



ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 4 March 2021

Sensys Gatso Group

Comments on Q4

Temporary logistics problems in Saudi Arabia

Net sales in Q4 decreased Y/Y to SEK 134.3m (158.0), which was lower than we expected. The decrease is due to logistics problems in Saudi Arabia, which delayed the delivery of Sensys Gatso's large order worth SEK 275m. Shipments resumed in February, and we see the situation only as a shift in revenue to 2021. The EBITDA margin of 17.3% (17.2) was strong despite reduced revenues.

Costa Rica and the investigation

Sensys Gatso now believes the Costa Rica project could be launched during H2 2021, which is a clear delay. Our uncertainty about the project has increased, but we still believe the project will happen. Regarding the investigation from 2014, Sensys Gatso has initiated an internal audit that has found no signs of criminal actions. We view this as positive, although uncertainty regarding the investigation remains.

Long term prospects intact

In summary, we see the lower sales during Q4 as only a postponement in revenue. Furthermore, the important TRaaS-revenues continued its strong growth by over 20 % Y/Y during the quarter. We believe that the share's decline after the report has created a good long-term buying opportunity. We still see an upside for the stock of over 50 % to our fair value of SEK 2,2-2,3 per share.

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	0	0.0%	Sales,m	406	455	704	738	816	Current price	SEK1.40
EPS, adj 21e	0.09	0.09	0.0%	Sales Growth	6.8%	12.0%	54.6%	4.9%	10.5%	Risk level	Medium
EPS, adj 22e	0.08	0.08	0.0%	EBITDA, m	29	59	138	132	158		
EPS, adj 23e	0.1	0.1	0.0%	EBIT, m	(24.4)	10.8	100.3	91.2	113.7		
				EPS, adj	(0.02)	0.00	0.09	0.08	0.10		
				EPS Growth	0.0%	(2.5)%	19.7%	(14.0)%	24.7%		
				Equity/Share	0.5	0.6	0.7	0.7	1.0		
				Dividend	0.00	0.00	0.00	0.00	0.11		
				EBIT Marginal	(6.0)%	6.0%	14.3%	12.4%	13.9%		
				ROE (%)	(3.0)%	4.5%	20.5%	11.0%	12.9%		
				ROCE	(5.3)%	6.4%	24.1%	15.7%	11.7%		
				EV/Sales	3.14x	2.80x	1.81x	1.73x	1.56x		
				EV/EBITDA	44.6x	21.4x	9.2x	9.6x	8.1x		
				EV/EBIT	(52.2)x	118.0x	12.7x	14.0x	11.2x		
				P/E, adj	(90.0)x	319.8x	15.5x	18.0x	14.4x		
				P/Equity	2.8x	2.5x	2.1x	1.9x	1.5x		
				Dividend yield	0.0%	0.0%	0.0%	0.0%	7.9%		
				FCF yield	(3.9)%	3.8%	7.8%	6.6%	8.0%		
				Net Debt/EBITDA	1.1g	(0.1)g	(1.0)g	(1.6)g	(1.6)g		

Key Figures (mkr)

Number of Shares	913.6m
Market cap	1,279
Net Debt	(5)
EV	1,274
Free Float	81.00%
Avg. No. of Daily Traded Sh.	3,320.0(k)

One Year Performance Chart



Analysts

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Overview

Comments on Q4

Investment Case

Sensys Gatso sells products and services in traffic safety to various government actors. Examples of its products are speed cameras and traffic lights. Sensys Gatso has also developed software that enables automation of the entire process of traffic violation fines. An example is that a speed camera photographs a person driving too fast, and the owner is identified using Sensys Gatso's software and the system then sends out a fine.

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. Order intake from May to August 2020 was higher than the revenue in all of 2016 and 2017 combined.

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

Sensys Gatso's historical 10-year average for EV/sales is 4.4, compared to our estimate for 2021 of only 1.6. 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 2.2-2.3 per share, which means an upside of approximately 50% from the current price of SEK 1.4.

Costa Rica and the investigation

In our most recent research update, we assessed an increased risk that the Costa Rica project will not be implemented due to economic problems in the country linked to the pandemic. Sensys Gatso confirmed in its report that the country is in financial difficulties. We estimate the probability that the project will be completed is currently around 75 %.

The report provided a little more clarity about the investigation from 2014, and our view is now somewhat more positive. The investigation concerns a contract from 2015 and Sensys Gatso has not found any wrongdoing through an internal audit. We interpret the company as relatively optimistic about the situation, and we do not expect that the investigation will lead to serious negative consequences for Sensys Gatso. That said, much uncertainty remains.

Estimate changes

We estimate that the Costa Rica project will be postponed to Q4 2021. Furthermore, the postponement of deliveries to Saudi Arabia affects our estimates through a shift in revenues from Q4 2020 to 2021. The differences can be seen below.

