



ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 19 August 2021

Sensys Gatso Group

Stable quarter

Stable quarter

Sensys Gatso's sales in Q2 2021 were SEK 126m (94), and EBIT was SEK 4.6m (-0.9). Sales were almost 10% below our estimate, but growth was 35% and we believe that the quarter was very acceptable given the challenges in 2021. The deviation from our estimate is entirely explained by SEK 10m lower revenues than we expected from Saudi Arabia. Revenues from Saudi Arabia are relatively variable so this does not worry us.

Estimate changes

We believe the company is optimistic about the future. The CEO states in the report that the sales pipeline means order intake will "quite likely" increase in the near future. Furthermore, the company indicates that TRaaS sales may be positively impacted by society reopening, and it retains its target of revenues above SEK 1 billion by 2025 and an EBITDA margin of at least 15%.

Valuation retained

The investigations in the Netherlands have been closed, sales grew 35% this quarter and the CEO sounds optimistic about near-term orders. But still the share price continues to fall. What we find most negative in the report was the low order intake during Q2, but in our opinion this was already known as the company had announced relatively few orders during the period. We see a large upside to our fair value of SEK 2.05–2.15.

Estimate Changes (SEK)			Estimates (SEK)				Risk and Potential			
	Now	Before		20e	21e	22e	23e	Motivated value	2.05 - 2.15	
EPS, adj 21e	0.04	0.06	-26.1%	Sales,m	455	558	756	790	Current price	SEK1.00
EPS, adj 22e	0.09	0.08	9.7%	Sales Growth	12.1%	22.5%	35.5%	4.5%	Risk level	Medium
EPS, adj 23e	0.09	0.1	-4.3%	EBITDA, m	59	78	140	151		
				EBIT, m	10.8	41.9	101.6	108.8		
				EPS, adj	0.00	0.04	0.09	0.09		
				EPS Growth	(2.5)%	500.0%	112.8%	7.1%		
				Equity/Share	0.6	0.7	0.8	1.0		
				Dividend	0.00	0.00	0.00	100.00		
				EBIT Marginal	2.4%	7.5%	13.4%	13.8%		
				ROE (%)	0.7%	6.8%	14.8%	12.3%		
				ROCE	4.2%	6.0%	14.2%	13.4%		
				EV/Sales	1.97x	1.61x	1.19x	1.14x		
				EV/EBITDA	15.1x	11.5x	6.4x	6.0x		
				EV/EBIT	83.1x	21.4x	8.8x	8.2x		
				P/E, adj	10,000.0x	24.5x	11.5x	10.8x		
				P/Equity	1.8x	1.5x	1.3x	1.0x		
				Dividend yield	0.0%	0.0%	0.0%	0.1%		
				FCF yield	5.2%	4.9%	9.6%	10.4%		
				Net Debt/EBITDA	(0.2)g	(0.6)g	(0.8)g	(1.4)g		

Key Figures (mkr)	
Number of Shares	913.6m
Market cap	914
Net Debt	(16)
EV	898
Free Float	81.00%
Avg. No. of Daily Traded Sh.	3,320.0(k)

One Year Performance Chart

Analysts

magnus.skog@penser.se



ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 19 August 2021

Overview

Stable quarter

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 sales in 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 about 1.6. The valuation is in our opinion low for a cyclically insensitive ESG case with growth and an increased share of recurring revenues.

Target Price

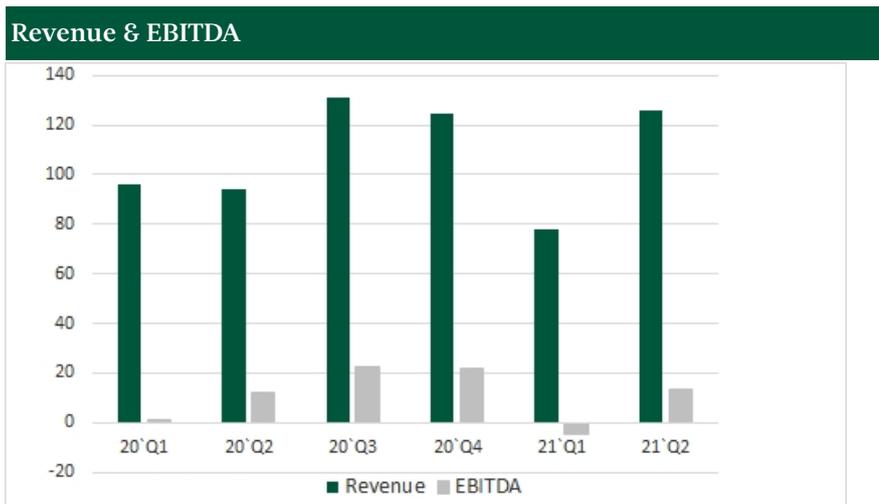
According to our DCF valuation, the company is worth SEK 2.05–2.15 per share. Our WACC amounts to 10%. We estimate approximately 18% annual growth 2020–2025 and a long-term EBITDA margin of 19%. We estimate the gross margin will be approximately 38%. Furthermore, we estimate that System Sales will account for approximately 45% of long-term revenue and TRaaS the remaining 55%.

