

COMPANY UPDATE

# Kapsch TrafficCom

Buy

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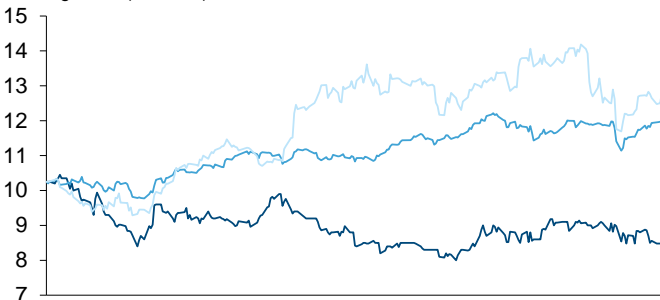
Share price (EUR) close as of 30/08/2024	8.40	Reuters	KTCG.VI	Free float	42.5%
Number of shares (mn)	14.3	Bloomberg	KTCG AV	Shareholders	Kapsch-Group (57.5%)
Market capitalization (EUR mn)	120.1	Div. Ex-date			
Enterprise value (EUR mn)	223.1	<b>Target price</b>	<b>13.0</b>	Homepage:	www.kapsch.net

**Key figures Overview**

EUR mn	2024	2025e	2026e	2027e
Net sales	538.8	582.1	612.8	642.4
EBITDA	88.5	25.6	36.7	39.6
EBIT	70.3	9.4	21.2	24.3
EBT	36.9	-3.1	14.3	18.0
Net profit	23.2	-6.3	10.9	13.4
EPS (EUR)	1.77	-0.44	0.76	0.94
CEPS (EUR)	3.50	0.70	1.95	2.13
BVPS (EUR)	6.30	6.11	6.87	7.81
Dividend/Share (EUR)	0.00	0.00	0.00	0.26
EV/EBITDA (x)	2.61	8.73	5.96	5.27
P/E (x)	4.81	nm	11.06	8.97
P/CE (x)	2.43	12.00	4.31	3.95
Dividend yield (%)	0.00	0.00	0.00	3.10
EBITDA margin (%)	16.39	4.39	5.99	6.16
Operating margin (%)	13.01	1.62	3.45	3.78
Net profit margin (%)	4.12	-0.40	1.76	2.10

**Trading data & Statistics**

Daily averages	5 days	30 days	last year
Volume	1,727	3,625	5,465
Trading value (EUR mn)	0.0	0.0	0.0



—Kapsch TrafficCom —ATX —DJ EURO STOXX Technology

<b>Price performance:</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>in EUR</b>	<b>-7.3%</b>	<b>-1.4%</b>	<b>-0.2%</b>	<b>-18.0%</b>

**Financial Strength**

	2024	2025e	2026e	2027e
ROE (%)	31.67	-7.14	11.70	12.77
ROCE (%)	17.15	1.64	8.03	8.99
Equity ratio (%)	18.80	20.98	23.07	25.80
Net debt (EUR mn)	116.17	102.24	98.29	87.71
Gearing (%)	139.25	116.08	99.44	78.07

**Slow but gradual recovery**

**We confirm our Buy recommendation after 1Q24/25, while reducing our target price to EUR 13, from EUR 15 previously, on reduced margin expectations.**

1Q24/25 showed slight top line growth in line with our expectations, following favorable order intake in recent quarters. Underlying profitability confirmed the turnaround, but negative deconsolidation effects from African business burdened. It is positive to see a quarter without project revaluations.

We are getting closer to finally seeing clean reporting, without negative one-offs. Positive one-offs remain in the cards, such as the pending arbitration proceedings related to the cancelled German ETC enforcement contract. Timing of the court's decision is hard to assess.

KTC confirmed its FY24/25 guidance of revenue growth of at least 7.5% y/y and adjusted EBIT of EUR 15mn. Based on the decent underlying profitability in the starting quarter and scale effects going forward, we believe KTC should do better. Still, we decided to reduce our margin assumptions for the years to come, reflecting slower than previously assumed margin expansion.

