ANALYSGUIDEN
av Aktiespararna

COMMISSIONED RESEARCH

# Rapid recovery in Q2

## Recovery from Q1 stronger than expected

Revenue for the second quarter was roughly the same as last year at SEK 178m (180 for Q2-24) and close to our forecast of SEK 183m. Operating profit improved slightly to SEK 18.1m (17.1), which was better than the SEK 16m we expected.

Transport's sales growth – mainly attributable to standby locomotives – was not quite as high as we had expected, despite support from a strong quarter for construction transport. Contracting's sales were also slightly lower than in the very strong Q2-24. However, Contracting's earnings were significantly better than expected, partly due to a further increase in the volume of lining work and despite continued problems in the UK. Another positive surprise was Technology, with EBIT just over SEK 2.5m (-0.7) on sales of SEK 36.7m (27.6), also higher than expected.

Overall, this resulted in an operating margin of 10.2% (9.5% Q2-24; our expectation: 8.7%) for the Group, despite continued ramp-up costs for both the standby locomotives and a larger organizational footprint to accommodate additional business. Further down the income statement Net Financial Items were weighed down by a weaker krona, however, which affected the translation of the lease liability – which will have an impact from quarter to quarter without any real significance.

## New orders needed to achieve targets

We expect the recovery to continue into the seasonally strong Q3, partly due to the full effect of the standby locomotives already introduced, and also to continued good volumes of construction transport on top of the long-term contracts. For Construction, group management assesses that "the pressure is up", so the more precise outcome for Q3 will probably depend more on mix than on volume. We expect Technology to maintain the good numbers from Q2, so overall we are aiming for a new revenue record for the Group of SEK 185m (169) and an operating margin of just over 12%.

The company's management appears no less confident now than before about achieving the 2027 targets, and given the large, prestigious assignments the company has received over the past two years, there is good reason to believe that new ones will follow. This is necessary to achieve the company's financial targets, but our calculations show that it would not be a disaster for the valuation if they are not reached.

## The valuation points to good upside potential

Again, this quarter, our minor forecast changes do not significantly affect the justified share price, which remains at SEK 35 per share. In the longer term, however, there is considerably more potential. Added to this is the business's insensitivity to economic cycles and good portfolio characteristics due to the diversification provided by including the share.

# Railcare Group AB

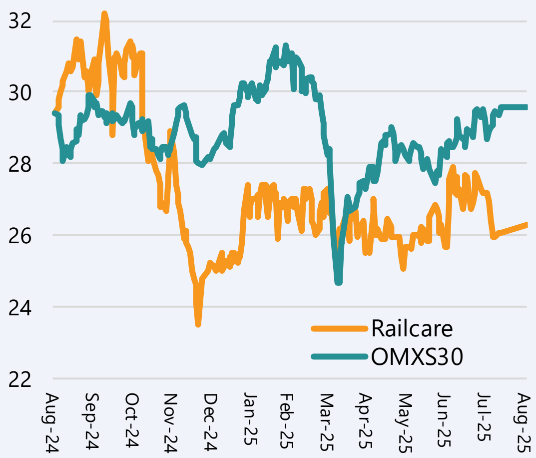
## Report Comment - Q2 2025

| | |
|---|---|
| Date | 01 September 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, 1/9 2025 | 26,30 |
| Shares outstanding (millions) | 24,1 |
| Market cap SEKm | 634 |
| Net debt SEKm | 487 |
| Enterprise value SEKm | 1122 |
| Home page | www.railcare.se |
| Justified price | 35,00 |
| Next report | 06 November 2025 |

## Share price past year




Source: Refinitiv

## Estimates & Key Ratios, SEKm

| | 2024 | 2025e | 2026e | 2027e |
|---|---|---|---|---|
| Turnover | 635 | 669 | 820 | 1 000 |
| Gross profit | 372 | 430 | 520 | 620 |
| EBIT | 66,3 | 64 | 95 | 129 |
| EBT | 40,8 | 42 | 62 | 88 |
| Net profit | 30,4 | 32 | 47 | 66 |
| Earnings/share, SEK | 1,26 | 1,33 | 1,95 | 2,74 |
| Dividend/share, SEK | 0,70 | 0,70 | 0,70 | 1,00 |
| Sales growth | 12,6% | 5,3% | 23,0% | 21,3% |
| Gross margin | 58,5% | 64% | 63% | 62% |
| EBIT margin | 10,4% | 9,6% | 11,6% | 12,9% |
| Net debt / Equity | 1,8 | 1,6 | 1,5 | 1,3 |
| Net debt / EBITDA | 1,4 | 1,1 | 0,9 | 0,8 |
| P/E ratio* | 20,0 | 19,8 | 13,5 | 9,6 |
| EV/EBIT* | 17,2 | 17,5 | 11,8 | 8,7 |
| EV/Sales* | 1,8 | 1,7 | 1,4 | 1,1 |
| Dividend yield* | 2,8% | 2,7% | 2,7% | 3,8% |

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

Source: Company, Analysguiden (all estimates)

# Investment case

## Good market overall and locally

Since its formation in 1992, Skellefteå-based Railcare has steadily developed innovative solutions for railway maintenance – primarily for its own needs in construction work on the tracks, but also for sale when it does not compete with its own operations. The railway market is now growing, while the maintenance backlog from previous years of neglected investment is at a record high, which guarantees 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 major players in the market. This specialisation provides protection for margins and against competition even when the economy slows down.