Strong growth for TRaaS in the US will be necessary for our estimates to be realised. We also estimate that Saudi Arabia will be an important market in the long-term for Sensys Gatso. Finally, we anticipate further expansion in Latin America.

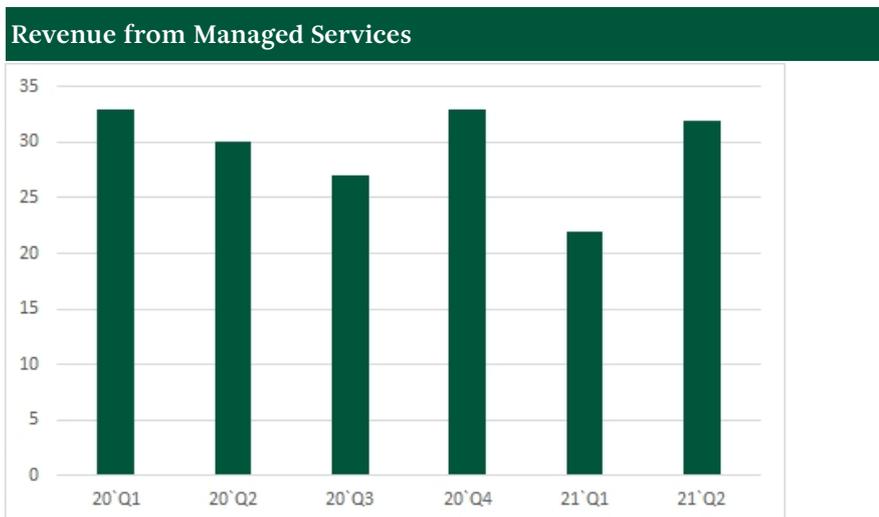
Q2

Q2 2021 reversed the negative trend that Sensys Gatso has experienced since Q3 2020. Both sales and EBITDA increased significantly from the previous quarter. Sales growth was also strong Y/Y and amounted to 35%. We believe that the worst of the pandemic is over and that the company will continue to show growth in the future.

The cost of administration stood out during the quarter, and amounted to SEK 16.6 million compared with SEK 11.8 million in Q2 2020. This increase stems primarily from extra work after, for example, the new office in Latin America have been opened. We therefore regard this increase as temporary and expect the line item to amount to approximately SEK 12 million in the future.



Sales from TRaaS in the US have recovered after a less satisfactory Q1. Sensys Gatso indicates that the sales pipeline for new contracts also looks better. Municipalities in the US have held a limited number of physical meetings during the pandemic and have had a lot of work related to Covid-19. Activity relating to decisions on matters such as Sensys Gatso's services has therefore most likely been postponed. Municipal politicians are now meeting physically to a greater extent, and cities have experienced negative economic growth during Covid. Obtaining additional revenue from traffic monitoring could therefore be a welcome financial injection. We estimate that the sales rate for new TRaaS contracts will increase throughout the remainder of 2021.



