



## ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 2 December 2020

# Sensys Gatso Group

## Sensys Gatso – Sales up 80%

### 80% growth

Sales in Q3 were SEK 132m (73) and EBITDA was SEK 23m (-3). The EBITDA margin was most impressive during the quarter. Sensys achieved a 17 % margin on sales of SEK 132m, which bodes well for the doubled sales we expect within 5 years. With a high proportion of fixed costs, higher sales should result in a significantly larger EBITDA margin. We believe that the 80% increase in sales in Q3 is only the beginning of a very strong period.

### Temporary decline in growth rate for TRaaS

The important recurring revenues increased by 19%, which is lower than the growth rate we expect in the future. The reason is that Sensys did not receive revenue from speed monitoring at schools since these have been closed due to Covid. The reopening of schools means that we expect increased TRaaS growth in Q4, and we remain optimistic about the trend for recurring revenues.

### 40% upside to fair value

The share stands at SEK 1.59, and we see a fair value of SEK 2.2-2.3. We believe that the gap against our fair value will continue to narrow as the market realises that Sensys Gatso is a much better company today than a few years ago. For a more in-depth review of Sensys Gatso, please read our re-initiation of coverage from September 15 at: [https://links.penser.se/f/a/sens\\_20200915.pdf](https://links.penser.se/f/a/sens_20200915.pdf)

Estimate Changes (SEK)			Estimates (SEK)					Risk and Potential		
	Now	Before		19e	20e	21e	22e	Motivated value	2.20 - 2.30	
EPS, adj 20e	0.05	0.05	0.0%	Sales,m	406	502	894	717	Current price	SEK1.59
EPS, adj 21e	0.16	0.14	15.8%	Sales Growth	6.8%	23.5%	78.1%	(19.8)%	Risk level	Low
EPS, adj 22e	0.07	0.06	9.3%	EBITDA, m	29	96	213	124		
				EBIT, m	(24.4)	48.7	174.7	83.2		
				EPS, adj	(0.02)	0.05	0.16	0.07		
Key Figures (mkr)			EPS Growth	-%	(2.5)%	2.5%	(0.6)%	One Year Performance Chart		
Number of Shares	913.6m		Equity/Share	0.5	0.5	0.6	0.7			
Market cap	1,453		Dividend	0.00	0.00	0.00	0.00			
Net Debt	(5)		EBIT Marginal	(6.0)%	6.0%	23.0%	16.0%			
EV	1,448		ROE (%)	(3.0)%	4.5%	20.5%	11.0%			
Free Float	81.00%		ROCE	(5.3)%	6.4%	24.1%	15.7%			
Avg. No. of Daily Traded Sh.	3,320.0(k)		EV/Sales	3.56x	2.88x	1.62x	2.02x			
			EV/EBITDA	50.7x	15.2x	6.8x	11.7x			
			EV/EBIT	(59.4)x	29.7x	8.3x	17.4x			
			P/E, adj	(102.2)x	35.1x	10.0x	22.4x	Analysts		
			P/Equity	3.2x	3.2x	2.6x	2.3x	magnus.skog@penser.se		
			Dividend yield	0.0%	0.0%	0.0%	0.0%	Analysavdelningen		
			FCF yield	(3.9)%	3.0%	11.2%	5.6%			
			Net Debt/EBITDA	1.1g	(0.1)g	(0.7)g	(1.7)g			

## Investment case

### The future looks brighter

Sensys Gatso originates from a merger in 2015 between Swedish Sensys and Dutch Gatso. The merger was initially less successful, and the years 2016-2019 were loss-making with a volatile share price. In 2017, the company changed its management and we are now seeing positive transformation. The sales processes are extensive, and it is only now that the results of the change of leadership are beginning to be seen. Sales increased by 80% in the most recent quarter, and EBITDA went from SEK -3m to SEK 23m.

### Strong order intake and increased recurring revenue

Sensys Gatso's order intake from May to August was higher than the entire 2019 sales. Furthermore, the company is investing in an increased share of recurring revenues from traffic enforcement as a service (TRaaS), with a target for these to make up over 60% of sales in 2025. We estimate that the company's goals will be met and that the growth rate will be over 20% over the next 5 years.

### Undervalued against historical average

The historical 10-year average for EV/sales is 4.4, compared to our estimate for 2021 of only 1.5. Furthermore, our forecast for 2021 means approximately PE 8. Although we expect that 2021 will be an exceptionally good year, the valuation is in our opinion low for a cyclically insensitive ESG case with high growth and an increased share of recurring revenues. According to our DCF valuation, the company is worth SEK 2.2 per share, which means an upside of approximately 40% from the current price of SEK 1.6.

## **Q3 2020**

The margin in Q3 was what impressed us the most. Sensys Gatso's long-term target for its EBITDA margin is over 15%, while we count on 19%. The company actually achieved 17% this quarter. Although sales increased by 80%, the company reduced its costs excluding the "cost of goods sold". This demonstrates the good scalability of the business.

