



Penser Access by Carnegie

Professional Services | Sweden | 23 February 2024

Sensys Gatso Group

Robust report with clear signs of scalability

Clear signs of scalability in solid report

Sensys Gatso reported a solid Q4(23). Revenues grew by 42%, driven by high systems sales, with a large Middle Eastern contract being delivered. EBIT developed healthily in the quarter, reaching a record-high for recent times following a weaker period. Systems sales typically bring lower gross margins, with this decreasing to 41.6% from 48.5% in Q4(22). In absolute terms, gross profits reached a record level, however. Sales growth for full-year 2023 was 26%, while operating expenses rose by 11.4%, offering increasing evidence of scalability. Revenues from TRaaS continued to grow, up 12% Y/Y in Q4(23) and accounting for 58% of total revenues for the full year. This is close to the company's 60% target for 2025.

Estimates reduced owing to higher costs in 2024e

We adjust our forecasts for 2024 on account of higher costs for the company to fulfil its rapidly growing order book, but we leave our 2025 estimates largely unchanged. We expect continued solid revenue growth given the robust systems sales, particularly the large order intake from Trafikverket (Swedish Transport Administration) and the Netherlands. Given this, and the increased maintenance and operator service sales (in line with the historical development), we still expect the company to reach its target of SEK1bn in revenues and an EBITDA margin above 15% for 2025.

Unchanged valuation, with fair value of SEK80–100

We leave our valuation largely unchanged. We value Sensys Gatso using a DCF model, including WACC of 12%, a sustainable operating margin of 13%, and long-term growth of 3%. This suggests a DCF value of SEK90 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. Our fair value increases to SEK80–100 per share (90–95).

Change in estimates				Forecasts (SEKm)				Value and risk														
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 80.0 - 100												
Total revenues	-15.0%	6.8%	-	Total revenues	624	718	1,074	1,173	Share price	SEK 78.5												
EBIT, adj.	-40.8%	0.4%	-	Revenue growth	26%	15%	50%	9%	Risk level	Medium												
EPS, adj.	-46.0%	-4.0%	-	EBITDA, adj.	85	100	166	182	Price performance 12 months 													
Upcoming events				EBIT, adj.	39	56	114	130														
Q1 - report	26 April 2024			EPS, adj.	1.3	3.3	7.3	8.3														
Q2 - report	23 August 2024			EPS growth, adj.	-28%	>100%	>100%	14%														
Company facts (SEKm)				BV/share	55.2	58.5	65.8	74.1	Conflicts of interest <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%	7.9%	10.7%	11.1%														
Market capitalisation	904			ROE, adj.	2.3%	5.9%	11.8%	11.9%														
Net debt	109			ROCE, adj.	5.3%	7.0%	13.1%	13.5%														
EV	1,013			EV/Sales	1.6x	1.4x	0.9x	0.9x														
Free float	82%			EV/EBITDA	11.7x	10.1x	6.1x	5.6x														
Daily trading volume, average	19k			EV/EBIT	25.3x	17.9x	8.9x	7.8x														
Bloomberg Ticker	SENS SS EQUITY			P/E, adj.	57.8x	23.6x	10.7x	9.4x														
Analyst				P/BV	1.3x	1.3x	1.2x	1.1x														
Örjan Rödén				FCF yield	-14%	0%	4%	13%														
orjan.rodén@carnegie.se				Net debt / EBITDA	1.3x	1.0x	0.4x	-0.3x														

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.

