



ERIK PENSER BANK

Penser Access | Diversified telecom operators | Sweden | 23 November 2022

Transtema

Capitalising on infrastructure investments

The market has overlooked Transtema's performance


We initiate coverage of Transtema, the Swedish market leader in telecom network servicing and maintenance, with a fair value of SEK 41-43 per share. Although EPS has increased by more than 500% since September 2020, Transtema's share price has halved from its peak in December 2021, in contrast to competitor Eltel, whose share price has moved similarly despite a sharp decrease in its profit trend. It appears the market is overlooking Transtema's robust development. Given some 40% of sales from servicing and maintenance, we see its operational risk as low. Moreover, the company is delivering on its growth strategy, having already achieved much of the growth needed by 2026 for its financial targets.

Telecom market undergoing change...

The Nordic telecom market is currently undergoing major change, with the copper network being discontinued and replaced with fibre and mobile networks, and the 5G network being rolled out. Total revenues for electronic communication have not grown for the past decade, however, prompting the operators to outsource their infrastructure to a greater extent and increase their focus on content. This has upped their need for partners. Mobile accounts for 60% of the operators' revenues. Demands on the network are growing and the 4G network is full. Transtema is ideally positioned to grab a share of this expansion and the servicing of the network that will follow suit.

...creating superb opportunities for Transtema

Transtema is repositioning itself to replace the service volumes of the copper networks, diversify its customer exposure, and capitalise on these enormous infrastructure investments. Growth is in three directions: into adjacent product areas, in its number of customers, and into other Nordic countries. We look favourably on growth into adjacent categories – the company "digging where it stands", providing a definitive roadmap for how it wants to grow, and executing on its stated plans.

Estimate changes (kr)					Forecasts (SEK m)					Valuation and risk												
	22e	Δ%	23e	Δ%		2021	2022e	2023e	2024e	Fair value	SEK 41-43											
Total revenues	2 361	0,0	2 648	0,0	Total revenues	1 690	2 361	2 648	2 728	Share price	SEK 26,7											
EBITDA, adj.	250	0,0	288	0,0	Revenue growth	20%	40%	12%	3%	Risk level	Medium											
EPS, adj.	2,6	0,0	3,3	0,0	EBITDA, adj.	195	250	288	299	<div>12-mth share price development</div> 												
<div>Coming events</div>					EBIT, adj.	117	153	179	187													
					EPS, adj.	2,1	2,6	3,3	3,6													
Q4 - report	09 February 2023				EPS growth	>100%	4%	38%	9%													
Q1 - report	04 May 2023				Equity per share	6,5	8,9	12,3	16,0													
<div>Company details (SEK m)</div>					EBIT margin	7,4%	6,1%	6,8%	6,8%													
					ROE, adj.	40,1%	34,1%	31,4%	25,6%													
Number of shares	38m				ROCE, adj.	30,2%	31,5%	28,6%	26,9%													
Market capitalisation	1 025				EV/Sales	1,1x	0,5x	0,4x	0,3x													
Net debt	110				EV/EBITDA	9,3x	4,5x	3,2x	2,5x													
EV	1 135				EV/EBIT	15,6x	7,4x	5,2x	4,1x													
Free float	65%				P/E, adj.	22,4x	10,2x	8,0x	7,4x													
Daily trading volume, average	110k				P/book value	7,4x	3,0x	2,2x	1,7x													
Bloomberg ticker	TRANS SS EQUITY				Net debt/EBITDA	0,0x	0,5x	-0,3x	-0,9x													
<div>Analysts</div>																						
Markus Almerud																						
markus.almerud@penser.se																						
					<div>Conflicts of interest</div> <table><thead><tr><th></th><th>Yes</th><th>No</th></tr></thead><tbody><tr><td>Market maker</td><td></td><td>✓</td></tr><tr><td>Certified adviser</td><td></td><td>✓</td></tr><tr><td>Transactions, 12 mth</td><td></td><td>✓</td></tr></tbody></table>							Yes	No	Market maker		✓	Certified adviser		✓	Transactions, 12 mth		✓
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Investment case

Clear strategy that is largely already completed: Transtema has low capital lock-up and high profitability, and it is prioritising growth into adjacent product areas and geographies. By "digging where it stands", the company reduces the risk in its growth strategy. Ahead of its move to the stock exchange's main list in autumn 2021, the company set new goals and established a clear roadmap until 2025. Barely a year on and it has already executed on around 70% of its targeted growth. We consider its profitability and the speedy execution of this strategy to be signs of the company's high quality.

The market has overlooked Transtema's profit development: In contrast to its main competitor Eltel, whose profits have plummeted, Transtema has seen its increase by 500% since September 2020. In spite of this, we have seen their share prices move in a similar fashion – the equity market appears to be overlooking Transtema's profit development. One reason for this could be Telia's historical dominance as a client for Transtema. The acquisition of Tessta in March this year, however, narrowed Telia's share of sales from in excess of 70% to less than 50%, and we expect this will decrease further to around one-third in the coming years. This should lead to a revaluation of Transtema.

Enormous growth potential: Transtema's expansion is across three verticals – adjacent product areas, new customers, and geographically. The Tessta acquisition took the company into Norway, with Telenor now a major client. This has brought opportunities for further expansion in Norway and with Telenor. We anticipate more such moves. At the same time, the operators have accelerated their outsourcing to secure value and focus on new revenue streams. They consequently rely on their partners to an ever greater extent, creating new growth opportunities for players such as Transtema.

Sustainable operations will bring higher market share: Safety and sustainability are now becoming mandatory requirements in procurement and we believe Transtema can win market share given these increasing demands. The company has clear and measurable targets and action plans for each area. Its sustainability work is tied to the UN's Agenda 2030, The Global Goals, and the UN's Global Compact. CO₂ emissions should be zero by 2030 under Scope 1 and 2, with indirect emissions (Scope 3) reduced by 50%.

Company description

Founded in 1997, Transtema is today one of Sweden's leading companies in the construction, maintenance, and operation of different types of communication networks – mobile networks, fibre, and copper.

Its customer target group comprises telecom operators, city networks, power companies, governmental authorities, and larger companies. Thanks to its multiple techniques, Transtema can operate across a number of technologies, from the dismantling of the old 3G network and servicing and upgrading of existing networks, to the installation of the 5G network and IoT (Internet of Things) infrastructure.

Valuation

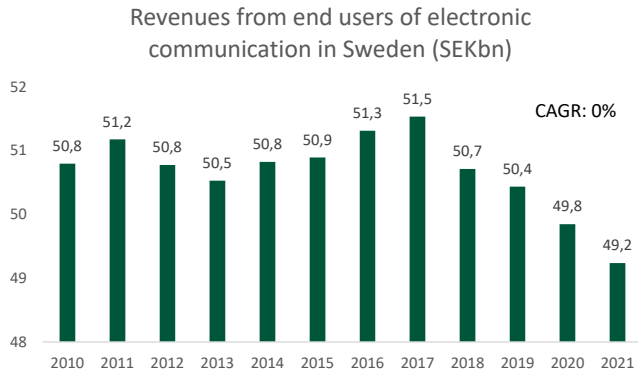
We value Transtema using an average of the target multiples and an SOTP model. We apply our 2023e earnings multiples and discount these to the present value. We use an average of P/E, EV/EBITA, and EV/EBITDA multiples and take the midpoint of the peer group in setting our target multiples. We arrive at a value of SEK 43 using our multiples valuation and SEK 42 through our SOTP model. Our DCF, to which we apply a WACC of 12%, suggests a value of SEK 60.

Fair value

SEK 41-43

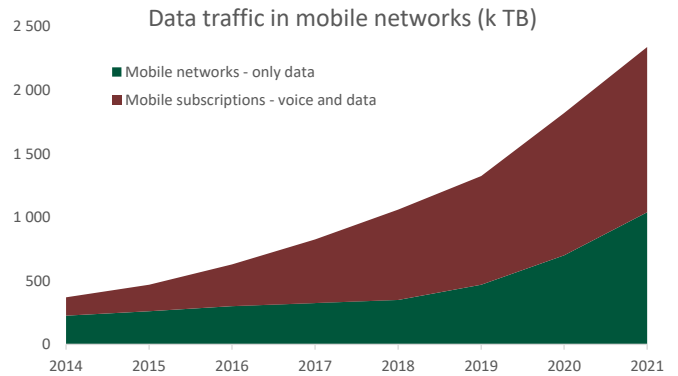
The investment case in six charts

Chart 1: Revenues from electronic communication have not grown in the past decade...



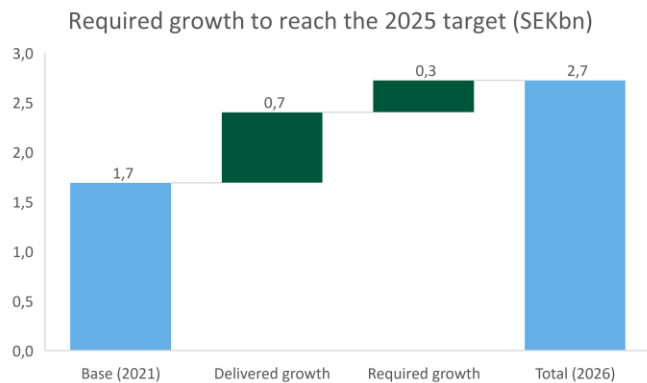
Source: PTS, EPB

Chart 2: ...while network traffic has continued expanding, prompting a greater need for partnerships



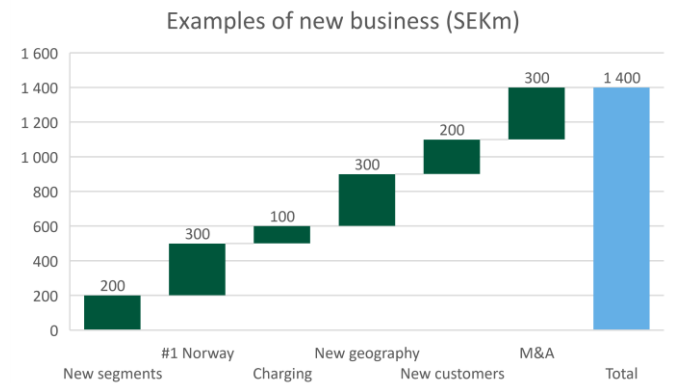
Source: PTS, EPB

Chart 3: Transtema has already achieved 70% of its target for 2026...



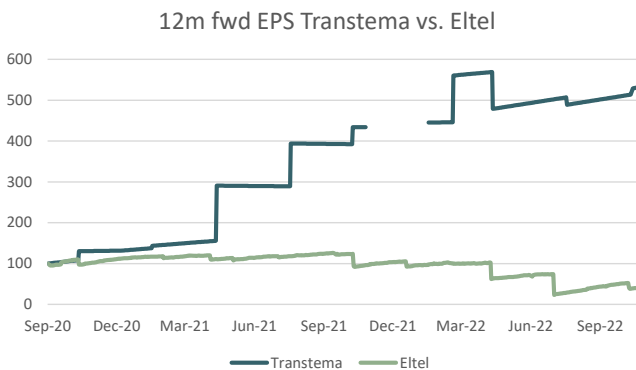
Source: Company, EPB

Chart 4: ...and the growth possibilities are extensive



Source: Company, EPB

Chart 5: Although its profits have grown far more than Eltel's, for example...



Source: Factset, EPB

Chart 6: ...its share price has almost halved



Source: Factset, EPB

Focus on servicing and maintenance brings stable cash flows and lower risk

Founded in 1997 (see history below), Transtema is today one of Sweden's leading companies in the construction, maintenance, and operation of different types of communication networks – mobile networks, fibre, and copper.

Its offering includes:

- Design, installation, grid operation, and maintenance of fixed and mobile networks
- Delivery of network products and customer support
- Electrical engineering and low voltage and communication solutions
- Consultancy services

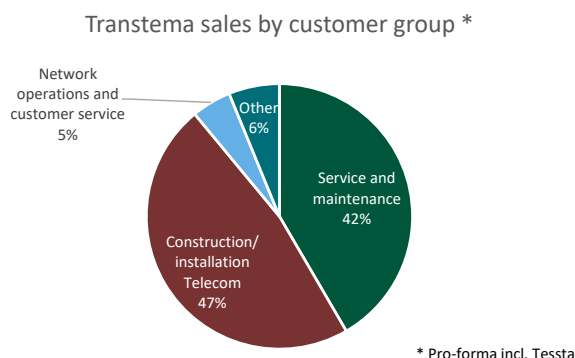
Its customer target group comprises telecom operators, city networks, power companies, governmental authorities, and larger companies. Thanks to its multiple techniques, Transtema can operate across a number of technologies, from the dismantling of the old 3G network and the servicing and upgrading of existing networks, to the installation of the 5G network and IoT (Internet of Things) infrastructure.