KTC trades at an adj. EV/EBITDA of 6.8x / 5.9x for FY24/25 and FY25/26, respectively. P/E is 11.1x for FY25/26.

While this does not look like a bargain, positive one-offs not yet included should push multiples lower soon.

## Step by step

What we liked about the published 1Q24/25 results was the 5% revenue growth y/y to EUR 139mn and the positive, underlying (adjusted) business profitability of almost 3% or EUR 3.4mn on the EBIT level. We regard this development as a starting point for revenue growth to continue and even expand in the coming quarters on the back of an improving order backlog. Profitability-wise, we should at least see a stabilization of profitability.

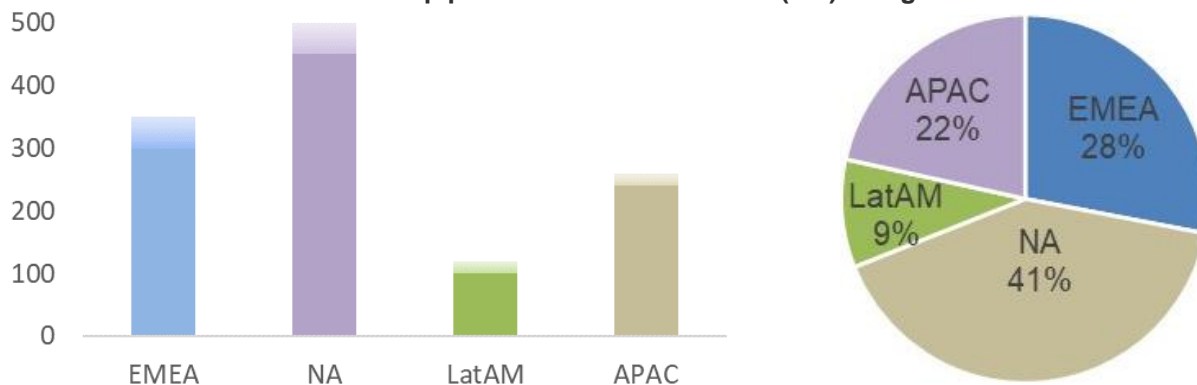
What we obviously have not appreciated in 1Q24/25 was another negative one-off amounting to EUR 7mn related to the deconsolidation of African business. On the other hand, 1Q24/25 was the first in many quarters in which margin adjustments to running projects have **NOT** burdened results. **This could finally hint at an end to the negative margin adjustment dynamics and a return to clean reporting going forward, which we regard as an important step in regaining investor confidence after years of restructuring.**

## Tender pipeline update

Market activity continues to do well in all geographies, offering attractive business opportunities ranging from sizeable nationwide electronic toll tenders in the triple-digit EURmn range to small-scale single-digit EURmn traffic management solutions.

The overall pipeline volume for KTC, covering tenders to be decided within 6-9 months, is somewhere within EUR 1.1-1.2bn. The provided range is a rough estimate; the actual contract volume can obviously differ and, as we know from the past, it can take years and several attempts until a tender is finally awarded. None of these tenders are yet reflected in KTC's guidance for FY24/25.

**KTC 6-9 month EUR >1bn tender pipeline – Geo view volume (left) and geo view share of total (right)**



Source: Company; Erste Group Research

There are several tenders in the range of EUR 80-150mn, e.g. two regional ETC solutions in France, a nationwide ETC solution in Malaysia, and several regional/local tenders in the US. The fact that some of the opportunities have recently been awarded to peers - like a toll system in the Netherlands, a toll solution in Denmark and a nationwide toll system in the Philippines - could even increase the odds for KTC to be awarded as a higher level of capacity utilization tends to lower the propensity of another aggressive bid in a further tender.

