



# ERIK PENSER BANK

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## Sensys Gatso Group

### 2023 guidance and reverse split prompt updated forecasts and new fair value

#### New fair value and updated forecasts

We have updated our forecasts and revised our fair value after the announcement from Sensys Gatso Group (SGG) of 2023 guidance and a reverse stock split through which 80 old shares become 1 new share. Compared to the mean of the SEK 550–650 forecast interval for sales and an EBITDA margin of 10–15%, we have been too optimistic on sales and too pessimistic on margins for the current year. Overall, however, our 2023e forecast has been in line with this average. Our 2023 EBITDA and EBIT estimates are thus largely unchanged, despite the lower sales forecast. A lower 2023e sales base does affect our EBIT estimates by an average of around 8% for 2024e and 2025e, though.

#### New fair value after reverse split

We have revised our fair value largely on account of the reverse stock split, but also due to the lower forecasts. Our new fair value amounts to SEK 90–95. We have applied an especially high risk premium to our DCF calculations – on which our fair value is based – as the company's investments in digital platforms and expanded sales capacity, plus the timing of the large orders in Sweden and the Netherlands, introduce additional short-term uncertainty. We believe the company's current investments are necessary for it to deliver the large orders that have been placed, but also to achieve its long-term goals and thus prepare the company for the future. As this uncertainty is likely to diminish in the future, we should be able to reduce our extra risk premium, which should, all else being equal, allow us to lift our fair value.

#### Solid order intake so far in Q2 – focus on recurring revenues

So far in Q2 2023, order intake has been robust at SEK 259m, compared with SEK 90m in Q1 2023 and SEK 239m in Q2 2022. Several of the orders include recurring revenues through the typically higher-margin TraaS. This supports our scenario of higher sales growth and margin expansion in the future.

Change in estimates				Forecast (SEK m)				Value and risk		
	23e	24e	25e	2022	2023e	2024e	2025e	Fair value	SEK 90 - 95	
Total revenue	-13,0%	-10,2%	-7,4%	Total revenue	495	600	845	1 006	Share price	SEK 85,7
EBIT, adj.	-2,7%	-10,1%	-6,4%	Revenue growth	-2%	21%	41%	19%	Risk level	Medel
EPS, adj.	N.m.	N.m.	N.m.	EBITDA, adj.	73	75	139	166	<b>Price Performance 12 months</b>	
<b>Upcoming events</b>				EBIT, adj.	31	32	95	114		
Q2 - report	17 August 2023			EPS, adj.	1,7	2,0	6,2	7,6		
Q3 - report	16 November 2023			EPS growth, adj.	-43%	17%	>100%	24%		
<b>Company facts (SEK m)</b>				BV/share	54,4	56,4	62,6	70,2		
Number of shares	12m			Dividend per share	0,0	0,0	0,0	0,0		
Market capitalization	987			EBIT margin, adj.	6,2%	5,3%	11,3%	11,3%		
Net debt	11			ROE, adj.	3,4%	3,7%	10,4%	11,5%		
EV	999			ROCE, adj.	4,5%	4,5%	12,5%	13,6%		
Free float	82%			EV/Sales	1,8x	1,7x	1,2x	1,0x		
Daily trading volume, average	15k			EV/EBITDA	12,2x	13,3x	7,2x	6,0x		
Bloomberg Ticker	SENS SS EQUITY			EV/EBIT	29,0x	31,2x	10,5x	8,8x	<b>Conflicts of interest</b>	
<b>Analyst</b>				P/E, adj.	45,9x	42,0x	13,9x	11,3x	<b>Yes</b>	<b>No</b>
Örjan Rödén				P/BV	1,5x	1,5x	1,4x	1,2x	Liquidity provider	✓
orjan.roden@penser.se				FCF yield	9%	4%	0%	8%	Certified adviser	✓
				Net debt / EBITDA	-0,3x	-0,8x	-0,5x	-0,9x	Transactions 12m	✓

## Investment case

**Higher share of recurring revenues:** Sensys Gatso is focusing on a higher share of recurring revenues from TraaS (traffic enforcement as a service), which implies more revenue stability. Its goal is for TraaS to account for more than 60% of turnover by 2025. We expect the company to achieve this and for its annual growth in recurring revenues to surpass 20% in the coming five years.

**TraaS – future revenue source for the public sector:** TraaS represents increased revenues for public entities, without having to invest capital or increase current operating costs. Sensys Gatso undertakes the entire operational and investment responsibility and shares the revenues with clients. TraaS will thus allow a higher share of public spending by clients, while also reducing the costs of traffic injuries and mortality.

