

# Railcare Group

Sector: Industrial Goods & Services

## On Track in Q1

Redeye is only making minor adjustments to our financial forecasts following the Q1 report. Market conditions and outlook remain favorable, and we expect Railcare to show a more stable performance during the current year compared to the rather bumpy 2021. We are now applying a higher WACC which has some negative impact on valuation. Our Base case fair value around SEK 28 per share, still indicates an appealing potential.

### Q1 in line

Railcare had a solid start to the year with net sales slightly up Y/Y while earnings were unchanged. Main take-away was Contracting Sweden which had an early start to the season including an important assignment for the MPV. The UK market, on the other hand was sluggish and segment Contracting Abroad was back in red numbers again.

The overall outlook for Railcare's major business segments remains positive. This year is expected to have more projects in Sweden related to Contracting and a little less for Transportation. The transparency into the UK market remains low.

### Principal Owner taking the Chair

At the AGM, Anders Westermark took over as Chairman of the Board. He represents Norra Västerbotten Fastighets AB, which increased its position in 2021 and now holds nearly 30% of share capital. This signals further commitment from the principal owner, which we find encouraging. Possibly, Railcare is about to enter a more active phase in terms of exploring growth opportunities. The company's international footprint is actually smaller today than several years ago which is probably not in line with Railcare's long-term ambitions.

### Small changes to estimates, valuation slightly down

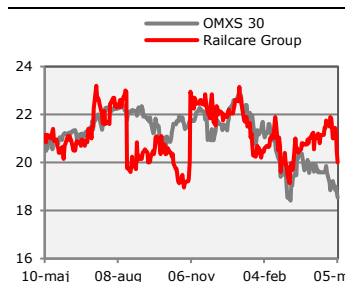
We are only making minor changes to our forecasts at this point. Rising interest rates are causing us to raise our WACC (from 9% to 10%) with a negative impact on valuation. Our Base case fair value is now around **SEK 28 per share** (previously: SEK 32).

KEY FINANCIALS (SEKm)	2020	2021	2022E	2023E	2024E	2025E
Net sales	401	438	431	476	518	570
EBITDA	114	108	107	113	123	124
EBIT	61	56	54	59	65	63
EPS (adj.)	1.7	1.6	1.5	1.7	1.9	1.9
EV/Sales	1.8	1.5	1.4	1.2	1.0	0.9
EV/EBITDA	6.2	6.1	5.5	5.0	4.3	4.0
EV/EBIT	11.6	11.8	10.8	9.5	8.2	7.9
P/E	12.9	13.3	12.3	11.2	10.0	10.2

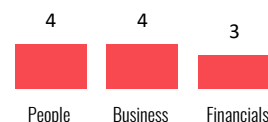
### FAIR VALUE RANGE

BEAR	BASE	BULL
20.0	28.0	41.0

### RAIL.ST VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	RAIL.ST
Market	Nasdaq
Share Price (SEK)	19.7
Market Cap (MSEK)	475
Net Debt 22E (MSEK)	112
Free Float	48%
Avg. daily volume ('000)	15

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## On Track in Q1

On group level sales and earnings were right on target this time. Segments Contracting Sweden and Machines & Technology were stronger than expected while Contracting Abroad and Transport Scandinavia came in below our estimates. Segment names have been changed, see table at bottom of page.

### Railcare: Actual vs. Expectations

MSEK	Q1'21	Q1'22	Q1'22E	Diff
		Actual		
Net sales	88.8	95.3	91.0	5%
EBIT	8.7	8.8	9.0	-2%
Pre Tax Profit	7.6	7.8	7.5	4%
<i>Sales growth Y/Y</i>	-16%	7%	2%	
<i>EBIT margin</i>	10%	9%	10%	

Source: Railcare, Redeye Research

**Contracting Sweden** posted 20% higher sales Y/Y and healthy margins thanks to an early start of the season, which included an important assignment for the MPV.

**Contracting Abroad** had significantly lower sales and returned to negative earnings. The UK market is obviously weak and unpredictable.

**Transport Scandinavia** recorded 10% lower net sales Y/Y. This relates to the termination of transports to LKAB, which have been resumed as of April.

**Machines and Technology** showed higher sales and earnings than we expected. Q1 numbers were boosted by delivery of spare parts to Loram and 22 timber wagons to BLS Rail.