Costa Rica

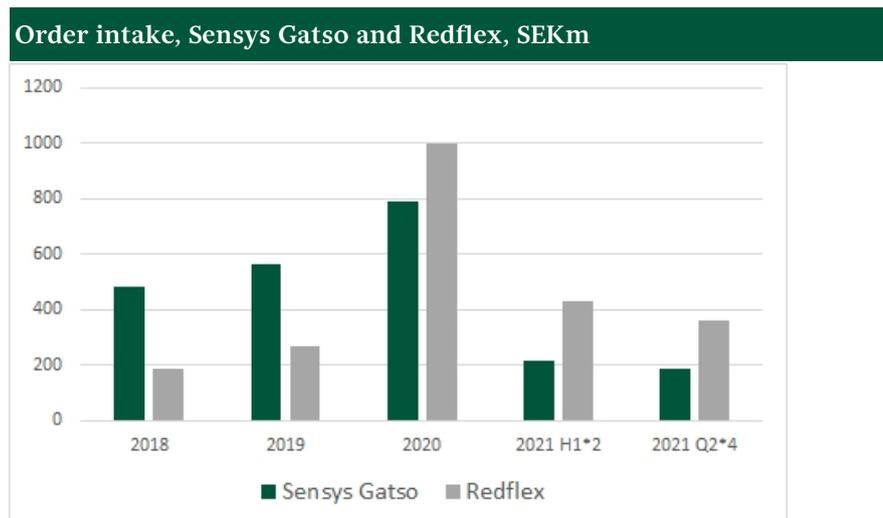
The contract with Costa Rica has still not launched due to Covid-19. We are not sure that the agreement will be fulfilled, but believe that the probability will increase significantly once the pandemic is over. It is positive for Sensys Gatso that Costa Rica has a relatively high vaccination rate given how wealthy the country is.

For example, 55% of the population have received at least one vaccination dose, compared to 59% for the United States. Admittedly, only 17% have received their second dose, compared to 50% in the US. But we still see the vaccination rate as promising. Costa Rica has a new budget meeting in December and it is very possible that a positive decision will then be made regarding fulfilment of the contract. Sensys Gatso has also intensified its presence in the region in recent months and opened a local office.

Competitors

The competitor, in our opinion, most similar to Sensys Gatso is Redflex. We have compared the order intake for these two companies to see if Sensys Gatso diverges negatively from the market on this indicator. Our conclusion is that Redflex also seems to have had a better 2020 than 2021 when it comes to orders.

The graph below presents order intake for Sensys Gatso and Redflex. Both companies experienced growth in 2018, 2019 and, especially, 2020. But the annualised order intake for H1 2021 amounts to clearly less than half of 2020 for both. The same applies when we calculate the annual rate for Q2 in the graph below.



Order intake for Sensys Gatso H1 2021 was SEK 109m and for Q2 2021 SEK 47m. Much lower than the 2020 order intake of almost SEK 800m.

We suspect that the reason for the weak order intake by both companies may be the impact of Covid. Governments have had more urgent issues to prioritize during the pandemic than traffic safety, so non-urgent activities such as road safety may have been postponed. Also, it may be that countries have had temporary economic problems and have therefore lacked the budgets for investments in road safety, as demonstrated by Costa Rica.

It is not possible to draw a definite conclusion, but we see it as very possible that order intake will return to higher levels once the pandemic is over. Exactly how long this will take, however, is quite uncertain.

Estimate changes

We are making only very marginal estimate changes after the report. We expect a slightly higher share of revenues from Saudi Arabia to fall in 2022, instead of 2021. Also, we estimate that all revenues from Costa Rica will fall in 2022, instead of some falling in 2021. The changes are only in the timings, and do not affect the scale of revenues or profitability. We therefore retain our fair value of SEK 2.05–2.15 per share.

Estimate changes				
Old estimates	2021e	2022e	2023e	2024e
Revenue	594	721	790	888
EBITDA	95	130	153	180
New estimates	2021e	2022e	2023e	2024e
Revenue	558	756	790	888
EBITDA	78	140	153	180
Difference	2021e	2022e	2023e	2024e
Revenue	-6%	5%	0%	0%
EBITDA	-18%	8%	0%	0%

The share price has fallen significantly this year as the company has weathered multiple storms. Now, however, it has turned to 35% growth during the quarter and the investigation in the Netherlands has been closed without even a settlement or trial. The order intake has been significantly below our expectations during the year, but in our opinion Sensys Gatso sounded upbeat about orders going forward. Despite the fact that the company has returned to growth and the investigation has been closed, Sensys Gatso is trading at a lower share price than before. The company has slowly begun to fundamentally turn around, but the share price has not kept up. We therefore see the share as attractively valued. There is a large upside to our fair value of SEK 2.05–2.15 per share. However, with the ongoing pandemic and a negative sentiment towards the share, it may be some time before the price reaches our fair value.

