ANALYSGUIDEN
av Aktiespararna

COMMISSIONED RESEARCH

Weakness in Q1

Investments, UK & lower volumes weigh on numbers

Compared to the seasonally strong start of last year, Railcare's turnover decreased by -4.9% in the first quarter of this year to SEK 123.0 m (Q1-24 129.4). Mainly due to continued problems in the UK, Contracting lost 16.7% in turnover to SEK 42.5 m (51.0), but sales decreased slightly also in Sweden in the business area despite a high utilization rate, due to the type of assignments that was carried out. Transport increased turnover by +11.5% to SEK 77.5 m (68.6) thanks to increased volumes of transport orders and the two new contingency clearance locomotives since the start of the year. Adjustment of intra-group leasing of locomotives and machines was the main reason why turnover in Technology decreased by 27.5% to SEK 29.4 m (40.5).

Operating profit (EBIT) fell by 71% to SEK 4.4 m (15.1) despite a stronger krona this year and a late spring last year. The decline is mainly attributable to three factors:

- A major scaling up of the organisation to prepare for the 2027 targets (1 billion in turnover at 13% EBIT margin).
- Major problems remain with operations in the UK,
- Lower volumes than Q1 2024 and unfavourable product mix.

Rapid recovery in H2 and beyond

The company occasionally experiences slumps in individual quarters, but from here on earnings contributions from the clearance locomotives deal are likely to start rolling in at a rapid pace while start-up costs begin to fall away. We therefore expect H2 to be clearly stronger than H1 this year, with full of the deal effect from 2026.

For Contracting, Q2 has challenging comparables from Q2-24, when Railcare carried out a major infrastructure construction project according to the "pit stop model" (where jobs are carried out in parallel instead of sequentially). That project alone increased quarterly sales by around 25%. The company has not yet announced any similar project in 2025, but there is hope for the second half of the year.

The management does not seem any less confident now about reaching the targets for 2027 than they have been earlier. On the other hand, the investment hump we are in now is necessary to reach them.

The stock has clear potential

The effects of the ramp-up of the organisation have been difficult to predict but will soon be behind us as we enter more of a "harvest period" in H2. Structurally, the case remains positive. However, with the slump in Q1, growth has to quicken for sales to reach the company's target of SEK 1bn in 2027. IFRS 16, on the other hand, helps the company towards its target of a 13% EBIT-margin. The justified price remains at SEK 36/share, or 30% upside. In the longer term there is clearly more potential. In addition, the business is insensitive to the business cycle and the share diversifies any equity portfolio.

Railcare Group AB

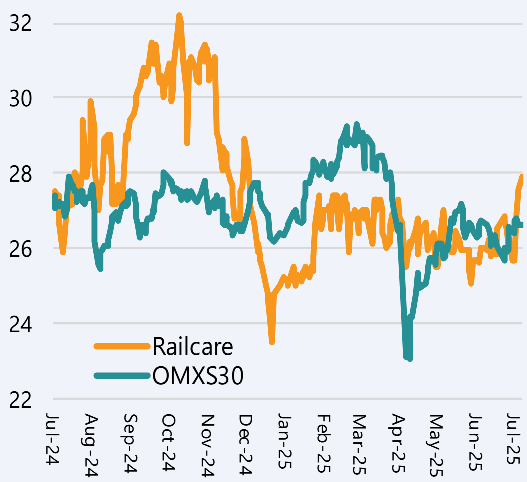
Report Comment - Q1 2025

Date	07 July 2025
Analyst	Johan Voss-Schrader

Basic facts

Industry/Sector	Railway, construction & transport
Chairman of the Board	Anders Westermark
CEO	Mattias Remahl
IPO, year	Nasdaq 2018 (Spotlight 2007)
Listing	Nasdaq Stockholm Small Cap
Ticker	RAIL
Stock price, 7/7 2025	27,90
Shares outstanding (millions)	24,1
Market cap SEKm	673
Net debt SEKm	487
Enterprise value SEKm	1160
Home page	www.railcare.se
Justified price	36,00
Next report	14 August 2025

Share price past year



Source: Refinitiv

Estimates & Key Ratios, SEKm

	2024	2025e	2026e	2027e
Turnover	635	703	850	980
Gross profit	372	430	530	610
EBIT	66,3	63	103	125
EBT	40,8	45	73	91
Net profit	30,4	34	55	68
Earnings/share, SEK	1,26	1,39	2,27	2,82
Dividend/share, SEK	0,70	0,70	0,80	1,00
Sales growth	27,8%	24,6%	34,3%	39,4%
Gross margin	58,5%	61%	62%	62%
EBIT margin	10,4%	9,0%	12,1%	12,8%
Net debt / Equity	1,8	1,6	1,4	1,2
Net debt / EBITDA	1,4	1,1	0,9	0,8
P/E ratio*	20,0	20,0	12,3	9,9
EV/EBIT*	17,2	18,4	11,3	9,3
EV/Sales*	1,8	1,7	1,4	1,2
Dividend yield*	2,8%	2,5%	2,9%	3,6%

* For 2024, based on price & data as per 2024-12-30

Source: Company, Analysguiden (all estimates)

Investment case

Good market overall and locally

Since the company was founded in 1992, Skellefteå-based Railcare has been quietly developing innovative solutions for railway maintenance – primarily for its own needs for contracting work on the tracks, but also for sale when it does not compete with its own operations. The railway market is growing, while neglected maintenance for years has piled up to a record high, which promises a good market for Railcare's products and services for many years to come. Added to this is a sharp increase in transportation needs locally in Northern Sweden for the heavy industry now establishing there.

With its own products, Railcare specialises in confined environments with high sensitivity to exhaust fumes and noise, such as tunnels, railway yards, city centres, etc., where competitors have weaker offerings and these jobs are often too small for the big players on the market. This specialisation provides protection for margins and against competition even when the economy is slowing down.

Low cyclical sensitivity

While Transport sees structural growth, with mainly private companies as customers, Contracting sees great needs with the state as a customer, both of which contribute to a low sensitivity to economic fluctuations. This picture is reinforced by the fact that many contracts are indexed, the customer pays the fuel and the cost of electricity in the case of service sales, and product sales have a high added value with an increasing focus on sustainability. Increases in commodity prices thus have a limited impact on earnings, and higher interest rates do not weigh on results despite high fixed capital.

Although sensitivity to the business cycle is low, earnings can still vary a lot over time, as operational leverage is high due to a high proportion of fixed costs for both machinery and labour. This means that the key to optimising the capital structure, so that the use of expensive equity can be reduced, lies in finding ways to reduce fluctuations in capacity utilisation at group level, for example with long-term contracts, which Railcare has been awarded to an increasing extent.

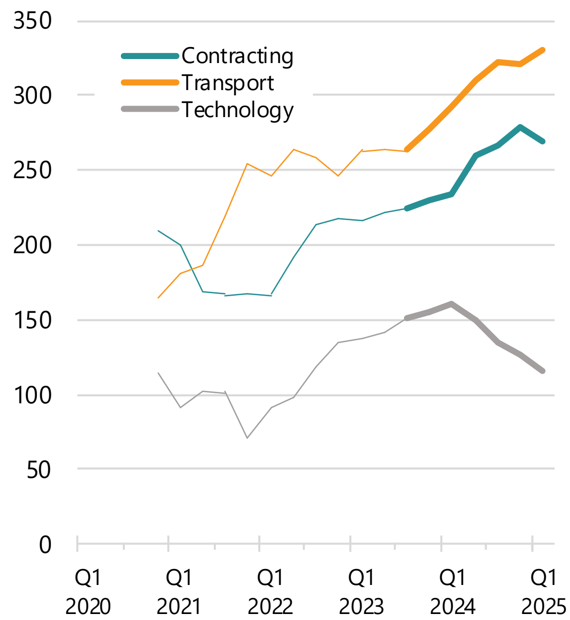
The stock still has clear potential

With our estimates not far from the company's own financial targets, we see a 30% upside potential in the share price, and more with a longer horizon than 2027. Still, there is room for upside surprises in our estimates. An increasingly likely expansion of the locomotive workshop, new "pit stop" contracts, further new long-term contracts and a breakthrough for external sales of Railcare's unique machines are examples where none is in our forecasts yet.

What may hamper the share price is a low market capitalisation with a low free float, which results in low liquidity in the share and "small-cap contagion", as well as low capacity utilization from time to time.

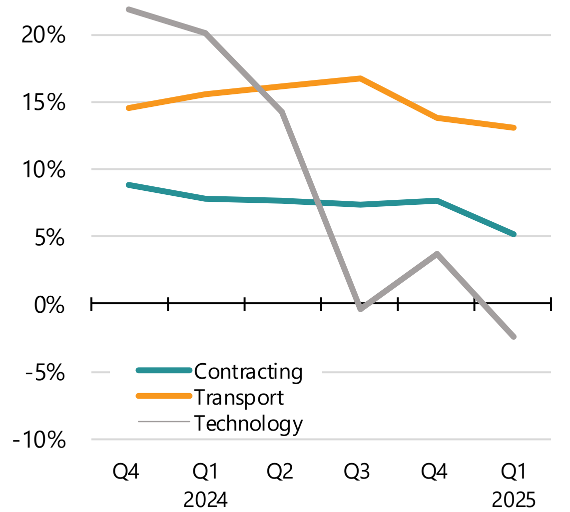
Nevertheless, the stock remains clearly interesting at these price levels, not least in a slightly more challenging stock market climate and given the favourable diversification effect a holding has on most equity portfolios.

Sales roll. 4Q

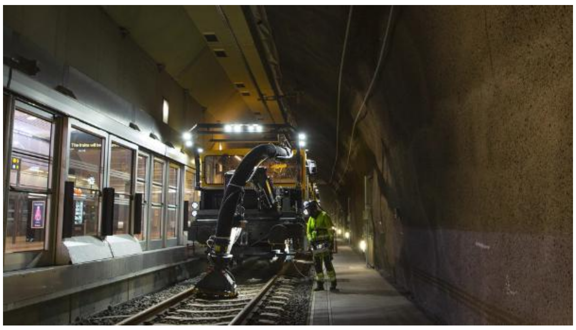


Source: Company. Thin line = old accounting strandards

EBIT-% roll. 4Q



Source: Company. Thin line = old accounting strandards



Railcare carries out battery-powered track work in the Stockholm City Tunnel with one of its unique machines. The company specialises in work in confined spaces sensitive to noise, dust and exhaust fumes.

Market developments

Pressures are mounting and changes are coming

According to a recent report by Innovationsföretagen (FSIC), productivity in the Swedish construction industry is 4% *lower* today than it was 25 years ago – not the rate of change, but the level! This applies particularly to infrastructure construction. The earlier steady productivity growth of 1-2% per year was broken in the 1990s, but if the development had continued as in other industries, SEK 225 bn would have been saved according to the report, which advocates for more innovation and new ways of working as a solution to the problem.

Last autumn, the government announced that SEK 1200 billion will be spent on infrastructure investments over the next 12 years. If the previous trend in productivity growth had continued, a fifth of that money would have been saved. It is possible to reverse the negative trend, but this requires a focus from the government and that the Swedish Transport Administration dares to test new approaches, according to the report.

At the same time, it appears that the Swedish Transport Administration is mostly waiting for new conditions and funding in the new national plan for transport infrastructure that the government will present in the spring of 2026. The agency expects market growth for many years to come, of around 10% per year. However, this should neither be an excuse to wait with measures to increase productivity – i.e. to get more transport capacity per krona invested. Nor should it prevent at least stopping *the increase in* the backlog of maintenance now estimated at SEK 91 billion, that the Swedish railway system has been subjected to for decades, as the maintenance now carried out is not even sufficient to keep the railway in its current rather poor condition, but it continues to deteriorate from here. Not addressing this just risks leading to increasingly radical measures because normal maintenance has not been carried out on time. If you don't change the oil in the car, you risk an engine overhaul later on instead.

New money *is* needed, but as we have pointed out before, spending taxpayers' money on railway maintenance is unfortunately not an election winner. But again, it is not just about money. It is also about changing the way we work, as the Innovation Company report points out. It is unlikely that a colossus like the Swedish Transport Administration will suddenly embrace innovation and new ways of working and take the risks – not least political ones – associated with this. The pressure for change must come from the top, from the government, and if necessary be manifested by changes in the board and management, for a necessary cultural change to materialise. But it won't cost much money, and innovative players, like Railcare, are ready and willing to help the Department of Transport in this endeavour.

