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Professional Services | Sweden | 18 November 2024

Sensys Gatso Group

Slower quarter but growth trend and margin expansion intact

Q3(24) – quarter on weaker side versus trend

Sensys Gatso Group reported sales of SEK141m, 10% lower than SEK157m in Q3(23), largely owing to lower System sales down 12% Y/Y. System sales are typically volatile between quarters, and so this deviation should not be extrapolated, in our view. TRaaS revenues were up 15% Y/Y, representing 70% of total revenues in the quarter. We consider it encouraging that the important recurring sales in TRaaS continue their positive development. EBITDA narrowed from SEK19m in Q3(23) to SEK12m, largely on account of lower sales and a somewhat weaker gross margin of 38% versus 39% in Q3(23). Positively, 9M sales were up to SEK433m (403m), while EBIT rose to SEK8m (5m), suggesting ongoing improvements. Cash flow from operating activities increased to SEK 9m (4m) in the quarter, while for 9M it was at SEK20m versus SEK-23m in Q3(23). Sensys Gatso mentioned some delays – such as with Trafikverket (Swedish Transport Administration) and in Saudi Arabia – and highlighted the negative effects of new legislation in Iowa. We believe the development is progressing to plan, although the uncertainty regarding timing of revenues and profits has increased.

Lower sales forecasts but solid cost control means less impact on profits

We lower our 2024–2025 sales forecasts as we believe some revenues from Sweden and Saudi Arabia have been postponed. The company is showing good cost control though, and operating expenses have risen only SEK7m YTD, while sales are SEK30m higher. We believe the operational leverage will continue to develop well. We thus lower our EBIT estimates by less, trimming them by 3.3% compared with a cut of 6.4% in sales for 2025. This also affects our 2026 EBIT estimate positively.

Growth journey intact and share trades below fair value, but the road isn't straight

Taken together, our expectations for order intake, sales, and costs suggest the company continues its growth journey towards more stable business with a high share of recurring revenues and higher margins. As Q3(24) has shown, this road is not without its hurdles, but we see no reason to extrapolate the weaker performance this quarter versus the overall trend. We leave our DCF-based fair value unchanged. The company has improved its financial standing through a recently completed bond issue, and demand for effective traffic control that can save lives, reduce medical costs, and improve the environment remains a dominant driving force for demand, in our view.

Change in estimates				Forecasts (SEKm)				Value and risk														
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 80.0 - 100												
Total revenues	-6.7%	-6.4%	0.9%	Total revenues	624	683	987	1,163	Share price	SEK 55.3												
EBIT, adj.	-36.8%	-3.3%	7.7%	Revenue growth	26%	10%	44%	18%	Risk level	Medium												
EPS, adj.	-42.0%	-5.3%	6.6%	EBITDA, adj.	85	82	155	188	Price Performance 12 months													
Upcoming events				EBIT, adj.	39	38	103	136														
Q4 - report	28 February 2025			EPS, adj.	1.1	2.1	6.4	8.7														
Q1 - report	24 April 2024			EPS growth, adj.	-34%	97%	206%	35%	Conflicts of interest													
Company facts (SEKm)				BV/share	55.1	57.5	64.5	73.6	<table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td>✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td>✓</td> </tr> <tr> <td>Transactions 12m</td> <td></td> <td>✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser		✓	Transactions 12m		✓
	Yes	No																				
Liquidity provider		✓																				
Certified adviser		✓																				
Transactions 12m		✓																				
Number of shares	12m			EBIT margin, adj.	6.3%	5.6%	10.4%	11.7%														
Market capitalisation	638			ROE, adj.	1.9%	3.7%	10.5%	12.5%														
Net debt	159			ROCE, adj.	5.3%	4.0%	8.8%	10.9%														
EV	799			EV/Sales	1.6x	1.2x	0.8x	0.7x														
Free float	82%			EV/EBITDA	11.7x	9.7x	5.2x	4.2x														
Daily trading volume, average	16k			EV/EBIT	25.5x	20.8x	7.8x	5.9x														
Bloomberg Ticker	SENS SS EQUITY			P/E, adj.	68.7x	26.5x	8.6x	6.4x														
Analyst				P/BV	1.3x	1.0x	0.9x	0.8x														
Örjan Rödén				FCF yield	Neg.	Neg.	1%	5%														
orjan.roden@carnegie.se				Net debt / EBITDA	1.3x	1.9x	0.9x	0.6x														

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 in 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 Gatso 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 extensive. 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, helping 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 12%, a sustainable operating margin of 11%, and long-term growth of 3%. This suggests a DCF value of SEK86 per share. We believe the company will achieve its 2025 EBITDA 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.