Full service provider with a focus on operation and maintenance

The company is a full service provider that focuses on operation and maintenance, taking responsibility across the board from design and installation to network operation and maintenance. Servicing accounts for some 40% of sales and installation for telecom clients for almost half (Chart 7). This business mix provides it with predictable cash flows and less seasonal variation, and thus with limited risks. While the relatively stable core business brings predictable recurring revenues, its exposure to new technologies offers an opportunity to grow.

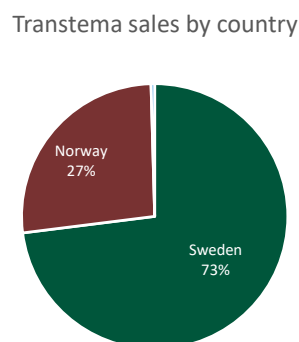
Following the acquisition of Tessta early in 2022, Sweden accounts for around three-quarters of sales, compared with 98% in 2021 (Chart 8). Transtema's main competitive advantage and also barrier to entry in Sweden is its nationwide organisation that can reach any inhabitant in the country within around an hour, and its 900 service technicians in the field. While the company is defending its Swedish market leadership, it is a challenger in the Norwegian market and the barriers are thus lower.

Chart 7: Servicing and maintenance account for the largest share of sales...



Source: Company, EPB

Chart 8: ...and Sweden represents the greatest share of revenues



Source: Company, EPB

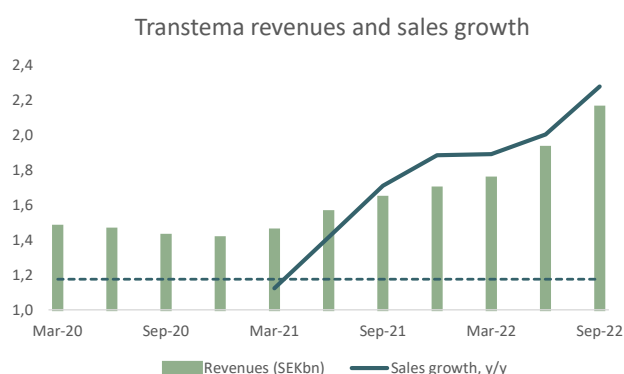
Target to growth by 10% a year, with an EBITA margin surpassing 7%

At the time of its listing on the Stockholm Nasdaq main list in September 2021, the company established new financial targets. With its Q2 2022 report, it raised its EBITA margin target from 5% to 7%. Its financial targets are:

- >10% sales growth
- >7% EBITA margin
- <2.0 net debt/EBITDA

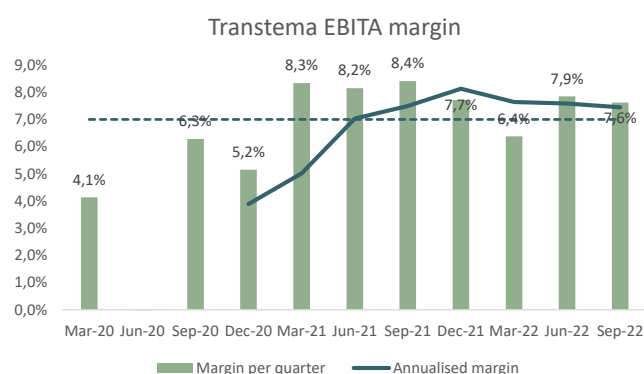
Its annual growth rates have accelerated in recent years (Chart 9) and the margin has been over 7% on an annual basis for several quarters in a row (Chart 10).

Chart 9: Growth has accelerated in recent quarters...



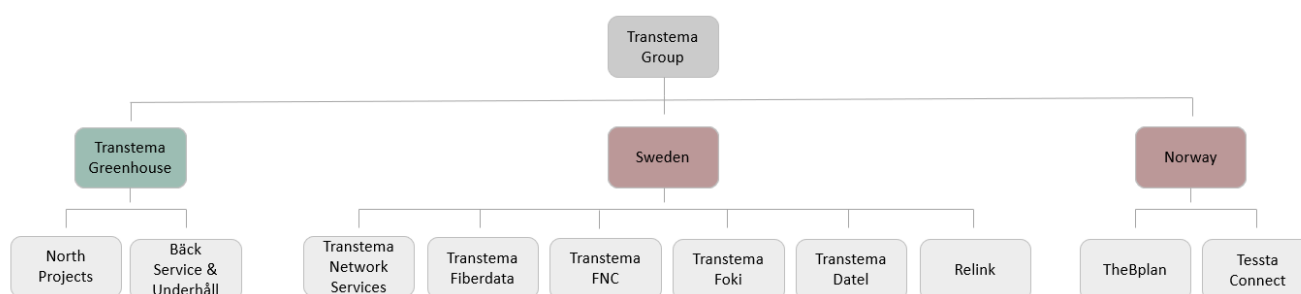
Source: Company, EPB

Chart 10: ...but the margin has not yet reached its target



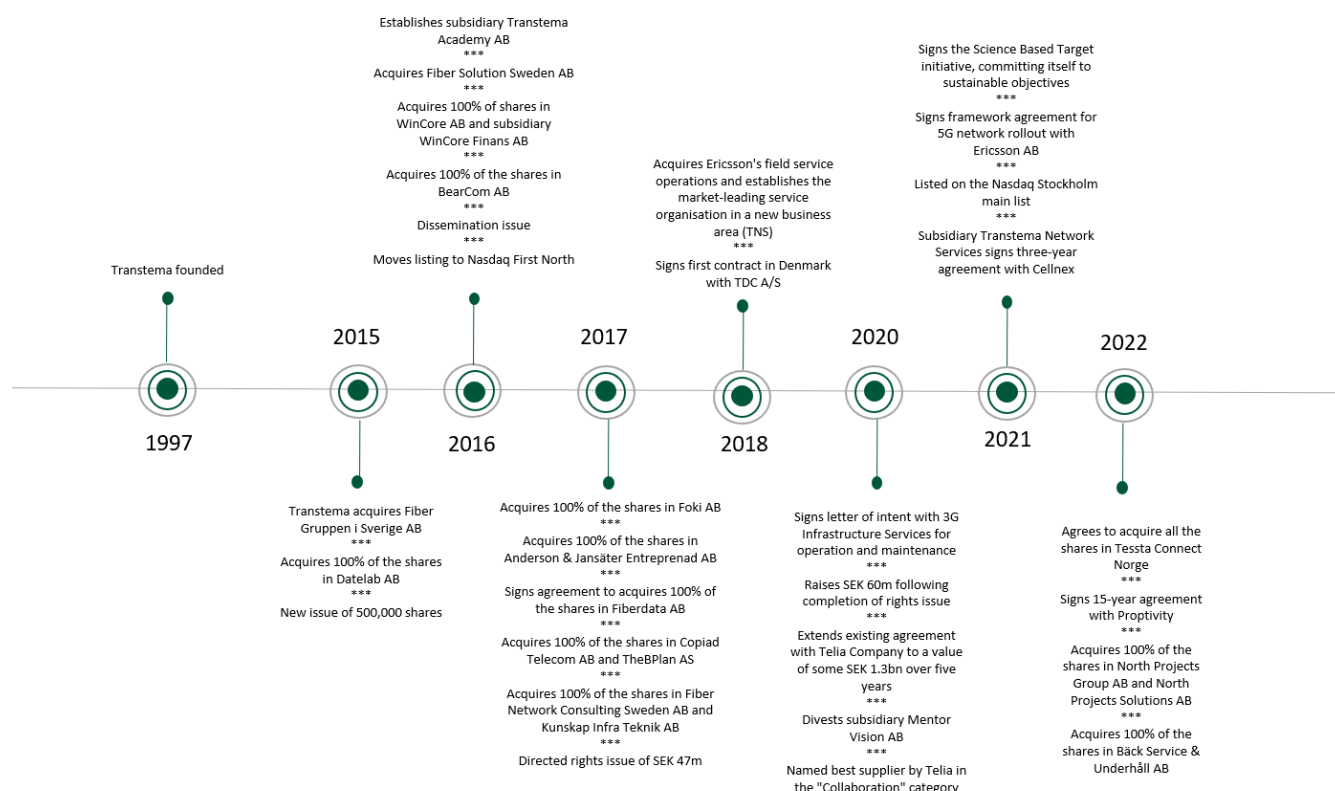
Source: Company, EPB

Figure1: Transtema's organisational structure



Source: Company, EPB

Figure2: Transtema's history



Source: Company, EPB

3Figure 3: SWOT analysis

Strengths

Nationwide - can be on site within an hour
Multi-technicians - the industry's best-trained technicians
High entry barriers
Stable core business creates predictability

Weaknesses

Consolidated market
Concentrated customer base
Geographically concentrated

Opportunities

Become a market leader in Norway
New, adjacent client segments
New geographical markets
New clients

Threats

Failing to replace the revenues from the copper network
Unsuccessful acquisitions
New competition for Telia in Sweden

Source: EPB

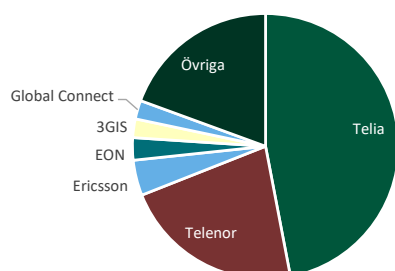
Consolidated end-markets and supply chains

The telecom market is concentrated and market shares are high. We calculate that the three largest operators share around three-quarters of the Swedish market (Chart 13) and we believe the picture in Norway is similar. Telia is Transtema's largest client, accounting for around half of revenues, followed by Telenor at some 20% (Chart 11).

Although having a dominant client like this could be seen as risky, their dependency is mutual, with Telia likely as dependent on Transtema as Transtema is on it. Moreover, this share has decreased over time and will continue to do so as revenues grow. Telia's dependence on Transtema can be illustrated by the latter becoming the exclusive supplier to service Telia's copper network during 2021.

Chart 11: Telia accounts for some 50% of sales...

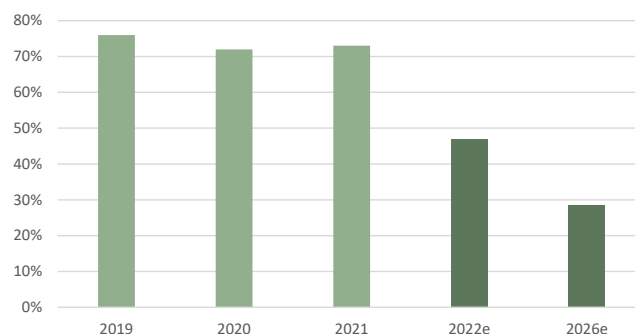
Sales per customer (2021 incl Tessta)



Source: Transtema, EPB

Chart 12: ...but the share has diminished and will continue to do so

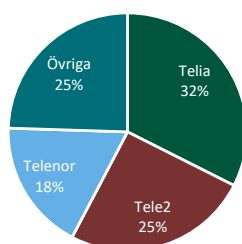
Telia - share of revenues



Source: Transtema, EPB

Chart 13: The three largest operators share 75% of the market in Sweden...

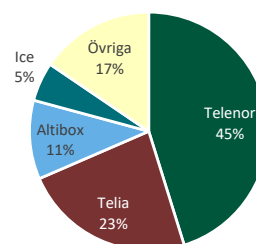
Market shares electronic communication Sweden (2021)



Source: PTS, EPB

Chart 14: ...and 78% in Norway

Market shares electronic communication Sweden Norway (2021)



Source: Ekomstatistikken, EPB

Transtema's key competitors on the telecom side are Eltel, Netel, and Oneco.

- Eltel operates in the Nordic countries and northern Europe in the telecom, electricity, and power markets. It undertakes Telenor's maintenance and installations. Its revenues were some SEK 8.5bn in 2021, of which SEK 1.8bn stemmed from Sweden. We believe Eltel is attempting to take market share and is not profitable.
- Netel operates in the Nordic region and northern Europe and has traditionally been strong in telecom installations. It has service agreements with Telia in Norway, is expanding in Germany and Norway, and is establishing itself in the UK. Its offering is broad, covering water and sewerage, district heating, electric power, and charging infrastructure. Netel had revenues of some SEK 2.4bn in 2021, of which around SEK 1.0bn were from Sweden, and its EBIT for the year reached about SEK 130m, equivalent to a margin of just over 5%.
- Oneco (Relacom) operates in the telecom and electricity industries, in particular in installation and consultancy services. Its revenues were SEK 4.8bn in 2021, of which around SEK 600m came from Sweden.