## Low sensitivity to economic cycles

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 for 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 economic cycles is low, earnings can still vary considerably over time, as operational leverage is high due to a high proportion of fixed costs for both machinery and labour. The key to steady profit growth lies in finding ways to reduce fluctuations in capacity utilisation at the Group level, for example through long-term contracts, which have been won to an increasing extent.

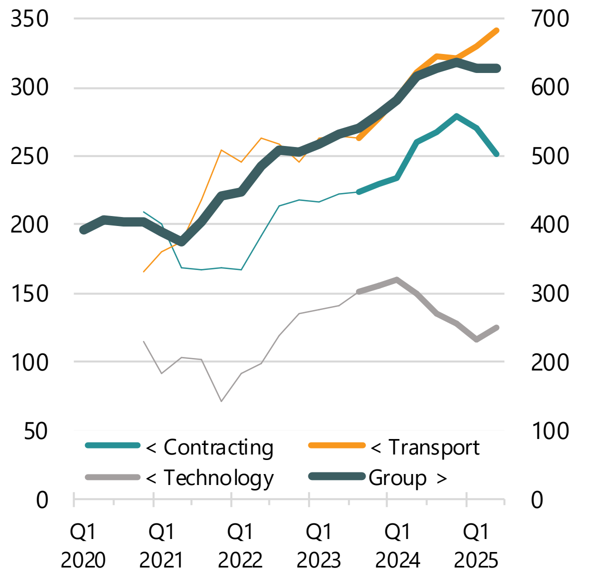
## The share still has clear potential

With our forecasts almost in line with the company's financial targets over time, we see an upside potential of 30% in the share price today, and significantly more with a longer horizon than 2027. Still, there is room for upside surprises. A likely expansion of the locomotive workshop, new "pit stop" contracts and a breakthrough for external sales of Railcare's unique machines is exciting are such examples.

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 a continuing risk of fluctuations in capacity utilisation with accompanying variation in earnings.

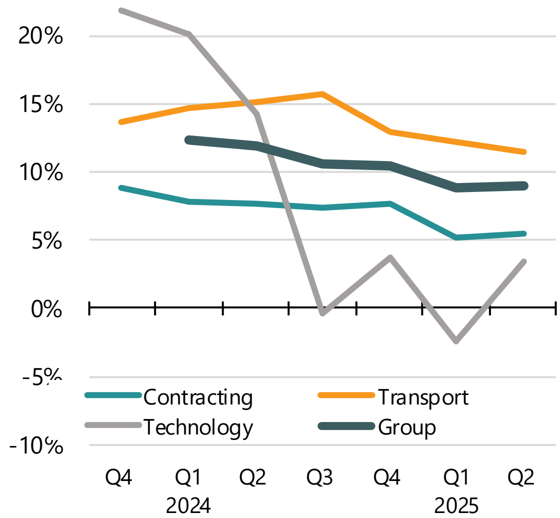
Nevertheless, the stock remains clearly attractive at these price levels, not least in a slightly more challenging stock market climate and given the favourable diversification effect that an investment has on most portfolios.

## Sales roll. 4Q

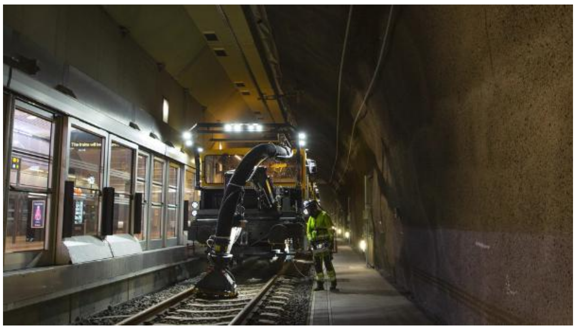



Source: The company (thick line), estimates from Analysguiden (thin line)

## EBIT-% roll. 4Q




Source: The company (thick line), estimates by Analysguiden (thin line)



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

# Market development

## Pressure is mounting and changes are here

According to a [report from 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 in particular to infrastructure construction. The previous steady productivity growth of 1-2% per year was interrupted in the 1990s, but if the trend had continued as in other industries, SEK 225 bn would have been saved, according to the report, which advocates more innovation and new working methods as a solution to the problem.

Last autumn, the government announced that a total of SEK 1,200 bn would be spent on infrastructure investments over the next 12 years, of which 210 bn would go towards the operation and maintenance of railways. 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 focus from the government and the Transport Administration to dare trying new approaches, according to the report. According to Tågföretagen, the increased investments will only be enough by 2037 to cover 10-15% of the enormous maintenance debt that has built up over decades. It is estimated at SEK 91 bn today and thus fall to 78 bn in 2037 after the announced investments. The situation is worst for the catenaries, where almost 40% are considered technically worn out according to the agency.

A trickle of new money is now coming in, not the rivers that would be needed, but spending taxpayers' money on railway maintenance is unfortunately not an election winner. However, focus on efficiency has started to come from above, including in the government bill from October last year, to bring about a necessary cultural change. This fits in perfectly with Railcare and CEO Mattias Remahl's pit stop model for project execution, which the company tested for the first time last summer. According to this model, all work on the line is carried out in parallel, resulting in significantly shorter track closures and increased efficiency. Working more efficiently does not have to be more expensive, and innovative players such as Railcare are ready and willing to help the Transport Administration in this regard.