Brief overview of the quarter

Our overall view of Q3(24) is that the company continues on its successful journey towards more recurring revenues and higher margins. R12M order intake, which is volatile between quarters, was again solid (figure 1) and surpassed R12M sales (figure 2). The trend is for rising sales in the longer term, even though this quarter did not match the solid Q3(23) results (figure 3). The same pattern can be seen in EBITDA (figure 4), although EBITDA was clearly higher than in 2019/2020. R12M Managed services sales level out (figure 5) after several solid quarters, while the R12M EBITDA margin remains robust at 16% (figure 6). Sales in System have increased (figure 7), and we anticipate further good growth prospects, especially when the large Trafikverket contract (SEK850m in deal value) starts to be invoiced in 2025 and 2026. This should also reverse the decline in margins, driving them towards the company's target of 15%. Although we lower estimates for the current year, we lift them for 2026e and keep our fair value unchanged at SEK80–100.

The quarter in charts

Exhibit 1: Order intake, quarterly and R12M



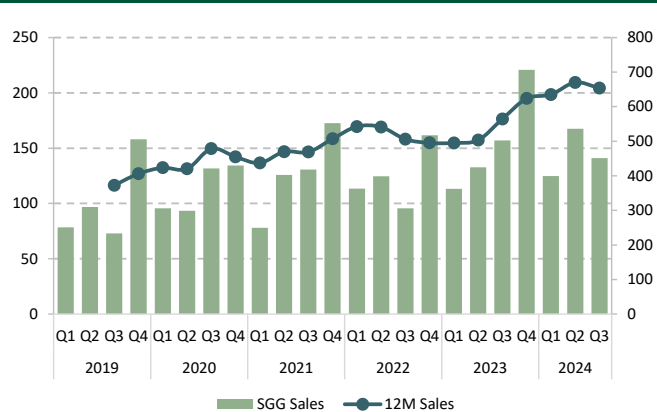
Source: Company, Penser by Carnegie

Exhibit 2: Order intake and sales, R12M



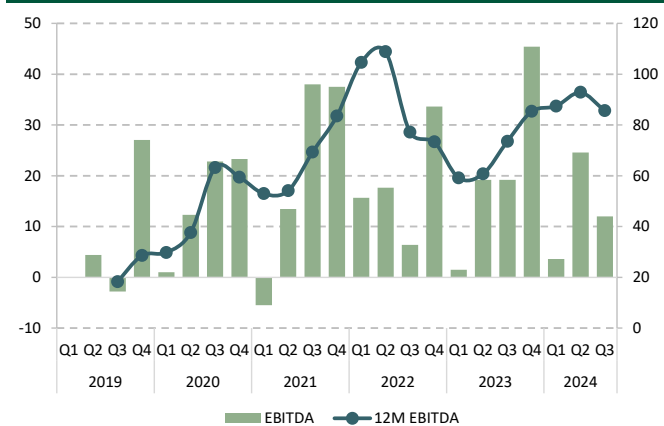
Source: Company, Penser by Carnegie

Exhibit 3: Sales, quarterly and R12M



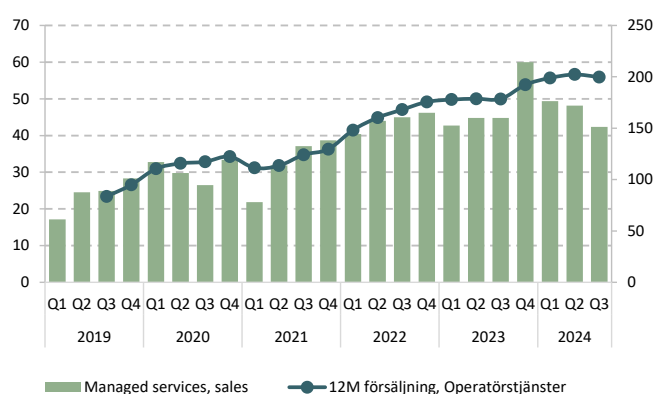
Source: Company, Penser by Carnegie

Exhibit 4: EBITDA, quarterly and R12M