Change is difficult, time-consuming and almost always met with internal resistance, but the current situation not only leads passengers to opt out of rail in favour of more reliable transport options such as air travel, but more importantly, the problems mean increased administration, costs and potentially lost business and investment for many companies due to delays and cancellations, and the lack of rail capacity increasingly threatens to stymie their growth opportunities.

Transporting needs in Norrland

Although some investments in green heavy industry have not succeeded, new needs have emerged, not least because of the deteriorating geopolitical security situation and Sweden's entry into NATO.

1. Transport of troops and equipment

Source: nato.org

2. Green mining & steel industry

The green transition requires new minerals, ranging from high-grade iron ore for direct reduction with hydrogen, to copper and rare earths for electrification.

Source: Kaunis Iron AB

Not one, but two giant fossil-free steel manufacturing companies have been set up in the north, with high transport needs: Hybrit and Stegra (formerly H2 Green Steel)

Source: Stegra AB

Still, calls from the public, and especially from businesses, for improvements to the poor state of the railways and their lack of maintenance have so far fallen on politicians' deaf ears.

However, as voices have begun to be raised even from the big companies, there have been signs of change over the past year, and in October a government bill was introduced that focuses on efficiency in the Swedish Transport Administration's maintenance responsibility – which fits like a glove with Railcare and CEO Mattias Remahl's pit stop model for carrying out projects, something the company was able to test last summer for the first time. According to this model, all work on the line is carried out in parallel, resulting in significantly shorter track closures and increased efficiency. A bottleneck is time slots on the tracks for maintenance, which is made more difficult with increased demand and reduced capacity, e.g. through speed restrictions on poorly maintained tracks. The company also notes a changed attitude from the Transport Administration. For example, suppliers are involved earlier in projects and project responsibility is outsourced instead of "work orders".

NATO entry

Sweden's entry into NATO also affects the market in several ways:

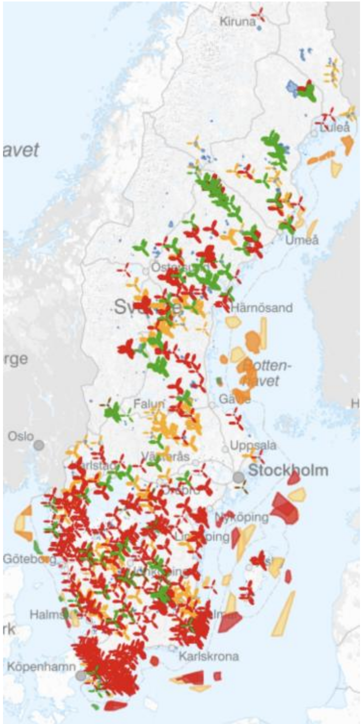
- NATO membership means that external demands on Sweden to upgrade our railway are added to the public and business demands discussed above. To fulfil our obligations to the alliance, substantial measures must be taken immediately. In contrast to the previous focus on north-south rail routes, west-east transport routes in particular are now a priority for NATO, and Malmbanan, sometimes referred to as the Suez Canal of the North, is also central in this context. As well as ensuring vital transport from the Swedish mine fields to ice-free Narvik in Norway, it is also central to northern Norway, and the same discussions that we have about the Swedish section of the railway are held in Norway about the Norwegian section, the Ofoten Line. It makes up only one percent of the Norwegian railway network but accounts for 60% of their freight volume in tonnes. In addition to ore, it carries, for example, fish worth 25 billion annually, half of all groceries to northern Norway and mail, and replaces 20 000 lorries a year. In many ways, it is the route to and from the Arctic. Upgrading the line, including longer and more meeting tracks, cannot wait any longer. However, neither Swedish nor Norwegian politicians seem willing to invest in double tracks yet, which would more clearly reduce vulnerability and increase capacity.

- Another effect of the NATO membership is the prioritisation between climate investments and defence. We saw this last autumn when offshore wind power was disqualified from the Öresund to the Åland Islands, first by the defence forces and only days later signed off by the government. Similarly, defence requirements are likely to prevail in a prioritisation of diesel over electric traction, as electric traction is too vulnerable. The market is likely to move towards hybrid locomotives, but they are both more expensive and more difficult to obtain. Sweden is not alone in this reprioritisation and is a small market that also runs on alternating current, which means that larger and "easier" customers/countries in continental Europe are likely to be ahead of us in the queue.

Wind energy development

3. Green Electricity

A basic prerequisite for the green industries in the North is not only good green transport, but also huge amounts of locally produced green electricity, much of which needs to come from wind power.



With municipalities in Sweden having a veto on installations and no compensation or tax is collected, many projects – especially in the South – have been rejected.

Green = Authorised
Yellow = To be decided
Red = Rejection

Source: Vindkraftskollen

Even though the current government has clearly downgraded the priority given to the climate, companies' climate ambitions remain and contribute to the pressure on demand. The climate impact of maintenance and use of the existing railway system is many times lower than truck transport and, in addition, trucks are often not an option, especially for heavy industry. Even before Russia's unprovoked attack on Ukraine, it was predicted that freight and passenger rail transport in Sweden will increase by 50% by 2040.

Taken together, these factors ensure that the underlying growth for railways in general will continue to be very good, while the large maintenance backlog in the Swedish rail network must begin to be worked down or at least be stabilised. As well as benefiting contracting in general, the vulnerability of the railways in the tracks also benefits Railcare's rapidly expanding business with standby locomotives, where Railcare is one of the few players that can offer the more environmentally friendly machines that are required.

And the green argument...?

Although it is becoming clear that not all the major industrial projects planned in Norrland in recent years will come to fruition, those that remain will nevertheless involve a major expansion of heavy industry specifically in Norrland. This accentuates the need for rail transport in Norrland compared with the rest of the country and is expected to benefit Railcare in particular, with its local roots, unique products and the flexibility built into the organisation.

Moreover, these new industries are building their existence on environmental considerations, requiring the entire value chain to be green, including the transport services they procure, and this also applies to an increasing number of transport buyers. The Swedish Transport Administration has also announced progressively higher requirements for all actors working on or with the railway, with the ultimate goal of their operations being completely emission-free by 2040. In these endeavours, Railcare again has a special advantage, as it has long focused on sustainability, developed services and products that reduce or eliminate direct emissions, and has set targets to reduce fuel consumption and fossil emissions from its own locomotives and machines by 40% by the end of 2025. The MPV battery wagon, and its brand new upgraded successor with pantograph, MPVe, fits in perfectly with increased environmental requirements, both for Railcare's own needs, as well as for external customers.

The Swedish Transport Administration's requirements will be tough for many operators to reach, either for financial reasons or because emission-free locomotives and machines will not be produced or converted in sufficient quantities by 2040 and those that exist will be expensive to hire – if that is even possible. Many locomotives are over 50 years old, gas guzzlers and dirty, and were manufactured at a time when neither fuel prices nor the climate were in focus. In addition, a completely new European signalling and safety system, ERTMS (European Rail Traffic Management System), is being introduced in Sweden to replace our old ATC system. In the long term, this will eliminate many of the problems associated with crossing national borders, where trains have so far needed multiple systems on board for this – a problem that has been a competitive disadvantage for the railways against truck or air transport. The current national systems are also

Nordic Hydrogen Route

4. Hydrogen, for industrial processes and fuel

A 1000 km hydrogen pipeline around the Gulf of Bothnia, which due to its size will also serve as storage, is planned for construction to start in 2026 and operations from 2030. The estimated hydrogen demand is 65 TWh/year, which corresponds to 7.5 GW of continuous consumption, compared to the EU's target of 40 GW of installed electrolysis capacity by 2030.

Source: Nordic Hydrogen Route - Bothnia Bay getting old and spare parts are even difficult to obtain in some situations.

There are therefore now two strong, if not compelling, reasons for upgrading large numbers of locomotives in the existing fleet: sustainability and technical requirements. Locomotives that are not too old are worth converting, including to new engines that are more fuel-efficient and cleaner, or even to hybrid or battery power. However, replacing those that are falling behind will not be cheap, with new locomotives costing from €30-35 m and upwards. Rebuilding the oldest and most worn locomotives to modern standards both in terms of emissions and safety aspects with ETCS (which is the part of ERTMS that is in the locomotives themselves), is hardly worthwhile as a rebuild typically costs SEK 10-15 m. Nonetheless, it may be necessary if new locomotives are not available, given the large number of locomotives involved, not only in Sweden but throughout Europe. The production capacity of locomotive manufacturers is simply not nearly enough to meet demand. Whether new or upgraded, the industry is thus facing a major investment gap where Railcare, thanks to its financial strength and foresight, is at the forefront.

The industry's substantial upgrading needs favour Railcare's locomotive workshop, which has already seen a sharp rise in demand in recent years. Therefore it is now operating at maximum capacity and a decision on expansion looks increasingly likely as several preparations have already begun, including the purchase of the land required for this. In addition to increased capacity, an expansion would also enable a broadening of the service offering (e.g. wheel turning), which would mean shorter downtimes and delivery times to the benefit of customers and thus the locomotive workshop's margins.

A future joker in the game is also Finland's recent decision to change the standard of its entire railway network from the Russian ditto it has today to European standard, which means, among other things, a change in track width by almost 9 cm. Of course, this is not done overnight or even a decade, and involves huge investments, where perhaps Railcare can be involved and bid on assignments?

Railcare's locomotive workshop

Railcare is planning to expand its locomotive workshop in Långsele, as full capacity has been reached and demand is expected to grow for many years to come.

Source: Railcare

Development of results

The report for the first quarter includes two major changes:

- **Change in accounting policy:**
  Railcare has adapted to a clarification on IFRS 16 that reclassifies locomotive rentals as leases, moving these costs from "Raw materials and consumables" to Depreciation and Interest Expenses. The effect of this will be improvements in gross profit and EBITDA in particular, but also in operating profit (EBIT). Earnings after financial items (EBT) will be less impacted, because of a deterioration in net financial income, in turn due to interest expenses on lease liabilities. Since more locomotive lease contracts are denominated in EUR, we will also see a larger currency impact than before as the values are translated on the balance sheet date. Also in the cash flow statement, we will see improvements higher up, as on the cash flow from operating activities and down to the free cash

flow, but it is offset by a deterioration in financing activities with increasing lease liabilities.

- **Reorganisation of the business areas**:
  The major changes are:
  - Contracting Abroad disappears as a separate entity and merges into Contracting Sweden, and
  - The locomotive workshop changes "domicile" to (Machine &) Technology from Transport (Scandinavia).

  We consider both changes to be beneficial for the understanding of the group structure, but they make comparability with historical figures more difficult.