Ever-increasing demands on networks

The telecom market is currently undergoing significant changes, with the copper networks and fixed telephony being wound down in favour of fibre and mobile networks. Meanwhile, revenues from electronic communication by end-users have not grown over the past ten years, although some segments are growing. This has led telecom operators to refocus their businesses. They have increasingly outsourced infrastructure, including maintenance and installation of networks, and thus need partners, such as Transtema, for network deployment and maintenance.

In addition to this, outsourcing has been taken a step further by the operators selling off parts of the masts to realise and access the value of this infrastructure. This provides opportunities for Transtema to expand into adjacent businesses.

Revenues from electronic communication have not grown, prompting telecom operators to switch focus

Transtema is a full service operator within telecom, focusing on technical services, operation, and maintenance (Figure 4). Briefly put, it ensures that all types of communication networks – such as mobile, fibre, copper, and electricity – function. Its key clients are the telecom operators - a relatively consolidated market (Charts 13-14). Telia and Telenor are its largest clients, at just under 50% and around 20%, respectively, of external sales (Chart 11).

Figure 4: Transtema is active in fixed networks, radio networks, and infrastructure

Sweden	Fixed networks				Radio			Infrastructure		
	Fiber	KTV/Koax	Copper	Property	Mobile	Indoor	Other	Charging	Site Maint.	Data centres
Consultancy										
Installation										
Service/maintenance										
Operations/surveillance										
Equipment										

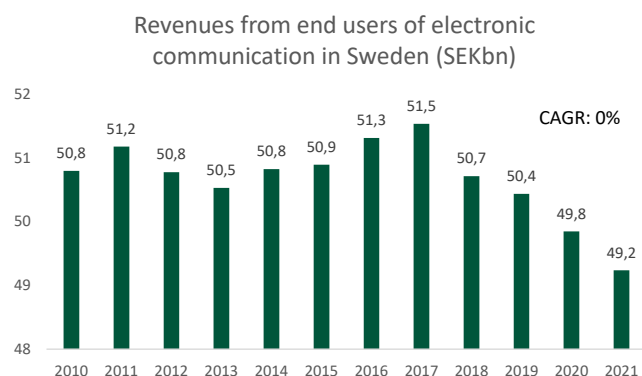
	Current operations
	Under development
	No operations

Source: Company, EPB

Revenues from electronic communication end-customers are not growing – CAGRs in Sweden and Norway have been 0% and 1% for the past decade – although there are some growing segments of the market. Above all, fixed internet is expanding, which explains why Norway is growing slightly faster than Sweden, as the Norwegian market has a higher share of this than Sweden.

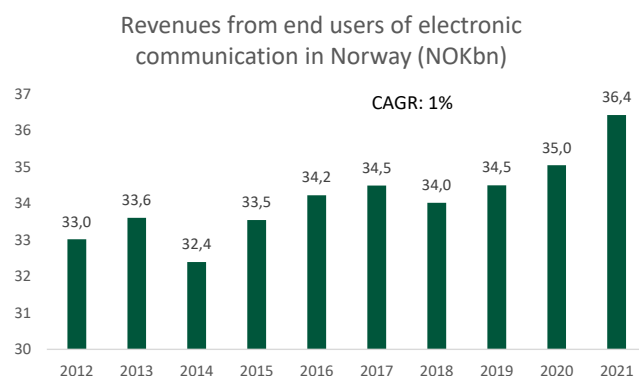
Over time, this low growth has led the operators to shift their focus increasingly towards content. For example, Telia aims to be a hub for its customers' digital experiences; hence it acquiring TV4 and C More in 2019. Network services are, in other words, often not core business for the telecom operators, which creates opportunities for companies like Transtema.

Chart 15: Revenues from electronic communication have not grown in Sweden...



Source: PTS, EPB

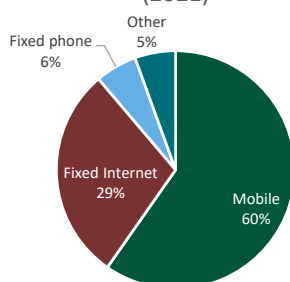
Chart 16: ...while they have grown by 1% a year in Norway over the past decade



Source: Ekomstatistikken, EPB

Chart 17: Sweden has a lower share of fixed internet...

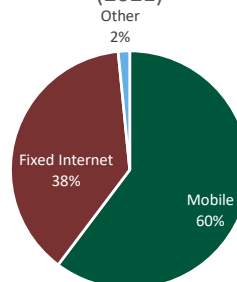
Revenue split electronic communication Sweden (2021)



Source: PTS, EPB

Chart 18: ...than Norway

Revenue split electronic communication Norway (2021)



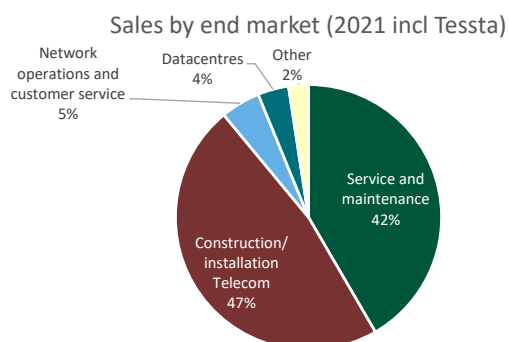
Source: Ekomstatistikken, EPB

Ever-increasing demands on networks

The demands on networks are constantly increasing and the rise in working from home during the pandemic exacerbated this trend. It seems likely this demand will only increase further. The amount of data handled has risen sharply in the past ten years and will continue to accelerate in the coming years. IDC forecasts more than 20% growth per year in the amount of data until 2025 (Chart 20). This means the demand for connectivity, availability, reliability, and security will swell more and more across all communication networks.

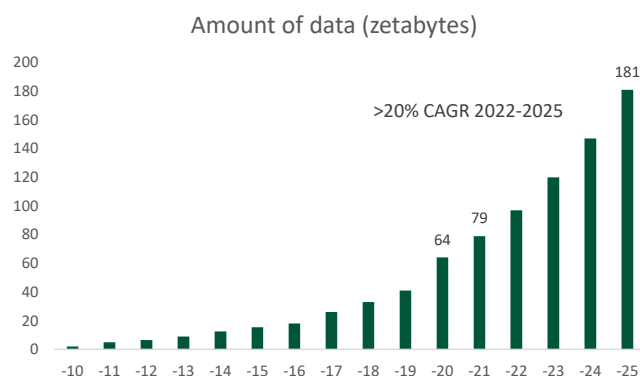
We judge the barriers to entry to be high. As a large part of the business is servicing and maintenance, it is essential to have a service network that enables high accessibility (Chart 19). One of the key USPs for Transtema is its service network – that it consistently has 900 vehicles with service technicians out on the road and can reach most parts of Sweden within an hour.

Chart 19: Servicing, maintenance, and construction for telecom clients is the lion's share of business



Source: Company, EPB

Chart 20: Solid growth in data levels in the coming years

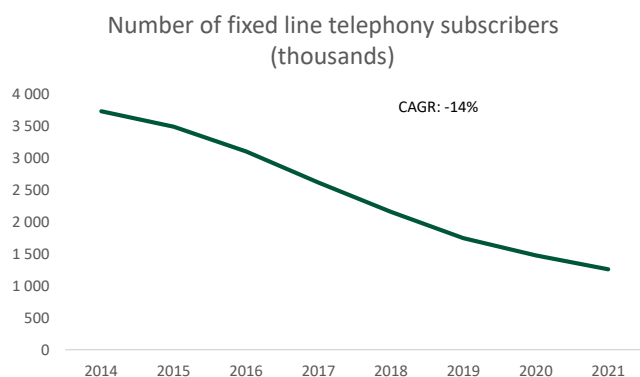


Source: Statista, IDC, EPB

Fixed networks changing as copper is decommissioned and the share of fibre rises

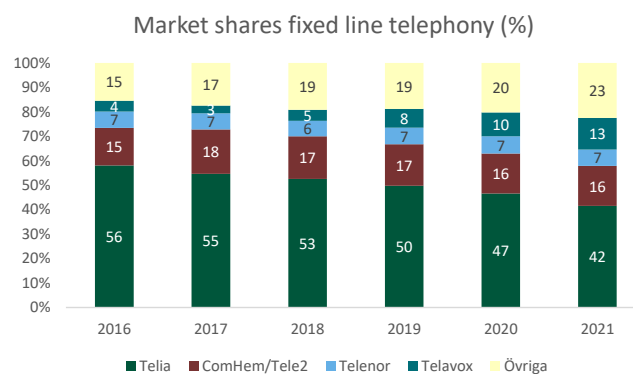
According to the Swedish Post and Telecom Authority (Post- och telestyrelsen or PTS), the number of fixed telephony subscriptions in Sweden will drop further. The share of households with such a subscription was 15% in 2021 compared with 20% in 2020. Between 2014 and 2021, the number has dropped by 14% a year on average (Chart 21). Of these subscriptions, 71% were for IP telephony. The share of households with fixed telephony subscriptions over the copper network was 4%, or some 360,000 subscriptions.

Chart 21: The number of fixed telephony subscribers continues to fall



Source: PTS, EPB

Chart 22: Telia is the clear market leader in fixed telephony in Sweden



Source: PTS, EPB

In 2010, Telia began the lengthy task of replacing the copper network with broadband via fibre and mobile broadband – something it calls "Folknätet" (the People's Network). It expects the copper network will be discontinued entirely by 2026. Today, Transtema holds the exclusive rights to servicing and maintenance of the copper network. We estimate its revenues from the copper network business in 2021 were around SEK 500m.

While fixed telephony has decreased rapidly, both mobile (see below) and fixed broadband subscriptions have grown rapidly. The number of fixed broadband subscriptions has risen by 4% per year on average and the share of fibre and fibre-LAN subscriptions has grown from 44% in 2014 to 78% in 2021, representing a CAGR of 12% (Chart 23). Moreover, 88% of all subscriptions had a speed of more than 100 Mbps, up from just under 66% five years earlier (2016). This means that while the total amount of fixed broadband has increased by 3% per year over the past five years, the amount of broadband with a speed of more than 100 Mbps has risen by 11% per year. Although the market as a whole is not growing, this market shift shows that parts are still growing decently.

Chart 23: The number of fibre subscribers has grown by 12% a year

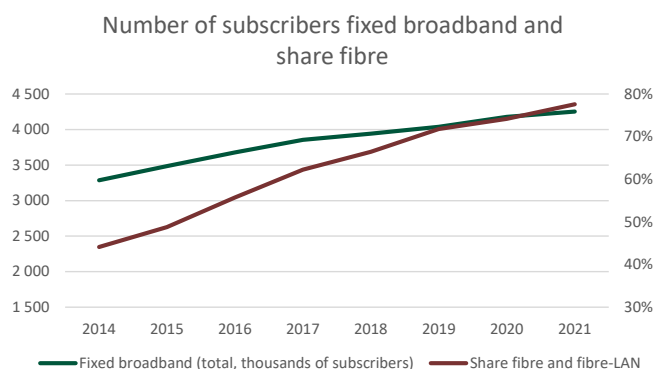


Chart 24: Telia is the market leader, even if its share has decreased

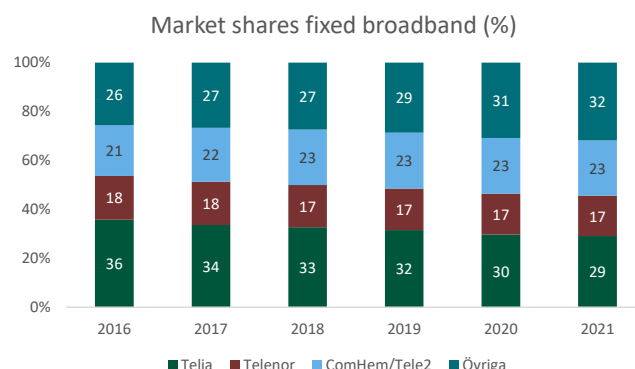


Chart 25: The share of broadband with a speed of >100 Mbps has risen by 11% a year