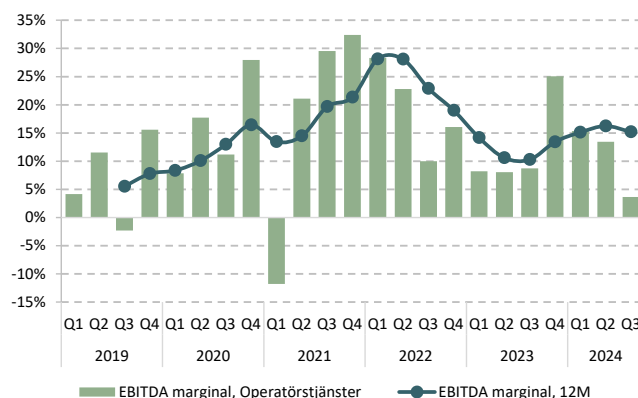
Source: Company, Penser by Carnegie

Exhibit 5: Sales, Managed services, quarterly and R12M



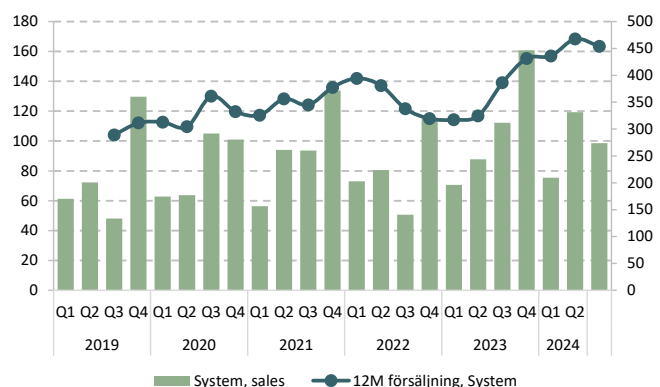
Source: Company, Penser by Carnegie

Exhibit 6: EBITDA marg. Man. services, quart. and R12M



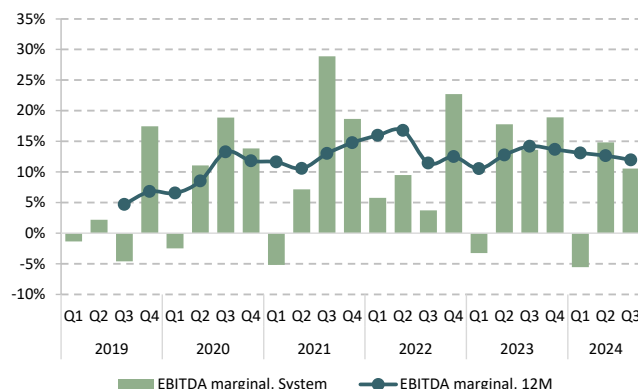
Source: Company, Penser by Carnegie

Exhibit 7: Sales, System, quarterly and R12M



Source: Company, Penser by Carnegie

Exhibit 8: EBITDA margin System, quarterly and R12M



Source: Company, Penser by Carnegie

Exhibit 9: DCF – summary

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	479	Risk free nominal rate	2.5%	Long term growth rate	3.0%
PV of terminal value (perpetuity formula)	671	Risk premium	5.5%	Long term EBIT margin	11.0%
Enterprise value	1,150	Extra risk premium	4.0%	Depreciation (% of sales)	6.0%
Latest net debt	159	Beta	0.0	Capex (% of sales)	6.0%
Minority interests & other	0	WACC	12.0%	Working cap. (% of sales)	1.8%
Equity value	991	Tax rate			20%
No. of shares outstanding (millions)	12				
Equity value per share	86				

Source: Company, Penser by Carnegie

Exhibit 10: DCF – sensitivity analysis

		Long-term growth rate					Long-term EBIT margin				
		1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	8.5%	11.0%	13.5%	16.0%
WACC	11.0%	87	93	101	111	125	37	69	101	133	165
	11.5%	81	86	93	102	113	33	63	93	123	153
	12.0%	75	80	86	93	103	30	58	86	114	142
	12.5%	70	75	80	86	94	28	54	80	106	132
	13.0%	66	70	74	79	86	25	49	74	98	123