## Change in estimates

We have aligned our estimates based on the following assumptions:

- Revenue growth in FY24/25 ("FY25") is assumed to be 8% y/y, which is in line with KTC's guidance of growing above the market at 7.5%. Having seen top line growth of 5% in the starting quarter, our new estimate / KTC's guidance implies growth acceleration in the coming quarters.
- Our adj. EBIT estimate for FY25 is EUR 16mn, while our reported EBIT estimate is EUR 9mn. Such an estimate reflects the EUR 7mn negative non-cash adjustments related to the deconsolidation of African business booked in 1Q25. We believe there is a good chance our adjusted (i.e. clean) FY25 EBIT estimate proves conservative. Considering the long historic series of margin adjustments for troubled projects, we prefer remaining cautious at least until the two remaining troubled projects are finally settled. It seems this could happen by the end of 2Q / September 2025.

Consolidated, IFRS (EUR, mn)	2024/25e = FY25e			2025/26e = FY26e			2026/27e = FY27e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Revenues	582.1	556.9	4.5%	612.8	601.4	1.9%	642.4	625.9	2.6%
EBITDA	25.6	38.5	-33.6%	36.7	46.3	-20.7%	39.6	49.1	-19.4%
EBITDA margin	4.4%	6.9%	-36.5%	6.0%	7.7%	-22.2%	6.2%	7.9%	-21.5%
EBIT	9.4	20.3	-53.5%	21.2	28.3	-25.3%	24.3	31.4	-22.6%
EBIT margin	1.6%	3.6%	-55.5%	3.5%	4.7%	-26.7%	3.8%	5.0%	-24.5%
Net profit	-6.3	11.1	-157.2%	10.9	16.6	-34.7%	13.4	18.4	-27.4%
Net margin after min.	-1.1%	2.0%	-154.7%	1.8%	2.8%	-35.9%	2.1%	2.9%	-29.2%
EPS	-0.44	0.78	-157.2%	0.76	1.16	-34.7%	0.94	1.29	-27.4%
EPS adjusted	0.05	0.78	-94.0%	0.76	1.16	-34.7%	0.94	1.29	-27.4%
DPS	0.00	0.00	nm	0.00	0.00	nm	0.26	0.35	-25.7%

Source: Erste Group Research

- For the coming years we have once again reduced our margin expectations. Based on a clean EBIT margin of 2.8% in FY25, we now expect economies of scale and concluded troubled project to raise profitability going forward. The South African ETC contract now looks to come to an end in November 2024 at the latest. The discontinuation of this assumed above-average margin contract might push out margin improvement to some extent, though.
- We continue to assume a first dividend payout for FY27, although our model does not arrive at the required minimum equity ratio of 30% set by management. We assume, though, that positive one-offs like the compensation from the pending court case dealing with the unlawful scrapping of the German ETC enforcement contract will help to reach this level. Obviously, we have not reflected any additional positive or negative one-offs in our model.

Despite our margin reduction, we arrive easily at a target price supporting our Buy call.

### Target price composition

	DCF	Multiple	Weight	12-month target price	act. share price	upside to target price	Recommendation
<b>Kapsch TrafficCom</b>	13.0	12.9	100/0	13.0	8.4	54.8%	<b>Buy</b>