The Transport Administration will receive new guidelines and funding in the new national transport infrastructure plan to be presented by the government in spring 2026. The Administration expects market growth of around 10% per year for many years to come. According to Railcare, the ambitions for increased efficiency start to show in reality, as the Administration is improving at "getting the money out on the tracks". The problem with increased resources is finding the time on the tracks to implement the measures, where there is competition with increased traffic in tracks that already have declining capacity due to, for example, speed restrictions on poorly maintained stretches. This in turn requires changes in working methods, including more night work, seasonal adjustments and more extensive jobs when the track has to be closed anyway.

Change is difficult, time-consuming and almost always meets with internal resistance, but the current situation is not only leading to passengers choosing other transport options, such as air travel, over the

## Transport needs in Norrland

Although some investments in heavy industry have not been successful – at least not yet – new needs have arisen, not least due to the deteriorating geopolitical security situation and Sweden's entry into NATO.

**1. Troop and equipment transport**

Source: nato.org

**2. Green mining and steel industry**
The green transition requires new minerals, ranging from high-grade iron ore for direct reduction with hydrogen to copper and rare earth elements for electrification.

Source: Kaunis Iron

Not just one, but two giant companies in fossil-free steel production have been started in the north, with the transport needs that these operations entail: Hybrit and Stegra (formerly H2 Green Steel).


Source: Stegra

train. More importantly, the problems mean increased administration, costs and potentially lost business and investments for many companies due to delays and cancelled transport. The lack of capacity on the railways increasingly risks stifling their growth opportunities. This has led to voices being raised even in large companies. In other words, larger factions of public opinion are pushing for change, which will benefit both construction and transport businesses in the short and long term.

## NATO membership

Sweden's NATO membership 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.

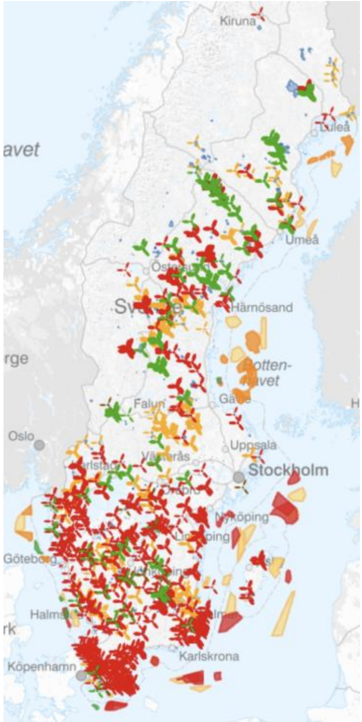
- Another effect of the NATO membership is the prioritisation between climate investments and defence. We saw this last autumn when offshore wind power was disqualified from the Öresund to the Åland Islands, first by the defence forces and only days later signed off by the government. Similarly, defence 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.

Even though the current government has clearly deprioritised the climate, companies' climate ambitions remain and contribute to demand pressure. The climate impact of maintaining and using the existing railway infrastructure is many times lower than that of road transport, and road transport is sometimes not an option, especially for heavy industry. Even before Russia's unprovoked attack on Ukraine and Sweden's entry into NATO, it was predicted that freight and passenger transport in Sweden would increase by a total of 50% by 2040.

## Wind power expansion

**3. Green electricity**

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




Green = Approved
Yellow = Under consideration
Red = Rejected

Source: Vindbrukskollen

Taken together, these factors guarantee that the underlying growth for railways in general will continue to be strong, which is a reflection of a growing transport market for railways. At the same time, the large maintenance debt in the Swedish railway network is beginning to be worked down, albeit very slowly. In addition to benefiting the construction industry in general, including Railcare, the vulnerability of the railways is also benefiting 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 in demand, something that has been made possible by last summer's deal with Nornan Invest regarding the acquisition of AC Finance AB, a locomotive rental company (see further below).

## And the green argument...?

While it is becoming clear that not all of the major industrial projects planned in Norrland in recent years will go ahead, those that remain will still mean a significant expansion of heavy industry. This boosts the need for rail transport in Norrland and is expected to benefit Railcare in particular, with its local roots, unique products and the flexibility that is built into the organisation.

These new industries also base their existence on environmental considerations and therefore require the entire processing chain to be green, including the transport services they procure, and this also applies to an increasing number of transport buyers. The Transport Administration has also announced gradually higher requirements for all operators working on or with the railways, with the ultimate goal of their operations being completely emission-free by 2040. Once again, Railcare is particularly well placed to benefit from these efforts, having developed services and products that reduce or completely eliminate direct emissions, and set targets to reduce consumption and fossil emissions from its own locomotives and machines by 40% by the end of 2025. The battery wagon MPV and its new upgraded successor with pantograph, the MPVe, are perfectly suited to meet increased environmental requirements, both for Railcare's own needs and for external customers in the future.