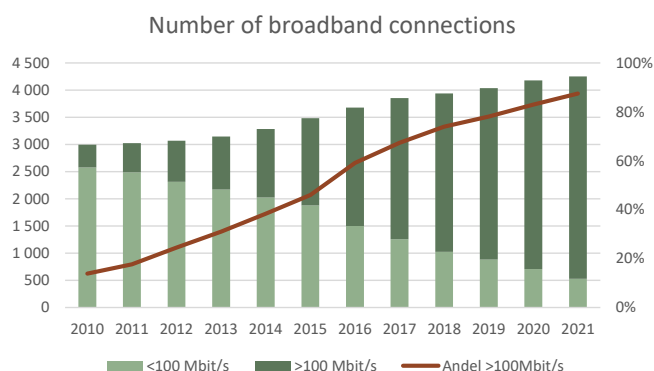
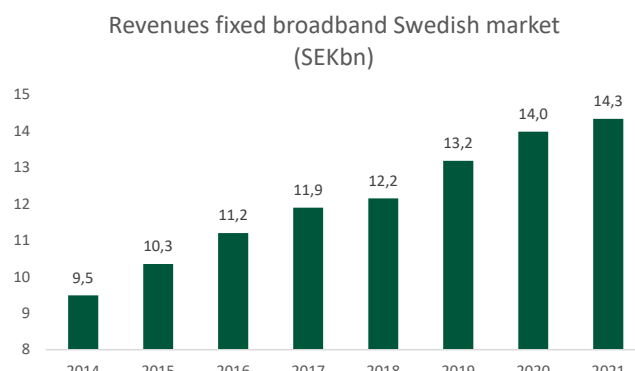


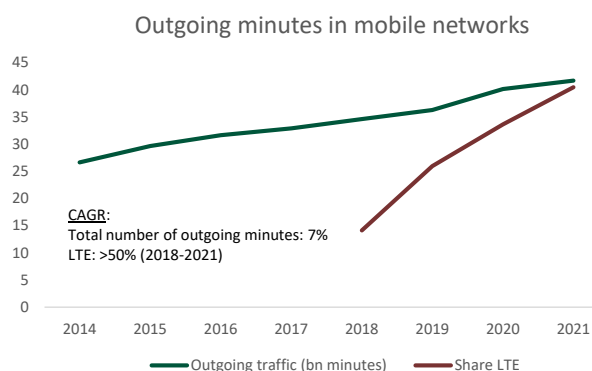
Chart 26: Revenues from fixed broadband have increased by 5% a year



Radio networks upgraded to 5G

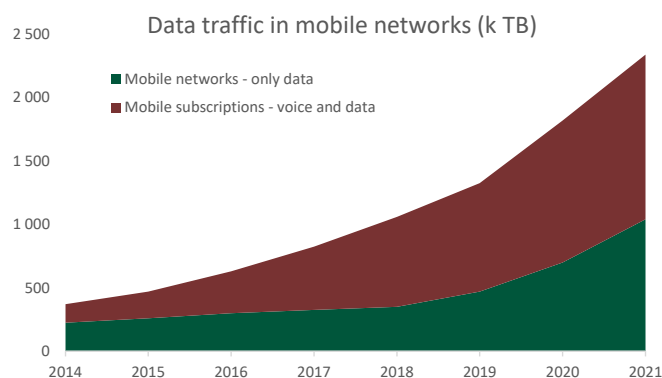
While the number of outgoing traffic minutes rose by 7% per year in 2014-2021 (Chart 27), data traffic in the mobile network was up by 30% per year over the same period (Chart 28). Mobile subscriptions have averaged one per person in recent years and so the increase in the number of mobile subscriptions largely matches the population growth. Of the total number of subscriptions, 81% were contract-based, while 19% were pre-paid. Pre-paid has steadily decreased – ten years ago, the share was 31%.

Chart 27: While the number of outgoing minutes has grown by 7% per year in 2014-2021...



Source: PTS, EPB

Chart 28: ...data traffic has increased by 30% per year



Source: PTS, EPB

The mobile operators are upgrading mobile networks, gearing up the 4G network and building out the 5G network, which will provide greater capacity and faster data traffic. At the same time, the 3G network – which has been in service since the start of the 2000s – is being wound down. Depending on operator, it will be fully decommissioned in 2023-2025.

Much has happened since the introduction of the first generation of mobile tech in the 1980s:

- 1G spelled the possibility to make mobile calls
- 2G introduced SMS
- 3G brought the opportunity to surf the internet on a mobile
- 4G offered faster speeds, smartphones, app stores, and the possibility of using mobiles for videos
- 5G will connect people, objects, and devices

The mobile operators started launching 5G in 2019 and the technology is being adopted more rapidly than the previous standards. 5G will provide new opportunities, particularly for industrial applications. The Internet of Things (IoT), or machines communicating with one another, is set to increase substantially. For example, 5G supports connected traffic systems, self-driving cars, and control systems for complex industry and mining. The advantages of 5G include:

- Ten times faster than the 4G network
- Minimal delays, enabling real-time communication
- 100 times more capacity
- Ten times more energy efficient
- Tailored virtual networks

5G uses multiple frequency bands, with a greater bandwidth in each. Frequency bands are often referred to as low band (around 700 MHz), high band (around 3.5 GHz), and ultra-high band (26-28 GHz). The operators anticipate many customers wanting their own virtual networks on the 5G network, for example, for real-time control and monitoring of a production plant. Tele2 and Telenor have established a joint venture for rollouts where they share masts, base stations, and infrastructure, but Telia and Tre are not collaborating.

Figure 5: Example of applications connected by 5G



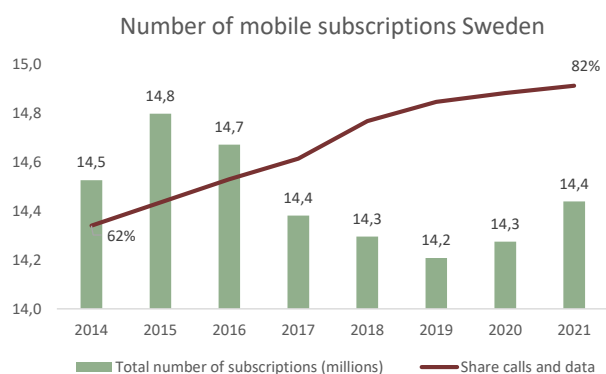
Source: European Commission, EPB

Telia, Tele2, and Telenor all have the same goal: to reach 90% of the population in 2023. Telia aims to cover more than 90% of Sweden's land surface and 99% of its population by 2025. At the same time, the 4G network is being modernised – its capacity will more than double, according to Telia, and will expand by 200-300%, according to Telenor. At the same time, the number of sites will grow by 60%, Telenor says.

During 2021, around 1.1 million subscriptions used services on 5G networks. This represents 8% of all subscriptions and is up from 3% in H1 2021. Data traffic via the 5G networks was some 12,500 Tbyte, compared with 978 Tbyte in H1 2021 and 388 Tbyte during 2020. This implies that 0.5% of data traffic in 2021 was on 5G networks.

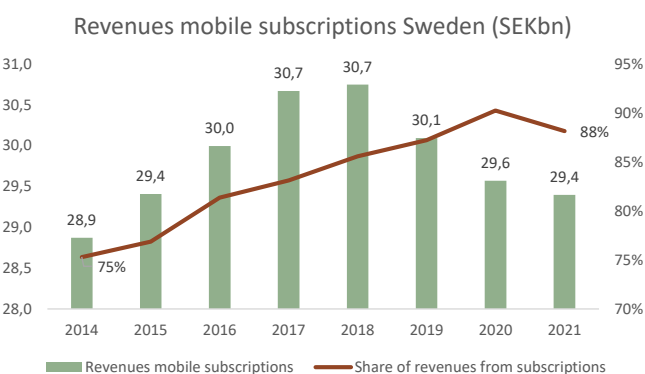
As data traffic is increasing sharply and the number of subscriptions has been relatively stable, revenues from mobile subscriptions have fallen in recent years (Chart 30).

Chart 29: Relatively stable at around 14 million mobile subscribers...



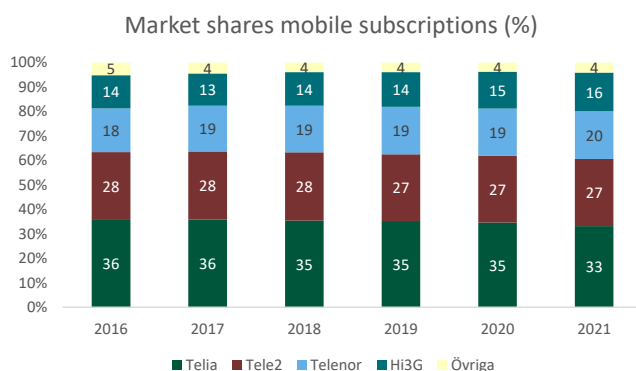
Source: PTS, EPB

Chart 30: ...but falling revenues from mobile subscriptions



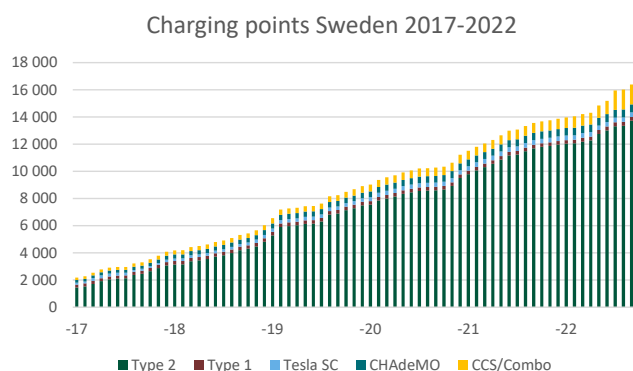
Source: PTS, EPB

Chart 31: Telia, Tele2, and Telenor shared 80% of the market in 2021



Source: PTS, EPB

Chart 32: The number of charging points has grown substantially



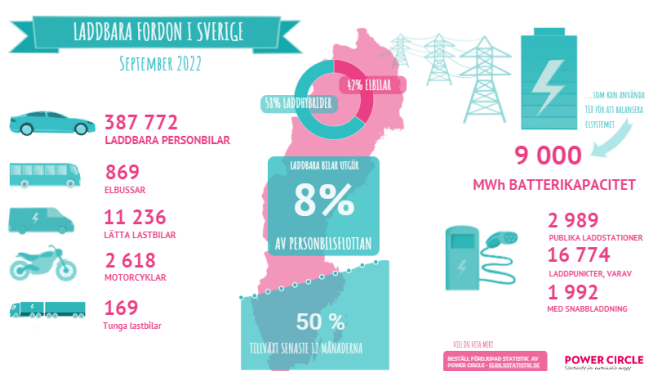
Source: Elbilsstatistik.se, EPB

Charging infrastructure – number of public charging stations needs to expand substantially

The electric car fleet continues to grow at a pace. Mobility Sweden estimates the share of rechargeable cars sold in 2022 at 60%, with 34 pp of this being electric cars (equivalent to some 170,000 rechargeable cars and almost 100,000 electric cars). Moreover, it forecasts the number of rechargeable vehicles growing to one million by 2025 and 2.5 million five years after that. This will require a major rollout of charging stations ahead of 2030 to accommodate this number of electric cars. According to the electricity industry association Powercircle, there will be a need for 100,000-150,000 public charging points in 2030, compared with today's some 16,000 (Figure 6).

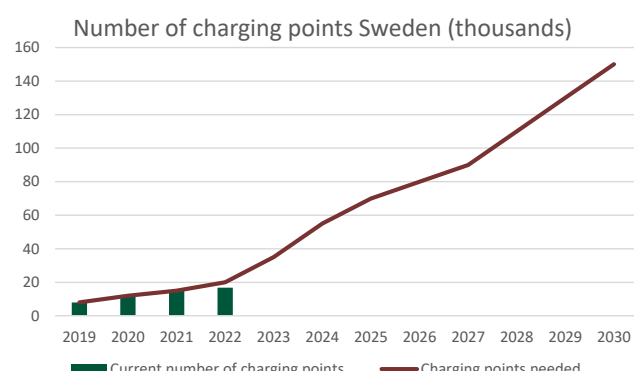
Research and knowledge institute Energiforsk is collaborating with Chalmers University of Technology, consultancy businesses Sweco and Profu, and Powercircle on a project called "Ett elsystem för elfordon" (An electricity system for electric vehicles), which intends to clarify how the electricity network can cope with this expansion and what investments will be needed. The project focuses on the electrification and charging of road vehicles, particularly passenger cars, distribution vehicles, trucks, buses, taxis, and work vehicles. It takes a holistic approach, considering the entire chain from the business model for charging to how the electricity system is affected and what measures need to be taken to render it fit for electrification. The project is ongoing until autumn 2023, and we believe it shows clearly that electrification is only in its infancy.

Figure 6: Around 16,000 public charging points currently available...



Source: Power Circle, EPB

Chart 33: ...but this will need to grow exponentially in the coming years



Source: Power Circle, EPB

Site and Facility Maintenance grow as infrastructure is outsourced

As we discussed earlier, the operators have been galvanised to refocus on account of the relatively unchanged total revenues from end-customers within electronic communication over the past eight years. This has increased the focus on content, with the operators seeking partnerships for digital infrastructure to further develop and cement the value of these assets. This has led, for example, to several operators outsourcing mast operations to so-called tower companies.