Source: Erste Group Research; Bloomberg

### Peer Group comparison / Multiple valuation

Peers	MarketC (EURmn)	P/E			EV/EBITDA			EV/EBIT		
		2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
SENSYS GATSO GROUP A/E	70	20.9x	9.5x	8.3x	8.8x	5.3x	4.8x	15.7x	7.7x	6.8x
EDENRED	9,385	17.7x	15.1x	13.3x	8.7x	7.9x	7.2x	10.5x	9.6x	8.6x
SINGAPORE TECH ENGINE	9,782	20.3x	17.7x	16.4x	12.9x	11.9x	11.2x	20.3x	18.5x	17.6x
ITERIS INC	271	22.7x	18.6x	-	17.9x	12.5x	8.9x	35.2x	17.2x	13.8x
INIT INNOVATION IN TRAFF	362	20.1x	15.9x	13.0x	11.0x	-	7.6x	16.1x	12.7x	10.5x
IVU TRAFFIC TECHNOLOGI	247	18.9x	16.8x	14.8x	10.1x	9.3x	8.3x	12.9x	11.6x	10.1x
TAGMASTER AB	20	158.0x	10.5x	9.3x	5.5x	3.9x	3.5x	28.3x	8.0x	7.7x
WAG PAYMENT SOLUTIONS	544	13.1x	9.7x	7.7x	7.2x	6.1x	5.2x	12.3x	9.7x	8.0x
<b>MEDIAN broader peers</b>		<b>20.2x</b>	<b>15.5x</b>	<b>13.0x</b>	<b>9.5x</b>	<b>7.9x</b>	<b>7.4x</b>	<b>15.9x</b>	<b>10.7x</b>	<b>9.4x</b>
Kapsch TrafficCom	120.7	nm	11.1x	9.0x	8.7x	6.0x	5.3x	23.7x	10.4x	8.6x
prem. / disc median		nm	-28.3%	-30.5%	-7.6%	-24.1%	-28.6%	49.2%	-2.7%	-8.0%
Peers	Share price	P/B			ROE			Dividend yield		
		2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
SENSYS GATSO GROUP A/E	6.1	1.2x	1.1x	0.9x	6.0%	12.0%	12.0%	-	-	-
EDENRED	37.6	-	-	172.5x	-0.9x	-181.4%	-105.9%	3.3%	3.6%	4.1%
SINGAPORE TECH ENGINE	3.1	5.3x	4.8x	4.3x	27.0%	27.9%	27.5%	3.6%	3.7%	3.9%
ITERIS INC	6.3	4.1x	3.4x	-	-	-	-	-	-	-
INIT INNOVATION IN TRAFF	36.1	2.8x	2.5x	2.2x	14.0%	18.5%	21.0%	2.1%	2.3%	2.6%
IVU TRAFFIC TECHNOLOGI	14.0	2.6x	2.2x	1.9x	-	-	-	2.0%	2.2%	3.2%
TAGMASTER AB	1.4	-	-	-	1.0%	8.0%	8.0%	-	-	-
WAG PAYMENT SOLUTIONS	0.8	2.0x	1.7x	1.4x	11.7%	15.3%	17.9%	0.0%	0.0%	0.0%
<b>MEDIAN broader peers</b>		<b>2.7x</b>	<b>2.4x</b>	<b>2.1x</b>	<b>8.9%</b>	<b>13.7%</b>	<b>15.0%</b>	<b>2.1%</b>	<b>2.3%</b>	<b>3.2%</b>
Kapsch TrafficCom	8.4	1.4x	1.2x	1.1x	-7.1%	11.7%	12.8%	0.0%	0.0%	3.1%
prem. / disc median		-48.5%	-48.4%	-47.5%	-181%	-14.4%	-14.6%	nm	nm	-4.5%
<b>Per KTC share (EUR) 2025e</b>		<b>5.1</b>								
<b>Per KTC share (EUR) 2026e</b>			<b>12.6</b>							
<b>Per KTC share (EUR) 2027e</b>				<b>13.1</b>						
Period weight		20%	60%	20%						
<b>NPV as of Sep 2024 EUR</b>		<b>11.2</b>								
Cost of Equity		15.4%								
<b>NPV as of Sep 2025 EUR</b>		<b>12.9</b>								

Source: Bloomberg, Erste Group Research

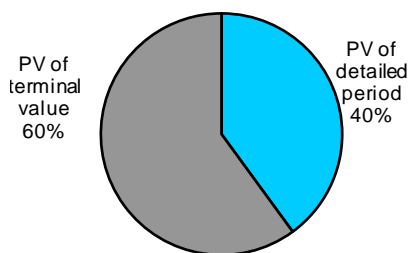
### WACC calculation

	2025e	2026e	2027e	2028e	2029e	2030e (TV)
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
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
<b>Cost of equity</b>	<b>15.4%</b>	<b>15.4%</b>	<b>15.4%</b>	<b>15.4%</b>	<b>15.4%</b>	<b>14.2%</b>
Cost of debt	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Effective tax rate	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
<b>After-tax cost of debt</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.6%</b>
Equity weight	55%	55%	55%	55%	55%	70%
<b>WACC</b>	<b>10.5%</b>	<b>10.5%</b>	<b>10.5%</b>	<b>10.5%</b>	<b>10.5%</b>	<b>11.3%</b>