### Segments by quarter

SEKm	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22
<b>Contracting Sweden</b> (prev: Construction Sweden)					
Net sales	31	24	36	40	37
PTP	2	-7	7	7	5
PTP margin	5%	-30%	19%	16%	13%
<b>Contracting Abroad</b> (prev: Construction Abroad)					
Net sales	19	10	6	14	11
PTP	4	-2	-3	5 *	-1
Profit margin	22%	-24%	-47%	20% *	-7%
<b>Transport Scandinavia</b>					
Net sales	48	52	89	85	43
PTP	4	5	17	14	0
Profit margin	8%	9%	19%	16%	0%
<b>Machines and Technology</b> (prev: Machine Sales)					
Net sales	5	20	6	7	22
PTP	-1	3	0	-1	3
Profit margin	-21%	14%	-1%	-13%	13%
<b>Group sales:</b>	<b>89</b>	<b>91</b>	<b>126</b>	<b>132</b>	<b>95</b>
Growth Y/Y	-16%	-14%	34%	38%	7%
Growth, TTM	-2%	-9%	1%	9%	16%
<b>EBIT</b>	<b>9</b>	<b>-2</b>	<b>25</b>	<b>25</b>	<b>9</b>
EBIT-margin	10%	-3%	20%	19%	9%
EBIT margin TTM	13%	9%	11%	13%	13%

\* including capital gains from divestment.

Source: Railcare, Redeye Research

## Financial forecasts

On group level, we are making very small, but positive, revisions to our forecasts. As for segment Construction Abroad, Q1 numbers were disappointing leading to lower expectations particularly for the current year. As for the other three segments we are somewhat more optimistic. We expect a less bumpy ride in 2022 compared to 2021 and a more even distribution between the segments going forward. We believe Railcare will reach its financial sales target of SEK 500m in 2024, while the EBIT margins are expected to remain above the company's 10% target for the period.

**Contracting Sweden** has good prospects for 2022 as we understand there will be more construction projects related to preparatory work for coming track replacements, i.e. cable management etc. We expect a recovery from last year's dip and rather stable volumes in the coming years. EBIT margins around 12% is in line with five-year average since 2017.

**Contracting Abroad** is struggling with low volumes and apparently limited visibility. Last year Railcare implemented some cost savings measures and are now hoping for more activity towards the second half of 2022. Despite the framework agreement with Network Rail and the size of the UK market, performance has been weak for many years, making us uncertain about the prospects for a sustainable turn-around.

**Transport Scandinavia** had a record year in 2021 and we believe 2022 will see somewhat lower volumes and margins. Track replacement transports were, exceptionally high in 2021. Also, transports for LKAB will be lower. New major contracts have been announced, including standby locomotives and upgrades of diesel locomotives. But all and all we expect lower sales and earnings in the coming years compared to the record 2021. Our EBIT margin forecast around 10% is a bit higher than historic average since 2016 (7-8%).

**Machines and Technology** is still the segment which we believe will be the major growth driver. The product portfolio has huge potential, with Railvac systems and not least, the new all-electric MPV. We expect substantially more business in the next few years compared to earlier. But since the order book is basically empty our forecasts should be viewed as "guesstimates".

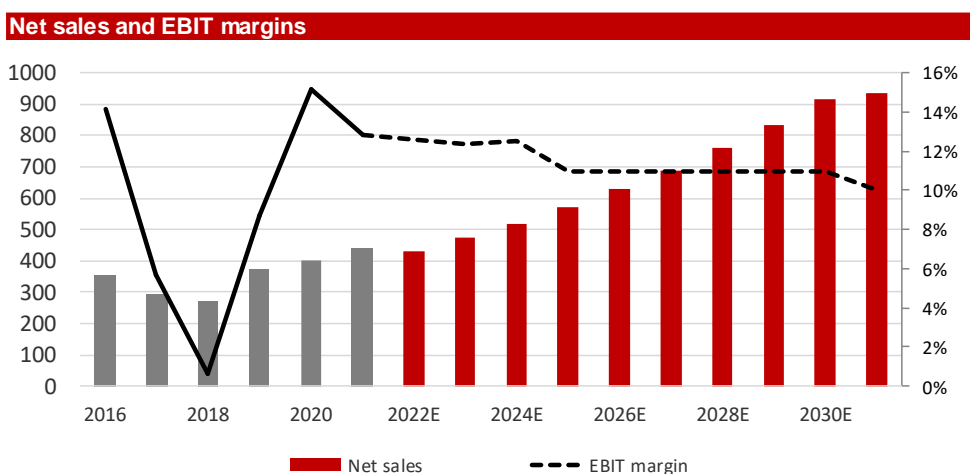
Forecasts per segment						
SEKm	2019	2020	2021	2022E	2023E	2024E
<b>Contracting Sweden</b>						
Net sales	171	159	131	159	166	172
PTP	22	18	8	21	20	21
Margin	13%	11%	6%	13%	12%	12%
<b>Contracting Abroad</b>						
Net sales	68	60	48	43	50	55
PTP	-1	2	4	-3	2	3
Margin	-2%	3%	8%	-6%	5%	5%
<b>Transport Scandinavia</b>						
Net sales	158	184	274	248	261	271
PTP	5	24	39	27	26	27
Margin	3%	13%	14%	11%	10%	10%
<b>Machines and Technology</b>						
Net sales	19	83	37	41	50	70
PTP	1	11	1	3	6	11
Margin	4%	14%	2%	7%	12%	15%
<b>Group net sales</b>	<b>371</b>	<b>401</b>	<b>438</b>	<b>431</b>	<b>476</b>	<b>518</b>
<b>EBIT</b>	<b>32</b>	<b>61</b>	<b>56</b>	<b>54</b>	<b>59</b>	<b>65</b>
Sales growth, Y/Y	37%	8%	9%	-1%	10%	9%
EBIT margin	9%	15%	13%	13%	12%	12%