Estimate changes				
Old estimates	2021e	2022e	2023e	2024e
Revenue	893	715	817	904
EBITDA	212	124	158	175
New estimates	2021e	2022e	2023e	2024e
Revenue	704	738	816	900
EBITDA	138	132	158	180
Difference	2021e	2022e	2023e	2024e
Revenue	-21%	3%	0%	0%
EBITDA	-35%	7%	0%	3%

We still see a significant upside for the share and assess that Sensys Gatso has strong quarterly reports ahead of it, which should act as triggers for the stock. Supporting our thesis that the stock is undervalued, CEO Ivo Mönnik bought shares for SEK 200k after the report.

Income statement & cash flow

Income statement

	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Nettoomsättning	437	293	380	406	455	704	738	816
Övriga intäkter	0	0	0	0	0	0	0	0
Kostnad sålda varor	-269	-177	-219	-261	-294	-434	-460	-507
Bruttovinst	168	116	162	145	161	270	278	309
Försäljningskostnader	-86	-84	-75	-81	-72	-76	-86	-90
Administrationskostnader	-44	-40	-39	-41	-48	-50	-57	-59
Forskning och utveckling	-51	-47	-46	-48	-34	-43	-44	-46
Övriga kostnader	11	0	-1	1	0	0	0	0
Rörelseresultat (EBITDA)	46	-16	38	29	59	138	132	158
Avskrivningar	-49	-39	-37	-53	-49	-38	-41	-44
Goodwillnedskrivningar	0	0	0	0	0	0	0	0
Resultat (EBIT)	-2	-55	1	-24	11	100	91	114
Extraordinära Poster	0	0	0	0	0	0	0	0
Justerat Resultat (EBIT)	-2	-55	1	-24	11	100	91	114
Finansiella intäkter	0	0	0	0	0	0	0	0
Finansiella kostnader	-7	-11	-2	-3	-8	-2	-2	0
Resultat före skatt	-9	-65	-1	-28	3	99	90	114
Skatter	6	3	-1	12	2	15	20	25
Minoritetsintressen	2	4	1	2	2	2	2	0
Nettoresultat Rapporterat	-1	-58	-2	-13	4	83	71	89
Nettoresultat (just)	-1	-58	-2	-13	4	83	71	89

Cash flow

	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
EBIT	-2	-55	1	-24	11	100	91	114
Icke kassaflödespåverkande poster	4	41	34	56	49	38	41	44
Finansiella poster	-7	-11	-2	-3	-4	-2	-2	0
Skatt	6	3	-1	12	2	15	20	25
Förändringar i rörelsekapital	87	-26	15	-36	-42	0	0	0
Kassaflöde från den operationella verksamheten	88	-39	49	-4	15	138	132	158
Investeringar	-19	-13	-21	-45	-33	-28	-30	-33
Avyttringar	0	0	0	0	0	0	0	0
Fritt Kassaflöde	70	-52	28	-49	-18	110	103	125
Utdelningar	0	0	0	0	0	0	0	100
Nyemission/återköp	0	87	18	0	71	0	0	0
Förvärv	0	0	0	0	0	0	0	0
Lånefinansiering och övriga justeringar	-109	-29	-28	24	2	0	0	0
Kassaflöde	-39	6	18	-25	55	110	103	25
Likvida medel vid periodens början	0	0	0	0	52	108	218	321
Växlingsdifferens	0	0	0	0	1	0	0	0
Kassa	682	23	-18	31	108	218	321	346

Balance sheet

Balance sheet	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
TILLGÅNGAR								
Goodwill	243	243	251	257	242	242	242	242
Övriga immateriella tillgångar	111	86	72	53	47	36	28	24
Materiella anläggningstillgångar	95	74	43	101	86	110	130	150
Räntebärande anläggningstillgångar	0	0	0	0	0	0	0	0
Innehav i intresseföretag och andelar	0	0	0	0	0	0	0	0
Summa anläggningstillgångar	449	404	366	411	376	388	400	416
Varulager	47	64	72	97	140	313	173	175
Kundfordringar	63	71	57	76	65	57	57	57
Övriga omsättningstillgångar	19	27	60	72	74	60	60	60
Likvida medel	32	59	77	52	109	6	217	346
Summa omsättningstillgångar	160	221	265	297	388	437	507	638
SUMMA TILLGÅNGAR	609	624	632	708	764	825	907	1 054
Eget Kapital och skulder								
Eget Kapital	387	420	454	449	515	599	671	880
Minoritetsintressen	0	0	0	0	0	0	0	0
Summa Eget Kapital	387	420	454	449	511	599	671	880
Långfristiga finansiella skulder	62	56	49	62	56	62	62	60
Pensionsavsättningar	0	0	0	0	0	0	0	0
Uppskjutna skatteskulder	0	30	19	10	5	10	10	10
Övriga långfristiga skulder	0	45	45	45	10	45	45	40
Summa Långfristiga skulder	62	131	112	117	71	117	117	110
Kortfristiga finansiella skulder	41	26	10	10	62	10	10	10
Leverantörsskulder	21	31	28	48	60	70	80	95
Skatteskulder	0	0	17	17	5	17	17	10
Övriga Kortfristiga skulder	14	17	11	67	57	12	12	10
Summa kortfristiga skulder	76	73	66	143	184	109	119	125
Summa Eget Kapital och skulder	525	624	632	708	764	825	907	1115

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