The Transport Administration's requirements will be difficult for many operators to meet, 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 do exist will be expensive to hire – if it is even possible. Many locomotives are nearly 50 years old, fuel-hungry and dirty, and were manufactured at a time when neither fuel prices nor climate change were in focus. In addition, a brand new European signalling and safety system, ERTMS (European Rail Traffic Management System), is being introduced which in Sweden will replace our old ATC system. In the long term, this should eliminate many of the problems associated with crossing national borders, where trains have so far been required to have multiple systems on board for this purpose – a problem that has been a competitive disadvantage for railways compared to road or air transport. The current national systems are also starting to become outdated, and in some cases it is even difficult to obtain spare parts.

There are now two strong, if not compelling, reasons for rebuilding large numbers of locomotives in the existing fleet: sustainability and technical requirements. Locomotives that are not too old are worth

## Nordic Hydrogen Route

**4. Hydrogen for industrial processes and fuel**

A 1,300-kilometre hydrogen pipeline around the Gulf of Bothnia, which due to its size will also serve as storage, is planned to start construction in 2026 and begin operation in 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

## Railcare's locomotive workshop

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

converting, including new engines that are more fuel-efficient and cleaner, or even hybrid or battery power. However, replacing those that are reaching the end of their service life will not be cheap, as a new locomotive costs from SEK 30-35m upwards. Converting the oldest and most worn-out locomotives to modern standards in terms of both emissions and safety aspects with ETCS (which is the part of ERTMS that is installed in the locomotives themselves) is hardly worthwhile, as a conversion typically costs SEK 10-15m. However, it may be necessary if new locomotives cannot be procured, given the large number of locomotives involved, not only in Sweden but throughout Europe. The 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.

Another wild card 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?

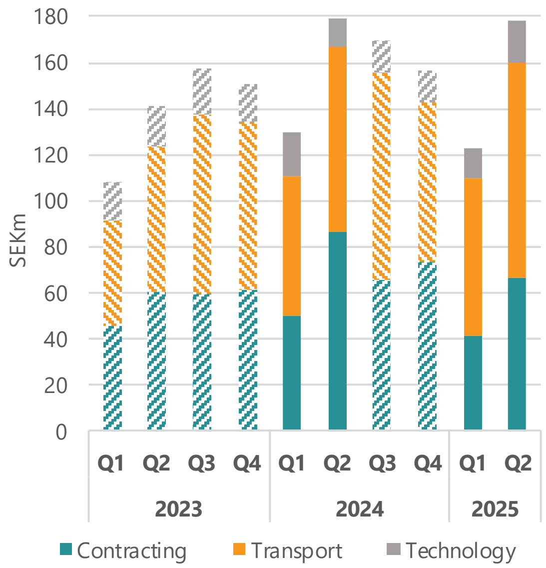
## Earnings trend

*Please note the changes implemented from Jan.1 2025 to the accounting principles and changes in the division of business areas.*[1] *All comparative figures have been adjusted unless otherwise stated.*

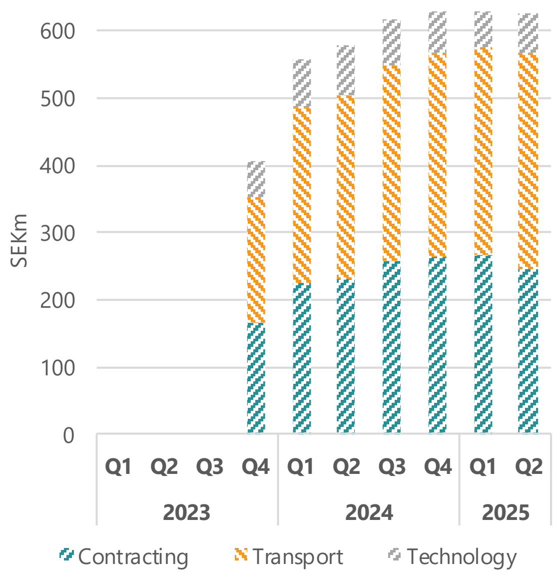
### Second quarter

Revenue for the second quarter was roughly the same as last year at SEK 178m (180 for Q2-24) and close to our forecast of SEK 183m. Operating profit improved slightly to SEK 18.1m (17.1), which was better than the SEK 16m we expected.

**Sales External Clients**




**Sales External Clients, roll. 4Q**




Source: The company, Analysguiden (estimate, dashed bars)

[1] Please note two changes to accounting practices effective from 2025:

- Locomotive rentals are reclassified as leasing (IFRS 16), which means improvements primarily in gross profit and EBITDA, but also in EBIT.
- Change in business area classification: International Contracting will be merged into Swedish Contracting, and Lokverkstaden will move from Transport Scandinavia to Machinery & Technology.

We believe that both changes are beneficial for understanding the Group structure, but they make historical comparisons more difficult and lead to slightly greater uncertainty in the forecasts, particularly at the business area level. At Group level, the biggest change is that operating profit and the profit measures above it appear to be better than before and that cash flows look stronger. See our previous analyses for details.

Transport's increase in sales – mainly attributable to standby locomotives – was not quite as large as we had expected, despite support from a strong quarter for construction transport.