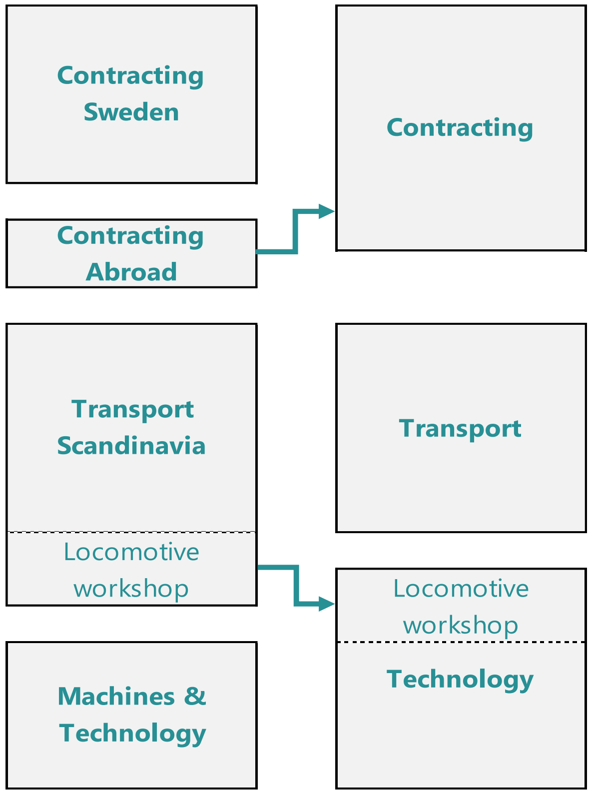
First quarter

Given that Railcare is in a build-up phase and is also incurring costs to deliver on the large contract for clearance locomotives on standby that is implemented this year, we made a cautious forecast for Q1, with sales of SEK 142 m and an operating profit of SEK 12.2 m. However, this proved to be too optimistic, even though two new standby locomotives went into operation from 1 January. Turnover amounted to SEK 123.0 m (129.4) and operating profit to SEK 4.4 m (15.1). The main reasons for the weak numbers were

- A heavy scaling up of the organisation to reach the 2027 targets (1 bn in sales at 13% EBIT margin). The number of employees has increased by 19 in the first quarter alone to 206 (177 at the end of Q1-24), which means that most of the ramp-up to reach the 2027 targets has been completed. An estimated 80% of these are for productive roles, but they still need to be trained, certified, etc. which will also weigh on Q2, before they gradually transition to production.
- Continued major problems with the business in the UK where the situation is now worse than ever. Turnover in Q1 was down to pocket change, so even though costs have been cut substantially a multi-million loss in the old Contracting Utland could not be avoided. The staff is already employed in Sweden and can easily be redeployed to other projects, but for the machine capacity that is in place – mainly two Railvacs and a Ballast Feeder – "alternative possibilities" are now being investigated, which includes both bringing them home to Sweden or taking them to another country. However, this is of course fraught with costs, both for transport and for adapting the equipment to Swedish/local conditions and of course makes it more difficult to take on future assignments in the UK should they arrive.
- Lower volumes than Q1 last year and an unfavourable product mix, so although capacity utilisation has been good in the old Contracting Sweden, the type of assignments carried out has meant that both sales and margins have decreased slightly.

Positive net financial items despite increased interest expenses meant that profit after financial items ended up at SEK 5.7 m (6.0), significantly helped by the strengthening of the krona during the quarter. Notably locomotive rents denominated in EUR were 6.6 m lower in SEK according to our calculations, while the reverse situation weighed down Q1 last year by as much as SEK 6.7 m.

Change in the division of business areas



As from the turn of 2024/25, Railcare changed its business area division in such a way that Contracting Abroad disappeared as a separate unit and the business merged into the Contracting Sweden business area, and the locomotive workshop, which was lodged under Transport Scandinavia, is now reported under Technology.

On the positive side, there are two news items:

- A snow clearance contract with the Swedish Transport Administration for 4+1+1 years worth just over SEK 350 m. Although it replaces previous recurring assignments, it is more favourable partly due to the long contract period, which provides predictability and security of income, and partly due to a slight extension of the season compared with previous contracts. There should also be some room for margin improvement with the new arrangement.
- Norwegian Baneservice SEK 30 m order for a diesel-powered Railvac to be delivered in early 2026; to add to its three previous similar machines. An important order that shows the potential of machine sales in the future, which the management has put an increased focus on for a few years.

Contracting

Sales for the new Contracting business area amounted to SEK 41.6 m (50.1) in Q1, of which a full SEK 7.5 m of the decrease from last year was attributable to the UK, which basically came to a standstill. The remaining shortfall was mainly related to an unfavourable product mix with a type of work that did not pay as well as Q1 last year. This was despite a harsh winter in Q1 last year that forced Railcare to bring work forward and thus easing comparative figures for Q1 this year.

In terms of results, the quarter was also disappointing, and for the same reasons, with an operating loss of SEK -5.1 m (+2.6) in a seasonally weak quarter. Even excluding the UK, we note an operating loss that cannot be directly linked to the scaling up of the organisation, as that is mainly attributable to the other two business areas.

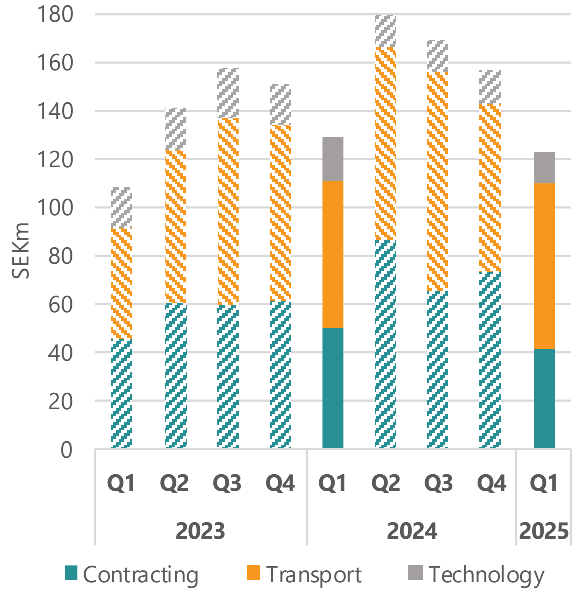
On the positive side, however, the new snow removal contract awarded in January and mentioned above is interesting not only because of the total order value of SEK 355 m for the six contracted units – snow ploughs and snow melters – but also because of the strict environmental requirements of the contract, where only HVO100 is allowed as fuel and the locomotives must have Stage V engines installed. In addition, the new pan-European signalling system ETCS must also be installed. This excludes many machines available on the market and made a competing bid impossible from peers who have not reached as far as Railcare in sustainability. It also points to the potential of the locomotive workshop and its expansion, where machines are being upgraded to these very standards.

Transport

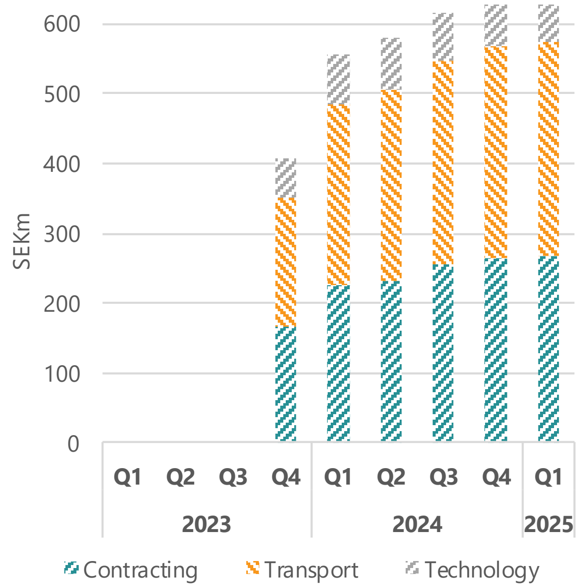
If Contracting was a disappointment in the first quarter, Transport was a positive surprise. Turnover totalled SEK 77.5 m (68.6), despite tough comparables from a strong Q1-24. In addition to the two new standby locomotives that went into operation on Jan.1 in Nässjö and Älmhult, higher volumes of transport assignments also contributed.

However, EBIT is still weighed down by the ramp-up costs discussed above, not to be fully compensated by revenues until next year. Despite this, EBIT still amounted to a healthy SEK 9.3 m (10.5), although the help from changed accounting principles was probably

Sales External Clients



Sales External Clients, roll. 4Q



Source: Company, Analysguiden (estimates, striped) greater for this year's result than for last year's. In any case, this was a sign of strength from a business area that is heavily burdened by preparation costs for its expansion.

Technology

Turnover in Technology dropped 38% in Q1 to SEK 29.4 m (40.5). The main reason is said to be an "adjustment of intra-group leasing" of locomotives and machines. They were previously leased to other business areas but have now been sold to those units and reasonably increase their earnings. The old Machine & Technology – actually the workshop in Skelleftehamn where new machines are developed – mostly sold to other business areas within the group; in recent years more than 80% of turnover. As the locomotive workshop, with mostly external customers, has now been added to the new Technology division, the problem of intra-group sales will now diminish. EBIT of the business area fell to SEK -0.8 m (+2.6), with a temporary drop in spare parts sales as a contributing factor.

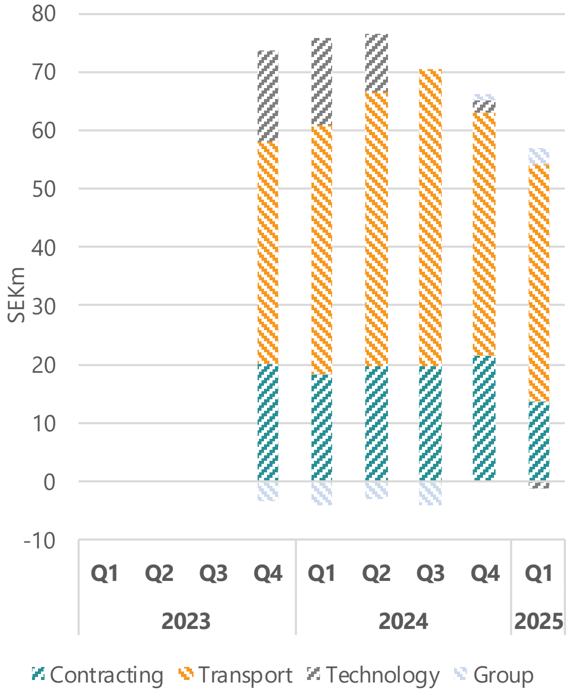
We do not pay much attention to a single bad quarter. The Technology business is perhaps the most difficult to forecast, as it is driven not only by exogenous factors but also by accruals and settlements. One-off builds can encounter unexpected problems and cost overruns/delays, and, as was the case in Q1, the need for spare parts from customers can temporarily decrease. For longer projects that are recognised in the books every quarter, a large bullet – positive or negative – may arise at the end of a project. An example is when the locomotive workshop completed work on five Traxx locomotives for Beacon Rail in Q3-23, where lessons learnt from the first locomotive were applied on the other four speeding things up significantly, which greatly increased the business area's results (then Transport Scandinavia) in the last quarter of that project. The conclusion is that individual quarters will be difficult to forecast, and that investors are best advised to look at the trend over several quarters instead.

The locomotive workshop is fully booked and, in anticipation of the planned expansion, Railcare is now investigating the possibility of doing some work in the workshop in Skelleftehamn, where it is otherwise now building a third MPVe, so far intended for its own use. As regards the expansion of the locomotive workshop, we do not expect any major news until fall and investments will likely begin next year. No final decision can be taken until local authorities have finalised the detailed development plan for the site, which is likely to take the rest of this year. Nevertheless, this represents a good potential for Railcare in a profitable segment with high demand for a long time.

Cash flow and capital structure

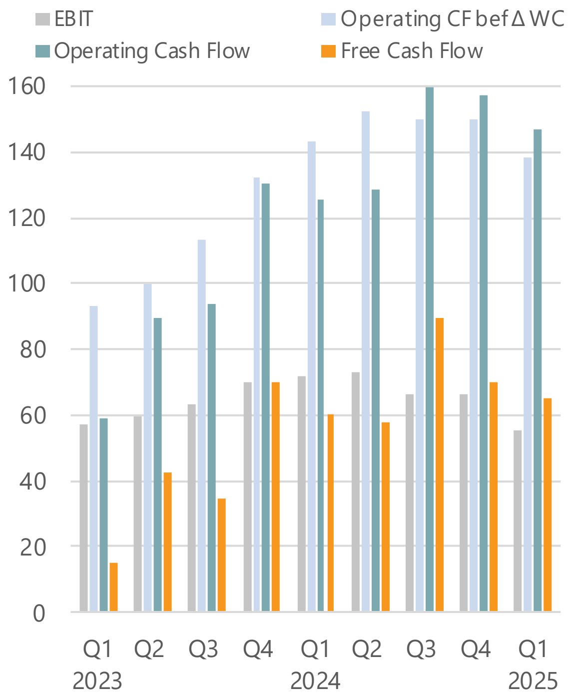
The structure of the cash flow from operating activities has changed due to the change in accounting policies (a reinterpretation of IFRS 16), so that both EBIT and the add-back of depreciation significantly increase cash flow, while the interest on the lease liability increases interest expense somewhat. Overall, there is a clear increase in cash flow from operating activities, as changes in working capital are not significantly affected. Further down in the cash flow statement, financing is instead weighed down to a corresponding extent by the change in leasing liabilities.