### DCF valuation

(EUR mn)	2025e	2026e	2027e	2028e	2029e	2030e (TV)
Sales growth	8.0%	5.3%	4.8%	3.2%	3.2%	2.0%
EBIT	9.4	21.2	24.3	27.8	30.6	17.5
EBIT margin	1.6%	3.5%	3.8%	4.2%	4.5%	2.5%
Tax rate	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Taxes on EBIT	-2.2	-4.9	-5.6	-6.4	-7.0	-4.0
<b>NOPLAT</b>	<b>7.3</b>	<b>16.3</b>	<b>18.7</b>	<b>21.4</b>	<b>23.6</b>	<b>13.4</b>
+ Depreciation	16.1	15.6	15.3	15.4	15.5	15.5
Capital expenditures / Depreciation	19.7%	24.4%	24.9%	24.8%	24.7%	25.0%
+/- Change in working capital	10.7	-6.6	-3.5	-1.1	-1.1	-0.7
Chg. working capital / chg. Sales	24.8%	-21.6%	-12.0%	-5.5%	-4.9%	-5.0%
- Capital expenditures	-3.2	-3.8	-3.8	-3.8	-3.8	-3.9
<b>Free cash flow to the firm</b>	<b>31.0</b>	<b>21.4</b>	<b>26.7</b>	<b>31.8</b>	<b>34.1</b>	<b>24.3</b>
Terminal value growth						2.0%
Terminal value						266.1
Discount factor	0.90	0.82	0.74	0.67	0.61	0.61
Discounted free cash flow - Mar 31 2024	28.0	17.5	19.7	21.3	20.7	161.3
<b>Enterprise value - Mar 31 2024</b>	<b>268.6</b>					
Minorities	0.7					
Non-operating assets	0.0					
Net debt	116.2					
<b>Equity value - Mar 31 2024</b>	<b>151.7</b>					
Number of shares outstanding (mn)	14.3					
Cost of equity	15.4%					
<b>12M target price per share (EUR)</b>	<b>13.0</b>					
Current share price (EUR)	8.4					
Up/Downside	54.8%					

### Enterprise value breakdown      Sensitivity (per share)



Source: Factset, Erste Group research

		Terminal value EBIT margin				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	10.3%	11.2	12.9	14.6	16.4	18.1
	10.8%	10.6	12.2	13.8	15.4	17.0
	11.3%	9.9	11.5	<b>13.0</b>	14.5	16.0
	11.8%	9.4	10.8	12.3	13.7	15.2
	12.3%	8.9	10.3	11.7	13.0	14.4
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	10.3%	12.9	13.7	14.6	15.7	16.9
	10.8%	12.2	12.9	13.8	14.7	15.8
	11.3%	11.5	12.2	<b>13.0</b>	13.8	14.8
	11.8%	11.0	11.6	12.3	13.1	13.9
	12.3%	10.4	11.0	11.7	12.4	13.1

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Group Institutional Equity Sales Head: Michal Rizek	+420 224 995 537	Croatia Head: Antun Burić Zvonimir Tukač Ana Tunjić Natalija Zujic	+385 (0)7237 2439 +385 (0)7237 1787 +385 (0)7237 2225 +385 (0)7237 1638
Cash Equity Sales Werner Fuerst Viktoria Kubalcova Thomas Schneidhofer Oliver Schuster	+43 (0)5 0100 83121 +43 (0)5 0100 83124 +43 (0)5 0100 83120 +43 (0)5 0100 83119	Hungary Head: Peter Csizmadia Gábor Bálint Balazs Papay Gergő Szabo	+36 1 237 8211 +36 1 237 8205 +36 1 237 8213 +36 1 237 8209
Institutional Equity Sales Croatia Matija Tkalicanac	+385 72 37 21 14	Romania Head: Cristian Vasile Pascu	+40 373 511 695
		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: Gorjan Hobljaj Margit Hrasček Bernd Thaler Ciprian Mitu Christian Kienesberger Zsuzsanna Toth	+43 (0)5 0100 84403 +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	+48 22 538 6223

### **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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