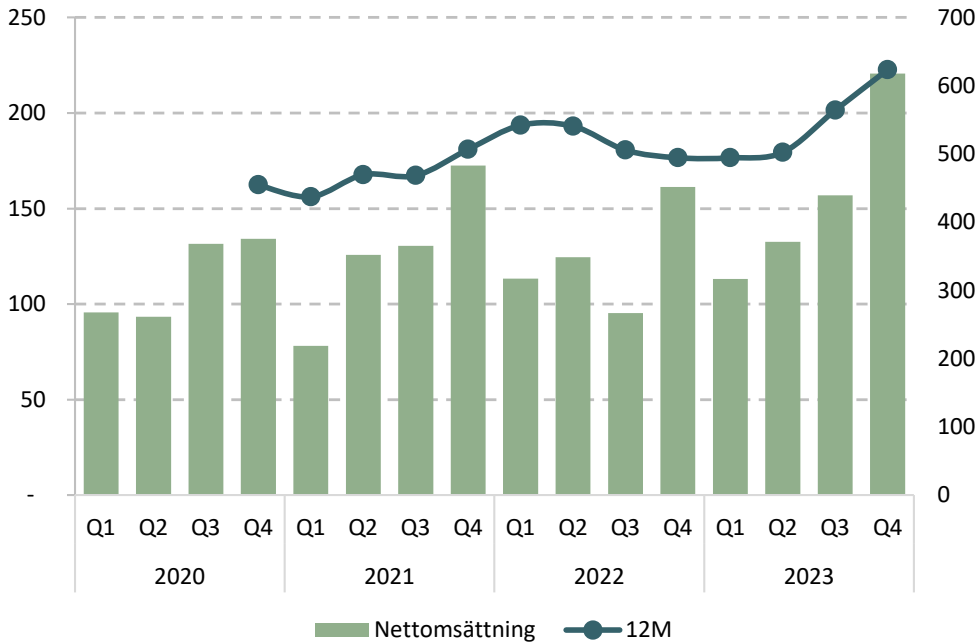
Valuation

We value Sensys Gatso using a DCF model, including WACC of 12%, a sustainable operating margin of 13%, and long-term growth of 3%. This suggests a DCF value of SEK90 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.

Brief overview of the quarter

Sensys Gatso reported a solid Q4(23). Revenues grew by 42%, driven by high systems sales, with a large Middle Eastern contract being delivered.

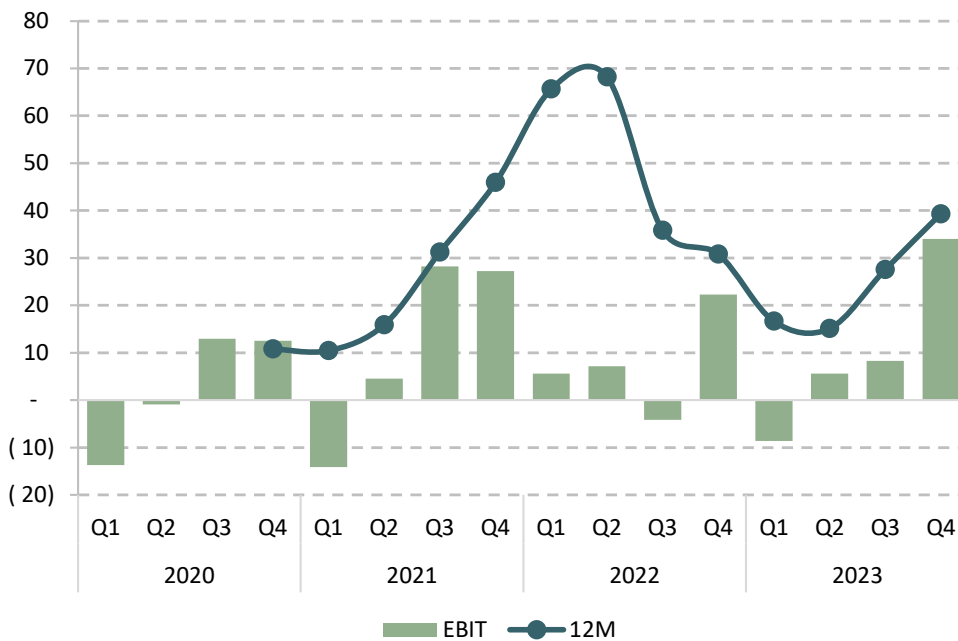
Exhibit 1: Net sales



Source: Sensys Gatso Group, Penser by Carnegie

EBIT developed healthily in the quarter, reaching a record-high for recent times following a weaker period.