EBIT, roll. 4Q



Source: Company, Analysguiden (estimates, striped)

Cash Flow, 12 mth rolling



Source: Company, Analysguiden (calculations)

Cash flow before changes in working capital dropped to SEK 19.2 m (30.8; 19.8 under the old accounting principles) as a result of both a lower EBIT – even before depreciation, which does not affect cash – and also higher tax paid. The latter factor is related to past investments that provided the opportunity to defer tax payments, but where these opportunities are now reduced and deferrals must be returned to taxation. We therefore expect a higher level of tax payments going forward compared to recent years.

Increasing inventories, possibly related to declining spare parts sales, were more than offset by increasing operating liabilities meaning that the deterioration in cash flow from operating activities remained at around SEK 10 m, ending it at SEK 2.4 m (12.6). Viewed over several years, however, it is interesting to note that the change in working capital is fairly small, even though the company has grown considerably during these years – a good mark for cash management.

In line with previously communicated intentions, borrowing has increased to compensate for the fact that investments have been self-financed during an earlier period of review of the financing structure that was completed last autumn. Last year borrowing also increased by SEK 68.1 m (20.5). The recalculated equity/assets ratio – after the balance sheet total increases due to IFRS 16 – also fell slightly to a still good 29.0% (31.5%) at the end of March.

Forecasts

Short term

Our forecasting work for Q1 did not exactly shine with its accuracy, although we warned that it was made more difficult by changed accounting principles, changed business area divisions and the scaling up of the organisation that the company has signalled for some time. These factors will continue to have a diminishing impact on forecasting throughout this year, so caution is advised also for Q2, although we believe we can deliver progressively better forecasts going forward, albeit the numbers can fluctuate quite a bit between individual quarters as always.

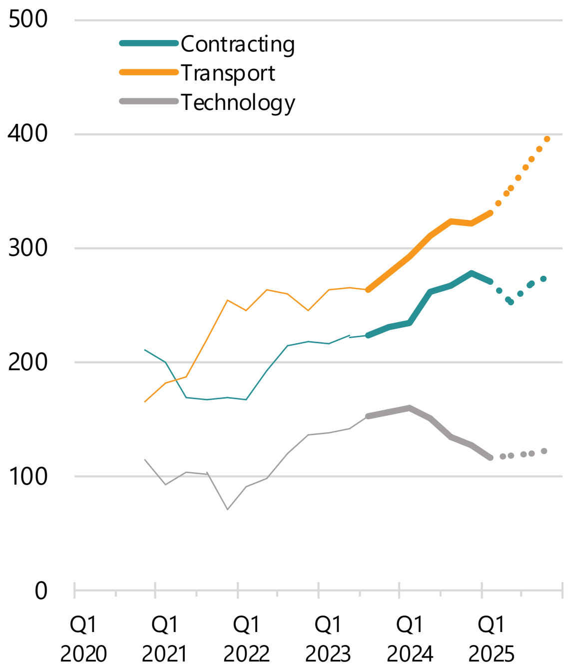
All in all, we expect Q2 to be the last slightly subdued quarter for Railcare, but not as tough as Q1, before seeing a fairly rapid improvement.

- **Contracting**

  For Contracting, the Swedish Transport Administration's new approach and increased funding are positive factors in the long term, but in the short term, it is still a volatile business with significant quarter-to-quarter swings – both positive and negative. For Q2, we are cautious for several reasons:

  - we anticipate continued losses and possible transition costs in the UK,
  - Last year, Railcare received a "pit stop" assignment outside Västerås that drove up turnover considerably, but we have not yet seen any indications of such an assignment this year,
  - In Q2-24, there were plenty of lining assignments that are favourable for both turnover and profitability,

Sales roll. 4Q & forecasts



Source: Company (thick line), Analysguiden (estimates, thin line & forecasts, dotted line)

- Last year, the winter was late, so in Q2-24 jobs that could not be started in Q1 were caught up, which boosted Q2 figures.

Overall, we therefore see that the comparative figures for Q2 last year are likely to be really tough for Contracting, which means that we expect significantly lower figures for both sales and earnings for Q2 this year. However, the second half of the year should be better, with hopefully declining costs in the UK and easier comparables from Q3 last year, while Q4 offered unusually good weather, so the comparison will be tougher again.

- **Transport**

A long trend of increasing proportion of longer contracts is a stable and good base for Transport, but in Q2 some costs remain for scaling up for the two standby locomotives starting assignment 1 May. Although the rental costs for the locomotives will not start until they are put into service, the costs of the staff manning them will have weighed on earnings earlier, partly because recruitment takes time and once a driver has started, he must learn the organisation, be trained and most likely certified[1] . About ten drivers were already hired in Q4 and more in Q1. Our previous assessment remains that this will weigh on both Q1 and Q2 of this year to a decreasing extent, but will, on the other hand, successively pay off significantly in the second half of the year and in the years thereafter. Nor can it be ruled out that contracts for additional standby locomotives may be signed, not least as Railcare has access to additional brand new locomotives from related AC Finance that meet all the requirements of the Swedish Transport Administration.

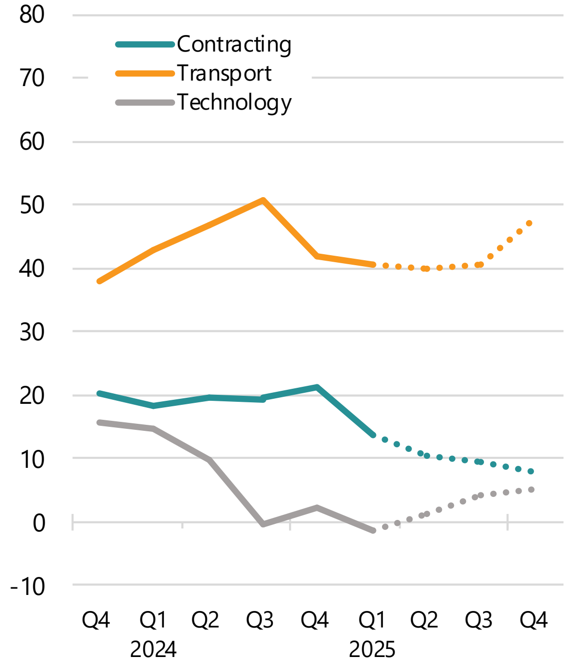
As usual, it is difficult to predict how construction transport services will develop this season, but the comparables from Q2 last year are a little less demanding, as volumes fell compared to Q2-23.

For the second half of the year, we expect strong growth of almost 30%, mainly since 4 out of 5 new standby locomotives are operating for the entire quarter and thus have a full effect on the numbers.

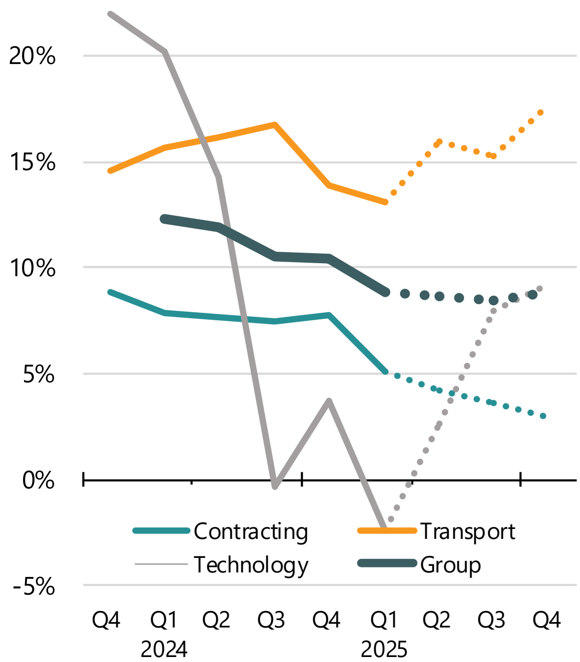
- **Technology**

For the locomotive workshop, we have slightly easier comparables from Q2 last year, which reported a slight decline in turnover from Q2-23. Preparatory work for a decision to expand the locomotive workshop will at some point start to incur costs, although the major investments that will come once the final expansion decision has been made will of course be capitalised to

EBIT roll. 4Q & forecasts



EBIT-% roll. 4Q & forecasts



Source: Company (thick line), Analysguiden (estimates, thin line & forecasts, dotted line)

[1] The clearance locomotives on standby that Railcare won contracts for last autumn are
- the two who started work on 1 January this year in Nässjö and Älmhult,
- two on 1 May in Ånge and Gävle,
- one in Borlänge on 27 October, which is however an extension of the existing contract and
- one in Hallsberg on 1 January 2026.

This will increase turnover for 2025 by around SEK 45 m and in the years thereafter by a further SEK 35 m, excluding inflation indexing.

some extent. However, we estimate that the significant parts of these costs lie beyond the next few quarters.

For Skelleftehamn, the sale of vehicles to other group companies, which lowered rental income in the first quarter of this year compared to Q1-24, should reasonably also affect the second quarter in a similar way. As always, what could be an unexpected positive surprise is if a further machine sale can materialise.

On the positive side, we note the continued strength of the krona, which should help net financial income for the second quarter, as several locomotive leases are denominated in euros, as we have pointed out before.

Next quarters in total

When we summarise all this, we end up with an estimated turnover for the second quarter of SEK 183 m, slightly more than last year's SEK 180 m, but this hides a weaker quarter than last year for Contracting, which is offset by a substantial increase for Transport. As with Q1, we believe that the operating profit will be below last year's level, at SEK 16 m (17.0) in light of the company's investments now in the first half of the year and the circumstances in general that we have discussed above. For the second half of the year, we estimate that there will be a substantial growth of just over 20% per annum, thanks in part to the full effect of 4 of 5 new standby locomotives. We furthermore expect a recovery in the EBIT margin to the 10-11% level.

Longer term: Turnover forecasts

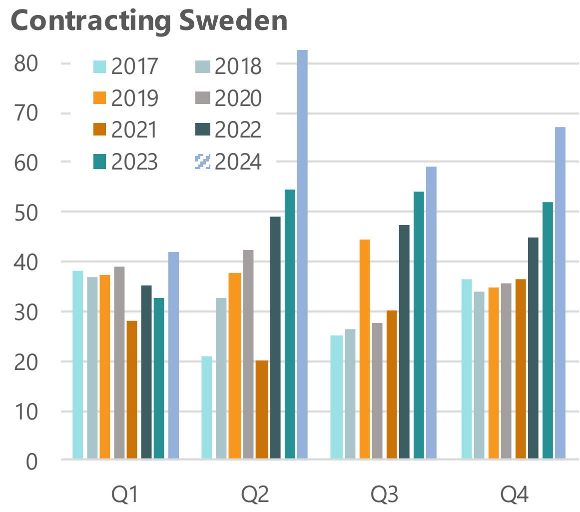
The company's financial target is to reach SEK 1000 m in sales for 2027 and an operating margin of 13%. Not least considering the lower sales number than we expected in Q1, the sales target is starting to look more aggressive with 17.5% annual growth on average for the next eleven quarters. However, the contract for standby locomotives from last autumn improves revenue for 2025 by about SEK 45 m, and SEK 80 m per year in 2026 and onwards, and if we calculate it separately, with an expected index adjustment of 2-3% per year, the remaining business needs to grow by at least 17% annually. It can be done, but it is significantly higher than the growth numbers of recent years and it starts to look a bit stretched.

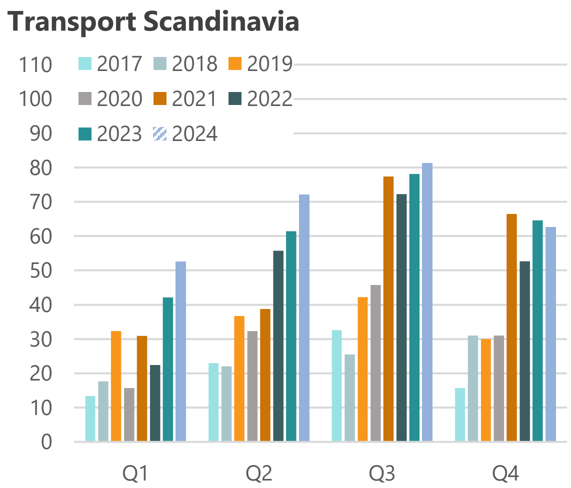
Contracting

With the substantial infrastructure investment we described under the Market section and increased pressure from business, the public, the military and not least politicians, the railway will get more resources. The Swedish Transport Administration itself talks about a 10% growth per year, and Railcare makes no secret of the fact that they expect to continue to take market share as well. Over the past 9 years, old Contracting Sweden has grown by 7.7% per year and the last 5 years by a full 16% p.a. With higher market growth, it should not be impossible to maintain this trend in the future and perhaps even surpass it, not least if the Swedish Transport Administration chooses to proceed with procurements according to the "[pit stop model]". There are signals indicating that several such assignments may be awarded. Among them the government's bill on transport infrastructure from last autumn, which clearly points to the need for increased efficiency at the agency, which is also confirmed by the report from the FSIC, described above.