In January 2022, Telia Company announced it had sold 49% of its mast operations in Sweden (3,800 masts) to Alecia and Brookfield, following its sale in June 2021 of part of its mast operations in Norway and Finland (4,700 masts). Telenor has established a holding company for its masts – Telenor Tower – but it remains the sole owner. In October 2022, however, Telenor announced plans to sell 30% of Telenor Fibre, a newly created company for its passive fibre assets, to a consortium including KKR and Oslo Pensjonsforsikring, among others. Telenor's CFO stated to Norway's *Dagens Naeringsliv* (DN) that Telenor might sell shares in Telenor Tower in the future.

When new owners take over sold assets, the new constellation often wants to outsource the management of nearby properties that are not core activities. There are no official figures, making it hard to gain an overview of the size of this market or its growth, but we believe it is considerable.

Repositioning to capitalise on infrastructure investments

As we have stated previously, servicing and maintenance business brings stable revenues, while the exposure to new technologies offers growth opportunities. Considering the industry shifts, such as the closure of the copper network, the 5G rollout, the phasing-out of the 3G network, and the need for customer base diversification, Transtema's repositioning is both natural and positive. We are facing an enormous investment need to cope with the transition to renewable energy and the electrification of the vehicle fleet, and we believe Transtema is well-positioned to take part in this.

Transtema has not set an absolute revenue target, but if we apply its 10% sales growth objective to 2021 as a base year, it would need to reach revenues of SEK 2.7bn by 2026. Thanks to the acquisition of Tessta and organic growth, Transtema has taken a leap towards its goals during 2022. We believe it will close 2022 with some SEK 2.4bn in annual revenues, which it will need to expand by 3% per year to reach its goal. It will certainly need to replace its copper network volumes, but given what we have seen so far, we consider this more than feasible. We are left pondering what might come next.

Using 2022 as a base, we calculate revenues of SEK 3.6bn by 2026, which is equivalent to a more than doubling of 2021 revenues, despite the loss of copper network volumes over the same period. We see this as bold but achievable.

The company has delivered a large part of its growth strategy is just one year

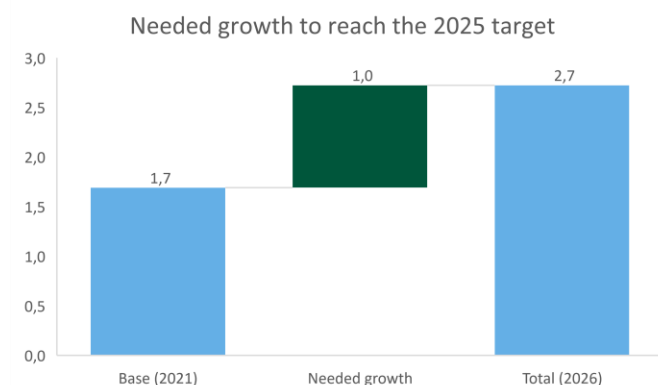
Replacement of copper network revenues, which we estimate at SEK 500m as of 2021, and increased customer diversification are key components of the new strategy set when Transtema was listed on the stock exchange's main list in September 2021. Its target was for sales growth of 10% per year, with an EBITA margin of 5%. This goal was adjusted in August 2022, with the EBITA margin target raised to 7%.

The company established a roadmap until 2025 for how it would achieve its goals. To allow for full implementation of its strategy, we consider 2026 the first full year after the roadmap. Using 10% annual sales growth from 2021 as the base year, Transtema should achieve revenues of at least SEK 2.7bn by 2026 (Chart 34).

Over the past 12 months, Transtema has grown 12% organically (11% YTD as of September 2022), while we calculate the acquisitions of Testa, North Projects, SEM Solutions, and Bäck Service och Underhåll have added SEK 600-700m annually. In other words, given SEK 2.4bn in annual revenues, it will have achieved about 70% of its target by year-end (Chart 35). Tessta reported revenues of NOK 413m for 2021 but has grown considerably during 2002; we expect it to come in at almost SEK 600m in annual revenues.

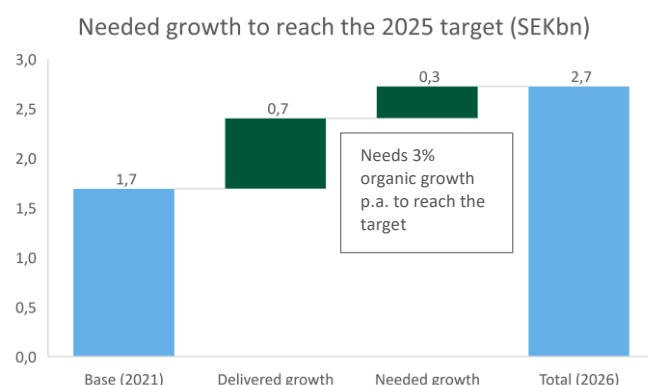
Transtema needs to increase revenues by just SEK 300m from the current level to reach SEK 2.7bn by 2026, or by some 3% per year until 2026 (Chart 35). Assuming that servicing of the copper network accounted for SEK 500m in 2021, it needs new business volumes of around SEK 570m (Chart 36) or growth of some 10% per year when excluding the copper network from the base.

Chart 34: Transtema needs to reach revenues of SEK 2.7bn by 2026 to achieve its target...



Source: Company, EPB

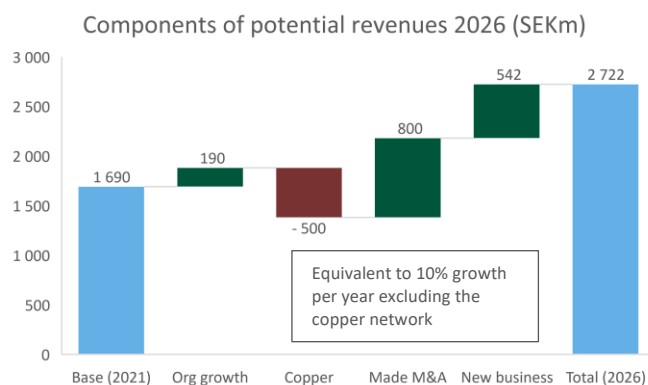
Chart 35: ...but it has largely already delivered on this



Source: Company, EPB

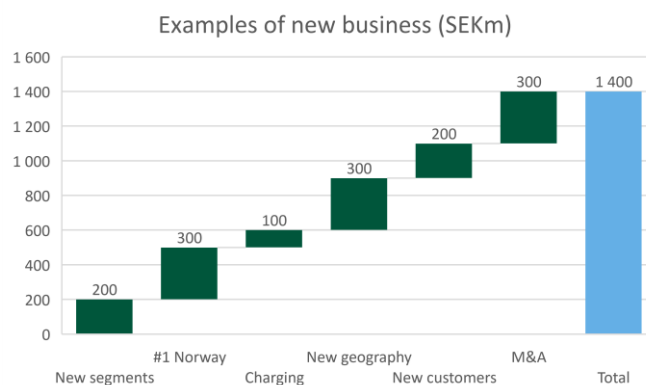
The company has a roadmap for how to achieve this. This is built on a combination of organic growth and acquisitions (Chart 37). Even though it will need to replace its copper network business in the coming years, we believe Transtema is close to achieving its objectives, which we consider positive. A company that continuously delivers on what it says it will do is typically rewarded by the stock market for this predictability.

Chart 36: Needs SEK 570m in new volumes to reach its target...



Source: Company, EPB

Chart 37: ...and thanks to its well-prepared roadmap, we consider this more than feasible



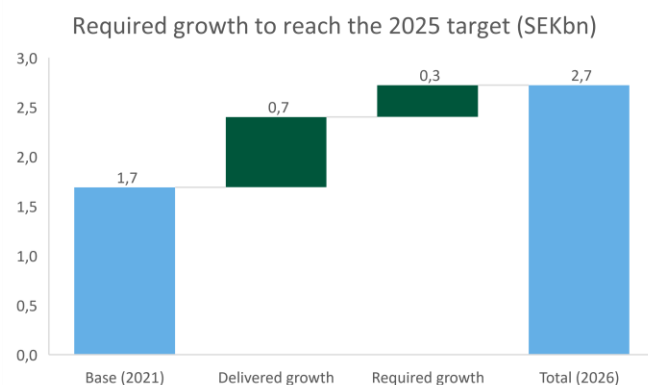
Source: EPB

Revenues of SEK 3.6bn in 2026 when using 2022 as a base

We believe the acquisition of Tessta was transformational, exemplifying what we expect from Transtema in the future. It operates in a market with high entry barriers and wants to grow in three directions: into new adjacent segments, with new clients, and in new geographies. The high entry barriers make it harder to win new clients. Thanks to the acquisition of Tessta, for which Telenor is a key client, Transtema had gained Telenor as a client in a way it would be hard to replicate organically.

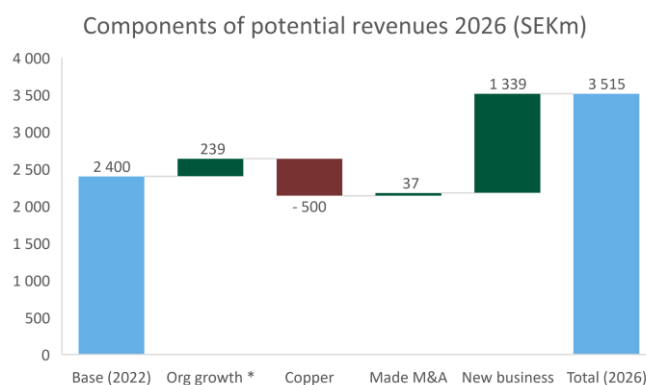
As Tessta is such a key starting point in Transtema's growth strategy and because a large part of its objective is now already achieved, the question is what comes next? To analyse what Transtema's revenues should be in 2026, we take a new starting point based on its estimated annual revenues for 2022 (some SEK 2.4bn). If we assume its revenues will increase by 10% annually from the current base, we should see it reaching SEK 3.5bn by 2026. If our assumption that the copper network business is worth about SEK 500m is correct and underlying revenues (from existing operations excluding the copper business) grow by 3%, the company would need new business volumes of around SEK 1.3bn (including acquisitions) to achieve this (Chart 39).

Chart 38: Taking 2022 as a starting point, we expect SEK 3.5bn in 2022 revenues given 10% growth...



Source: Company, EPB

Chart 39: ...which would require SEK 1.3bn in new business volumes



Source: Company, EPB

Expansion in three verticals to bring new business volumes

The new business volumes will come through a combination of organic growth and acquisitions. There is considerable potential to expand into adjacent product areas and geographies. Below, we show Transtema's current exposure in Sweden and Norway and illustrate the potential in Finland and Denmark (Figure 7).

Beyond the potential to be found in moving into adjacent product areas and geographies, there is a further dimension: to find new clients and expand with existing ones. The Nordic telecom market is relatively consolidated. As we stated previously, the three largest operators share three-quarters of the Swedish market and nearly four-fifths of the market in Norway, and customers are reluctant to change supplier if everything is working. It is hard to win new customers.

One solution to this is to acquire new customers – once in, it becomes easier to expand. Tessta is a good example of this. Ahead of the acquisition, Telenor was a minor client for Transtema, but acquiring Tessta rendered Transtema a substantial supplier, and it can now begin working to expand with Telenor in Sweden, for example.

Including Tessta, Telia today accounts for 50% of revenues, while Telenor represents some 20%. The majority of its revenues from Telia stem from Sweden, while the majority from Telenor are in Norway. Transtema currently has limited exposure to Tele2 in Sweden and Altibox and Ice in Norway. We believe the Telia share of revenues will continue to decline in percentage terms in the coming years (Chart 41).

