



ERIK PENSER BANK

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Sensys Gatso Group

Thoughts on 2021

Sensys Gatso today

This update covers Sensys Gatso as it stands today, and our assumptions for 2021. Recently, the Costa Rica project and the investigation from 2014 have weighed on the share price. Although these factors may contribute to continued volatility for the share in the near term, we expect that 2021 will be a record year fundamentally for the company, and a strong year for the share.

Costa Rica

The Costa Rica project, with its order value of SEK 192 million, has still not been initiated despite the planned start in 2020. Sensys Gatso has a favourable contract with Costa Rica, which stipulates compensation for all costs and a significant part of the profit if the project does not materialise. Despite this, our uncertainty about the project has increased. Covid-19 is putting a strain on Costa Rica's already stretched finances.

Sector acquisition

In our opinion, Redflex is the competitor most similar to Sensys Gatso, and the company recently received a bid with a 130% premium to its share price at that time. We consider Sensys Gatso to be undervalued, but we do not believe that Redflex's large bid premium should raise Sensys Gatso's share price significantly. Redflex's valuation was very low at the time of the bid and the premium was justified.

Estimate Changes (SEK)			Estimates (SEK)					Risk and Potential			
	Now	Before		19e	20e	21e	22e	23e	Motivated value	2.20 - 2.30	
EPS, adj 20e	0.05	0.05	0.0%	Sales,m	406	502	893	715	817	Current price	SEK1.41
EPS, adj 21e	0.16	0.16	0.0%	Sales Growth	6.8%	23.5%	77.8%	(19.9)%	0.1%	Risk level	Medium
EPS, adj 22e	0.07	0.07	0.0%	EBITDA, m	29	96	212	124	180		
EPS, adj 23e	0.1	0.1	0.0%	EBIT, m	(24.4)	48.7	174.2	82.6	113.6		
				EPS, adj	(0.02)	0.05	0.16	0.07	0.10		
				EPS Growth	-%	(2.5)%	2.5%	(0.6)%	0.4%		
				Equity/Share	0.5	0.5	0.7	0.8	0.9		
				Dividend	0.00	0.00	0.00	0.00	100.00		
				EBIT Marginal	(6.0)%	6.0%	23.0%	16.0%	0.1%		
				ROE (%)	(3.0)%	4.5%	20.5%	11.0%	0.0%		
				ROCE	(5.3)%	6.4%	24.1%	15.7%	0.0%		
				EV/Sales	3.16x	2.56x	1.44x	1.79x	1.57x		
				EV/EBITDA	44.9x	13.4x	6.1x	10.4x	7.1x		
				EV/EBIT	(52.6)x	26.3x	7.4x	15.5x	11.3x		
				P/E, adj	(90.6)x	31.2x	8.9x	20.0x	14.5x		
				P/Equity	2.9x	2.8x	2.1x	1.9x	1.6x		
				Dividend yield	0.0%	0.0%	0.0%	0.0%	0.1%		
				FCF yield	(3.9)%	3.1%	11.5%	5.8%	7.5%		
				Net Debt/EBITDA	1.1g	(0.1)g	(0.7)g	(1.7)g	(1.7)g		

Key Figures (mkr)	
Number of Shares	913.6m
Market cap	1,288
Net Debt	(5)
EV	1,283
Free Float	81.00%
Avg. No. of Daily Traded Sh.	3,320.0(k)

One Year Performance Chart

Analysts

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Investment case

New management, better company

Sensys Gatso originates from a merger in 2015 between Swedish Sensys and Dutch Gatso. The merger was initially less successful, and the years 2016-2019 were loss-making with a volatile share price. In 2017, the company changed its management and we are now seeing a positive transformation. The sales processes are extensive, and it is only now that the results of the change of leadership are beginning to be seen. Sales have increased in the past year by more than 30%, and EBITDA has increased from SEK 18 million to SEK 63 million for R12 months. We estimate that the positive development will continue since Sensys Gatso's order intake from May to August 2020 was higher than the entire 2019 sales.