**Greater geographical presence:** Sensys is growing a broad geographical footprint including in North and South America and the Middle East. The need for traffic control in these markets is widespread. There is also great openness towards the TraaS model compared with Scandinavia, for example. This allows for a higher share of TraaS revenues over time. The potential is most prominent in the US.

**High tech content suggests greater value creation:** At first glance, Sensys Gatso appears to be a company with low tech content: traffic cameras are not, by definition, an advanced technology. But in reality, its tech content is growing as peripheral services around the surveillance itself increase. This ensures greater profitability and more consistent sales in the future.

**Focus on traffic safety, a better environment, and lower energy use creates favourable growth conditions:** Society's efforts towards greater sustainability offer superb opportunities for future demand. The strongest driver of this is the focus on improved traffic safety to save lives and reduce injuries, which, as well as minimising suffering, also saves considerable societal resources. Lower speeds thanks to traffic control also lead to reduced emissions, which is positive for health and the environment, and help to reduce energy consumption.

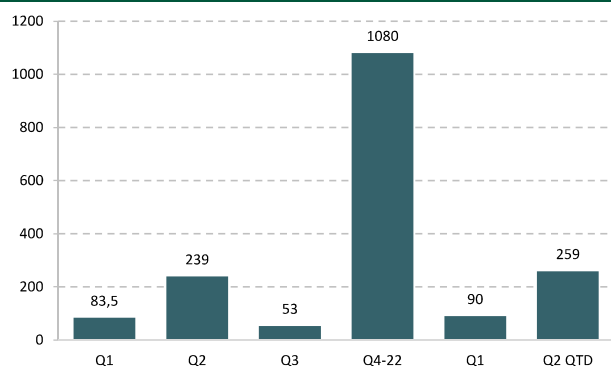
## Company profile

Sensys Gatso is the result of a 2015 merger between Sweden's Sensys and Gatso of the Netherlands. The company sells traffic safety products and services to various public players. Examples of its products include speed cameras and traffic lights. Sensys Gatso has also developed software that can automate the entire process of fines for traffic offences. A typical example is a speed camera that photographs the speeding driver, with the vehicle's owner identified with the help of Sensys Gatso's software and the fine then issued by the system. Sensys Gatso can also manage the financial aspects of the fines.

## Valuation

We value Sensys Gatso using a DCF model including WACC of 14%, a sustainable operating margin of 13%, and long-term growth of 3%. This suggests a DCF value of SEK 92 per share. We believe the company will achieve its 2025 target and continue its growth thereafter. A greater share of revenues from software overall, and TraaS in particular, would ensure higher margins in the long term than before.

## Order intake



Source: Company, EPB

## Summary of our DCF

Valuation output	WACC assumptions	Terminal value assumptions
Sum of PV of FCF (explicit period)	Risk free nominal rate	Long term growth rate
622	2,5%	3,0%
PV of terminal value (perpetuity formula)	Risk premium	Long term EBIT margin
446	5,5%	13,0%
<b>Enterprise value</b>	Extra risk premium	Depreciation (% of sales)
<b>1 068</b>	4,0%	3,0%
Latest net debt	Beta	Capex (% of sales)
11	0,0	3,0%
Minority interests & other	<b>WACC</b>	Working cap. (% of sales)
0	<b>14,0%</b>	1,5%
<b>Equity value</b>		Tax rate
<b>1 057</b>		20%
No. of shares outstanding (millions)		
12		
<b>Equity value per share</b>		
<b>92</b>		

Source: Company, EPB

## DCF sensitivity analysis

		Long-term growth rate							Long-term EBIT margin				
		1,0%	2,0%	3,0%	4,0%	5,0%			8,0%	10,5%	13,0%	15,5%	18,0%
WACC	13,0%	95	98	102	108	114	WACC	13,0%	62	82	102	123	143
	13,5%	90	93	97	101	107		13,5%	58	78	97	116	135
	14,0%	86	89	92	96	100		14,0%	56	74	92	110	128
	14,5%	82	84	87	90	95		14,5%	53	70	87	104	121
	15,0%	78	80	83	86	89		15,0%	51	67	83	99	115