Income statement & cashflow

Resultaträkning						
	2018A	2019A	2020A	2021E	2022E	2023E
Nettoomsättning	380	406	455	558	756	790
Övriga intäkter	0	0	0	0	0	0
Kostnad sålda varor	-219	-261	-294	-353	-467	-486
Bruttovinst	162	145	161	204	289	304
Försäljningskostnader	-75	-81	-72	71	86	90
Administrationskostnader	-39	-41	-48	49	57	59
Forskning och utveckling	-46	-48	-34	46	44	46
Övriga kostnader	-1	1	0	1	0	0
Rörelseresultat (EBITDA)	38	29	22	78	140	151
Avskrivningar	-37	-53	-10	-36	-39	-42
Resultat (EBIT)	0	0	13	42	102	109
Extraordinära Poster	1	-24	0	0	0	0
Justerat Resultat (EBIT)	0	0	13	42	102	109
Finansiella intäkter	1	-24	0	0	0	0
Finansiella kostnader	0	0	-4	3	0	0
Resultat före skatt	-2	-3	9	44	102	109
Skatter	-1	-28	3	8	22	24
Minoritetsintressen	-1	12	0	0	0	0
Nettoresultat Rapporterat	1	2	6	37	79	85
Nettoresultat (just)	-2	-13	6	37	79	85
Kassaflöde						
	2018A	2019A	2020A	2021E	2022E	2023E
EBIT			13	42	102	109
Icke kassaflödespåverkande poster	-2	-13	49	36	39	42
Finansiella poster	36	45	-4	3	0	0
Skatt	15	-36	3	8	22	24
Förändringar i rörelsekapital	49	-4	-42	0	-33	-2
Kassaflöde från den operationella verksamheten	-21	-45	18	67	85	125
Investeringar	0	0	-33	-22	-30	-32
Avyttringar	28	-49	0	0	0	0
Fritt Kassaflöde	0	0	-15	45	55	93
Utdelningar	18	0	0	0	0	100
Nyemission/återköp	0	0	71	0	0	0
Förvärv	-28	24	0	0	0	0
Lånefinansiering och övriga justeringar	18	-25	2	0	0	0
Kassaflöde	0	0	58	45	55	-7
Likvida medel vid periodens början	-18	31	52	110	155	210
Kassa	-18	31	110	155	210	203

Balance sheet

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 assets	38	45	40	25	15	10
Sum non current assets	401	456	416	413	415	426
Inventories	72	97	140	140	173	175
Receivables	57	76	65	57	57	57
Other current assets	26	26	35	60	60	60
Cash	77	52	109	154	217	309
Sum current assets	232	251	348	411	507	601
Sum assets	632	708	764	824	922	1 027
Equity and liabilities						
Equity	632	708	515	612	686	887
Minority interests	0	0	0	0	0	0
Sum equity	454	449	511	612	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
Sum equity and liabilities	489	475	765	838	922	1127

Key figures

Valuation

	2020A	2021E	2022E	2023E
P/E	164,0	24,5	11,5	10,8
P/equity	-61,6	1,5	1,3	1,0
P/FCF	16,3	14,7	14,7	15,2
Dividend yield	0%	0%	0%	0%
EV/Sales	2,0	1,6	1,2	1,1
EV/EBITDA	40,3	11,5	6,4	6,0
EV/EBIT	71,6	21,5	8,9	8,3
Share price year end	1,65			
EV year end	1508,1			

Growth and margins

	2020A	2021E	2022E	2023E
Revenue growth	12%	23%	36%	5%
EBIT growth	0%	233%	143%	7%
EPS growth	-300%	568%	113%	7%
EBITDA margin	5%	14%	19%	19%
EBIT margin	3%	8%	13%	14%
Tax rate	21%	21%	21%	21%

Profitability

	2020A	2021E	2022E	2023E
ROE	1%	6%	12%	10%
ROCE	2%	7%	14%	11%

Investments

	2020A	2021E	2022E	2023E
Investments	-33,00	-22,30	-30,23	-31,60
Investments/revenue	-7%	-4%	-4%	-4%
Sales and development expenses/revenue/revenue	26%	22%	19%	19%
Inventory/revenue	31%	25%	23%	22%
Receivables/revenue	14%	10%	8%	7%
Payables/revenue	13%	13%	11%	13%
Working capital /revenue	36%	54%	51%	60%
Capital turnover rate	0,59	0,67	0,82	0,70

Financials

	2020A	2021E	2022E	2023E
Net debt	-37,90	-36,51	-100,00	-199,00
Equity ratio	67%	73%	74%	79%
Debt level	33%	25%	26%	12%
Net debt/EBITDA	-1,7	-0,5	-0,7	-1,3

This publication (“the Publication”) has been compiled by Erik Penser Bank (“the Bank”) exclusively for clients of the Bank. The contents are based on information from publicly available sources which have been deemed reliable. No guarantee is extended as to the accuracy and completeness of the contents of the document or the forecasts and recommendations provided therein. The Bank may permit employees of another department or analysed company (“the company”) to read facts or series of facts in order to verify the same. The Bank does not disclose conclusions or assessments included in the Publication in advance. Opinions stated in the Publication are those of the analyst at the time the Publication was prepared and such opinions are subject to change. No assurance is provided that future events will be in accordance with opinions stated in the Publication.