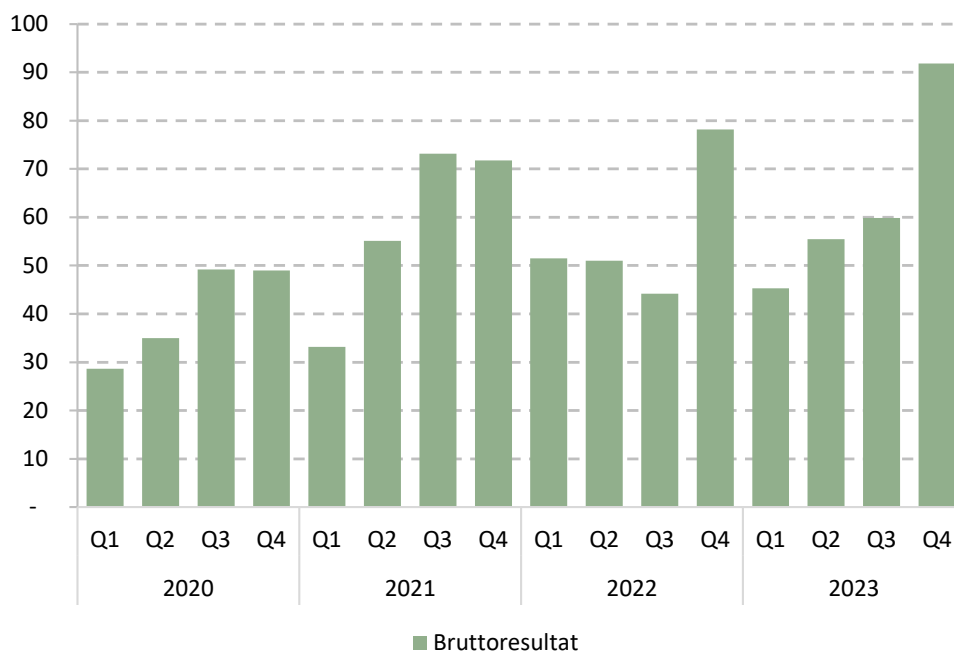
Exhibit 2: EBIT



Source: Sensys Gatso Group, Penser by Carnegie

Systems sales typically bring lower gross margins, with this decreasing to 41.6% from 48.5% in Q4(22). In absolute terms, gross profits reached a record level, however.

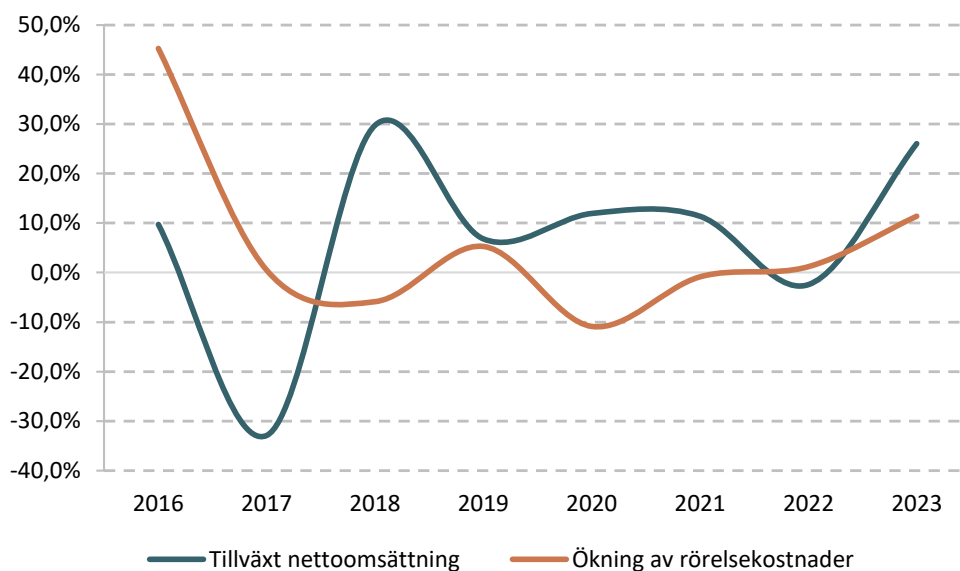
Exhibit 3: Gross profit



Source: Sensys Gatso Group, Penser by Carnegie

Sales growth for full-year 2023 was 26% while operating expenses rose by 11.4%, offering increasing evidence of scalability, after a relatively poor performance in 2022.

Exhibit 4: Increase in net sales and operating expenses



Source: Sensys Gatso Group, Penser by Carnegie

Valuation and fair value

We leave our valuation largely unchanged. We value Sensys Gatso using a DCF model, including WACC of 12%, a sustainable operating margin of 13%, and long-term growth of 3%. This suggests a DCF value of SEK90 per share.