Source: Company, EPB

## Income statement

	2019	2020	2021	2022	2023e	2024e	2025e
<b>Net sales</b>	<b>406</b>	<b>455</b>	<b>507</b>	<b>495</b>	<b>600</b>	<b>845</b>	<b>1 006</b>
<b>Total revenue</b>	<b>406</b>	<b>455</b>	<b>507</b>	<b>495</b>	<b>600</b>	<b>845</b>	<b>1 006</b>
Cost of goods sold	-208	-244	-274	-270	-336	-448	-533
<b>Gross profit</b>	<b>198</b>	<b>210</b>	<b>233</b>	<b>225</b>	<b>264</b>	<b>397</b>	<b>473</b>
Other Operating Expenses	-169	-151	-150	-152	-189	-258	-307
<b>EBITDA</b>	<b>29</b>	<b>59</b>	<b>84</b>	<b>73</b>	<b>75</b>	<b>139</b>	<b>166</b>
<b>EBITDA, adjusted</b>	<b>29</b>	<b>59</b>	<b>84</b>	<b>73</b>	<b>75</b>	<b>139</b>	<b>166</b>
Depreciation	-53	-49	-38	-43	-43	-44	-52
<b>EBITA, adjusted</b>	<b>-24</b>	<b>11</b>	<b>46</b>	<b>31</b>	<b>32</b>	<b>95</b>	<b>114</b>
<b>EBIT</b>	<b>-24</b>	<b>11</b>	<b>46</b>	<b>31</b>	<b>32</b>	<b>95</b>	<b>114</b>
<b>EBIT, adjusted</b>	<b>-24</b>	<b>11</b>	<b>46</b>	<b>31</b>	<b>32</b>	<b>95</b>	<b>114</b>
Net Financial Items	-3	-8	1	2	0	0	0
<b>Profit before tax</b>	<b>-28</b>	<b>2</b>	<b>47</b>	<b>33</b>	<b>32</b>	<b>95</b>	<b>114</b>
<b>Profit before tax, adjusted</b>	<b>-28</b>	<b>2</b>	<b>47</b>	<b>33</b>	<b>32</b>	<b>95</b>	<b>114</b>
Taxes	12	1	-12	-13	-8	-24	-26
<b>Net income</b>	<b>-15</b>	<b>4</b>	<b>35</b>	<b>20</b>	<b>23</b>	<b>71</b>	<b>88</b>
<b>Net income, adjusted</b>	<b>-15</b>	<b>4</b>	<b>35</b>	<b>20</b>	<b>23</b>	<b>71</b>	<b>88</b>
Sales Growth	-	12%	11%	-2%	21%	41%	19%
Gross Margin	48,7%	46,3%	46,0%	45,5%	44,0%	47,0%	47,0%
EBIT Margin, Adjusted	Neg.	2,4%	9,1%	6,2%	5,3%	11,3%	11,3%
EPS, Adjusted	-1,41	0,36	3,04	1,74	2,04	6,16	7,61
EPS Growth, Adjusted	-	N.m.	>100%	-43%	17%	>100%	24%

Source: Sensys Gatso Group, EPB

## Cash flow statement

	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	-24	11	46	31	32	95	114
Other Cash flow Items	56	47	24	30	33	14	12
Changes in working capital	-36	-42	-61	64	9	-73	-6
<b>Cash flow from operating activities</b>	<b>-4</b>	<b>15</b>	<b>9</b>	<b>126</b>	<b>74</b>	<b>37</b>	<b>120</b>
Investments in Fixed Assets	-41	-19	-24	-19	-9	-6	-8
Investments in intangible fixed assets	-4	-14	-18	-26	-25	-30	-30
<b>Cash Flow From Investments</b>	<b>-45</b>	<b>-33</b>	<b>-42</b>	<b>-45</b>	<b>-34</b>	<b>-36</b>	<b>-38</b>
<b>Free cash flow</b>	<b>-49</b>	<b>-18</b>	<b>-33</b>	<b>81</b>	<b>40</b>	<b>1</b>	<b>83</b>
New share issue / repurchase	0	71	0	0	0	0	0
Other items	24	2	-4	-55	0	0	0
<b>Cash flow from financing</b>	<b>24</b>	<b>73</b>	<b>-4</b>	<b>-55</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash flow</b>	<b>-25</b>	<b>55</b>	<b>-36</b>	<b>25</b>	<b>40</b>	<b>1</b>	<b>83</b>
<b>Net debt</b>	<b>77</b>	<b>10</b>	<b>44</b>	<b>-24</b>	<b>-64</b>	<b>-64</b>	<b>-147</b>

