



ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 29 April 2021

Sensys Gatso Group

Sensys Gatso Q1

Weak quarter

Sensys Gatso's sales in individual quarters vary greatly depending on when orders are delivered, so interim results are therefore less significant. Sales in Q1 were SEK 78 million, which was much lower than our estimate of SEK 138 million, mainly because the Saudi order worth SEK 275 million was only about 5% delivered this quarter. However, the delay is only a shift in revenue and does not affect profitability.

Estimate changes

We are making significant estimate changes for 2021. We estimate that about 10% of the delivered order value from Saudi Arabia will be shifted into 2022, and expect much of the order to Costa Rica will be delivered in 2022. Q1 was weaker than we expected, and we are therefore lowering our forecast sales for 2021 to SEK 598 million (704). The adjustments do not affect our long-term forecasts.

New valuation

Our estimate changes lead us to lower our fair value from SEK 2.2–2.3 per share to SEK 2.05–2.15. If Sensys Gatso's forecasts are met and the rest of the Saudi order is delivered in 2021, the current year should eventually be good for the share. Regardless of when the order is delivered to Saudi Arabia, the recent downturn has created a good buying opportunity for the long-term investor who believes in Sensys Gatso.

Estimate Changes (SEK)			Estimates (SEK)				Risk and Potential			
	Now	Before		19e	20e	21e	22e	Motivated value	2.05 - 2.15	
EPS, adj 20e	0	0.05	-91.9%	Sales,m	406	455	598	742	Current price	SEK1.23
EPS, adj 21e	0.06	0.14	-60.0%	Sales Growth	6.8%	12.0%	31.4%	24.1%	Risk level	Medium
EPS, adj 22e	0.08	0.06	21.7%	EBITDA, m	29	59	96	134		
				EBIT, m	(24.4)	10.8	58.5	92.6		
				EPS, adj	(0.02)	0.00	0.06	0.08		
				EPS Growth	0.0%	(2.5)%	11.6%	43.4%		
				Equity/Share	0.5	0.6	0.7	0.8		
				Dividend	0.00	0.00	0.00	0.00		
				EBIT Marginal	(6.0)%	6.0%	9.8%	12.5%		
				ROE (%)	(3.0)%	4.5%	20.5%	11.0%		
				ROCE	(5.3)%	6.4%	24.1%	15.7%		
				EV/Sales	2.73x	2.44x	1.86x	1.50x		
				EV/EBITDA	38.9x	18.7x	11.5x	8.3x		
				EV/EBIT	(45.5)x	102.8x	19.0x	12.0x		
				P/E, adj	(79.0)x	280.9x	22.3x	15.6x		
				P/Equity	2.5x	2.2x	1.8x	1.6x		
				Dividend yield	0.0%	0.0%	0.0%	0.0%		
				FCF yield	(3.9)%	4.1%	5.1%	7.3%		
				Net Debt/EBITDA	1.1g	(0.1)g	(1.5)g	(1.6)g		

Key Figures (mkr)	
Number of Shares	913.6m
Market cap	1,124
Net Debt	(13)
EV	1,111
Free Float	81.00%
Avg. No. of Daily Traded Sh.	3,320.0(k)

One Year Performance Chart

Analysts

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Overview

Sensys Gatso Q1

Investment Case

Sensys Gatso sells products and services in traffic safety to various government actors. Examples of its products are speed cameras and traffic lights. Sensys Gatso has also developed software that enables automation of the entire process of traffic violation fines. An example is that a speed camera photographs a person driving too fast, and the owner is identified using Sensys Gatso's software and the system then sends out a fine.

New management, better company

Sensys Gatso originates from a merger in 2015 between Swedish Sensys and Dutch Gatso. The merger was initially less successful, and the years 2016-2019 were loss-making with a volatile share price. In 2017, the company changed its management and we are now seeing a positive transformation. The sales processes are extensive, and it is only now that the results of the change of leadership are beginning to be seen. Order intake from May to August 2020 was higher than the revenue in all of 2016 and 2017 combined.