Figure 7: Considerable potential to expand into adjacent areas

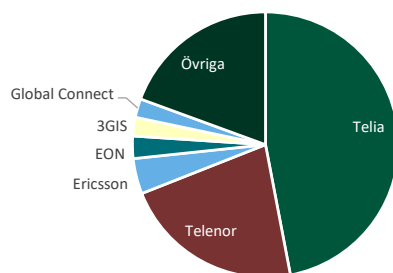
Sweden	Fixed networks				Radio			Infrastructure		
	Fiber	KTV/Koax	Copper	Property	Mobile	Indoor	Other	Charging	Site Maint.	Data centres
Consultancy										
Installation										
Service/maintenance										
Operations/surveillance										
Equipment										
Norway	Fixed networks				Radio			Infrastructure		
	Fiber	KTV/Koax	Copper	Property	Mobile	Indoor	Other	Charging	Site Maint.	Data centres
Consultancy										
Installation										
Service/maintenance										
Operations/surveillance										
Equipment										
Finland	Fixed networks				Radio			Infrastructure		
	Fiber	KTV/Koax	Copper	Property	Mobile	Indoor	Other	Charging	Site Maint.	Data centres
Consultancy										
Installation										
Service/maintenance										
Operations/surveillance										
Equipment										
Denmark	Fixed networks				Radio			Infrastructure		
	Fiber	KTV/Koax	Copper	Property	Mobile	Indoor	Other	Charging	Site Maint.	Data centres
Consultancy										
Installation										
Service/maintenance										
Operations/surveillance										
Equipment										

Current operations
 Under development
 No operations

Source: Company, EPB

Chart 40: Telia accounts for around half of business...

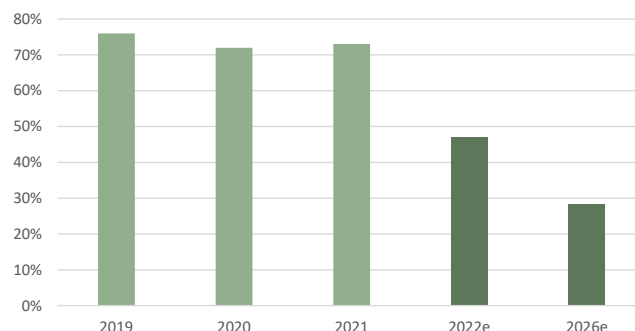
Sales per customer (2021 incl Tessta)



Source: Company, EPB

Chart 41: ...but this share will continue to decline

Telia - share of revenues



Source: Company, EPB

As we said above and illustrated in Chart 37, the company has a roadmap for how it will reach its goals. The potential to grow without spreading the business thin is enormous and includes moving into new segments, becoming the market leader in Norway, and expanding into new adjacent areas (Finland and/or Denmark). We view cable laying as the common denominator in the businesses it could move into.

At least three new market segments...

The aim is to develop at least three new market segments in areas like proptech and facility management (FM) and with clients such as the Swedish Transport Administration (Trafikverket), the defence industry, the Swedish Civil Contingencies Agency (MSB), correctional services, and law enforcement. We estimate the potential from new market segments to surpass SEK 200m.

Contract with Proptivity for deployment, operation, and maintenance of indoor 5G network coverage

Proptech is the use of IT to help individuals and companies to buy, sell, and manage properties. As the real estate industry digitises and adapts to climate-smart solutions, the requirements for indoor mobile coverage will increase. 5G is the catalyst for this.

To date, Transtema has an agreement with Stockholm Exergi for the installation of 18,000 sensors for Stockholmshem to measure humidity and temperature, and in June 2022, it signed an agreement with Proptivity AB for the deployment, operation, and maintenance of indoor coverage solutions for 5G in Sweden. The contract is for 15 years, with an extension option of two years at a time. The total order value is SEK 150m plus future ongoing installation. The contract initially covers Sweden, but with an intention of broadening this to other markets in the future.

Potential in Facility Management (FM) and Site Management (SM)

Transtema currently has 900 vehicles in the field and sees opportunities to take responsibility for "hard FM", which includes alarms, ventilation, electricity, and refrigeration. Examples of this are taking responsibility for a building next to a mast already under its responsibility. Transtema currently works with two clients, maintaining a total of 6,700 sites, and is in several ongoing discussions with major clients regarding this. The synergies with existing business are vast.

On 21 November 2022, Transtema announced the signing of a letter of intent to be a maintenance partner for a large client's technology properties. The deal will be negotiated during spring 2023, with a planned start next autumn. The letter of intent extends for three years, with an estimated value of some SEK 150m, but it may be expanded with additional orders. The contract covers preventative and remedial maintenance of technical installations of fixed and mobile networks and their associated infrastructure, such as buildings, power, cooling, and security systems, fire protection and more for around 15,000 facilities in Sweden. Transtema already maintains active equipment at these technology properties. This is a prime example of the potential in FM and SM, and we anticipate more such contract wins.

Swedish Transport Administration laying a new fibre network along railway lines (Opto 2.0)

As the existing fibre network alongside railway lines has exceeded its technical lifespan, the Swedish Transport Administration (Trafikverket – TRV) is upgrading the fibre network with cable that suits today's needs and is prepared for increased network capacity requirements. Connections alongside railway lines are a key component in signalling systems. This project, Opto 2.0, sees the laying of so-called multi-ducts into which fibre is blown. This allows new fibre to be blown in when network capacity requirements increase. The total length that needs replacing is some 10,500 km at a cost of SEK 5bn. The work has been ongoing since 2018 and will continue until 2029. Transtema has not been successful in winning larger contracts yet, but thanks to new staff onboard, it aims to target this work again.

...a desire to be Sweden's largest independent company within charging infrastructure maintenance...

The electric car fleet continues to grow at a pace. Mobility Sweden estimates the share of rechargeable cars sold in 2022 at 60%, with 34 pp of this being electric cars (equivalent to some 170,000 rechargeable cars and almost 100,000 electric cars). Moreover, it forecasts the number of rechargeable vehicles growing to one million by 2025 and 2.5 million five years after that. This will require a major rollout of charging stations ahead of 2030 to accommodate this number of electric cars. According to Powercircle, there is a need for 100,000-150,000 public charging points in 2030, compared with today's some 16,000 (Chart 32).

Transtema wants to become Sweden's largest independent company within charging infrastructure maintenance. Enormous potential exists, particularly in the service business, but there are also possibilities to take part in rollouts and installations along the way. To realise this opportunity, Transtema acquired North Project in June 2022. The potential is worth more than SEK 100m.

...wants to be the largest in Norway and to move into at least one new geography

If Transtema proves successful in becoming the market leader in Norway, its total revenues from the country would rise to more than SEK 800m, an increase of more than SEK 200m, based on Tessta growing 3% organically annually in the coming years. Establishing itself in a new geography could lift revenues by a further SEK 100-200m.

Aiming for Tessta to be Norwegian market leader by 2025...

We consider the Tessta acquisition a strategic milestone for Transtema. Today, Tessta is the chief supplier of FTTH to Telenor in Norway, while sales to Telia (in Norway) are largely non-existent. At the same time, Telia remains the group's largest client. It hopes close co-operation between Transtema and Tessta can increase revenues from Telia in Norway and Telenor in Sweden. Additional acquisitions over time should ensure it can also become a full supplier to Telenor and increase its geographical coverage.

A key component of Tessta's success is its Link Partner programme – a partnership for subcontractors who have worked with Tessta for a number of years. While the programme offers Tessta an opportunity to scale resources and broaden its customer base, its partners have the possibility of supplying larger customers and to undertake joint purchasing. The plan is to establish Transtema Link – a similar partnership – in Sweden during 2023.

...and to add at least one new geography before 2025

The acquisition of Tessta illustrated that Transtema's focused and structured strategy works, and it has now gained experience in integrating a larger business. Its intention is to conduct a similar acquisition in another Nordic country, or possibly in the Baltic region. The company should have a full-service offering within telecom – from network planning to installation and operation/maintenance – and could work as a platform. Stable and predictable revenues and positive cash flows are a requirement, with revenues preferably surpassing SEK 200m.

Transtema GreenHouse – a hothouse for new ideas

GreenHouse is a place to develop new business opportunities, a nursery to ensure that new ideas are not overshadowed by the company's daily business. It gives these ideas space to grow, hopefully into viable and profitable concepts.

GreenHouse is currently incubating two projects:

- Charging infrastructure: North Projects, which was acquired in July, is currently within GreenHouse because of the differences between the traditional telecom business and the electricity industry.
- Cable TV/coax networks: Bäck Service & Underhåll, which Transtema bought in October, is part of GreenHouse while an effort is made to establish the business across Sweden.

Double-digit profit growth

Given organic growth at an average of 5% for 2022-26e and a margin of some 7%, we calculate average EPS of SEK 3.6 for 2026e, representing a CAGR of 11%. Acquisitions and full execution of the identified potential could lead to considerably higher growth.

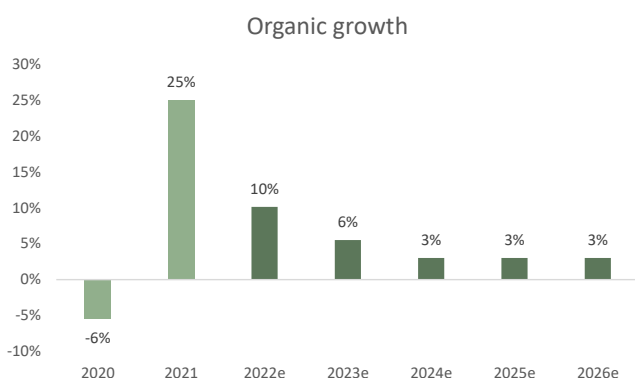
SEK 2.9bn in revenues in 2026

Two large orders placed in 2020 drove organic growth in 2021 (Chart 42):

- Servicing and maintenance of the 3GIS (Telenor and 3) mobile network across the whole of Sweden, at a value of SEK 200m over five years, and
- Expansion of the agreement with Telia for servicing and maintenance of its copper network throughout Sweden (previously only southern Sweden), at a value of SEK 1.3bn over five years

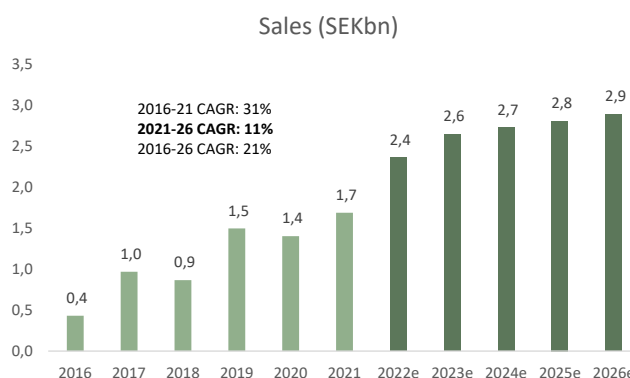
The solid growth has continued in 2022e, even though the 5G rollout remains in its infancy. We forecast a gradual return to 3% underlying growth (Chart 42). Excluding further acquisitions, we estimate 2026e revenues of SEK 2.9bn, implying a sales CAGR of 11% (Chart 43). Should the growth drivers we have discussed earlier come to fruition, we would expect considerably higher growth.

Chart 42: 6% organic growth on average but a short history



Source: Company, EPB

Chart 43: 11% CAGR for 2022-2026e



Source: Company, EPB

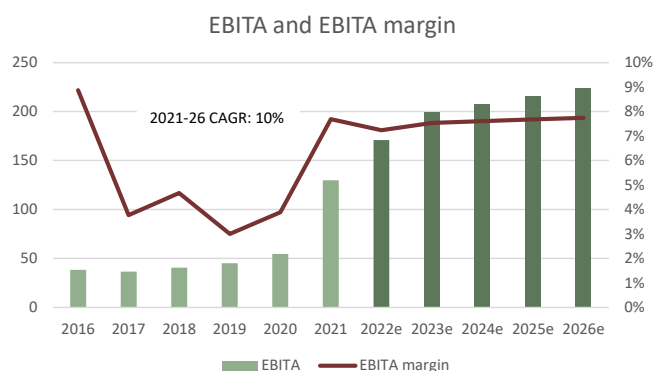
We forecast a stable EBITA margin of around 7%

Transtema raised its margin target from 5% to 7% this August, which we consider a clear signal that the company has unlocked a new margin level. We expect it to reach around 7% in the coming years and thus see revenues as the foremost profit driver. Given a margin of just over 7%, we would expect EBITA slightly over SEK 200m, equivalent to average incremental margin of 7% with 10% in 2023e-2026e. This implies average profit growth of 10% (Chart 44).

Low investment need provides decent cash flows

Working capital in recent years has been slightly negative (Chart 45). The company has built up working capital during 2022 but we assume this will decrease in late 2022 and early 2023. The low investment need and low capital commitments provide good cash flows. We see a mid- to high single-digit free cash flow margin (Chart 46), allowing for ongoing debt reduction throughout the forecast period. Based on our projections, the company will be debt free in 2023e, despite its acquisitions during 2022. Looking at the clear agenda, we can conclude there is plenty of room for further acquisitions.