Source: Sensys Gatso Group, EPB

## Balance sheet

	2019	2020	2021	2022	2023e	2024e	2025e
<b>ASSETS</b>							
Goodwill	257	242	251	277	277	277	277
Other intangible assets	53	47	57	69	73	81	85
Tangible fixed assets	101	86	92	105	92	76	58
Other fixed assets	45	40	36	40	41	47	61
<b>Total fixed assets</b>	<b>457</b>	<b>416</b>	<b>436</b>	<b>491</b>	<b>484</b>	<b>481</b>	<b>481</b>
Inventories	87	127	97	85	102	144	171
Accounts receivable	75	68	141	67	84	118	141
Other current assets	35	47	51	85	54	76	91
Cash and cash equivalents	52	108	72	100	139	140	222
<b>Total current assets</b>	<b>249</b>	<b>351</b>	<b>361</b>	<b>337</b>	<b>379</b>	<b>478</b>	<b>625</b>
<b>TOTAL ASSETS</b>	<b>706</b>	<b>767</b>	<b>797</b>	<b>828</b>	<b>863</b>	<b>959</b>	<b>1 106</b>
<b>EQUITY AND LIABILITIES</b>							
Equity	450	517	561	626	650	721	808
Minority interest	-1	-2	0	0	0	0	0
<b>Total equity</b>	<b>449</b>	<b>515</b>	<b>562</b>	<b>626</b>	<b>650</b>	<b>721</b>	<b>809</b>
Long-term interest-bearing liabilities	39	37	44	44	44	44	44
Long-term lease liabilities	23	19	14	12	12	12	12
Other long-term liabilities	14	9	7	19	19	19	19
<b>Total long-term liabilities</b>	<b>77</b>	<b>66</b>	<b>65</b>	<b>75</b>	<b>75</b>	<b>75</b>	<b>75</b>
Short-term interest-bearing liabilities	57	53	50	9	9	9	9
Accounts payable	47	62	37	20	25	30	42
Short-term lease liabilities	10	9	9	10	10	10	10
Other current liabilities	66	63	75	87	94	114	160
<b>Total current liabilities</b>	<b>180</b>	<b>187</b>	<b>170</b>	<b>127</b>	<b>138</b>	<b>163</b>	<b>222</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>706</b>	<b>767</b>	<b>797</b>	<b>828</b>	<b>863</b>	<b>959</b>	<b>1 106</b>

Source: Sensys Gatso Group, EPB

## Growth and margins

	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	12%	11%	-2%	21%	41%	19%
EBITDA growth, adjusted	-	>100%	40%	-12%	2%	86%	19%
EBIT growth, adjusted	-	N.m.	>100%	-33%	4%	>100%	19%
EPS growth, adjusted	-	N.m.	>100%	-43%	17%	>100%	24%
Gross margin	48,7%	46,3%	46,0%	45,5%	44,0%	47,0%	47,0%
EBITDA margin	7,0%	13,1%	16,5%	14,8%	12,5%	16,5%	16,5%
EBITDA margin, adjusted	7,0%	13,1%	16,5%	14,8%	12,5%	16,5%	16,5%
EBIT margin	Neg.	2,4%	9,1%	6,2%	5,3%	11,3%	11,3%
EBIT margin, adjusted	Neg.	2,4%	9,1%	6,2%	5,3%	11,3%	11,3%
Profit margin, adjusted	Neg.	0,9%	6,9%	4,0%	3,9%	8,4%	8,7%

Source: Sensys Gatso Group, EPB

## Return

	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	1%	7%	3%	4%	10%	11%
ROCE, adjusted	Neg.	2%	7%	4%	4%	13%	14%
ROIC, adjusted	Neg.	2%	8%	5%	5%	15%	17%

Source: Sensys Gatso Group, EPB

## Capital efficiency

	2019	2020	2021	2022	2023e	2024e	2025e
Inventory / total revenue	21%	28%	19%	17%	17%	17%	17%
Accounts receivable / total revenue	19%	15%	28%	14%	14%	14%	14%
Accounts payable / COGS	23%	26%	14%	8%	7%	7%	8%
Total short-term liabilities / total cost	48%	47%	40%	30%	26%	23%	26%
Working capital / total revenue	21%	26%	35%	26%	20%	23%	20%
Capital turnover rate	0,7x	0,7x	0,7x	0,7x	0,8x	1,1x	1,1x

Source: Sensys Gatso Group, EPB

## Financial position

	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	77	10	44	-24	-64	-64	-147
Equity ratio	64%	67%	70%	76%	75%	75%	73%
Net debt / equity	0,2x	0,0x	0,1x	0,0x	-0,1x	-0,1x	-0,2x
Net debt / EBITDA	2,7x	0,2x	0,5x	-0,3x	-0,8x	-0,5x	-0,9x