Exhibit 5: DCF – summary

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	566	Risk free nominal rate	2,5%	Long term growth rate	3,0%
PV of terminal value (perpetuity formula)	580	Risk premium	5,5%	Long term EBIT margin	13,0%
Enterprise value	1 146	Extra risk premium	4,0%	Depreciation (% of sales)	6,0%
Latest net debt	109	Beta	0,0	Capex (% of sales)	6,0%
Minority interests & other	0	WACC	12,0%	Working cap. (% of sales)	1,8%
Equity value	1 037	Tax rate			20%
No. of shares outstanding (millions)	12				
Equity value per share	90				

Source: Sensys Gatso Group, Penser by Carnegie

Exhibit 6: 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	11,0%	92	97	104	113	125	WACC	11,0%	57	81	104	128	151
	11,5%	86	91	97	104	114		11,5%	53	75	97	118	140
	12,0%	81	85	90	96	104		12,0%	49	70	90	110	131
	12,5%	76	80	84	90	96		12,5%	46	65	84	103	122
	13,0%	72	75	79	83	89		13,0%	43	61	79	97	114

Source: Sensys Gatso Group, Penser by Carnegie

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. Our fair value increases to SEK80–100 per share (90–95).

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	406	455	507	495	624	718	1,074	1,173
Cost of goods sold	-208	-244	-274	-270	-371	-391	-580	-633
Gross profit	198	210	233	225	253	327	494	539
Other operating expenses	-169	-151	-150	-152	-167	-226	-327	-358
EBITDA	29	59	84	73	85	100	166	182
EBITDA, adjusted	29	59	84	73	85	100	166	182
Depreciation	-53	-49	-38	-43	-46	-44	-52	-52
EBITA, adjusted	-24	11	46	31	39	56	114	130
EBIT	-24	11	46	31	39	56	114	130
EBIT, adjusted	-24	11	46	31	39	56	114	130
Net financial items	-3	-8	1	2	-15	-5	-5	-5
Profit before tax	-28	2	47	33	25	51	109	125
Profit before tax, adjusted	-28	2	47	33	25	51	109	125
Taxes	12	1	-12	-13	-10	-13	-25	-29
Net income	-15	4	35	20	14	38	84	96
Net income, adjusted	-15	4	35	20	14	38	84	96
<i>Sales growth</i>	-	12%	11%	-2%	26%	15%	50%	9%
<i>Gross margin</i>	48.7%	46.3%	46.0%	45.5%	40.5%	45.5%	46.0%	46.0%
<i>EBIT margin, adjusted</i>	Neg.	2.4%	9.1%	6.2%	6.3%	7.9%	10.7%	11.1%
<i>EPS, adjusted</i>	-1.41	0.36	3.04	1.74	1.26	3.32	7.31	8.34
<i>EPS growth, adjusted</i>	-	N.m.	>100%	-43%	-28%	>100%	>100%	14%

Source: Sensys Gatso Group, Carnegie

Cash flow statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-24	11	46	31	39	56	114	130
Other cash flow items	56	47	24	30	45	32	34	33
Changes in working capital	-36	-42	-61	64	-103	-35	-59	16
Cash flow from operating activities	-4	15	9	126	-18	54	90	179
Investments in fixed assets	-41	-19	-24	-19	-83	-25	-30	-35
Investments in intangible fixed assets	-4	-14	-18	-26	-20	-25	-25	-25
Cash flow from investments	-45	-33	-42	-45	-103	-50	-55	-60
Free cash flow	-49	-18	-33	81	-121	4	35	119
New share issue / repurchase	0	71	0	0	0	0	0	0
Other items	24	2	-4	-55	71	0	0	0
Cash flow from financing	24	73	-4	-55	71	0	0	0
Cash flow	-25	55	-36	25	-50	4	35	119
Net debt	77	10	44	-24	109	105	70	-48