Source: Company, Penser by Carnegie

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	406	455	507	495	624	683	987	1,163
Cost of goods sold	-243	-269	-280	-244	-338	-374	-551	-654
Gross profit	163	185	227	250	285	310	436	509
Selling Expenses	-81	-72	-66	-82	-84	-92	-118	-134
Administrative Expenses	-41	-48	-64	-77	-84	-92	-104	-116
R & D Expenses	-48	-34	-36	-44	-46	-50	-69	-78
Other Operating Expenses	36	29	22	26	14	7	10	8
EBITDA	29	59	84	73	85	82	155	188
EBITDA, adjusted	29	59	84	73	85	82	155	188
Depreciation	-27	-22	-20	-32	-40	-40	-46	-46
EBITA, adjusted	2	37	64	42	45	42	109	142
Amortization	-26	-26	-18	-11	-6	-4	-6	-6
EBIT	-24	11	46	31	39	38	103	136
EBIT, adjusted	-24	11	46	31	39	38	103	136
Net Financial Items	-3	-8	1	2	-16	-5	-5	-5
Profit before tax	-28	2	47	33	23	33	98	131
Profit before tax, adjusted	-28	2	47	33	23	33	98	131
Taxes	12	1	-12	-13	-10	-10	-24	-32
Minority interest	2	1	-2	-1	-1	0	0	0
Net income	-13	5	33	19	12	24	74	100
Net income, adjusted	-13	5	33	19	12	24	74	100
Sales Growth	Neg.	12%	11%	-2%	26%	10%	44%	18%
Gross Margin	40.1%	40.8%	44.8%	50.6%	45.8%	45.3%	44.1%	43.8%
EBIT Margin, Adjusted	Neg.	2.4%	9.1%	6.2%	6.3%	5.6%	10.4%	11.7%
EPS, Adjusted	-1.25	0.46	2.83	1.61	1.06	2.09	6.39	8.66
EPS Growth, Adjusted	N.m.	N.m.	N.m.	-43%	-34%	97%	206%	35%

Source: Sensys Gatso Group, Penser by Carnegie

Cash flow statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-24	11	46	31	39	38	103	136
Other Cash flow Items	56	47	24	30	45	20	29	25
Changes in working capital	-36	-42	-61	64	-103	-24	-47	-50
Cash flow from operating activities	-4	15	9	126	-18	34	85	112
Investments in Fixed Assets	-41	-19	-24	-19	-83	-50	-55	-55
Investments in intangible fixed assets	-4	-14	-18	-26	-20	-35	-25	-25
Cash flow from Investments	-45	-33	-42	-45	-103	-85	-80	-80
Free cash flow	-49	-18	-33	81	-121	-51	5	32
New share issue / repurchase	0	71	0	0	0	0	0	0
Other items	24	2	-4	-55	71	300	0	0
Cash flow from financing	24	73	-4	-55	71	300	0	0
Cash flow	-25	55	-36	25	-50	249	5	32
Net debt	77	10	44	-24	109	155	145	107

Source: Sensys Gatso Group, Penser by Carnegie

Balance sheet								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS								
Goodwill	257	242	251	277	273	273	273	273
Other intangible assets	53	47	57	69	88	103	105	107
Tangible fixed assets	101	86	92	105	128	158	190	222
Financial assets	0	0	0	0	9	9	9	9
Other fixed assets	45	40	36	40	35	41	29	13
Total fixed assets	457	416	436	491	533	584	606	624
Inventories	87	127	97	85	100	109	148	198
Accounts receivable	75	68	141	67	182	198	197	233
Other current assets	35	47	51	85	99	109	158	186
Cash and cash equivalents	52	108	72	100	49	302	313	350
Total current assets	249	351	361	337	430	719	816	967
TOTAL ASSETS	706	767	797	828	964	1,303	1,422	1,591
EQUITY AND LIABILITIES								
Equity	450	517	561	626	633	661	741	846
Minority interest	-1	-2	0	0	3	3	3	3
Total equity	449	515	562	626	636	663	743	849
Long-term interest-bearing liabilities	39	37	44	44	71	71	71	71
Long-term lease liabilities	23	19	14	12	12	12	12	12
Other long-term liabilities	14	9	7	19	20	20	20	20
Total long-term liabilities	77	66	65	75	103	103	103	103
Short-term interest-bearing liabilities	57	53	50	9	64	364	364	364
Accounts payable	47	62	37	20	55	68	99	116
Short-term lease liabilities	10	9	9	10	10	10	10	10
Other current liabilities	66	63	75	87	96	94	103	148
Total current liabilities	180	187	170	127	225	536	575	638
TOTAL EQUITY AND LIABILITIES	706	767	797	828	964	1,303	1,422	1,591