Growing recurring revenue

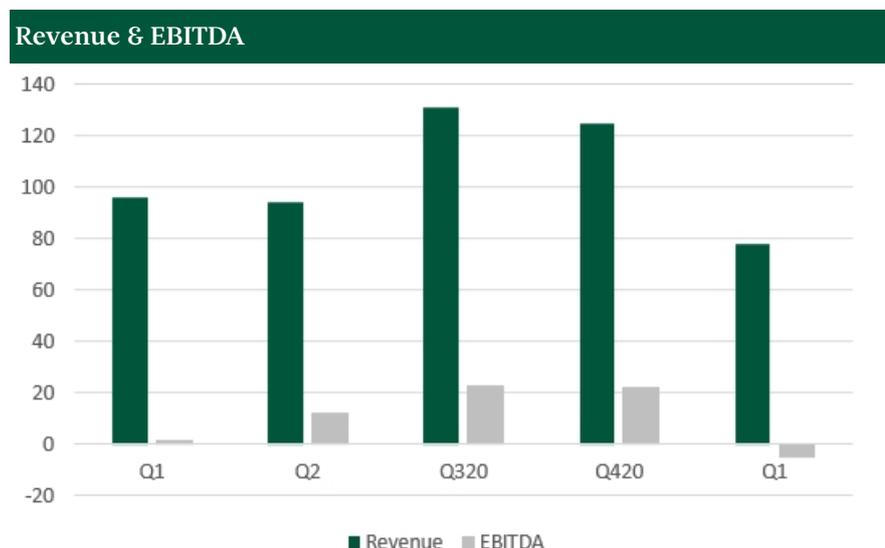
Sensys Gatso is focusing on an increased share of recurring revenues from traffic enforcement as a service (TRaaS), which will mean greater revenue stability. The company's target is for TRaaS to make up over 60% of sales in 2025. We estimate that the goals will be met and that the annual rate of growth for repeat revenue will be in excess of 20 % over the next 5 years.

Undervalued against historical average

Sensys Gatso's historical 10-year average for EV/sales is 4.4, compared to our estimate for 2021 of only 1.6. The valuation is in our opinion low for a cyclically insensitive ESG case with high growth and an increased share of recurring revenues. According to our DCF valuation, the company is worth SEK 2.2-2.3 per share, which means an upside of approximately 50% from the current price of SEK 1.4.

Q1

Sales from Saudi Arabia and TRaaS in the US were significantly lower than expected. We estimated SEK 138 million in sales, and the consensus was 135, but sales were only SEK 78 million (96). Operating cash flow deteriorated significantly to SEK -36 million (9). However, we see the weak cash flow as completely natural given that inventory has been stockpiled prior to delivery to Saudi Arabia, which has increased the working capital. As shown below, Q1 was Sensys Gatso's weakest quarter in terms of profit over the past year.



USA and TRaaS

Revenues from managed services were SEK 22 million (33) in Q1. This is because TRaaS in the United States is largely based on traffic monitoring near schools, and revenues are generated only when the schools are open. Payments normally have a delay of about one month, which means that, for example, December's fines are included in Q1's results. The pandemic was significantly worse in the US during December–January than today, and the company estimates that Q2 will generate significantly higher TRaaS revenues than Q1, especially from the second half of Q2.

The US today has one of the world's highest vaccination rates per capita, with some 40% having been inoculated. We therefore see an extremely low risk of a new pandemic wave that reduces TRaaS profitability in the future. Especially considering that the weather is warming up.

It is also worth noting that TRaaS revenues from service and maintenance increased to SEK 25 million (20). The larger the installed base of traffic monitoring equipment that Sensys Gatso has, the higher the revenue from service and maintenance will normally be. We therefore expect that revenues from service will continue to increase as more equipment is installed.