Source: Sensys Gatso Group, 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	91	90	89
Tangible fixed assets	101	86	92	105	128	131	135	144
Financial assets	0	0	0	0	9	9	9	9
Other fixed assets	45	40	36	40	35	29	16	2
Total fixed assets	457	416	436	491	533	533	523	517
Inventories	87	127	97	85	100	115	161	176
Accounts receivable	75	68	141	67	182	208	215	235
Other current assets	35	47	51	85	99	115	172	188
Cash and cash equivalents	52	108	72	100	49	52	87	206
Total current assets	249	351	361	337	430	490	635	804
TOTAL ASSETS	706	767	797	828	964	1,023	1,158	1,321
EQUITY AND LIABILITIES								
Equity	450	517	561	626	636	674	758	854
Minority interest	-1	-2	0	0	0	0	0	0
Total equity	449	515	562	626	636	674	758	854
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	64	64	64
Accounts payable	47	62	37	20	55	72	107	117
Short-term lease liabilities	10	9	9	10	10	10	10	10
Other current liabilities	66	63	75	87	96	100	115	172
Total current liabilities	180	187	170	127	225	246	296	363
TOTAL EQUITY AND LIABILITIES	706	767	797	828	964	1,023	1,158	1,321

Source: Sensys Gatso Group, Carnegie

Growth and margins

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	-	12%	11%	-2%	26%	15%	50%	9%
EBITDA growth, adjusted	-	>100%	40%	-12%	16%	18%	66%	9%
EBIT growth, adjusted	-	N.m.	>100%	-33%	27%	44%	>100%	13%
EPS growth, adjusted	-	N.m.	>100%	-43%	-28%	>100%	>100%	14%
Gross margin	48.7%	46.3%	46.0%	45.5%	40.5%	45.5%	46.0%	46.0%
EBITDA margin	7.0%	13.1%	16.5%	14.8%	13.7%	14.0%	15.5%	15.5%
EBITDA margin, adjusted	7.0%	13.1%	16.5%	14.8%	13.7%	14.0%	15.5%	15.5%
EBIT margin	Neg.	2.4%	9.1%	6.2%	6.3%	7.9%	10.7%	11.1%
EBIT margin, adjusted	Neg.	2.4%	9.1%	6.2%	6.3%	7.9%	10.7%	11.1%
Profit margin, adjusted	Neg.	0.9%	6.9%	4.0%	2.3%	5.3%	7.8%	8.2%

Source: Sensys Gatso Group, Carnegie

Return

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	1%	7%	3%	2%	6%	12%	12%
ROCE, adjusted	Neg.	2%	7%	4%	5%	7%	13%	13%
ROIC, adjusted	Neg.	2%	8%	5%	6%	7%	14%	16%

Source: Sensys Gatso Group, Carnegie

Capital efficiency

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenues	21%	28%	19%	17%	16%	16%	15%	15%
Accounts receivable / total revenue	19%	15%	28%	14%	29%	29%	20%	20%
Accounts payable / COGS	23%	26%	14%	8%	15%	18%	19%	19%
Total short-term liabilities / total costs	48%	47%	40%	30%	42%	40%	33%	37%
Working capital / total revenues	21%	26%	35%	26%	37%	37%	30%	26%
Capital turnover rate	0.7x	0.7x	0.7x	0.7x	0.8x	0.9x	1.2x	1.2x

Source: Sensys Gatso Group, Carnegie

Financial position

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	77	10	44	-24	109	105	70	-48
Equity ratio	64%	67%	70%	76%	66%	66%	65%	65%
Net debt / EBITDA	2.7x	0.2x	0.5x	-0.3x	1.3x	1.0x	0.4x	-0.3x

Source: Sensys Gatso Group, Carnegie

Per share data

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-1.41	0.36	3.04	1.74	1.26	3.32	7.31	8.34
EPS, adjusted	-1.41	0.36	3.04	1.74	1.26	3.32	7.31	8.34
FCF per share	-4.53	-1.60	-2.85	6.99	-10.5	0.31	3.01	10.3
Book value per share	41.8	46.8	48.8	54.4	55.2	58.5	65.8	74.1
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, Carnegie