Source: Sensys Gatso Group, Penser by Carnegie

Growth and margins								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	12%	11%	-2%	26%	10%	44%	18%
EBITDA growth, adjusted	Neg.	108%	40%	-12%	16%	-3%	88%	22%
EBIT growth, adjusted	Neg.	Neg.	324%	-33%	27%	-2%	167%	33%
EPS growth, adjusted	N.m.	N.m.	N.m.	-43%	-34%	97%	206%	35%
Gross margin	40.1%	40.8%	44.8%	50.6%	45.8%	45.3%	44.1%	43.8%
EBITDA margin	7.0%	13.1%	16.5%	14.8%	13.7%	12.1%	15.7%	16.2%
EBITDA margin, adjusted	7.0%	13.1%	16.5%	14.8%	13.7%	12.1%	15.7%	16.2%
EBIT margin	Neg.	2.4%	9.1%	6.2%	6.3%	5.6%	10.4%	11.7%
EBIT margin, adjusted	Neg.	2.4%	9.1%	6.2%	6.3%	5.6%	10.4%	11.7%
Profit margin, adjusted	Neg.	1.1%	6.4%	3.8%	2.0%	3.5%	7.5%	8.6%

Source: Sensys Gatso Group, Penser by Carnegie

Return								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	1%	6%	3%	2%	4%	10%	13%
ROCE, adjusted	Neg.	2%	7%	4%	5%	4%	9%	11%
ROIC, adjusted	Neg.	2%	8%	5%	6%	5%	12%	15%

Source: Sensys Gatso Group, Penser by Carnegie

Capital efficiency

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenue	21%	28%	19%	17%	16%	16%	15%	17%
Accounts receivable / total revenue	19%	15%	28%	14%	29%	29%	20%	20%
Accounts payable / COGS	18%	21%	12%	8%	15%	17%	17%	17%
Total short-term liabilities / total cost	46%	45%	38%	28%	39%	85%	66%	63%
Working capital / total revenue	21%	26%	35%	26%	37%	37%	31%	30%

Source: Sensys Gatso Group, Penser by Carnegie

Financial position

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	77	10	44	-24	109	155	145	107
Equity ratio	64%	67%	70%	76%	66%	51%	52%	53%
Net debt / EBITDA	2.7x	0.2x	0.5x	-0.3x	1.3x	1.9x	0.9x	0.6x

Source: Sensys Gatso Group, Penser by Carnegie

Per share data

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-1.25	0.46	2.83	1.61	1.06	2.09	6.39	8.66
EPS, adjusted	-1.25	0.46	2.83	1.61	1.06	2.09	6.39	8.66
FCF per share	-4.53	-1.60	-2.85	6.99	-10.5	-4.40	0.40	2.75
Book value per share	41.8	46.8	48.8	54.4	55.1	57.5	64.5	73.6
Number of shares, m	10.8	11.0	11.5	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	11.5