Source: Railcare, Redeye Research

### Long-term assumptions, years 2025-30:

- 10% annual growth
- 11% EBIT margin
- From 2031 (Terminal year): 10% EBIT margin and 2% annual growth

In the period up until 2030 we find it highly likely that Railcare will expand into new geographic markets. In our view, probably countries in northern Europe. And with machine exports to the global market. The future progression will certainly not be linear, like our model suggests. But a CAGR of 10% should be attainable, given the significant expansion opportunities available. If so, annual sales in 2031 will reach a little over SEK 900 million.



Source: Railcare, Redeye Research

## Valuation

Fair value:  
~SEK 28 per share

Our cash flow model indicates a fair enterprise value just below SEK 800m. After deducting net debt, we arrive at a fair equity value of SEK 671m, or **SEK ~28 per share**, versus SEK 32 previously. The difference is explained by a higher WACC of 10% (vs. 9% before). We are now using a 2% risk-free interest rate in our model (vs. 1% before).

Railcare: Base case			
Assumptions	2024-30	DCF-value	
CAGR	10%	WACC	10.0%
EBIT margin	11%	NPV FCF 2022-30	466
ROIC (avg)	19%	NPV FCF Terminal	325
		Total (EV)	791
<b>Terminal (from 2031)</b>		Net debt	120
Growth FCF	2%		
EBIT margin	10%	Fair value	671
		Fair value per share	27.8
		Share price	19.7
		<b>Potential</b>	<b>41%</b>

Source: Redeye Research

### Multiples below historic levels

The share has traded sideways in the last year and performed basically in line with the market. Based on our estimates it is now trading at attractive multiples, considering Railcare's continued good outlook, and rather stable business. Forward looking multiples are a little lower than historic levels.

EV/EBIT is the most relevant multiple since it also takes net debt into account. We are not including leasing debt in our EV/EBIT. However, our EV/EBITDA does include leasing debt.

Valuation multiples						
	2019	2020	2021	2022E	2023E	2024E
P/E	29.4	12.9	13.3	12.3	11.2	10.0
EV/EBIT	23.3	11.6	11.8	10.6	9.4	8.1
EV/EBITDA	9.8	6.7	6.6	6.0	5.7	5.2
P/S	1.6	1.4	1.2	1.1	1.0	0.9
Share price	26.6	23.3	22.4	19.7	19.7	19.7

Source: Railcare, Redeye Research

## Scenarios

For a company like Railcare there are of course a variety of possible scenarios. We do not see any specific binary events that would cause a significantly different development than the one outlined in our main scenario, Base case. Business operations are stable and the balance between different segments offer some diversification in terms of risks. However, two other possible scenarios are outlined below: Bull- and Bear-case. Both are quite possible, but in our view rather optimistic and pessimistic, respectively.

### Bull-case

Railcare certainly could grow faster than we anticipate for an extended period of time. If they, e.g. establish operations in a new country or if machine sales really start taking off. The Railvac, Minevac, Tubevac and MPV, all have significant market potential globally. These machines have a potential for very good gross margins and with higher volumes Railcare can improve its manufacturing process. Growth driven by machine sales should also drive margins. The green area highlighted in the lower right corner of the table below indicates fair value with assumptions of 15-20% CAGR in 2024-30 and sustainable EBIT margins of 12-13%. This suggests a fair value of around **SEK 41 per share**.