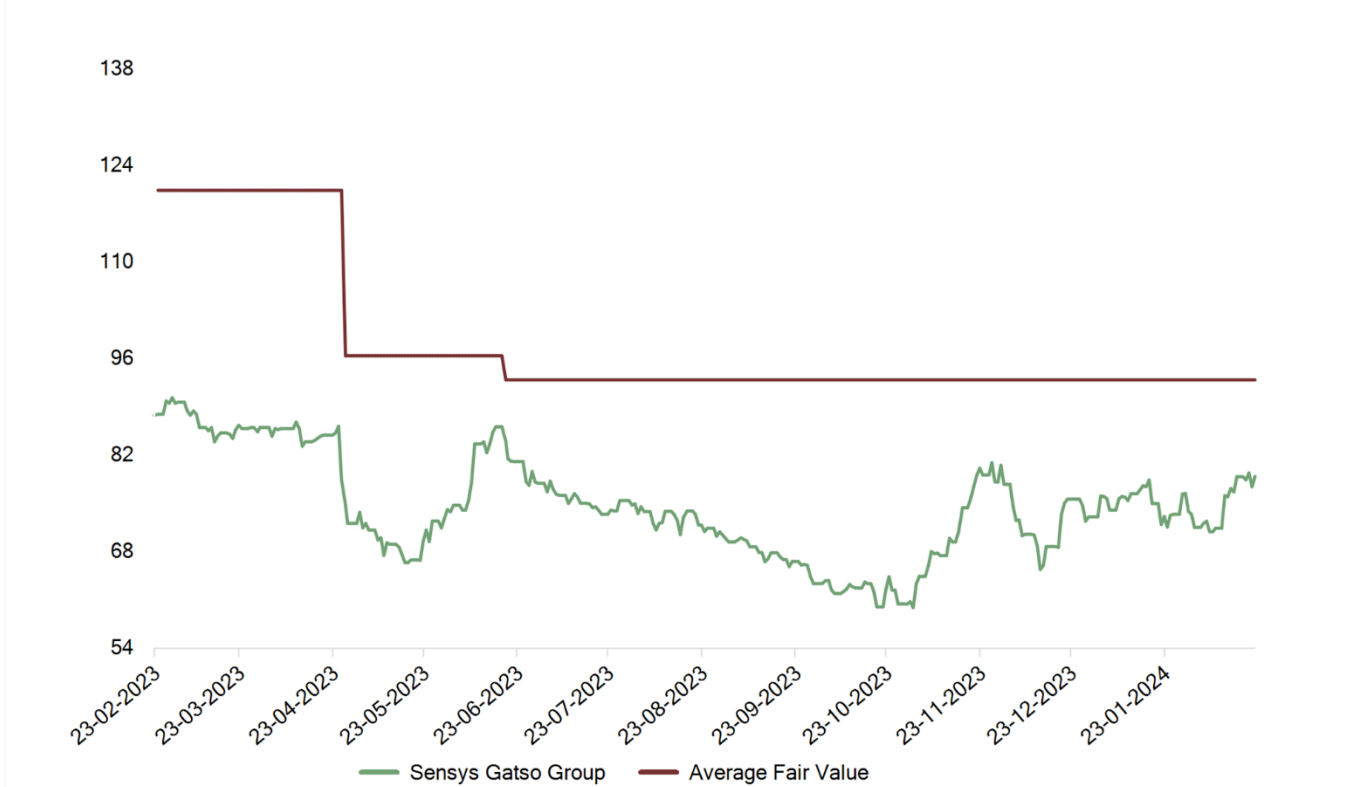
Valuation

	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	372.3x	25.2x	45.9x	57.8x	23.6x	10.7x	9.4x
P/BV	2.6x	2.9x	1.6x	1.5x	1.3x	1.3x	1.2x	1.1x
P/FCF	Neg.	Neg.	Neg.	11.4x	Neg.	253.0x	26.1x	7.6x
FCF yield	Neg.	Neg.	Neg.	9%	Neg.	0%	4%	13%
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	1.4x	0.9x	0.9x
EV/EBITDA, adjusted	43.6x	24.9x	11.1x	12.2x	11.7x	10.1x	6.1x	5.6x
EV/EBIT, adjusted	Neg.	136.7x	20.2x	29.0x	25.3x	17.9x	8.9x	7.8x
EV	1,245	1,480	925	895	996	1,013	1,013	1,013
Share price, year-end	109	134	76.5	79.8	77.0	78.5	78.5	78.5

Source: Sensys Gatso Group, Carnegie

Share price and average fair value chart

Sensys Gatso Group (SENS SS EQUITY)



Source: Penser by Carnegie, IDC

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