As to the US in general, we see some positive signs from the Biden administration. President Biden has extensive plans to increase the country's infrastructure investments and writes, for example, on the White House website that he wants to reduce the number of traffic fatalities. We have not been able to find more detailed information on how much is budgeted for road safety, but given that Biden lost a child in a road accident, we would not be surprised if road safety is given increased priority in the future. Although many of the decisions on road safety are made at the state level, a president with a positive attitude should facilitate the development of the sector.

Costa Rica and the investigation

Sensys Gatso visited Costa Rica in March to kick-start its planned project with an order value of SEK 192 million. During the quarterly presentation, we noted a more determined tone from Sensys Gatso towards Costa Rica than

before. Furthermore, the company communicated that it will strengthen its contracted situation in the coming months. Sensys Gatso was reluctant to say what this statement means, but we see it as possible that the company will in future put more intense pressure on Costa Rica to comply with the contract. The fact that Costa Rica has not implemented its part of the agreement is illegal, as Sensys Gatso pointed out during the presentation.

The reason why Costa Rica is not fulfilling the contract is the country's weak economy. Costa Rica's target is a budget surplus of 1% in 2023 and 1.7% in 2024, to be achieved partly through reduced government spending. However, the country has long had economic problems. And furthermore, only about 9% have been vaccinated in Costa Rica, which is far below Sweden's approximately 20%. The total contribution of tourism to GDP is over 10% in Costa Rica, and the vaccination rate is therefore very important for the country's economy. A planned budget surplus in combination with a poor economic outlook means there is greater uncertainty in the project. That said, speed monitoring is a revenue generator and reduces the costs from road traffic accidents. We still expect the project to go ahead.

Estimate changes

Our postponement of estimated revenues from Saudi Arabia of 10 % until 2022, a weaker Q1 than expected, and some of the estimated Costa Rica-revenue transferred to 2022, lead to relatively large changes in our estimates for 2021. We now expect revenues of SEK 598 million versus the previous SEK 704 million, and EBITDA SEK 96 million versus the previous SEK 138 million. Our estimates altogether after 2021 remains relatively unchanged.

Estimates			
Old estimates	2021e	2022e	2023e
Revenue	704	738	816
EBITDA	138	132	158
New estimates	2021e	2022e	2023e
Revenue	598	742	816
EBITDA	96	134	158
Difference	2021e	2022e	2023e
Revenue	-33%	4%	0%
EBITDA	-55%	8%	0%

Our changes in estimates lead us to reduce our fair value from SEK 2.2–2.3 to 2.05–2.15 per share. The market hates uncertainty, and the investigation from 2015, Costa Rica and Saudi Arabia have all given investors a large dose of uncertainty in 2021. This is reflected in the share price, which has fallen 25% this year, and we believe this is too much. Several of the factors behind the falling share price, like the delay in Saudi Arabia and the lower TRaaS revenues in the US, are only temporary.

Although we are somewhat lowering our fair value, we remain upbeat about Sensys Gatso in the long run. If the company's forecasts are met, and the rest of the Saudi order is delivered in 2021, it should still be a good year for the share. Regardless of when the order is delivered to Saudi Arabia, the recent downturn has created a good buying opportunity for the long-term investor who believes in Sensys Gatso. The share price is beginning to approach its low point from March 2020 of SEK 1.01. Lastly, we note that company chairman Claes Ödman has bought Sensys shares for SEK 0.2 million following the report, which is naturally a positive sign.

It is also worth noting Pär Degerman's presentation of March 25, in which he described where in the value chain Sensys Gatso is located. He emphasised that Sensys Gatso's TRaaS business provides a complete offer to the customer with the help of software. Because Sensys owns the data and automates the business, Sensys Gatso is able to participate in the most profitable part of the value chain for traffic monitoring and thereby obtain higher margins. The company achieved a 17% EBITDA margin for the entire business in Q3 and Q4. Our belief is that Sensys Gatso

will reach an EBITDA margin of almost 20% in the long term. Pär Degerman's speech strengthened our belief that Sensys Gatso will, in the long term, easily meet its target of at least a 15% EBITDA margin.