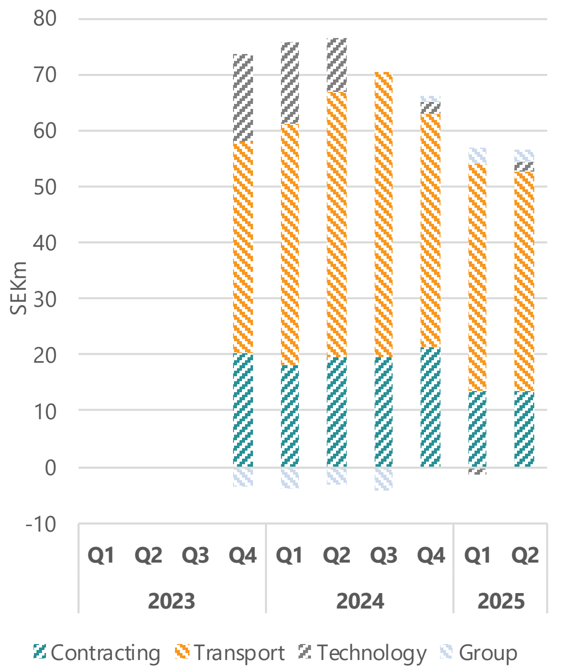
Contracting's sales were also a few percentage points lower than in the very strong Q2-24. However, Contracting's earnings were significantly better than we had expected and almost matched last year's, partly thanks to a further increase in the volume of lining work and despite continued problems in the UK.

Another positive surprise was Technology, where operating profit reached just over SEK 2.5m (-0.7) – half a million better than our fairly aggressive forecast – on sales of SEK 36.7m (27.6), which was also higher than we had expected.

Overall, this resulted in an operating margin of 10.2% (9.5% Q2-24; our expectation: 8.7%) for the Group, despite continued ramp-up costs for both the standby locomotives that will be put into operation during the year and an organisational upgrade to accommodate additional business. Further down the income statement, however, net financial items were weighed down by a weaker krona at the end of June compared with the end of March, which affected the translation of the lease liability – something that will continue to have an impact from quarter to quarter without any real significance.

No news of any major significance has been presented during the quarter or after the end of the quarter.

## EBIT, roll. 4Q




Source: The company, Analysguiden (estimate, dashed bars)

# Forecasts

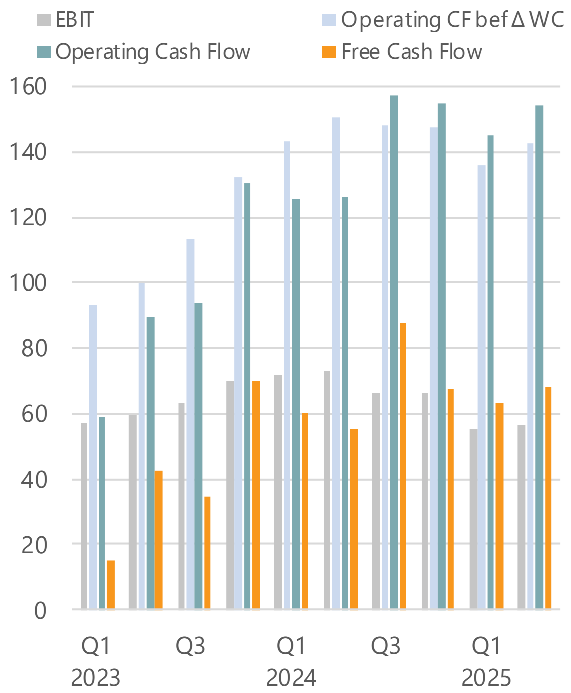
## Short term

Please note that both sales and margins can fluctuate quite significantly from quarter to quarter, so short-term forecasts should be taken with a pinch of salt, and we prefer to focus on rolling four quarters and forecasts for the slightly longer term. That said, there are short-term factors that we believe are worth considering and which we describe below. Forecasting has also been made more difficult by changes in accounting principles, changes in the division of business areas and the ramp-up of the organisation. These factors will continue to affect forecasting to a lesser extent throughout the current year.

- **Contracting**

  According to Railcare, the increased political pressure on the Transport Administration is beginning to be felt. The Administration has become more adept at steering money into the tracks. The bottleneck now is finding time slots on the tracks, as traffic must still flow while maintenance is done. Railcare argues for slightly longer slots, preferably at night, so that projects do not drag on. From an efficiency and profitability perspective, it is also best to have larger projects in the same location, as this avoids the high costs of moving equipment and personnel. In addition to time on the tracks, contractors now also have to step up and deliver on the increasing demand, despite many years of promises and false starts. Railcare's is now well equipped to deliver on increased volume requirements.

## Cash Flow, 12 mth rolling




Source: The company, Analysguiden (calculations)

As for the protracted and costly problems in the UK, it now seems increasingly likely that a decision on its future will be made during the current year. It is understandable that Railcare wants to exhaust all possibilities to turn its UK operations profitable, but after trying to do so for several years and with a counterpart that clearly has a different agenda, the band-aid must eventually be ripped off. We are now reasonably close to that point.