Source: Sensys Gatso Group, EPB

## Per share data

	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-1,41	0,36	3,04	1,74	2,04	6,16	7,61
EPS, adjusted	-1,41	0,36	3,04	1,74	2,04	6,16	7,61
FCF per share	-4,53	-1,60	-2,85	6,99	3,44	0,05	7,16
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Book value per share	41,8	46,8	48,8	54,4	56,4	62,6	70,2
Number of shares, m	10,8	11,0	11,5	11,5	11,5	11,5	11,5
Number of shares after dilution, average	10,8	11,0	11,5	11,5	11,5	11,5	11,5

Source: Sensys Gatso Group, EPB

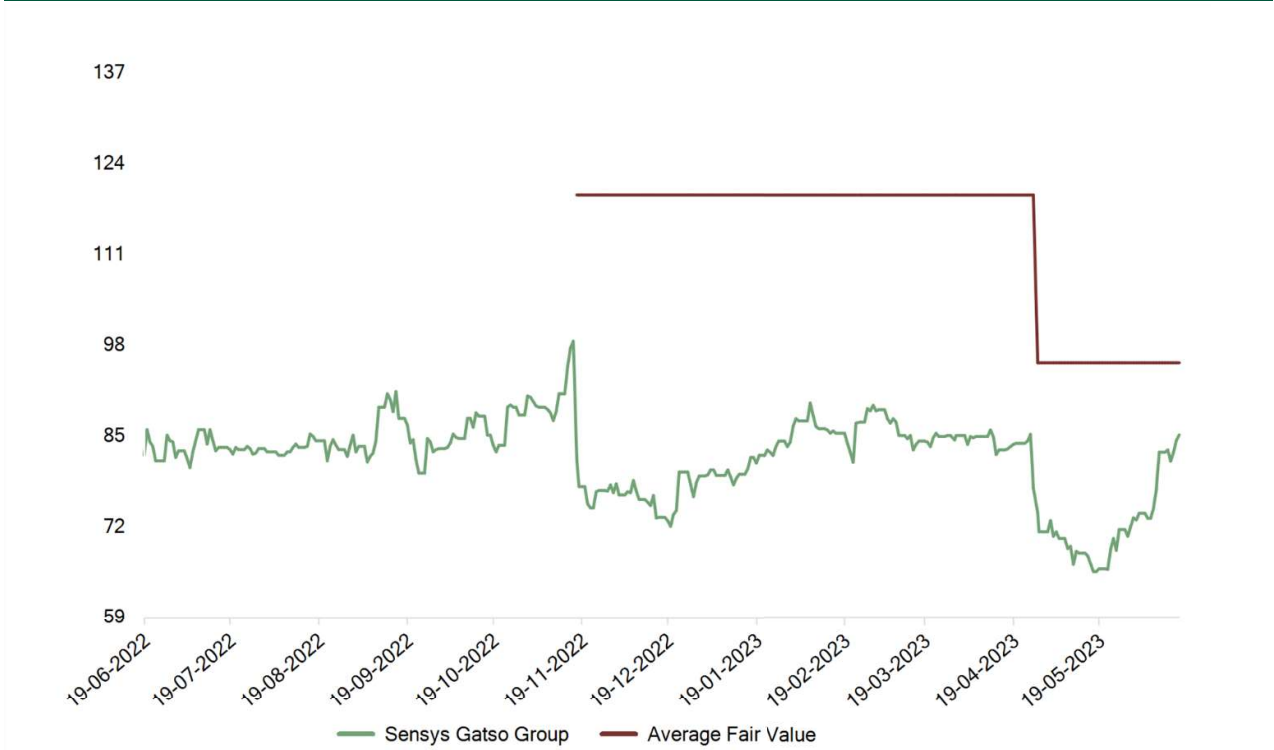
## Valuation

	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	372,3x	25,2x	45,9x	42,0x	13,9x	11,3x
P/BV	2,6x	2,9x	1,6x	1,5x	1,5x	1,4x	1,2x
P/FCF	Neg.	Neg.	Neg.	11,4x	24,9x	1 727,7x	12,0x
FCF-yield	Neg.	Neg.	Neg.	9%	4%	0%	8%
Dividend yield	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%
EV/Sales	3,1x	3,3x	1,8x	1,8x	1,7x	1,2x	1,0x
EV/EBITDA, adjusted	43,6x	24,9x	11,1x	12,2x	13,3x	7,2x	6,0x
EV/EBIT, adjusted	Neg.	136,7x	20,2x	29,0x	31,2x	10,5x	8,8x
EV	1 245	1 480	925	895	999	999	999
Share price, year end	109	134	76,5	79,8	85,7	85,7	85,7

Source: Sensys Gatso Group, EPB

### Share Price and Fair Value Chart

#### Sensys Gatso Group (SENS SS EQUITY)



Source: EPB, IDC

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