Resultaträkning och kassaflödesanalys

Income statement								
	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Net Income	437	293	380	406	455	598	742	816
Other revenue	0	0	0	0	0	0	0	0
Cost goods sold	-269	-177	-219	-261	-294	-378	-462	-507
Gross profit	168	116	162	145	161	220	280	309
Selling expenses	-86	-84	-75	-81	-72	-74	-86	-90
Administrative expenses	-44	-40	-39	-41	-48	-42	-57	-59
Research and development	-51	-47	-46	-48	-34	-47	-44	-46
Other expenses	11	0	-1	1	0	0	0	0
EBITDA	46	-16	38	29	59	96	134	158
Depreciation and amortization	-49	-39	-37	-53	-49	-38	-41	-44
EBIT	-2	-55	1	-24	11	59	93	114
Extraordinary items	0	0	0	0	0	0	0	0
Adjusted EBIT	-2	-55	1	-24	11	59	93	114
Financial income	0	0	0	0	0	0	0	0
Financial expenses	-7	-11	-2	-3	-8	4	-2	0
Profit before taxes	-9	-65	-1	-28	3	63	91	114
Taxes	6	3	-1	12	2	11	20	25
Minority interests	2	4	1	2	2	2	2	0
Net income	-1	-58	-2	-13	4	50	72	89
Net income adjusted	-1	-58	-2	-13	4	50	72	89
Cash flow								
	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
EBIT	-2	-55	1	-24	11	59	93	114
Items not affecting cash flow	4	41	34	56	49	38	41	44
Financial items	-7	-11	-2	-3	-4	4	-2	0
Taxes	6	3	-1	12	2	11	20	25
Changes in working capital	87	-26	15	-36	-42	0	0	0
Cash flow from operations	88	-39	49	-4	15	96	134	158
Investments	-19	-13	-21	-45	-33	-24	-30	-33
Divestments	0	0	0	0	0	0	0	0
Free cashflow	70	-52	28	-49	-18	72	104	125
Dividends	0	0	0	0	0	0	0	100
Share issues	0	87	18	0	71	0	0	0
Aquisitions	0	0	0	0	0	0	0	0
Borrowings and other adjustments	-109	-29	-28	24	2	0	0	0
Cash flow	-39	6	18	-25	55	72	104	25
Cash at the beginning of the period	0	0	0	0	52	107	180	283
Cash and bank balances	682	23	-18	31	107	180	283	309

Balansräkning

Balance sheet

	2 018	2 019	2 020	2 021	2 022	2 023
Assets						
Goodwill	251	257	242	242	242	242
Other immaterial assets	69	53	47	36	28	24
Property plant and equipment	43	101	86	110	130	150
Deferred tax asseets	38	45	40	25	15	10
Sum non current assets	401	456	416	413	415	426
Inventories	72	97	140	313	173	175
Receivables	57	76	65	57	57	57
Other current assets	26	26	35	60	60	60
Cash	77	52	109	131	217	309
Sum current assets	232	251	348	561	507	601
Sum assets	632	708	764	974	922	1 027
Equity and liabilities						
Equity	632	708	515	748	686	887
Minority interests	0	0	0	0	0	0
Sum equity	454	449	511	748	686	887
Non current liabilities	454	449	56	62	62	60
Pension liabilities	0	0	0	0	0	0
Deferred tax liabilities	0	0	5	10	10	10
Other non current liabilities	0	0	10	45	45	40
Sum non current liabilities	19	10	71	117	117	110
Short term liabilities	45	45	62	10	10	10
Trade payables	112	117	60	70	80	100
Tax liabilities	10	10	5	17	17	10
Other liabilities	28	48	57	12	12	10
Sum current liabilities	17	17	184	109	119	130
	11	67				
Sum equity and liabilities	489	475	765	974	922	1127

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