Seasonal variations

Below is the data for the old business area division to give an idea of the seasonality of the two major business areas. With minimal turnover abroad at the end, the illustration for Construction Sweden is probably very close to that for new Construction. The locomotive workshop probably had a greater impact on Transport Scandinavia, but without any clear seasonality in the locomotive workshop, so the graph below is probably a good representation for new Transport.





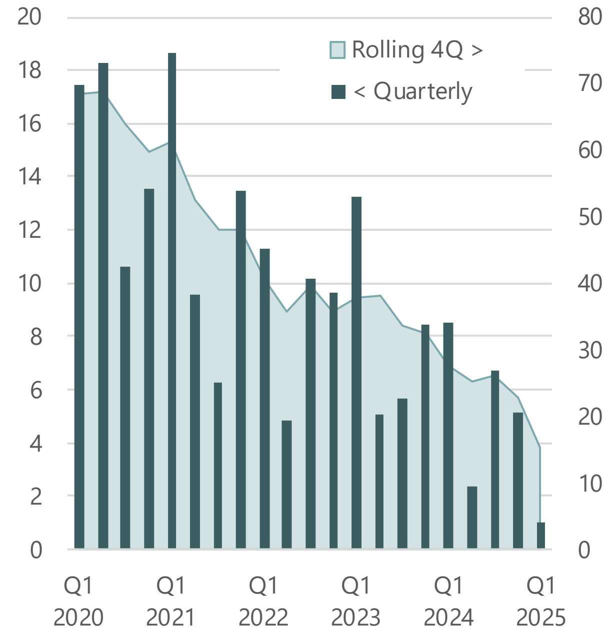
The graphs above show revenue from external customers. The construction business tends to have a dip during the summer months, while Transport Scandinavia is stronger then.

Source: Company

However, for there to be any chance of profiting fully from such scenarios, the business area needs to get rid of the shackles of British Rail. We now have eight years of cumulative losses in the UK, totalling over SEK -29 m after financial items. Still, the situation there has now gone from bad to worse. Despite the new planning period, CP7, Network Rail's funding has been reduced in real terms, so Railcare's sales have plummeted to just a few million SEK. In this situation, cost-cutting does not help when the business has such high fixed costs. Two Railvacs and a Ballast Feeder have been virtually unemployed there, so the result is deep in the red. Although barriers to exit are high with a lot of sunk costs in equipment, contacts, goodwill, training, certifications, etc., closure in the UK would not only remove the associated losses, but also free up resources, both human, mechanical and management attention.

One light at the end of the tunnel (and let's hope it's not the train) is that management is exploring what it calls "alternative opportunities" for these resources. A recent press release on positive feedback from participation at the Münster railway fair gives some hope on that issue. We expect measures to be taken soon and therefore do not assign a negative value to the UK operations at this stage, despite the expected continued losses. The closure costs should also be balanced against the release of productive resources in our calculation.

Sales Contracting Abroad mSEK



Source: Company, Analysguiden (calculations)

Transport

Last summer Railcare secured access to locomotives suitable for contingency clearance through the partly owned company AC Finance. That was key to land the large standby locomotive contract it was awarded last fall, which encompasses 6 locomotives, one of which is a renewal of an existing contract. This contract expires gradually during 2030, but where an option of 1 + 1 year is included in the contract. It will add about SEK 45 m to the turnover for 2025 and in the years thereafter another SEK 35 m excluding indexation. This is in addition to the 4 existing standby locomotives for which Railcare has a contract running until the end of 2027, after which a new procurement will take place. Although the Swedish Transport Administration will be obliged to perform a public tender and choose the best price offered, there will be a number of requirements that must be met, not least regarding environmental requirements where Railcare is well placed with its brand new locomotives.

The transport business excluding the locomotive workshop has grown by an impressive 20+% per year over the past 4 years according to our calculations. While it may be difficult to maintain that pace going forward, the overall trend remains good, and the five-year contract with LKAB secured in Q4-24 and the 4+1+1 year snow clearance contract secured in January-25 further help to stabilise revenues for several years to come. As the necessary construction work on the railway is carried out, it is also likely to have a positive impact on growth in construction transport services.

However, there is further potential for positive surprises if, for example, a significant transport contract can be signed with a major industrial player in the wake of the new industrialisation of the North of Sweden as described in the Market section, but this is not something we include in our forecasts yet.

The financial targets:

1000
- ~~SEK 800~~ m in turnover in 2027
- Operating margin in excess of ~~10~~
13%

After raising its financial targets at the beginning of 2023, Railcare significantly increased them again at the beginning of 2024.

Source: Company

Technology

In Skelleftehamn, construction of the next MPVe has begun, mainly intended for Railcare's own operations and not for external sales. In 2025, however, we hope that efforts for external sales will pay off and we have already received a first outcome with Norwegian Baneservice order in February for a new Railvac with estimated delivery in early 2026. Railcare has historically succeeded in developing unique products such as the RailVac and the regular MPV, and battery conversion of diesel-powered machines is under development, so the company's innovative ability is well documented and in line with important societal trends. This should bode well for the business area, but the market is conservative, prototypes in local production are necessary and politics can come into play, so it is hardly possible to expect any quick wins and we do not assume any in our estimates.

As regards the locomotive workshop, it is difficult to forecast for many reasons, apart from the obvious fact that the activity has never been reported separately:

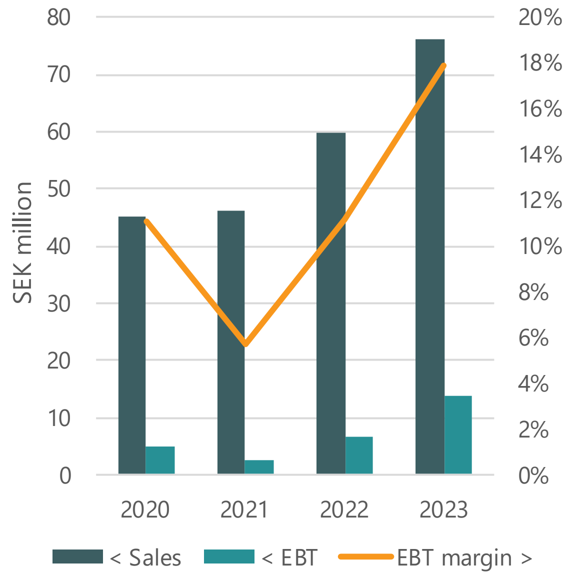
- It is a project-oriented business where each project is unique in different ways and often runs over several quarters, often at a fixed price.
- There may be a lower or higher scheduled payment of ongoing projects for a given quarter, as per our discussion above.
- Although some revenue and costs are recognised for each quarter, it is clear at the end whether the price estimates made before the tender were a little too high or a little too low, which plays a major role for the margins of the project's final quarter.
- If it is possible to find efficiency gains in repeating the same steps from locomotive to locomotive, such as in the installation of on-board equipment on five Traxx locomotives that Railcare did in 2023, higher margins can often be achieved.
- There are also different margins on different types of projects, for example between a cab refurbishment and an engine replacement, which can vary between quarters within the same project.

Fluctuations in turnover and earnings between quarters are therefore likely to remain the norm in the future, in both positive and negative directions, and for both activities in the business area. However, this is not something a stock investor should worry about. On the contrary, the overall picture is that the locomotive workshop in particular, has good growth and probably well into double-digit margins over time. Demand for its services will most likely remain high, not least in the light of the market outlook described above. An expansion of the locomotive workshop is expected to bring additional benefits beyond "more of the same", namely

- more types of services can be offered, such as wheel turning, to become more of a one-stop shop, and
- efficiency would be increased, partly through economies of scale and partly by making premises more fit for purpose.

Add to this the Minister for Infrastructure's positive statements on the need to upgrade the railway, and he might lend his ear to the industry's calls for support for the installation of on-board equipment for the new ERTMS signalling system, which is a very large cost for

Locomotive workshop



Source: Allabolag.se, Analysguiden (calculations) most rail operators. All in all, we are very positive about a likely formal decision this coming winter to expand the locomotive workshop.

Costs

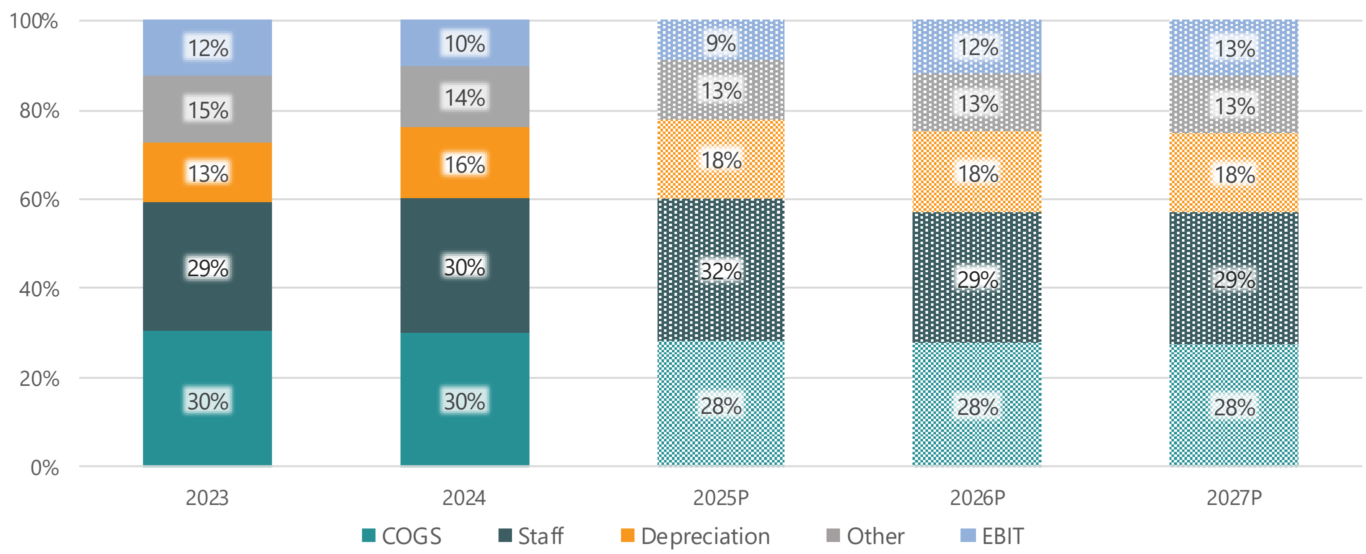
Apart from a temporary increase due to preparations for the start of the standby locomotive contract and organisational gear-up, there are no indications that the overall cost picture as a proportion of sales has changed meaningfully from before, either positively or negatively, apart from the effects of the change in accounting principles from Q4-24. The value-add in most activities is generally high, so any changes in raw material costs will have little impact on earnings. On the other hand, an increased share of revenue from contingency standby locomotives is likely to lower raw material costs as a share of total sales, so gross margins should improve, all else being equal.

The reinterpretation of IFRS16 from the beginning of the year also means that costs are moved downwards in the income statement, from Raw Materials & Supplies to Depreciation & Amortisation and Financial Expenses. Apart from clearly positive effects down to EBITDA level in the income statement, and some positive impact even further down, Cash Flow from Operating Activities is higher while Financing Activities are weighed down. The lease liability increases the balance sheet total and since several contracts are written in EUR they are translated into SEK at end-of-period exchange rate, the currency effects will be more evident in the accounts and increase between quarters without any expected impact in the longer term.