### Bear-case

Although the near-term outlook is bright, market conditions could deteriorate later on. New competitors, that we don't see today could emerge and impact profitability. State budgets could see major cuts or Railcare itself could run into internal problems. A rather mediocre growth of 0-5% during 2024-30 and sustainable EBIT margins of 9-10%, is market by the pink area in upper left-hand corner. All else being equal, this would yield a fair value of around **SEK 20 per share**.

		DCF-value, SEK per share				
		EBIT margin 2024 =>				
		9%	10%	11%	12%	13%
<b>CAGR 2024-30</b>						
<b>0%</b>		17	20	24	26	28
<b>5%</b>		20	23	26	28	30
<b>10%</b>		23	26	29	31	33
<b>15%</b>		26	29	32	36	39
<b>20%</b>		28	33	37	41	48

Source: Redeye Research

## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report: No changes

#### People: 4

Management is very active in daily operations and have extensive experience from the railroad industry. However, Mattias Remahl is newly appointed as CEO and we really cannot evaluate him in this capacity yet. Communication and financial reports are relevant and transparent and Railcare is ticking most boxes in the People category. Also, some of the largest shareholders are represented on the Board of directors. A full score would require an active owner, on the Board, with a more dominant owner share.

#### Business: 4

Revenues and profitability have been quite volatile in the last few years, due to fluctuating demand. The customer offer based on the unique Railvac machines is a competitive advantage that should give good prospects for growth and profitability. There are still no head-on competitors in this niche segment, as far as we know. For some of Railcare's other service offerings, there is more competition. Management appears to be committed on innovation of new products and services and we also believe that Railcare will expand geographically, in due course.

#### Financials: 3

Profitability was poor in 2017-18, due to declining volumes, but has improved remarkably since then. Railcare decided not to make any drastic reductions in personnel during 2017-18, as they anticipated better times and need skilled staff. EBIT margins have been well over the company's own target of 10% lately and we would not be surprised if Railcare decides to raise this target. However, there is limited leverage in the major part of the company's business offering. Hence, there are also limitations in terms of what they can score in our Financial rating. Financial gearing (debt/equity) is on a reasonable level given stable and profitable operations. But there is probably limited room for major acquisitions or significant expansions into new markets.

INCOME STATEMENT	2020	2021	2022E	2023E	2024E
Net sales	401	438	431	476	518
Total operating costs	-287	-330	-325	-363	-395
EBITDA	114	108	107	113	123
Depreciation	-53	-52	-52	-54	-58
Amortization	0	0	0	0	0
Impairment charges	0	0	0	0	0
EBIT	61	56	54	59	65
Share in profits	0	0	0	0	0
Net financial items	-5	-4	-5	-5	-4
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	56	52	49	54	61
Tax	-12	-11	-11	-12	-13
Net earnings	44	41	38	42	48

BALANCE SHEET	2020	2021	2022E	2023E	2024E
<b>Assets</b>					
<i>Current assets</i>					
Cash in banks	25	39	38	42	46
Receivables	45	47	50	55	60
Inventories	20	28	28	30	33
Other current assets	12	12	13	14	15
Current assets	101	125	128	141	154
<i>Fixed assets</i>					
Tangible assets	404	418	431	432	424
Associated comp.	0	0	0	0	0
Investments	1	1	1	1	1
Goodwill	7	7	7	7	7
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	3	2	4	6	8
Non-current assets	5	4	4	4	4
Total fixed assets	419	433	447	451	444
Deferred tax assets	1	1	1	1	1
Total (assets)	521	558	576	593	599
<b>Liabilities</b>					
<i>Current liabilities</i>					
Short-term debt	60	62	58	50	39
Accounts payable	31	35	35	38	42
Current liabilities	57	47	50	54	54
Current liabilities	147	144	143	143	135
Long-term debt	108	97	92	79	61
Long-term liabilities	34	48	48	48	48
Convertibles	0	0	0	0	0
Total Liabilities	289	289	283	270	244
Deferred tax liab	38	48	48	48	48
Provisions	0	0	0	0	0
Shareholders' equity	195	221	245	274	307
Minority interest (BS)	0	0	0	0	0
Minority & equity	195	221	245	274	307
Total liab & SE	522	558	576	593	599