Growing recurring revenue

Sensys Gatso is focusing on an increased share of recurring revenues from traffic enforcement as a service (TRaaS), which will mean greater revenue stability. The company's target is for TRaaS to make up over 60% of sales in 2025. We estimate that the goals will be met and that the annual rate of growth for repeat revenue will be in excess of 20% over the next 5 years.

Undervalued against historical average

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 50% from the current price of SEK 1.4.

Costa Rica and the investigation

Our impression is that Sensys Gatso's management has a strong belief that the Costa Rica contract will be fulfilled. There are also several reasons in our opinion to suggest that the project will go ahead. The contract Sensys Gatso signed in Costa Rica means that if the project is cancelled, the company is still entitled to compensation for both its costs and part of the profit. Furthermore, Costa Rica has many agreements with the United States and a breach of contract by the government would probably damage the confidence of external investors. Finally, Costa Rica is a relatively well-developed country with higher per capita GDP than Argentina, Mexico and Brazil.

Despite this, our uncertainty about the project has increased. Sensys Gatso communicated that it thought the matter would be resolved in December, but this was not the case. Although Costa Rica's per capita GDP is high, the country has long been plagued by economic problems and these have been exacerbated by the pandemic.

We are retaining the Costa Rica project in our estimates for the time being. In the event that the project does not get off the ground, our valuation of the company is not greatly impacted. The order book for 2021 is a record breaker, and including the Costa Rica project we estimate an EV/EBITDA multiple for Sensys Gatso of just over 6 for 2021. If the project is lost, the multiple will still be a low 10. It is also worth noting that on completing a scenario analysis in our DCF model, our valuation for the share is still slightly over SEK 2 if the project is cancelled.

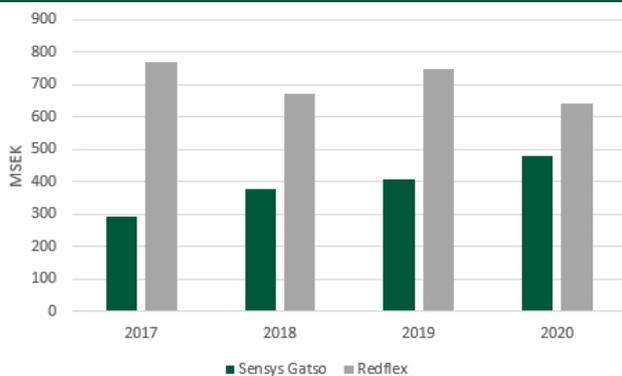
We have not succeeded in bringing clarity to what the investigation from 2014 entails. What we do know is that when Sensys Gatso became aware of the investigation it immediately sent out a press release to provide transparency to the market, even though this was not required under the MAR rules. It is also worth noting that at present there is no prosecution or similar against Sensys Gatso, just an investigation. With that said, there are few things that the stock market dislikes more than uncertainty, and this has been reflected in the recent share price.

Acquisition of competitor Redflex

Redflex has been acquired by Verra Mobility with a bid premium of 130% against the then share price. This acquisition is relevant since, in our opinion, Redflex is the competitor that most closely resembles Sensys Gatso. Although the large bid premium could indicate that Sensys Gatso might also be undervalued, we do not see the bid itself as a reason for upping the valuation of Sensys Gatso.