We also expect that the investments the company is preparing for – such as the expansion of the locomotive workshop – will have some impact both on the income statement and far down in the cash flow statement, but with positive effects on earnings eventually.

Staff costs are unlikely to change significantly beyond the contingency locomotives. As described above, however, an increased rate of recruitment – so far mainly of train drivers and machine operators because of the contingency locomotive business – means increased

Cost split



Source: Company, Analysguiden (calculations and forecasts, shaded) personnel costs that are not immediately matched by increased revenue, but which of course pay off in the long run. These include recruitment costs, the need for new employees to undergo training, certifications, etc. This cost package has proved to be more onerous than we had anticipated but should gradually be covered already in the second half of 2025, partly by the revenue from the contract, and partly start to fall back once the employees are in work.

As this is heavy industry, capital tied up is high. Although the self-financing ratio has been close to 200% in recent years, it should fall with increased investment going forward and with increasing external financing, not least leasing liabilities as an effect of IFRS 16, which would also be favourable for the capital structure and return on equity. Still, the company is aiming for higher margins, which is positive.

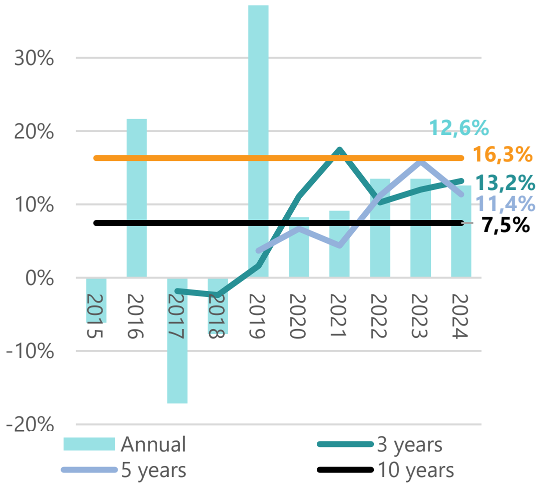
Nevertheless, a high proportion of fixed costs makes earnings sensitive to capacity utilisation. In other words, the company's operating leverage remains high, although it has declined over the years with a broadening of the service offering, more customers, an increasing share of longer contracts and a changing product mix. Yet, there will be downturns ahead, due to dips in demand as well as equipment maintenance. During the closure of Malmbanan Q1-24, Railcare, took the opportunity to do maintenance on the locomotives, as an example. Another is when increased activity had begun to take its toll on staff and machinery in H2-22. Therefore the end of 2022 was characterised by recruitment and increased maintenance needs for the machines. That lead to rising maintenance costs but also increased costs for hiring machines to replace those in maintenance. Although the company took the opportunity to take these measures during a slightly less hectic period, this is something that we can expect to recur from time to time, perhaps especially after a period of high activity.

Utilisation rate within Contracting, which is thus crucial for margins in the short term, varies over time, but is difficult to forecast and often weather dependent. Utilisation is also dependent on the planning of the jobs by the infrastructure asset owner, which in Sweden usually is the Swedish Transport Administration. With an expected larger volume, there will also automatically be some levelling out of the load, but increasing capacity is not entirely easy either. Locomotives are in short supply and trained staff are almost impossible to find. Increasing capacity means taking on more fixed costs. The company invests heavily in its employees, but in return it sets high standards for them; with the right attitude to service, flexibility and the ability to solve problems independently in the field. Once a recruitment is successful and the investment in the necessary training and certifications has been made, it takes a lot to let such a person go from the company, even if a slump occurs in the business.

The answer has been for Railcare to work more on hiring locomotives and ensuring that staff are trained as widely as possible to be able to fill in at different positions. This reduces costs and increases flexibility as staff can move more easily between sites, although it may also require more certifications and licences.

The long-term contracts that the company has signed and may sign in the future are particularly valuable in this context, as they provide both a steady workload and predictability, which facilitates efficient

Historical Sales Growth



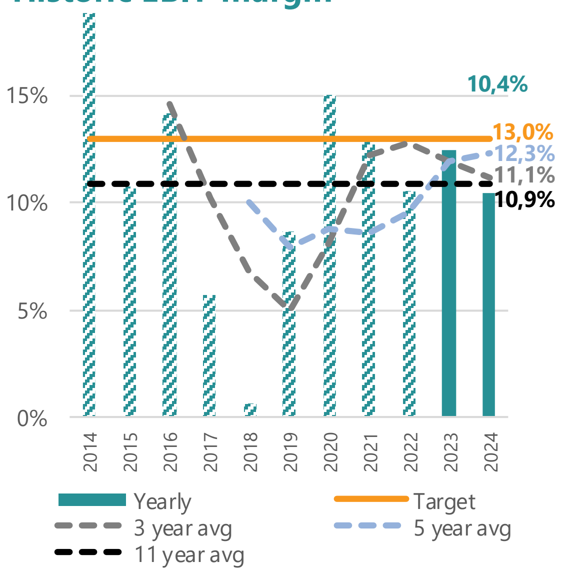
Source: Company, Analysguiden (calculations) planning. One example is Railcare's breakthrough contract with Kaunis Iron, worth a total of SEK 740 m over 10 years, to transport the ore concentrate from the transshipment station in Pitkäjärvi to the port of Narvik. Two others are the contract for standby locomotives from last autumn, and the LKAB contract in Q4. The Swedish Transport Administration's renewal and extension in January of the snow removal contract for 4+1+1 years, worth SEK 59 m per year, is similarly very valuable, not least because it provides predictable occupancy during the slow season for Contracting.

Margin development

The company's financial target is to achieve a 13% operating margin by the end of 2027. There is a reasonable chance of achieving this, and the change in accounting policy helps – for 2023 by about half a percentage point, but this figure is likely to have increased significantly with the increasing number of locomotives hired. Other factors pointing to the margin target being achievable are:

- The Swedish Transport Administration pays more for work that is performed sustainably. This applies not least to sensitive work that can almost only be carried out with the MPV – and thus meets the zero emission requirements – such as work in city centres, tunnels, etc, something that can hopefully increase in the future and which Railcare is preparing for with the construction of another MPV now.
- It is also reasonable that Railcare, as one of very few operators that fulfils the increasingly stringent environmental requirements of the Administration and has proved reliable and flexible in previous deliveries of contingency clearance services, has had room to negotiate a premium for this.
- The locomotive workshop is also likely to have margins that reflect the high demand for their services over time, although they vary between quarters depending on the nature of the projects as we saw last year. Over time, the growth of the locomotive workshop should also reasonably make its share of turnover rise, thereby helping the average margin.

Historic EBIT-margin



Note that the years up to and including 2022 are based on numbers reported according to the old accounting principles, which may mean a certain underestimation of the operating margin compared to today's standard, however, the effect is likely to be small, as the leasing amounts at the time were significantly lower than today.

Source: Company, Analysguiden (calculations).
Striped/dashed = earlier accounting standards.

Income statement, SEKm

	2018	2019	2020	2021	2022	2023	2024	*2025e*	*2026e*	*2027e*
Net Sales	270	371	401	438	497	564	635	*703*	*853*	*980*
Other operating income	7	9	20	15	15	18	25	*30*	*32*	*37*
COGS	-142	-177	-181	-204	-269	-262	-289	*-303*	*-360*	*-410*
Gross Profit	135	203	241	249	243	321	372	*430*	*525*	*607*
Staff	-108	-120	-125	-139	-146	-170	-197	*-236*	*-260*	*-300*
Other operating expenses	-1	-1	-2	-2	-2	-3	-2	*-2*	*-2*	*-2*
EBITDA	26	82	114	108	95	147	173	*192*	*263*	*305*
Depreciations	-24	-50	-53	-52	-43	-77	-106	*-129*	*-160*	*-180*
EBIT	2	32	60	56	52	70	66	*63*	*103*	*125*
Net financial items	-5	-6	-5	-4	-5	-12	-26	*-19*	*-30*	*-34*
EBT	-4	27	56	52	47	58	41	*45*	*73*	*91*
Taxes	2	-6	-12	-11	-10	-14	-10	*-11*	*-18*	*-23*
Net result	-1	21	44	41	37	44	30	*34*	*55*	*68*

Source: Company, estimates Analysguiden

- To this should also be added a more even utilisation in Contracting, not least with an increasing number of long-term contracts, which should benefit the average margin going forward, even if more "pit stops" weighs on margins, as Railcare brings in a lot of subcontractors and thus keeps a lower share of the added value.
- If the haemorrhaging can finally be stopped in the overseas part of the contracting business, that is of course also a great help.

Overall, we believe that the operating margin target will not be easy to achieve, but that it may come within reach towards the end of the period.

Forecast summary

In summary, we consider the sales target to be a little harder to reach after a weaker-than-expected first quarter, but management says it is no less confident about the targets today than when they were set, so we look forward to being pleasantly surprised. We believe that the road to get there will involve margins a fair bit below the target, partly because it now needs to grow into its new, larger costume, and partly because it is likely to invest in the expansion of the locomotive workshop in 2026.

In our forecasts, we arrive at sales of SEK 980m for 2027 (+15%), after having revised down 2025 to just over SEK 700m (+10%) and 2026 to just over SEK 850m (+21%). We estimate that the operating margin will be 9% this year after the weak start to the year, to increase to about 12% in 2026 and almost reach 13% for 2027.

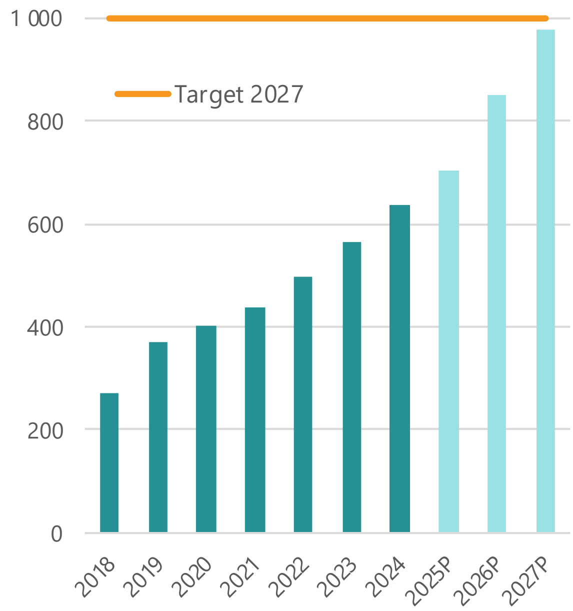
In the years thereafter, we conservatively project a growth rate of 10-11% – albeit lower in 2031 and 2032 when the standby locomotive contract expires – and an operating margin of 12-12.5%. Should the business grow faster, which is by no means impossible, there will be some cost to margins in the investment periods, but offset by the bottom-line improvements in the longer term.

Cash flow still looks good thanks to strong operating results, although growth comes at the cost of increased working capital and necessary investments, with an investment in the locomotive workshop becoming increasingly likely. Towards the end of 2027, after Railcare's likely investment hump, the question of raising the 30-40% dividend payout ratio may well surface again, unless new interesting investments become relevant.

Valuation

NOTE: The change in accounting principles from the beginning of the year, where IFRS16 has been reinterpreted to include leased locomotives in the balance sheet, has clear effects on most profit measures, some balance sheet items and cash flow items. Earnings are affected by reduced gross costs as no lease payments are included anymore while the leased assets increase depreciation and interest costs. This means that valuation multiples are lower – by different amounts for different multiples – and the cash flow measures are higher, partly because the profit measure is higher and depreciation add-back increases. Unadjusted, this has the effect of making the stock appear cheaper than before, so we adjust it with

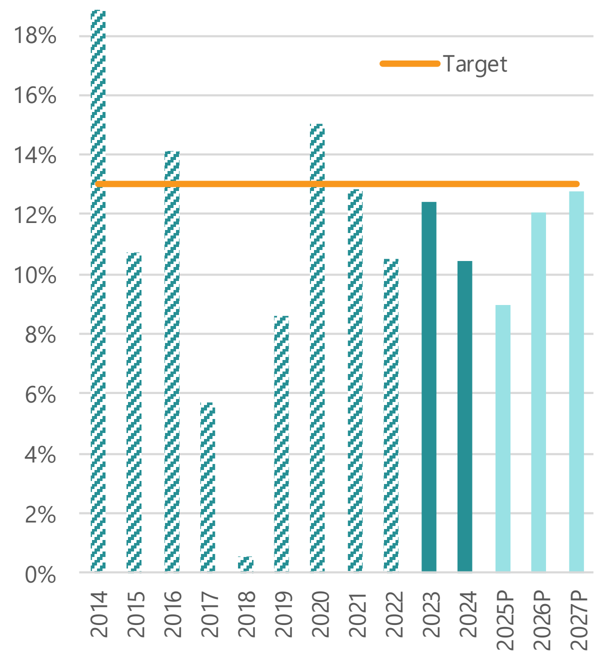
Sales forecast, SEKm



The new contract for standby locomotives is clearly visible at the 2026 jump.