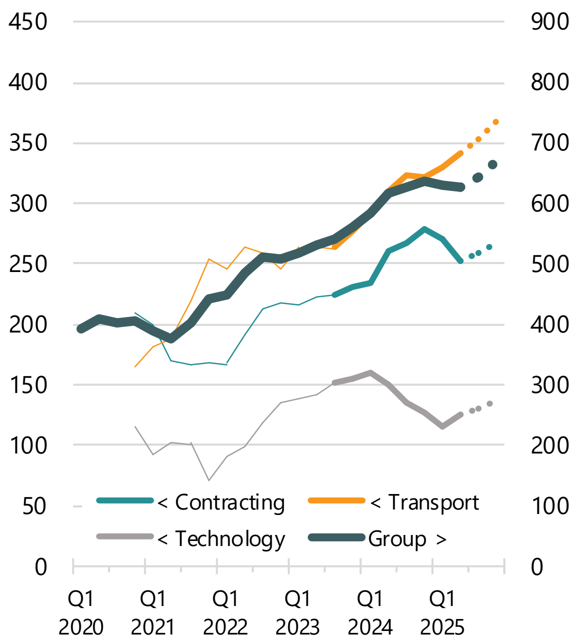
Although it is always difficult for an external observer to know how much work the Transport Administration allocates – and whether these are high- or low-margin projects for Railcare – it is presented as "there is good pressure out there". There does not appear to be any “pit stop assignments” this summer, as there were in Q2 last year, but considering last year’s strong sales in Q3, albeit with slightly weaker earnings due to a larger proportion of groundwork, we still expect sales to increase by 10% for Q3-25 and the operating margin to improve to 10%. As usual, the outcome in Q4 will depend on how early winter arrives, but last year it came late, so comparables will be tough.

- **Transport**

A long-term increase in the proportion of longer contracts provides a stable and solid base for Transport, while construction transport can vary considerably over time. It is therefore encouraging that the Transport Administration, in line with the reasoning under Market above, is ordering more major track replacements and more preparatory work for these from the major players in the sector. Larger jobs in the same location are beneficial not only for sales but also for margins, and it is not unreasonable to expect this to continue both in Q3 and further ahead. However, in the third quarter of last year, Railcare had good volumes in construction transport and other transport assignments, including clearing ore stockpiles after the stoppage on the Malmbanan railway, so comparables are quite tough.

The bulk of the ramp up costs for the new standby locomotives[2] have already been incurred, and the corresponding revenues will continue to increase gradually into next year, when they will reach full effect. Although the rental cost for the locomotives will only start to accrue when they are put into service, the costs for the personnel who will man them are weighing on the results in advance, partly because recruitment takes time and once a locomotive driver has started, they must learn the organisation and possibly be trained and certified. This has weighed on results in the first half of the year but will now pay off to an increasing extent during the rest of the year and in the years to come. It cannot be ruled out that contracts for additional standby locomotives may be signed, not least because Railcare has access to more brand new locomotives from its affiliate AC Finance.

## Sales roll. 4Q & forecasts




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

[2] The standby locomotives for which Railcare won contracts in autumn 2023 are

- the two that entered service on 1 January this year in Nässjö and Älmhult,
- the two in Ånge and Gävle from 1 May,
- one in Borlänge from 27 October, which is, however, an extension of an existing contract, and
- one in Hallsberg on 1 January next year.

This will increase turnover for 2025 by approximately SEK 45 million and for subsequent years by a further approximately SEK 35 million, excluding inflation.

Overall, we expect transportation to decline slightly in Q3 from last year's strong level, but this will be more than offset by the new standby locomotives, leading to sales of more than SEK 100m for the first time without the locomotive workshop and growth will land at 12% according to our forecasts. We believe the operating margin will be closer to 14%.

- **Technology**

Comparables from Q3 last year are easier for the locomotive workshop, as there were no major project settlements at that time and an insurance case had a negative impact on earnings of SEK 1.2m. During Q3 this year, the latest MPVe will be completed for delivery in Q4 and, at the same time, work is continuing on the Railvac ordered by Norsk Baneservice in the spring. There are also plans to let the workshop in Skelleftehamn take over work from the locomotive workshop in Långsele. It could involve locomotive conversions (from diesel to electric/hybrid operation), given the expertise in electrical engineering in Skelleftehamn during the development and construction of the MPVs. A decision to expand the locomotive workshop is maybe not quite as high a priority for now. In any case, this development should contribute to a higher proportion of turnover coming from external customers and a strengthening of earnings.

We also note that the SEK has weakened slightly during the quarter, which weighs on net financial items for Q3, as several locomotive lease contracts are denominated in euros.

### The coming quarters overall

When we summarise all this, our forecast for third-quarter sales is SEK 185m, which is significantly higher than last year's SEK 169m, driven mainly by the full effect of four new standby locomotives. This will also have a positive effect on operating profit, which we believe will be SEK 22.6m (20.3). We then expect a better winter quarter than last year, partly thanks to the standby locomotives, and partly because ramp-up costs will decrease and be spread over a larger business volume. We furthermore expect an operating margin of just under 10%.