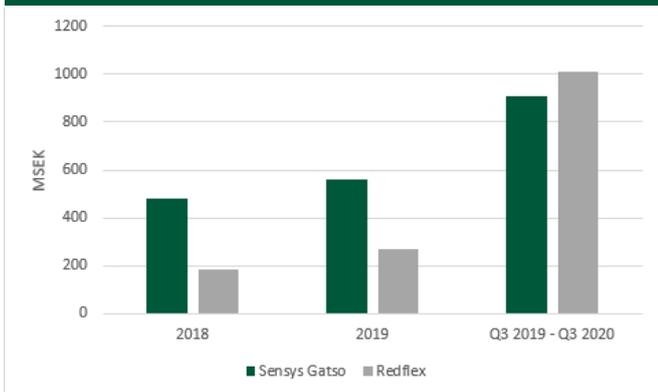
In our opinion, the Redflex share price was very depressed before the bid. We believe this was due to low sales growth over a number of years as well as a lack of research coverage for the share. In contrast, Sensys Gatso's sales growth has steadily increased in recent years.

Turnover Redflex and Sensys Gatso



But a closer study of order intake reveals that Redflex's fundamental development has turned. Order growth has taken a real step up in the past year, and the company's order book is now well stocked.

Order intake Redflex and Sensys Gatso



As shown below, Redflex's weak share price development in the year before the bid did not at all reflect the strong growth in its order backlog.

Stock price Redflex and Sensys Gatso 3 years



Winning orders in the road safety sector can often take years, and then it takes additional time before the large-scale revenues from projects are received. An investor's main focus should therefore, in our opinion, be placed on a company's order book rather than its income statement.

Order books show what the work of recent years has actually resulted in. The income statement for individual quarters often reflects what the company did two to three years ago in order to win the orders, rather than activities during the most recent quarter.

We do not have our own financial estimates for Redflex, and to our knowledge there are no such estimates from other professional providers. However, considering the company's large order backlog we estimate that it is still valued somewhat lower on EV/S than Sensys Gatso in the next few years, despite the upward revaluation by 130 % following the bid. That said, we think that Sensys Gatso is a higher quality company, which justifies a premium to Redflex.

Looking ahead

We estimate that the Q4 2020 report for Sensys Gatso will be strong, with sales of SEK 210 (158) million and EBITDA of SEK 60 (27) million. However, individual quarters are not that important for Sensys Gatso and the report will hinge on how much of the order from Saudi Arabia is recognised as profit during Q4.

We still expect 2021 to be a successful year. Although information about the investigation in the Netherlands and the Costa Rica project could potentially dampen what we expect to be an upbeat Q4 report, we believe that a strong 2021 will offer an upside in the share price over the next 12 months.

Prognos resultaträkning Sensys Gatso

Resultaträkning	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Nettoomsättning	161	398	437	293	380	406	502	893	715	817
Övriga intäkter	0	0	0	0	0	0	0	0	0	0
Kostnad sålda varor	-81	-232	-269	-177	-219	-261	-305	-551	-445	-507
Bruttovinst	79	166	168	116	162	145	197	342	270	309
Försäljningskostnader	-21	-63	-86	-84	-75	-81	-74	-78	-88	-92
Administrationskostnader	-6	-26	-44	-40	-39	-41	-44	-48	-52	-53
Forskning- och utveckling	-18	-27	-51	-47	-46	-48	-40	-41	-48	-50
Övriga kostnader	0	-2	11	0	-1	1	0	0	0	0
Rörelseresultat (EBITDA)	35	76	46	-16	38	29	96	212	124	158
Avskrivningar	-1	-27	-49	-39	-37	-53	-47	-38	-41	-44
Goodwillnedskrivningar	0	0	0	0	0	0	0	0	0	0
Resultat (EBIT)	35	49	-2	-55	1	-24	49	174	83	114
Extraordinära Poster	0	0	0	0	0	0	0	0	0	0
Justerat Resultat (EBIT)	35	49	-2	-55	1	-24	49	174	83	114
Finansiella intäkter	0	0	0	0	0	0	0	0	0	0
Finansiella kostnader	1	-1	-7	-11	-2	-3	6	3	0	0
Resultat före skatt	35	47	-9	-65	-1	-28	54	177	83	114
Skatter	-8	-6	6	3	-1	12	3	26	18	25
Minoritetsintressen	0	0	2	4	1	2	2	2	2	0
Nettoresultat Rapporterat	27	41	-1	-58	-2	-13	41	146	64	89
Nettoresultat (just)	27	41	-1	-58	-2	-13	41	146	64	89