As a calculation example, the company would have a 27% EBITDA margin assuming that Sensys Gatso:

- Has sales in line with its target in 2025
- Has Q3's gross margin of 37%
- Retains costs excluding "cost of goods sold" as in Q3

We expect fixed costs to increase slightly in the future, but we also estimate that the gross margin will increase to 40%. We see the strong margin for the quarter as an indication that our 19% long-term EBITDA margin may be too conservative. If it becomes apparent that scalability can be maintained in the coming quarters as well, it is likely that we will upwardly adjust our margins and thus also earnings.

### **Costa Rica project postponed 3 months**

Due to Covid-19, Costa Rica has decided to postpone its investment from Sensys Gatso until 2021. Sensys Gatso estimates that the project will begin in Q1 next year. The deal is important as it will generate SEK 192m in revenue. Due to the postponement of the project, we are reducing our estimates for 2020 and instead upping 2021 by the corresponding amount.

We estimate that the risk of the project being cancelled is minimal. In such a scenario, Costa Rica would still have to pay Sensys Gatso for its costs and part of the profit due to the way the contract is designed. Being forced to pay for the project, without generating revenue from future fines and reduced traffic injuries, makes us believe a breach of contract as very unlikely. Furthermore, a breach of contract could damage Costa Rica's credibility as a partner and, in addition, the news about vaccines means that there is an end in sight for Covid.

### **Revenues from TRaaS when schools return**

After the end of the quarter, Sensys Gatso signed an agreement with the city of East Providence in Rhode Island worth SEK 34m over 5 years. We see the agreement as positive and in line with the company's core strategy going forward. Traffic surveillance meets some resistance from the public, especially in the United States where government interference is often not appreciated. At the same time, the majority of residents want safety for their children, and speed monitoring at schools therefore offers a foothold in many states. Sensys Gatso's hope is that a successful implementation will lead to more agreements being signed in the state, and this is exactly what happened in this case since there was already an agreement with another city in Rhode Island for similar surveillance.

The hope is that more states will follow the same path as Ohio, Illinois and Iowa, where the company has over 5 active TRaaS projects. We believe this will happen as the fines from speed monitoring provide a welcome addition to the state coffers and reduce the number of deaths.

Monitoring school areas accounts for about 20% of Sensys Gatso's order value within TRaaS, and generated about SEK 10m in the quarter (if we include the latest order from Rhode Island starting in 2021). These contracts only generate revenue when the schools are open. Covid has therefore paused these revenues because schools in the US have been providing remote learning this year. Since September, however, most schools have opened up.

### School TRaaS projects, Sensys Gatso

Datum	MSEK	Period	Stad	Stat
2020 Q4	34	5	East Providence	Rhode Island
2020 Q2	21	5	Parma	Ohio
2020 Q1	28	5	St Mary's	Georgia
2019 Q4	30	3	Buffalo	New York
2019 Q2	44	5	Mount Rider	Maryland
2018 Q4	32	5	Pawtucket	Rhode Island
<b>Totalt</b>	<b>189</b>	<b>4,7</b>		
			<b>6</b>	<b>5</b>

Currently, it is only the District of Columbia that continues to offer exclusively remote learning, and Sensys Gatso has no school projects there. We expect that TRaaS will generate more revenue in Q4 due to the reopening of schools. This is clearly positive for Sensys since the cameras generate revenue per fine at a good margin.

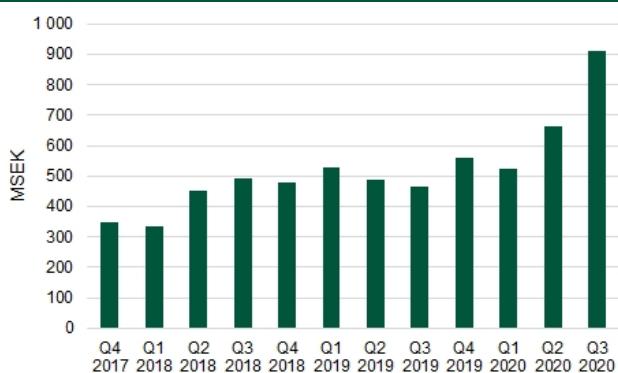
Although schools have been closed, TRaaS has grown well this year. The growth so far this year has been 25%, and managed services (such as speed monitoring at schools) which is a segment that Sensys Gatso is heavily focusing on, has growth of 33%. This growth rate means a good prospect of Sensys achieving its target or TRaaS revenues in excess of SEK 600m in 2025.

### TRaaS growth

	YTD Q3 2020	Ytd Q3 2019	Tillväxt TRaaS
Total Traas	158	127	25%
Service och underhåll	67	58	16%
Licenses	3	3	0%
Managed services	89	67	33%

In conclusion, we can see below the results of the work the new management started 3 years ago. The order intake rolling 12 months has almost doubled in the past year, and for 2021 we estimate that this will show up in the income statement. We see the stock as undervalued, with a 40% upside from today's levels. We believe that the quarter's sales increase of 80% is just the beginning of a bright future for Sensys Gatso.

### Order intake rolling 12 months



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