Chart 44: Double-digit profit growth



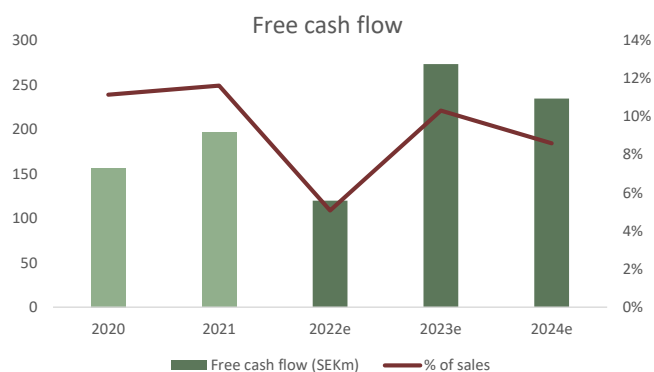
Source: Company, EPB

Chart 45: Negative working capital and low investment need...



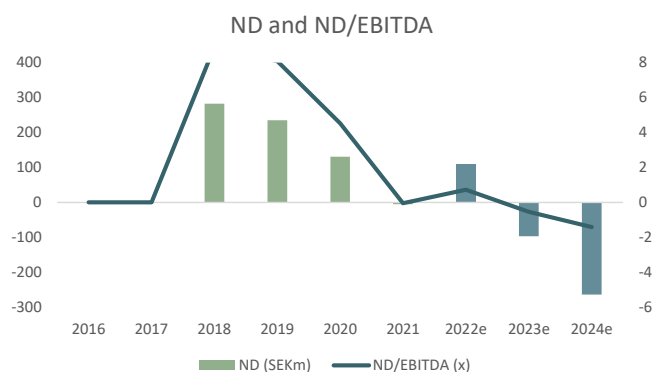
Source: Company, EPB

Chart 46: ...provide good cash flow generation...



Source: Company, EPB

Chart 47: ...which drives down indebtedness

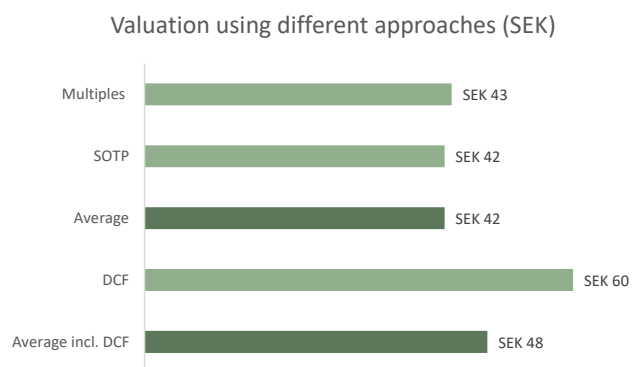


Source: Company, EPB

An average valuation of SEK 42, with SEK 60 from our DCF

We value Transtema using the average of the target multiples and an SOTP model, and we reach an average valuation of SEK 42 per share. Our DCF, to which we apply a WACC of 12%, suggests a value of SEK 60.

Chart 48: We arrive at an average of SEK 42 using various approaches



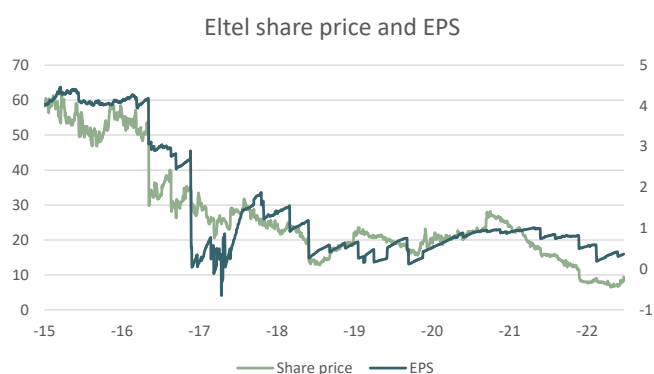
Source: EPB

Chart 49: Transtema's share price has diverged from its EPS...



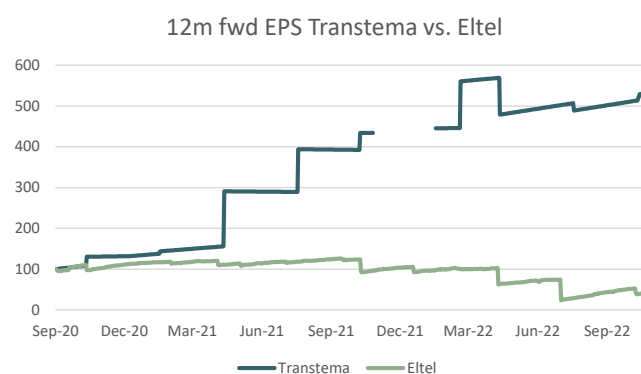
Source: Factset, EPB

Chart 50: ...in a different way than we have seen with Eltel, for example



Source: Factset, EPB

Chart 51: Transtema's profits have grown considerably more than Eltel's...



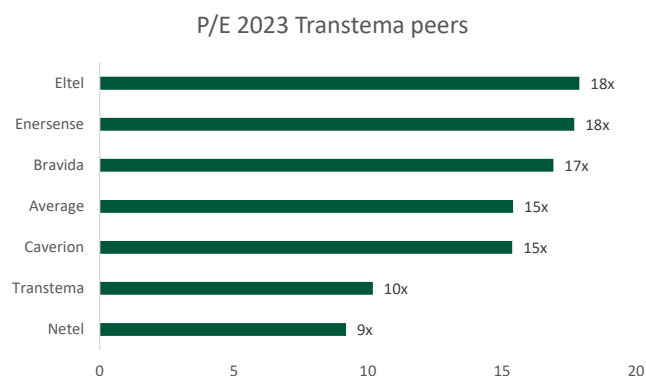
Source: Factset, EPB

The share price and earnings have diverged, leading to the share trading at a discount

Although the forward-looking EPS trend has continued upwards, the share price has declined – the drop during 2022 is a case of pure multiples contraction (Chart 49). This stands in stark contrast to Eltel, for example, which has seen its share price and EPS largely move in tandem (Chart 50). Setting these two profit trends in relation to one another, the trend is extremely clear (Chart 51).

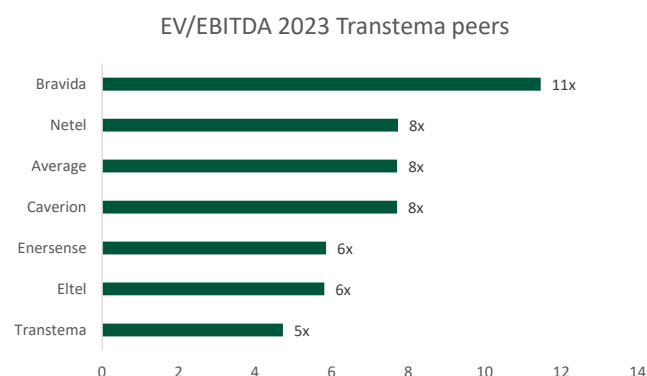
It appears the market has overlooked Transtema's profit growth in recent years. This has led to the Transtema share trading at a significant discount to the peer group (Charts 52-55).

Chart 52: ...but, despite this, Transtema trades at a discount...



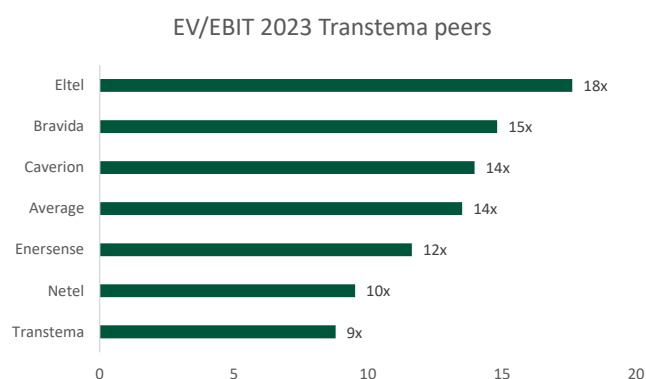
Source: Factset, EPB

Chart 53: ...on both EV/EBITDA and P/E



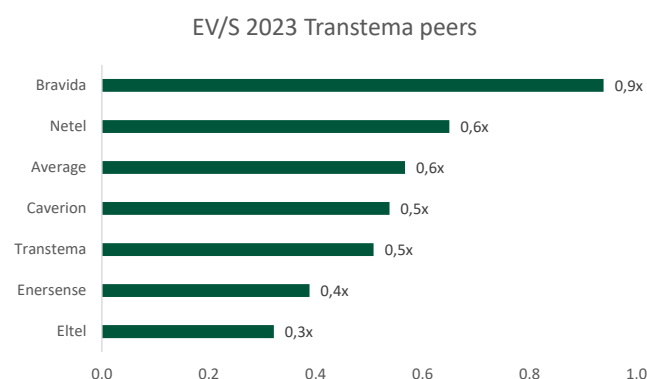
Source: Factset, EPB

Chart 54: EV/EBIT



Source: Factset, EPB

Chart 55: EV/S

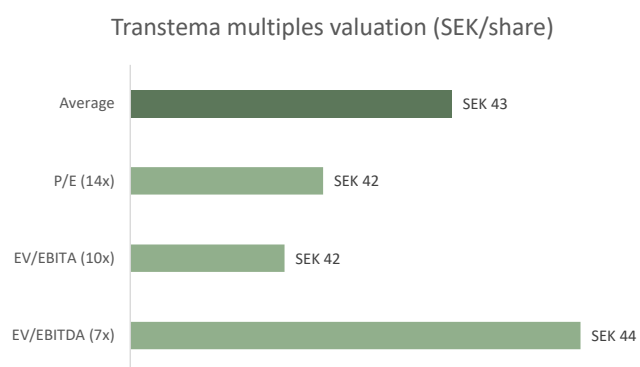


Source: Factset, EPB

Multiples valuation implies a value of SEK 43

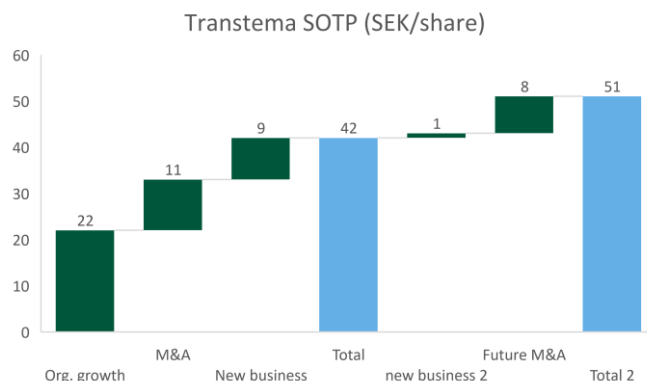
We apply our 2023e earnings multiples and discount these to the present value. We use an average of P/E, EV/EBITA, and EV/EBITDA multiples and take the midpoint of the peer group in setting our target multiples. On the multiples we have chosen, we arrive at an average valuation of SEK 43 per share.

Chart 56: Our multiples valuation suggests SEK 38 per share...



Source: EPB

Chart 57: ...and our SOTP is SEK 42 per share



Source: EPB

SOTP suggests a valuation of SEK 42, with potential to SEK 51

As we discussed previously, Transtema has already achieved a large part of its targets. Using 9m 2022 as a base instead of full-year 2021, we estimate 2026e revenues of SEK 3.6bn if the targets were achieved. A large part of this would come from acquisitions. We can evaluate this as well using an SOTP model.

Through our base case scenario, which reflects our forecasts, we arrive at a valuation of SEK 42 per share. Should it achieve SEK 3.6bn, we would see upside to SEK 51 (Chart 57).

DCF suggests a valuation of SEK 60

Using a WACC of 12% and a long-term EBIT margin of 7%, we calculate a DCF value of SEK 60 per share.

Table 1: DCF – assumptions and conclusions

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	1 611	Risk free nominal rate	2,5%	Long term growth rate	3,0%
PV of terminal value (perpetuity formula)	910	Risk premium	5,5%	Long term EBIT margin	7,0%
Enterprise value	2 521	Small cap premium	4,0%	Depreciation (% of sales)	2,0%
Latest net debt	206	Extra risk premium	0,0	Capex (% of sales)	2,0%
Minority interests & other	0	WACC	12,0%	Working cap. (% of sales)	-0,6%
Equity value	2 316			Tax rate	22%
No. of shares outstanding (millions)	38				
Equity value per share	60				

Source: EPB

Table 2: DCF – sensitivity analysis

Long-term growth rate						Long-term EBIT margin						
	2,0%	2,5%	3,0%	3,5%	4,0%		5,0%	6,0%	7,0%	8,0%	9,0%	
WACC	10,0%	71	74	78	82	87	10,0%	63	70	78	85	92
	11,0%	63	65	68	71	75	11,0%	56	62	68	74	80
	12,0%	56	58	60	63	65	12,0%	50	55	60	65	71
	13,0%	51	53	54	56	58	13,0%	45	50	54	59	63
	14,0%	47	48	49	51	52	14,0%	42	45	49	53	57

Source: EPB

Ownership structure, board, and management

Transtema Group's largest shareholder, in terms of votes and capital, is chair of the board Magnus Johansson with a 24.6% holding through Törnäs Invest AB. The next largest is Göran Nordlund, owner and CEO of investment firm Fore C Investment Holding AB, who holds 10.1% of the share capital and votes. After that comes Jonas Nordlund with an 8.3% ownership stake. Nordnet Pensionsförsäkring is the fourth-largest owner with a 4.8% stake in terms of capital and votes. Avanza Pension and Futur Pension have respective stakes of 2.8% and 1.9%.