FREE CASH FLOW	2020	2021	2022E	2023E	2024E
Net sales	401	438	431	476	518
Total operating costs	-287	-330	-325	-363	-395
Depreciations total	-53	-52	-52	-54	-58
EBIT	61	56	54	59	65
Taxes on EBIT	-13	-12	-12	-13	-14
NOPLAT	47	44	42	46	50
Depreciation	53	52	52	54	58
Gross cash flow	101	96	95	100	109
Change in WC	-25	-16	-1	-1	-5
Gross CAPEX	-54	-65	-67	-57	-52
Free cash flow	22	15	27	41	51

CAPITAL STRUCTURE	2020	2021	2022E	2023E	2024E
Equity ratio	37%	40%	43%	46%	51%
Debt/equity ratio	86%	72%	61%	47%	32%
Net debt	142	120	112	88	54
Capital employed	337	341	357	362	361
Capital turnover rate	0.8	0.8	0.7	0.8	0.9

GROWTH	2020	2021	2022E	2023E	2024E
Sales growth	8%	9%	-2%	10%	9%
EPS growth (adj)	101%	-7%	-5%	10%	12%

DCF VALUATION	CASH FLOW, MSEK	
WACC (%)	10.0 %	
	NPV FCF (2022-2030)	466
	NPV FCF (2031-)	325
	Non-operating assets	39
	Interest-bearing debt	-159
	Fair value estimate MSEK	671

Assumptions 2020-2026 (%)		
Average sales growth	9.9 %	Fair value e. per share, SEK
EBIT margin	11.6 %	Share price, SEK
		27.8
		19.7

PROFITABILITY	2020	2021	2022E	2023E	2024E
ROE	25%	19%	17%	16%	16%
ROCE	18%	15%	14%	15%	16%
ROIC	16%	13%	12%	13%	14%
EBITDA margin	28%	25%	25%	24%	24%
EBIT margin	15%	13%	13%	12%	12%
Net margin	11%	9%	9%	9%	9%

DATA PER SHARE	2020	2021	2022E	2023E	2024E
EPS	1.81	1.68	1.60	1.76	1.97
EPS adj	1.73	1.61	1.53	1.68	1.89
Dividend	0.60	0.60	0.56	0.62	0.69
Net debt	5.91	4.98	4.64	3.63	2.23
Total shares	24.11	24.11	24.11	24.11	24.11

VALUATION	2020	2021	2022E	2023E	2024E
EV	704.2	660.4	586.9	562.5	528.8
P/E	12.9	13.3	12.3	11.2	10.0
P/E diluted	13.4	13.9	12.9	11.7	10.4
P/Sales	1.4	1.2	1.1	1.0	0.9
EV/Sales	1.8	1.5	1.4	1.2	1.0
EV/EBITDA	6.2	6.1	5.5	5.0	4.3
EV/EBIT	11.6	11.8	10.8	9.5	8.2
P/BV	2.9	2.4	1.9	1.7	1.5

SHARE PERFORMANCE	GROWTH/YEAR		18/20
1 month	-6.2 %	Net sales	3.7 %
3 month	-4.8 %	Operating profit adj	-5.4 %
12 month	-5.5 %	EPS, just	-6.2 %
Since start of the year	-12.8 %	Equity	12.2 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Norra Västerbotten Fastighets AB	29.5 %	29.5 %
TREAC AB	10.0 %	10.0 %
Ålandsbanken AB	5.1 %	5.1 %
Avanza Pension	3.5 %	3.5 %
Bernt Larsson	3.1 %	3.1 %
HSBC Bank Plc	2.5 %	2.5 %
Canaccord Genuity Wealth Management	2.5 %	2.5 %
Nordnet Pensionsförsäkring	1.7 %	1.7 %
Mikael Gunnarsson	1.5 %	1.5 %
Emil Burén	1.2 %	1.2 %

SHARE INFORMATION	
Reuters code	RAILST
List	Nasdaq Small Cap
Share price	19.7
Total shares, million	24.1
Market Cap, MSEK	475.0

MANAGEMENT & BOARD	
CEO	Mattias Remahl
CFD	Mattias Remahl
IR	Lisa Borgs
Chairman	Anders Westermark

FINANCIAL INFORMATION	
Q2 report	August 18, 2022
Q3 report	November 03, 2022

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## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Henrik Alveskog owns shares in the company : No

Fredrik Nilsson owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.