Prognos kassaflödesanalys Sensys Gatso

Kassaflödesanalys	2 014	2 015	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
Nettoresultat Rapporterat	27	41	-1	-58	-2	-13	41	146	64	89
Icke kassaflödespåverkande poster	8	34	3	44	36	45	47	38	41	44
Förändringar i rörelsekapital	-2	-41	87	-26	15	-36	0	0	0	0
Kassaflöde från den operationella verksamhe	34	35	88	-39	49	-4	88	183	105	133
Investeringar	-2	-15	-19	-13	-21	-45	20	36	29	33
Avyttringar	0	0	0	0	0	0	0	0	0	0
Fritt Kassaflöde	31	20	70	-52	28	-49	108	219	134	166
Utdelningar	0	0	0	0	0	0	0	0	0	100
Nyemission/återköp	0	0	0	87	18	0	0	0	0	0
Förvärv	0	-68	0	0	0	0	0	0	0	0
Lånefinansiering och övriga justeringar	0	44	-109	-29	-28	24	-1	0	0	0
Kassaflöde	31	-4	-39	6	18	-25	107	219	134	66
Icke kassaflödespåverkande poster	0	0	0	0	0	0	0	0	0	0
Nettoskuld (just)	-81	97	682	23	-18	31	-5	-159	-235	-301

Prognos balansräkning Sensys Gatso

Balansräkning	2 014	2 015	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
TILLGÅNGAR										
Goodwill	0	237	243	243	251	257	257	257	257	257
Övriga immateriella tillgångar	0	160	111	86	72	53	48	36	28	24
Materiella anläggningstillgångar	33	64	95	74	43	101	90	110	130	150
Räntebärande anläggningstillgångar	0	0	0	0	0	0	0	0	0	0
Innehav i intresseföretag och andelar	0	0	0	0	0	0	0	0	0	0
Summa anläggningstillgångar	33	462	449	404	366	411	395	403	415	431
Varulager	18	75	47	64	72	97	168	313	173	175
Kundfodringar	34	138	63	71	57	76	57	57	57	57
Övriga omsättningstillgångar	12	24	19	27	60	72	60	60	60	60
Likvida medel	81	76	32	59	77	52	3	6	217	301
Summa omsättningstillgångar	145	314	160	221	265	297	288	437	507	593
SUMMA TILLGÅNGAR	178	776	609	624	632	708	683	840	923	1 024
Eget Kapital och skulder										
Eget Kapital	141	387	387	420	454	449	460	614	686	794
Minoritetsintressen	0	0	0	0	0	0	0	0	0	0
Summa Eget Kapital	141	387	387	420	454	449	511	614	686	794
Långfristiga finansiella skulder	0	87	62	56	49	62	62	62	62	60
Pensionsavsättningar	0	0	0	0	0	0	0	0	0	0
Uppskjutna skatteskulder	0	0	0	30	19	10	10	10	10	10
Övriga långfristiga skulder	0	0	0	45	45	45	45	45	45	40
Summa Långfristiga skulder	0	87	62	131	112	117	117	117	117	110
Kortfristiga finansiella skulder	0	87	41	26	10	10	10	10	10	10
Leverantörsskulder	11	56	21	31	28	48	16	70	80	90
Skatteskulder	0	0	0	0	17	17	17	17	17	10
Övriga Kortfristiga skulder	26	158	14	17	11	67	12	12	12	10
Summa kortfristiga skulder	37	301	76	73	66	143	55	109	119	120
Summa Eget Kapital och skulder	178,1	775,6	524,8	624,3	631,7	708,4	683,1	839,7	922,5	1024,0

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