Source: Sensys Gatso Group, Penser by Carnegie

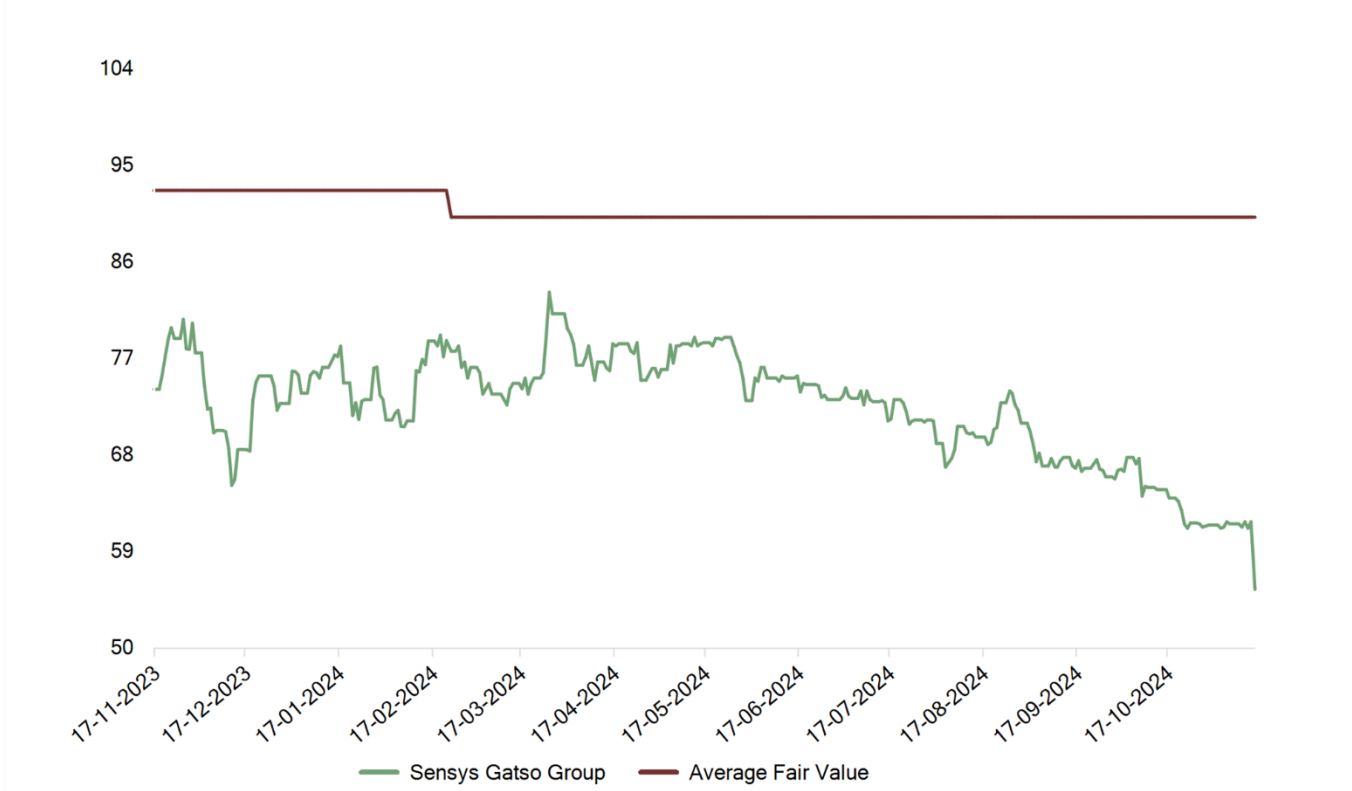
Valuation

	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	100x	27.0x	49.5x	68.7x	26.5x	8.6x	6.4x
P/BV	2.6x	2.9x	1.6x	1.5x	1.3x	1.0x	0.9x	0.8x
P/FCF	Neg.	Neg.	Neg.	11.4x	Neg.	Neg.	100x	20.1x
FCF-yield	Neg.	Neg.	Neg.	9%	Neg.	Neg.	1%	5%
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	3.1x	3.3x	1.8x	1.8x	1.6x	1.2x	0.8x	0.7x
EV/EBITDA, adjusted	43.6x	24.9x	11.1x	12.2x	11.7x	9.7x	5.2x	4.2x
EV/EBIT, adjusted	Neg.	100x	20.2x	29.0x	25.5x	20.8x	7.8x	5.9x
EV	1,245	1,480	925	895	1,001	799	799	799
Share price, year end	109	134	76.5	79.8	72.6	55.3	55.3	55.3

Source: Sensys Gatso Group, Penser by Carnegie

Share Price and Average Fair Value Chart

Sensys Gatso Group (SENS SS EQUITY)



Source: Penser by Carnegie, IDC

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