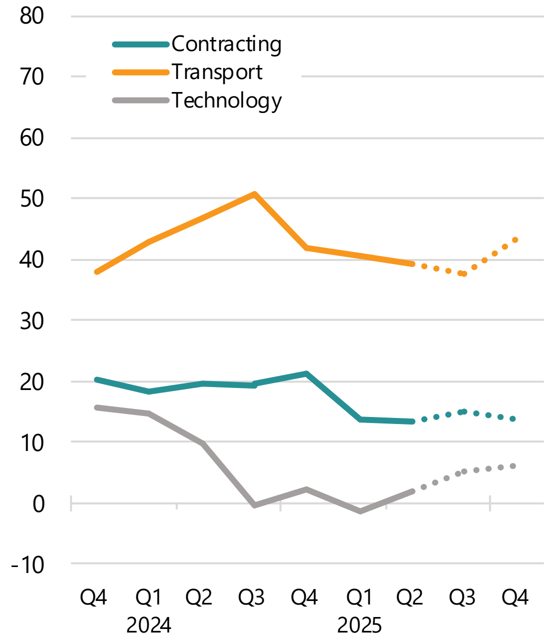
## Longer term: Sales forecasts

The company does not seem to be wavering in its belief that it will achieve its financial targets of SEK 1,000m in sales for the full year 2027 with an operating margin of 13%. This means that sales must increase by 20.5% yearly over the next ten quarters. Even with the new standby locomotives being rolled out this year, this does not seem possible, and it also contrasts with the dip in the growth rate in recent quarters; most recently +1.5% for July -24 through June -25 compared to the corresponding period a year earlier. We therefore expect lower underlying growth, but at the same time we note the passage in the interim report about "...good prospects of obtaining new transport assignments in the coming years, which is necessary to meet the set targets."

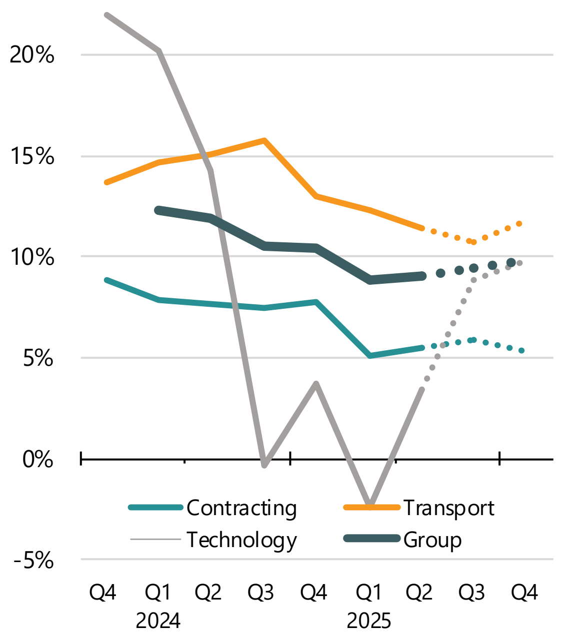
### Contracting

With the substantial infrastructure investment we described under Market and increased pressure from the business community, the general public, the armed forces and, not least, politicians, the railway

## EBIT roll. 4Q & forecasts




## EBIT-% roll. 4Q & forecasts




Source: The company (thick line), Analysguiden (forecasts, dotted line) will receive more resources. The Transport Administration itself is talking about at least 10% growth per year, and Railcare makes no secret that it expects to continue to gain market share as well. Over the past nine years, the old Contracting Sweden has grown by 7.7% per year, and over the past five years by as much as 13%. With a growing market, it should not be impossible to maintain this trend in the future and perhaps even exceed it, not least if more "pit stop model"-procurements are pursued. There are signs that several such contracts may be put out to tender, not least the government's proposal on transport infrastructure from last autumn, which clearly points to the need for increased efficiency at the agency, as confirmed by the report from Innovationsföretagen described above.

However, to realise such a scenario the haemorrhaging in the UK must stop. We now have eight years of cumulative losses there, totalling over SEK 29m after net financial items, but the situation has now gone from bad to worse. Despite the new planning period, CP7, Network Rail's funding has decreased in real terms, so Railcare's sales have plummeted and now amount to only a few million. In this situation, cost savings do not help when the business has such high fixed costs. Two Railvacs and one Ballast Feeder have been essentially idle there, resulting in a blood-red bottom line. Even though the barriers to exit are high, with significant sunk costs in equipment, contacts, goodwill, training, certifications, etc., the bleeding cannot continue indefinitely. A closure in the UK would not only eliminate the associated losses, but also free up resources, both in terms of personnel and machinery, as well as from company management.

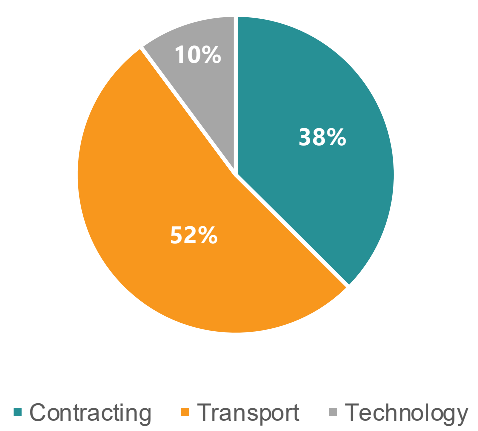
We expect measures to be taken in the near future and therefore do not assign a negative value to the business at this stage, despite the expected continued losses. We view the closure costs as an investment to free up productive resources for other activities.