Source: Company, Analysguiden (forecasts)

EBIT-margin, forecast



Note that the years up to and including 2022 are based on figures reported according to the old accounting principles, which may mean a certain underestimation of the operating margin compared to today's standard. However, the effect is likely to be small, as the leasing share was previously significantly lower than today.

Source: Company, Analysguiden (forecasts) *a slightly higher required rate of return, as the debt ratio has increased, and a lower terminal multiple as earnings multiples fall.*

After being one of the very few stocks to sail through the stock market turbulence unaffected in early April, the stock dropped on the Q1 report. The drop in the share price means that there is significant upside potential according to our estimates. Despite the change in accounting principles, the P/E ratio ends up at 20.0 for the current investment-heavy year according to our estimates. After this summer though, investors' focus will increasingly shift to next year when it drops to 12.3 and then 9.9 for 2027 according to our forecasts. Even allowing for IFRS 16, this is considered low in the context of a very solid, cash flow positive and dividend paying company that is expected to continue to grow by double digits for many years to come.

An attractive P/E ratio is good, but the focus of our valuation of the Railcare share is on a discounted cash flow model (DCF), since we have a good basis for forecasts and can capture the dynamics of the company's development in a DCF and then reconcile this with other valuation indications.

Cash flow valuation

Our required return on equity in the company is based on the risk-free 10-year government bond yield, which is 2.2%, to which we add a general risk premium for equity investments of 6%. In addition, there is a small-cap and illiquidity premium, which we lowered to 2.5% in our previous analysis in view of the company's increasing proportion of longer-term contracts and the improving breadth of its product range, but which we are now raising back to 3% in view of the accounting changes. In total, this adds up to 11.2%. This is still relatively high for a company in such a mature industry but reflects both some operational volatility based on high fixed costs, and low liquidity in the stock due to both the company's small size and a low free-float. Nevertheless, it should be noted that the liquidity of the stock has increased significantly over the past year compared to earlier, but it is still low in absolute terms.

Considering the accounting changes, we lower the final multiple as noted above, conservatively from 12 to 11. With this and the forecasts in the previous section, we get a justified price of SEK 45 at the end of 2027, which discounted to today is SEK 36. If we were to sketch a conservative extension of the forecast period to 2035, assuming that the standby locomotive contract expires after one of two optional years without being replaced by any other revenue and the rest of the business grows by 10% to SEK 2 billion in 2035, while the operating margin is around 12-12.5%, it justifies significantly more than twice today's price, with the same required return and given that the share is traded at P/E 11 in 2035.

Let's not forget that this is for a stock that is very little affected by the business cycle and thus also adds other qualities to a diversified equity portfolio.

Multiple valuation

Multiples are single-period measures, which are much "poorer" models than a discounted cash flow model. They do not capture the dynamics of company performance as a DCF calculation can. However,

Justified share price

Sensitivity analysis to 2027

Justified price	Discount rate --->						
<--- P/E 2027 ---	9%	10%	**11%**	12%	13%	14%	15%
6	26	25	25	24	24	24	23
7	28	28	27	27	26	26	25
8	30	30	29	29	28	28	27
9	33	32	31	31	30	30	29
10	35	34	34	33	32	32	31
11	37	36	**36**	35	34	34	33
12	39	39	38	37	36	36	35
13	42	41	40	39	39	38	37
14	44	43	42	41	41	40	39
15	46	45	44	44	43	42	41
16	49	48	47	46	45	44	43
17	51	50	49	48	47	46	45
18	53	52	51	50	49	48	47

If the company meets our forecasts for EBIT margin and revenue growth up to and including 2027, the table shows the justified price today, given the required return on investment (discount rate) and the P/E multiple at which the share is expected to trade towards the end of 2027.

Source: Analysguiden

In the longer term

Justified price	Discount rate --->						
<--- P/E 2035 ---	9%	10%	**11%**	12%	13%	14%	15%
6	63	59	56	53	50	47	45
7	65	61	58	54	51	49	46
8	68	63	60	56	53	50	47
9	70	65	62	58	55	51	49
10	72	68	63	60	56	53	50
11	74	70	**65**	61	58	54	51
12	77	72	67	63	59	56	53
13	79	74	69	65	61	57	54
14	81	76	71	66	62	59	55
15	84	78	73	68	64	60	56
16	86	80	75	70	66	61	58
17	88	82	77	72	67	63	59
18	90	84	79	73	69	64	60

If the standby locomotive contract expires without being replaced and the rest of the business grows only 10%/year over the following eight years after 2027, while the company achieves an EBIT margin in line with the company's 13% target, then the justified price today will be even higher with the same assumption of P/E ratio at which the share is expected to trade at the end of that period.

Source: Analysguiden

they have the advantage of being simple and are therefore widely used, which is why we include some of them here:

- The current year's P/E ratio is 20.0 and next year's 12.3, coming down to 9.9 for 2027 with our forecasts. This does not seem expensive given the growth, quality and potential that the company possesses and which we have described above.
- The same reasoning also applies to some extent to EV/EBIT, which is 18.4 for 2025, 11.3 for 2026 and 9.3 for 2027, which is not as unequivocally cheap.
- EV/Sales of 1.7 for 2025, 1.4 for 2026 and 1.2 for 2027, are not similarly disrupted by the current cost or investment hump, but on the other hand do not capture the growth of the company well, but not expensive.

Multiples are perhaps mainly used in comparisons with similar companies, but this is not easy in Railcare's case, as the railway market for maintenance is fragmented into small niches and the companies are usually either unlisted, part of very large groups with only a small part of their turnover in railways or part of a large international group with a lot of railway business, but of which only a small part is attributable to Sweden or to Railcare's niches.

Valuation of equity capital

Another approach is to look at the valuation of equity and the level of its return. At the end of March, equity per share stood at SEK 12.1. The current share price thus indicates a valuation of 2.3 times equity. At the same time, the return on equity (ROE) is just over 11% for the last 12 months and just over 18% on average for the last four financial years. These figures should be put in relation to our required return of 11.2%, thus showing a value of SEK 12 to 19 per share.

There may be several reasons why this method indicates a lower value, but the main reason is probably that it does not account for the growth of the company, which is expected to be strong in the coming years.

Conclusions

A new long-term contract taken during Q1-25, this time for snow removal, the agreement with LKAB last autumn, the giant order for standby locomotives in Oct-23, the Kaunis deal, better stability and growth in the contracting business, continued success with the locomotive workshop and clearer potential for external sales of the self-developed machines are all undeniably exciting and have drawn the attention of the stock market to Railcare's potential over the past year.

With more emphasis on the dynamic cash flow valuation, our valuation methods point to an upside of 30%, or around SEK 8 per share today. With a longer horizon than 2027, the potential is much greater. And there are additional reasons to consider an investment:

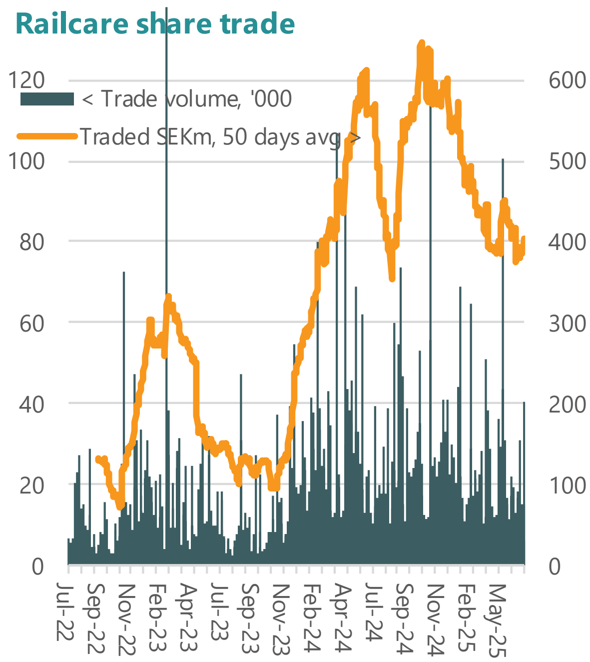
- We have not been particularly aggressive in our assumptions: excluding the locomotive deal, we have roughly the same margins and growth assumptions going forward, compared to what the company has performed in recent years.
- There is potential both in further "pit stop assignments", external machine sales and in the medium term in the locomotive

Return on Equity

If the return on equity significantly exceeds the required rate of return over time, the share price should reflect this. Now equity is valued at 2.1 times. The valuation model tends to underestimate value when growth is not taken into account.

Source: Analysguiden

Railcare share trade



The revaluation of the share appears to have started just before the end of the year, leading to an increase not only in the share price but also in the number of shares traded.

Source: Refinitiv

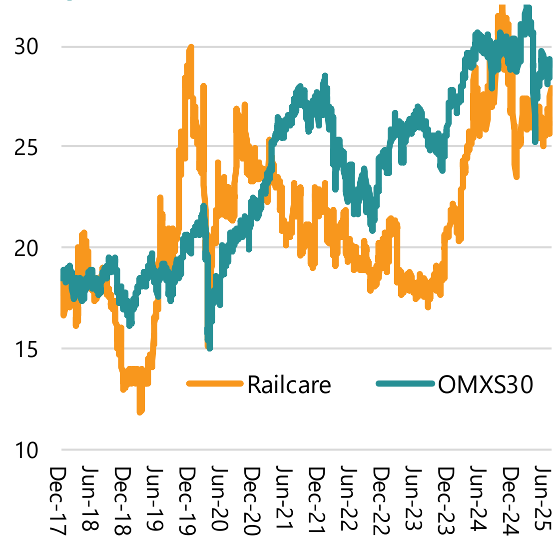
workshop expansion and another major contract. None of this has been included in our forecasts.

- It is a cyclically insensitive business that does just as well in a downturn in the economy or stock market, as we have just seen.
- Its nature also means that an investment in the stock offers good portfolio characteristics in a diversified equity portfolio.

Even if there were to be a temporary dip in occupancy, and hence earnings, both should be well placed to recover quickly, given the budget cycle of the Swedish Transport Administration, increased public demand for maintenance and growing transportion needs on the railways.

The possibility that Railcare, with its innovative products, could be the subject of a takeover cannot be entirely disregarded either, although the current ownership structure may not facilitate such a deal.

Share price since IPO



Source: Refinitiv

Risks

Railcare operates in a highly capital-intensive industry with high fixed costs, not only for fixed assets, but also for staff who are difficult to recruit, have a long induction period, and who the company is reluctant to let go. In other words, the operational leverage is relatively high. Demand for the company's services can vary quite significantly at short notice, and historically there have been occasional slumps in capacity utilisation. Earnings have therefore been quite volatile, and although they have improved over the last 3-4 years, the underlying characteristics remain and effects of that may emerge in the future.

A tangible risk, albeit perhaps primarily on a human level, is safety on the railway. Railcare's motto is "We do it safely – or not at all". Nevertheless, accidents can of course occur in such a dangerous technical environment, which in addition to personal tragedies can mean damages, reputational risks, loss of revenue, etc. for the company that insurances does not cover.

Too few locomotives are produced from a market perspective, and although Railcare owns a number of locomotives and last summer secured access to shunting locomotives through the deal with AC Finance AB, locomotives are also leased from other sources, e.g. mainline locomotives for long haulage assignments. If a shortage arises, it may be difficult or expensive to renew leases to have enough machines to deliver against customer commitments, or Railcare's growth may be hampered by the lack of locomotives. It is a shortage that is not easily remedied.