Board of directors

The current board of Transtema Group comprises 1+4 ordinary board members, as presented below.

Magnus Johansson, Chair of the board. Chair since 2022 and board member since 2014. Magnus was the CEO of Transtema AB and Transtema Group from 1997 to May 2022. He is the largest shareholder in Transtema Group.

Linus Brandt, board member. On the board since 2017. His other roles include CFO and Executive Vice President at the listed Opus Group. Linus' previous experience includes as CFO at Stena Adactum and Mediatec, and he has also been a certified accountant and Partner at Deloitte.

Liselotte Hägertz Engstam, board member. Board member since 2017. Other board assignments include at Zalaris A/S, Itello, and S-group, and as the chair at Aino Health and Digoshen. Liselotte is currently also an advisor to startups. Her previous experience includes board assignments at Knowit Group and the former Transcom Worldwide.

Anna Honnér, board member. Board member since 2022. Previous work in leading positions, offering solid B2B experience and including roles as sales director at TeliaSonera, CEO at GothNet, VP Sales & Marketing at WirelessCar, and business area manager at Acobia.

Ingrid Stenmark, board member. Board member since 2022. More than 20 years' experience in the telecom, IT, and media industries, during which she held key positions at Telia Company. Previous board experience at both listed and unlisted companies.

Management

Transtema Group's management team comprises:

Henning Sveder. President and CEO since 2022. Formerly, Transtema's CFO, 2019-2022. Previous experience as CFO at Qmatic Group and Senior Finance Director at both SVP Worldwide and Burger King Corporation.

Tobias Martinsson. Chief Financial Officer. Previously held various controller and finance manager roles, most recently as finance manager at Tranter International AB.

Jens Boberg. Chief Information Officer. Previous positions in Transtema AB as sales and marketing manager.

Magnus Eriksson. SVP Sales. Previous roles include CEO for Transtema Network Services. Experience from a number of leading roles at Ericsson.

Sofia Hermansson. Chief Marketing Officer. Previous experience of industrial marketing in an international context at companies including Jungheinrich AG and Viega GmbH & Co. KG.

Per Swedberg. Chief Sustainability Officer. Experience from a number of leading roles at Ericsson.

Nina Jernemalm. Chief Human Resources Officer. Experience from a number of leading roles at Ericsson.

ESG

Transtema has a stated goal and has established business policies to undertake extensive environmental work in its operations. The environmental aspect focuses largely on the three key areas of emissions, waste, and energy consumption, while the social aspect highlights employee working conditions. The company follows the laws and regulations in force in the regions in which it operates.

Environment

Transtema's approach to sustainability is based on respect for the world around it and consideration of the limited resources, both in terms of the company's own work and that of its partners and clients. By upping its own sustainability standards, its competitors are also encouraged to prioritise sustainable development. Transtema describes emissions from vehicles, transport, and the supply chain as its main environmental footprint. To work for a more sustainable future, the company has decided on net zero fossil carbon emissions by 2030 at the latest. This also means higher demands on its vehicle usage, for which Transtema has decided at the group level to switch to fossil-free alternatives as far as possible. It will also address its environmental footprint through waste management, with all businesses in the group to reach 100% recycling by 2030. The company provides ongoing sustainability reporting.

Social

The work regarding the social aspect of ESG largely concerns the working environment for employees, aiming for good safety standards and an inclusive climate. Transtema has identified business risks associated with hazardous working environments, such as road work, work with construction machinery, working at heights, and involving electricity. To prevent accidents, Transtema has established a number of systems and processes designed to continuously minimise risks. The company also invests in good training and the skills of its employees to ensure workplace safety. The social aspect thus includes the availability of proper equipment and personal protection. Some of this protective equipment is subject to inspection. Transtema has internal routines and instructions for steps to be taken to minimise accidents in its business units.

Governance

Transtema's vision for net zero fossil carbon emissions by 2030, reducing emissions from material and service suppliers by 50% by 2030, and 100% recycling of waste follows national and international approaches. The group is working to integrate these policies and frameworks across its units and its business strategy. Guidelines include the UN's Agenda 2030, Fossil Free Sweden (Fossilfritt Sverige), and the 1.5°C Business Playbook. In spring 2021, Transtema also joined the Science Based Targets initiative; it received final approval for its objectives in October 2022. The company takes responsibility through continuous monitoring of results and sustainability targets. Transtema signs framework agreements with selected players to ensure they follow codes of conduct and operate under the same guidelines as the company.

Income statement

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Net sales	868	1 497	1 405	1 690	2 361	2 648	2 728	2 810
Total operating expenses	-798	-1 361	-1 275	-1 488	-2 119	-2 360	-2 429	-2 500
EBITDA	70	137	130	202	242	288	299	310
Items affecting comparability	0	0	0	8	-8	0	0	0
EBITDA, adjusted	70	137	130	195	250	288	299	310
Total depreciations	-39	-107	-101	-78	-97	-109	-112	-116
EBITA, adjusted	41	45	55	130	171	200	208	216
EBIT	32	29	29	124	145	179	187	194
EBIT, adjusted	32	29	29	117	153	179	187	194
Net financial items	-3	-12	-10	-9	-21	-13	-6	-6
Profit/loss before tax	28	17	19	115	124	166	180	188
Profit/loss before tax, adjusted	28	17	19	107	132	166	180	188
Total tax	8	14	10	-24	-29	-35	-38	-39
Minority interests	0	0	0	-1	-1	-1	-1	-1
Net income	36	30	29	90	94	130	141	147
Net income, adj.	36	30	29	82	102	130	141	147

Source: Transtema, EPB

Cash flow analysis

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
EBIT	32	29	29	124	145	179	187	194
Other cash flow items	39	107	95	74	48	62	69	71
Changes in working capital	-437	-437	37	12	-53	55	2	2
Cash flows from operating activities	70	137	161	211	140	296	258	267
Investments	-437	-437	-4	-14	-20	-22	-23	-24
Free cash flows	70	137	157	197	120	273	235	243
Rights issues / buybacks	-437	-437	53	1	0	0	0	0
Acquisitions	-437	-437	19	0	-176	0	0	0
Changes in debt	-437	-437	-122	-29	115	-140	0	0
Other items	-437	-437	-1	0	0	0	0	0
Cash flows	70	137	47	113	0	67	167	173
Translation differences	-437	-437	-1	0	0	0	0	0
Net debt	283	235	130	-5	110	-97	-264	-437

Source: Transtema, EPB

Balance sheet

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
ASSETS								
Goodwill	124	93	76	77	200	200	200	200
Other intangible assets	131	87	65	52	87	66	45	23
Tangible fixed assets	219	36	28	34	34	34	34	34
Financial fixed assets	1	0	0	0	0	0	0	0
Other fixed assets	3	18	27	1	1	1	1	1
Total fixed assets	478	459	388	351	508	488	467	445
Inventories	19	17	17	18	26	29	30	30
Trade receivables	199	163	149	145	283	265	273	281
Other current assets	7	10	12	7	7	7	7	7
Cash and cash equivalents and short-term investments	22	19	65	178	178	245	411	584
Total current assets	656	419	371	509	810	821	1 005	1 196
TOTAL ASSETS	1 133	878	758	860	1 319	1 309	1 471	1 641
EQUITY AND LIABILITIES								
Equity	323	104	160	250	345	476	618	766
Minority interests	0	1	1	1	2	3	4	5
Total equity	323	104	160	251	347	479	622	772
Long-term interest-bearing liabilities	31	47	19	25	140	0	0	0
Other long-term liabilities	0	11	3	12	12	12	12	12
Total long-term liabilities	124	194	150	146	261	121	121	121
Short-term interest-bearing liabilities	125	83	49	14	14	14	14	14
Trade payables	250	166	111	120	260	212	218	225
Other current liabilities	256	273	240	273	381	428	440	454
Total current liabilities	686	580	448	462	710	709	728	748
TOTAL EQUITY AND LIABILITIES	1 133	878	758	860	1 319	1 309	1 471	1 641

Source: Transtema, EPB

Growth and margins

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Revenue growth	-437	72%	N.m.	20%	40%	12%	3%	3%
EBITDA growth, adjusted	-437	94%	N.m.	50%	28%	15%	4%	4%
EBIT growth, adjusted	-437	N.m.	N.m.	>100%	31%	17%	4%	4%
EPS growth, adjusted	-437	N.m.	N.m.	>100%	24%	27%	9%	4%
EBITDA margin	8,1%	9,1%	9,2%	12,0%	10,2%	10,9%	11,0%	11,0%
EBITDA margin, adjusted	8,1%	9,1%	9,2%	11,5%	10,6%	10,9%	11,0%	11,0%
EBIT margin	3,7%	1,9%	2,1%	7,4%	6,1%	6,8%	6,8%	6,9%
EBIT margin, adjusted	3,7%	1,9%	2,1%	6,9%	6,5%	6,8%	6,8%	6,9%
Profit margin, adjusted	4,2%	6,1%	2,1%	4,9%	4,3%	4,9%	5,2%	5,2%

Source: Transtema, EPB

Profitability

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
ROE, adjusted	Neg.	14%	22%	40%	34%	31%	26%	21%
ROCE, adjusted	Neg.	6%	8%	30%	31%	29%	27%	23%
ROIC, adjusted	Neg.	6%	9%	44%	43%	43%	50%	56%

Source: Transtema, EPB

Capital efficiency

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Inventory / total revenues	2%	1%	1%	1%	1%	1%	1%	1%
Trade receivables / total revenues	23%	11%	11%	9%	12%	10%	10%	10%
Total current liabilities / total expenses	86%	43%	35%	31%	34%	30%	30%	30%
Working capital / total revenues	15%	-3%	-3%	-4%	0%	-2%	-2%	-2%
Capital turnover rate	1,4x	4,2x	4,0x	4,0x	3,7x	4,2x	3,5x	3,1x

Source: Transtema, EPB

Financial position

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Net debt	283	235	130	-5	110	-97	-264	-437
Equity asset ratio	29%	12%	21%	29%	26%	37%	42%	47%
Net debt/equity ratio	0,9x	2,2x	0,8x	0,0x	0,3x	-0,2x	-0,4x	-0,6x
Net debt/EBITDA	4,0x	1,7x	1,0x	0,0x	0,5x	-0,3x	-0,9x	-1,4x

Source: Transtema, EPB

Share data

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
EPS	1,50	1,11	0,83	2,32	2,42	3,34	3,63	3,78
EPS, adjusted	1,50	1,11	0,83	2,12	2,62	3,34	3,63	3,78
FCF per share	2,91	4,99	4,40	5,06	3,08	7,03	6,03	6,26
Equity per share	11,6	3,81	4,17	6,46	8,92	12,3	16,0	19,8
Number of shares at year-end, m	27,9	27,4	38,3	38,9	38,9	38,9	38,9	38,9
Number of shares after dilution, average	24,2	27,4	35,6	38,9	38,9	38,9	38,9	38,9

Source: Transtema, EPB

Valuation

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
P/E, adjusted	9,5x	5,7x	13,2x	22,4x	10,2x	8,0x	7,4x	7,1x
P/book value	1,2x	1,7x	2,6x	7,4x	3,0x	2,2x	1,7x	1,3x
P/FCF	4,9x	1,3x	2,5x	9,4x	8,7x	3,8x	4,4x	4,3x
FCF yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	0,8x	0,3x	0,4x	1,1x	0,5x	0,4x	0,3x	0,2x
EV/EBITDA, adjusted	9,5x	3,0x	4,2x	9,3x	4,5x	3,2x	2,5x	1,9x
EV/EBIT, adjusted	21,2x	14,0x	19,1x	15,6x	7,4x	5,2x	4,1x	3,0x
EV	672	407	550	1 817	1 135	928	761	588
Share price	14,2	6,3	11,0	47,5	26,7	26,7	26,7	26,7

Source: Transtema, EPB

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