	2029e (TV)
Risk free rate	2.5%	2.5%	2.5%	2.5%	2.5%	3.5%
Equity risk premium	8.7%	8.7%	8.7%	8.7%	8.7%	8.2%
Beta	1.5	1.5	1.5	1.5	1.5	1.4
<b>Cost of equity</b>	<b>15.5%</b>	<b>15.5%</b>	<b>15.5%</b>	<b>15.5%</b>	<b>15.5%</b>	<b>15.0%</b>
Cost of debt	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
<b>After-tax cost of debt</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>4.5%</b>
Equity weight	48%	48%	48%	48%	48%	70%
<b>WACC</b>	<b>9.4%</b>	<b>9.4%</b>	<b>9.4%</b>	<b>9.4%</b>	<b>9.4%</b>	<b>11.8%</b>

### DCF valuation

(EUR mn)	2024e	2025e	2026e	2027e	2028e	2029e (TV)
<i>Sales growth</i>	9.3%	9.5%	5.0%	6.7%	6.8%	2.0%
EBIT	29.6	37.9	41.8	46.5	52.1	39.1
<i>EBIT margin</i>	5.1%	5.9%	6.2%	6.5%	6.8%	5.0%
<i>Tax rate</i>	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-7.4	-9.5	-10.4	-11.6	-13.0	-9.8
<b>NOPLAT</b>	<b>22.2</b>	<b>28.4</b>	<b>31.3</b>	<b>34.9</b>	<b>39.1</b>	<b>29.4</b>
+ Depreciation	18.2	18.1	18.0	17.9	17.9	17.9
<i>Capital expenditures / Depreciation</i>	41.7%	42.4%	43.1%	43.7%	44.2%	100.0%
+/- Change in working capital	-10.7	-9.5	-5.1	-7.1	-7.8	-0.8
<i>Chg. working capital / chg. Sales</i>	-21.5%	-17.0%	-15.9%	-15.8%	-15.9%	-5.0%
- Capital expenditures	-7.6	-7.7	-7.7	-7.8	-7.9	-17.9
<b>Free cash flow to the firm</b>	<b>22.1</b>	<b>29.3</b>	<b>36.5</b>	<b>37.9</b>	<b>41.3</b>	<b>28.6</b>
<i>Terminal value growth</i>						2.0%
Terminal value						296.9
<i>Discount factor</i>	0.91	0.84	0.76	0.70	0.64	0.64
Discounted free cash flow - Mar 31 2022	20.2	24.5	27.9	26.4	26.4	189.4
<b>Enterprise value - Mar 31 2022</b>	<b>314.8</b>					
Minorities	-5.3					
Non-operating assets	0.0					
Net debt	182.5					
<b>Equity value - Mar 31 2022</b>	<b>237.6</b>					
Number of shares outstanding (mn)	13.0					
Cost of equity	15.5%					
<b>12M target price per share (EUR)</b>	<b>20.0</b>					
Current share price (EUR)	11.4					
<i>Up/Downside</i>	75.4%					

### Enterprise value breakdown



### Sensitivity (per share)

		Terminal value EBIT margin				
		4.0%	4.5%	5.0%	5.5%	6.0%
<b>WACC</b>	10.8%	18.0	20.0	22.0	24.0	26.0
	11.3%	18.0	19.0	21.0	23.0	24.0
	11.8%	17.0	18.0	<b>20.0</b>	22.0	23.0
	12.3%	16.0	18.0	19.0	21.0	22.0
	12.8%	16.0	17.0	19.0	20.0	22.0
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
<b>WACC</b>	10.8%	20.0	21.0	22.0	23.0	24.0
	11.3%	19.0	20.0	21.0	22.0	23.0
	11.8%	19.0	19.0	<b>20.0</b>	21.0	22.0
	12.3%	18.0	19.0	19.0	20.0	21.0
	12.8%	17.0	18.0	19.0	19.0	20.0

Source: Factset, Erste Group research

**Erste Group Research – Company Update**  
**Kapsch TrafficCom | Technology Hardware | Austria**  
**17 November 2022**

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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 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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## Erste Group Research – Company Update

Kapsch TrafficCom | Technology Hardware | Austria  
17 November 2022

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