The information in the Publication must not be understood as encouragement or recommendation to enter into transactions. The information does not take into account an individual recipient’s investment knowledge and experience, financial situation, or investment goals. The information thus does not constitute a personal recommendation or investment advice.

The Bank disclaims all liability for direct or indirect loss that may be based upon the Publication. Investments in financial instruments are associated with financial risk. The investment may go up or down in value or become entirely worthless. Past favourable performance of an investment is not a guarantee of future performance.

Fair value and risk

The fair value reflects a value for the share on the day the analysis is published in a range corresponding to approximately 5-10%. The Bank uses several different valuation models to value financial instruments, such as cash flow models, valuation of multiples and breakup value analysis.

The valuation method and the approach for determining the fair value should be apparent in the analysis and may vary from company to company. Significant assumptions used in valuations are based on currently available market data and a scenario for the company’s future development that we consider reasonable. As regards risk, the share is classified on a High-Medium-Low scale based on a number of known parameters relevant to the company. A general guideline for being classified as low risk is that the company has positive cash flow and that no individual factor affects net sales by more than 20%. The corresponding general description of high risk is that the company has not achieved positive cash flow or that an individual factor affects net sales by more than 50%.

The research presented in the Publication was performed in accordance with the terms and conditions of the “Penser Access” service that the Bank performs on behalf of analysed companies. The analysed company remunerates the Bank for the aforementioned service. The fair value and risk classifications are continuously updated. Click here <https://www.penser.se/historiska-analysrekommendationer/> to view the history of investment recommendations issued by the Bank.

General

The Bank’s consent is required to copy or disseminate the Publication in whole or in part. The Publication must not be disseminated or made available to any natural or legal person in the United States of America (other than as provided under Rule 15a–16, Securities Exchange Act of 1934), Canada, or any other country that imposes statutory restrictions on the dissemination and availability of the contents of the material.

The Bank has prepared an Ethics Policy and a Conflicts of Interest Policy. The aim of these policies is to protect against and prevent conflicts between the interests of clients and departments within the Bank. The approach used by the Bank to prevent conflicts of interest includes restrictions on communications (Chinese Walls). The Research Department is physically separated from the Corporate Finance department, which occupies separate premises. The Corporate Finance department is not permitted to participate in the production of a Publication or to express opinions on a Publication. However, there may from time to time exist a client relationship or advisory situation between a company covered in a Publication and a department of the Bank other than the Research Department. The Bank has drawn up internal restrictions concerning when employees are permitted to conduct trades in a financial instrument that is the subject of an Investment Recommendation.

From time to time, the Bank performs assignments for a company that is mentioned in a Publication. The Bank may, for example, be acting as an advisor or issuer agent to the company or as the liquidity guarantor for one of the company’s securities. If such is the case, this has been stated in the Publication. The Bank, its owners, directors, or employees may own shares in companies mentioned in the Publication. All employees of the Bank must report their holdings in securities and must report all transactions. The Bank and its employees comply with guidelines issued by the Swedish Securities Dealers Association concerning employee transactions. The analyst who has prepared Investment Research as referred to in Chapter 11, section 8 of the Swedish Financial Supervisory Authority’s Regulations regarding securities (FFFS 2007:16) and others involved in this work are not permitted to trade on their own account in the covered Financial Instrument or related Financial Instruments in contravention of the applicable recommendation. The Bank’s Compliance Department monitors all employee transactions.

The Bank pays salaries to analysts, which may also consist of a share of the Bank’s profits but which is never linked to the financial performance of another department. Neither the Bank nor the individuals who compiled the Publication have holdings (long or short) in the financial instruments issued by the analysed company that exceed 0.5% of the analysed company’s share capital.

For the company in question, the Bank also conducts research in accordance with the terms of the “Penser Access” paid-for service. Click here <https://epaccess.penser.se/> for more information about this service.

Erik Penser Bank is authorised to conduct securities operations and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen)

Erik Penser Bank (*publ.*)

Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM

tel: +46 8 463 80 00 fax: +46 8 678 80 33 www.penser.se