Railcare's overseas ventures or machine sales have so far not borne fruit despite attempts over many years. Competition is very different in the larger international markets, and in a conservative industry with government buyers, officials are likely to opt for domestic suppliers, rather than take the risk of an innovative new entrant, so while Railcare has proven its technology and service delivery at least at home, it remains to demonstrate the commercial viability of these in an international market.

Market, products & services

The railway market, both for construction and services, is a conservative industry with heavy state dominance. Although the market is mature, it has seen improved growth prospects in recent years, mainly due to increased climate awareness as rail transport is very energy efficient, but also the expansion of heavy industry in the north of Sweden, a serious maintenance backlog and increased interest from the Swedish Armed Forces. A few high-tech niches in the market are also showing very good growth.

Contracting

In Sweden, 90% of the railways are still managed by the Swedish Transport Administration, which thus constitutes the lion's share of the contracting market. A market that is characterised by a completely dominant buyer – and a government buyer at that – will have its terms and conditions largely determined by the buyer and will not necessarily be rationally market-driven. A concrete example is the way in which maintenance works are planned, communicated and contracted. Within established framework agreements, specific works are outsourced to the contracted suppliers. However, the lead time has sometimes been short, the works have been small parts of larger projects and undesirable gaps have arisen between the works, which makes it difficult for the suppliers to have visibility, to plan, work efficiently and to ensure an even workload over time. However, some improvement has been noted lately, albeit from a low level.

Many of the big jobs, not least in construction of new railroads, are carried out by the major construction contractors InfraKraft, Sweco, WSP, Ramböll and others, and more specific ones such as NVBS, Ricardo Rail, Systra and others, often specialising in specific niches in the rail market, like Railcare. Railcare's niche is maintenance in special environments such as railway yards, tunnels, etc. that are difficult to access and narrow, as well as sensitive to exhaust fumes and noise. It also means that RailCare is at the forefront of sustainability. They have had to improve existing products and develop new ones for their own needs, as their working environments are particularly demanding.

Working in such environments also places high demands on planning, coordination and time management. Often jobs have to be done at night to avoid disruption to traffic flows that must continue to run as usual, which places high demands on discipline, flexibility and a solution-oriented approach from those carrying out the work. This is achieved by Railcare through a good human resources policy, a flat organisation and extensive training, which promotes low staff turnover, experienced staff and professional pride.

The Swedish part of the contracting business has somewhat quietly grown better and achieved a more even utilisation over the past 3-4 years, which has also been reflected in a more even margin development. This is partly because the company has found and focused on niches where it has advantages with its ingenious technology – such as in snow removal and lining operations – but also because it has been able to take greater advantage of its organisational structure with broadly trained staff, a solution-oriented culture and the

Relining

Over time, drums and bushings under the rails become damaged, but instead of a costly replacement, Railcare relines the drum by lining the inside with a multi-layered, hard fibreglass tube.

Source: Company

Ore transport

Railcare transports Kaunis Iron ore the 22 kilometres from Pitkäjärvi to Narvik. Each train set consists of 2 locomotives and 36 wagons and carries an average of 3100 tonnes. Railcare runs two train round trips per day, seven days a week, resulting in a volume of approximately 2.3 million tonnes of iron ore per year.

Source: Company

company's relative smallness, all of which provide flexibility. Recently, the Swedish Transport Administration's more forward-looking approach to contracting work has also contributed to visibility and efficiency, and the new long term snow clearance contract will also provide a more consistent workload and greater predictability.

However, the business area with its specialised machinery has a much higher operational leverage than, for example, the transport business – if there are no jobs for the machines, they stand idle and cannot be used elsewhere. There is a high level of dependency on what is essentially the only buyer of the services. The "pit stop" in Q2-24, which had a strong positive impact on both sales and earnings, gives an indication of how the contracting business may change as the Swedish Transport Administration's new working methods have an impact in the future. In combination with an increased focus on railway maintenance in general and Railcare's machines and expertise in particular, the coming years could turn out to be really favourable.

RailVac

Railcare's RailVac works like a giant vacuum cleaner that sucks up the old ballast, for example when replacing ballast or lowering cables, as here during maintenance projects in northern Sweden.

Source: Company

Transport

The corporate culture has also favoured the development of the operations in the Transport business area, where Railcare's delivery reliability and flexibility seem to have been a clear advantage in winning tenders. A breakthrough for Railcare was the uniquely long 10-year contract won with Kaunis Iron for ore transports from Pitkäjärvi to the shipping terminal in Narvik starting in August 2018. Central to good delivery is flexibility – e.g. regarding such things as problems in the mine, variations in ore grade, docking times for the ships, etc. – and quick detailed decisions in the field to reduce stop and go times and get cycle times down to a minimum, which suits Railcare's way of working.

Following the breakthrough deal with Kaunis Iron, Railcare has received recurring assignments from LKAB for ore transport, albeit for shorter periods. The latest started at the end of March 2022, after a break during the first quarter from previously having assignments during 2021. Therefore, it was very gratifying that the company received a long-term assignment from LKAB last autumn.

However, the example of LKAB shows the problem of utilisation. In the first quarter of 2022, there was no assignment from LKAB, nor did anyone else utilise these resources. It was possible to work with other things to some extent, but the risk is that you are left with expensive machines and staff you have invested a lot in that you do not want to release for a shorter period. The staff is attractive and it takes time and money to recruit and train when demand returns. Redirecting resources involves set-up costs and is also not free and may be dependent on certifications. The problems are the same in Contracting and when they occur, it obviously weighs on margins but must be considered part of the business.

That cost was clearly visible in the first quarter of 2022. The break in the LKAB deal meant that the margin in Transport Scandinavia collapsed relentlessly to zero, while at the same time, at group level, however, Contracting Sweden did all the better and offset Transport Scandinavia's weak quarter.

Despite such air pockets, Transport has, perhaps somewhat unexpectedly, emerged as Railcare's rising star in recent years, and it improved further with the major contract for standby locomotives in autumn 2023. Both sales growth and margins have been well above the group average, albeit with variations in individual quarters.

Technology

RailCare's Technology business area includes RailCare's machine development, and from the turn of the year also the locomotive workshop, which was previously part of Transport and which carries out repairs, maintenance and upgrades both for external customers and for the company's own machinery. In Technology, several innovations have seen the light of day, such as

RailVac: This was the starting point for the company and is actually like a giant vacuum cleaner for the ballast, i.e. the macadam that lies under the rails and sleepers and which provides a shock-absorbing function. When it starts to lose this ability after a certain period of time, it needs to be replaced and then the old one must first be removed, which RailVacen is excellent at doing, especially in crowded environments. RailVacen also minimises the risk of damage to the cables that always run adjacent to the rails and about half of its jobs are specifically cable lowering.

Ballast Feeder: This is the next step in the ballast change process, where the new ballast has to be applied evenly and with precision in an efficient way. For this, Railcare developed its Ballast Feeder.

Snow removal machines: Railcare also started using its vacuum technology for gentle snow removal on the tracks and has most recently developed a snow melter that eliminates the problem of having to transport the snow away from a railway yard, for example. In January, the Swedish Transport Administration extended the contract with Railcare for snow removal for a further 4+1+1 years, worth SEK 59 m per year.

The MPV: The latest major addition to the product range is the MPV, the Multi Purpose Vehicle, which is like a giant power bank on rails. It has so far been paired with the RailVac, but can also be used in other contexts. It allows for exhaust-free and much quieter operation in environments where the overhead line power – if there even is one on site – cannot be switched on for safety reasons. In March 2023, for example, it was used for work in the Stockholm City Tunnel, where it fits perfectly. Its successor, the MPVe, with a pantograph so that the batteries can be charged if there is overhead line power on site or nearby, has just been launched.

Much of the product development Railcare has done has originated from its own needs. However, they are not alone in developing specialised machines. There is everything from small competitors like EuroMaint and Svensk Järnvägsteknik on the Swedish market, to large companies like French Alstom and Spanish CAF.

Railcare has previously enjoyed some success in selling the RailVac abroad, but otherwise external sales of products from Technology have been limited. A major reason has been not to favour competitors in markets where Railcare offers its own services, and no great success has been achieved in other foreign markets. This means that the value of the innovation capability is curtailed, and we do not attach much value to it beyond the protection of the niches in which the company

Snow removal machines

In addition to traditional snow removal machines that just move the snow, Railcare has developed machines that melt the snow for use where removal is impractical or expensive, such as railway yards in densely populated areas.

Source: Company

Ballast Feeder

A Ballast Feeder facilitates the precise placement of the gravel that lies as a shock-absorbing layer under the rails.

Source: Company

otherwise operates, mainly in the Contracting business. Should this change in the future, for example with the MPV, there is significant potential in this business.

Organisation

Railcare is committed to a flat organisation with short decision paths and decentralised operational decision-making. In plain language, this means that staff in the field have the authority and competence to solve problems that arise and that the company's overheads are reduced. Employees grow with responsibility, professional pride increases, and an entrepreneurial spirit permeates the company.

This has several effects:

+ Happier customers, as problems are resolved faster and smooth delivery is facilitated.
+ Happier employees who are recognised and become good ambassadors for the company.
+ Better margins thanks to fewer stops and fewer people involved in solving small problems, and lower overheads.

– A higher investment in each employee to raise skills, which means longer introduction period for new employees and greater vulnerability in case someone leaves.
– Greater sensitivity to staffing levels, as there is a reluctance to lay off skilled staff as it is difficult and expensive to recruit and train.

Overall, Railcare's way of organising itself appears to be one of the most important factors in the company's success in competition with often much larger and more sluggish companies. This is perhaps most evident in the Transport business area, which has both grown faster and had better margins than Contracting, even though the latter has benefited from internal product development.

Management and owners

Mattias Remahl, who has a background in the mining industry from Boliden, where he was CFO of the Mines business area, has been CEO since autumn 2021. This is of course positive for Transport, as Mattias has a great understanding of mining customers' flows, calculations and priorities, but he also brings a lot of expertise and other perspectives from another heavy industry to the other business areas. In August 2024, the company management was also strengthened with a new CFO, a safety manager joining the management and an HR manager in the autumn.

Ownership in Railcare is, as is often the case in smaller companies, relatively concentrated in a few hands. Interestingly, in this case, it is not primarily founder hands, but other long-term, institutional hands. This is the case after the founders and former main owners Ulf Marklund and Leif Dahlqvist sold their remaining holdings in the autumn of 2021 to Norra Västerbotten Fastighets AB, now Norman Invest AB, which together with Treac AB are locally anchored business developers.

MPV

Railcare's new MPV, Multi Purpose Vehicle, is like a giant power bank on wheels and connects to other machines as a power source. A RailVac with an MPV can run a full shift, eight hours, non-stop.

Source: Company

Largest share holdings, %	No of shares	Share, %
Norman Invest AB	7 121 395	29,5%
Swedia Capital AB	2 434 128	10,1%
Försäkringsbolaget Avanza Pension	776 771	3,2%
Bernt Larsson	750 987	3,1%
Canaccord Genuity Wealth Management	599 906	2,5%
Mikael Gunnarsson	507 000	2,1%
Nordnet Pensionsförsäkring AB	338 720	1,4%
Torsten Germund Dahlqvist	296 951	1,2%
Per-Åke Nilsson	275 000	1,1%
Harry Markku Sjöblom	270 000	1,1%
10 largest, total	**13 370 858**	**55,4%**
Other holdings, total	10 753 309	44,6%
Shares issued, total	**24 124 167**	**100,0%**
Total No of shareholders	5 140	

Most of the shares held by the 10 largest owners can probably be considered long-term positions and certainly several more that fall outside the top ten list, so the free float is probably a bit below 50%. Combined with a market capitalisation of just over SEK 600 m, the liquidity of the share is hampered, although turnover has increased significantly over the past year. The median turnover for a trading day last year was close to SEK 500,000, compared with about SEK 200,000 previously. For those with slightly larger capital to invest, this still means that it takes time to build a position as well as to get out of it, unless a block trade is possible. This means that a certain small-cap premium is still justified when valuing the share.

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The analyst Johan Voss-Schrader does not own and is not allowed to own shares in the analysed company.

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