## Transport

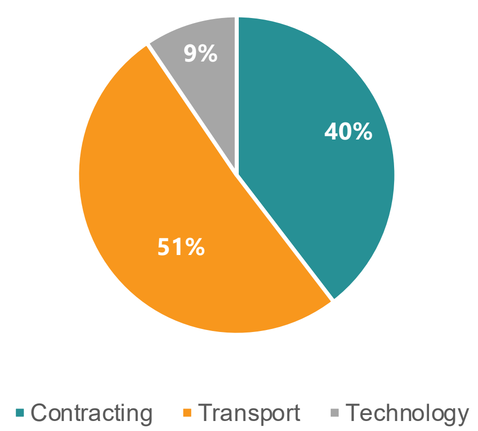
From the turn of the year and gradually throughout 2025, the major standby locomotive project that was launched in autumn 2023 and for which locomotives were secured through a deal last summer via AC Finance, has been underway. This involves six locomotives, one of which is a renewal of an existing contract, where the agreement expires gradually during 2030, but where a 1+1 year option is included in the contract. The deal adds about SEK 45 m to turnover for 2025 and in the years thereafter another SEK 35 m excluding indexation. This is in addition to the four 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 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.

According to our calculations, the transport business, excluding the locomotive workshop, has grown by over 15% per year over the past four years. The standby locomotives have been a smaller, albeit growing, business, so much of the growth comes from other areas. The five-year contract with LKAB secured in Q4 last year and the 4+1+1-year snow clearance contract secured in January will further help to stabilise revenues for several years to come. As the necessary construction

### Business areas Q2-25




### Business areas Q4-27p




Despite expected strong growth for Transport, the revenue distribution will not shift more than marginally by 2027 if our forecasts are realised.

Source: The company, Analysguiden (forecast)

**The financial targets:**

SEK 1,000

- ~~SEK 800~~ million in turnover in 2027
- Operating margin exceeding ~~10%~~ 13

After presenting new financial targets at the beginning of 2023, Railcare significantly raised them again at the beginning of 2024.

Source: The company

work on the railway line is actually carried out, this is also likely to have a positive impact on growth in construction transport.

When we assess the conditions for achieving the Group's revenue target, we conclude that a couple of large assignments are needed, roughly on the same scale as the standby locomotive agreement. Only then can we come close to 1 bn in 2027. So how likely is that?

- A low-hanging fruit is contracts for additional standby locomotives. Railcare is one of very few operators that has locomotives ready (via AC Finance) that meet all of the Transport Administration's high requirements. In addition, the relationship is well established and Railcare has now been tested for these assignments for several years. We would therefore not be surprised if Railcare is awarded new assignments in the coming quarters.
- Other transport buyers are also satisfied with Railcare's service, flexibility and expertise, as evidenced by its annual growth of almost 20% in the 2020s. Several likely customers can be identified, such as LKAB, where Railcare has gained a firm foothold in recent years, or CEO Mattias Remahl’s previous employer Boliden? New companies such as Stegra are also conceivable, but regardless, Railcare is likely to be in discussions with most of them.

Large contracts generally take time to start delivering. The standby locomotive contract was announced in October 2023 and the first locomotives entered into service in January this year; 15 months later, and the last ones more than two years after signing. Announcements of new major contracts are therefore unlikely to be too far into the future if they are to have a full effect on the 2027 figures. We anticipate contract announcements at the end of this year and the beginning of next year, with deliveries gradually commencing in 2026.

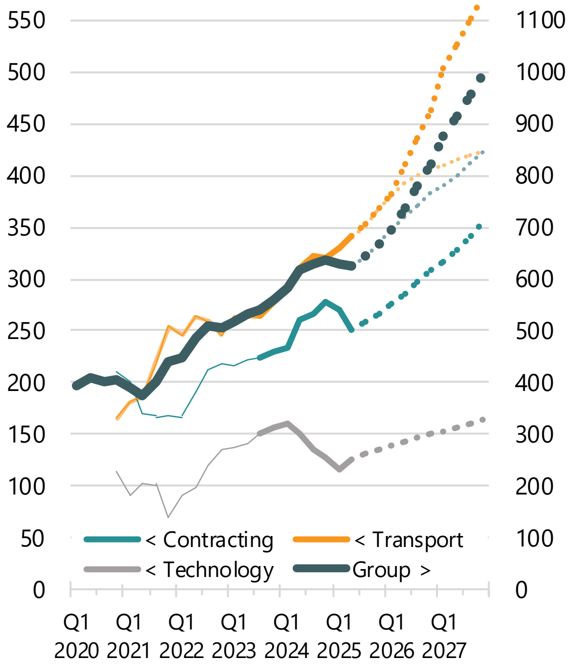
## Technology

In Skelleftehamn, construction of the third MPVe will be completed before year-end and the new Railvac for Norwegian Baneservice will be delivered in early 2026. Thereafter, certain jobs previously performed at the locomotive workshop in Långsele are planned to be accommodated in Skelleftehamn in parallel with any future machine construction for sale. The operations are located close to each other, so the flexibility created by closer integration and exchange between Långsele and Skelleftehamn is a positive development.

However, the operations are difficult to forecast for many reasons:

- They are project-oriented activities where each project is unique in different ways and often runs over several quarters, not infrequently at a fixed price.
- This can result in lower or higher settlements for ongoing projects for a given quarter.
- Even though some results are settled each quarter, it is only at the end that it becomes clear whether the price calculations made prior to the tender were a little too high or a little too low, which plays a major role in the margins for the last quarter.
- If efficiency gains can be found in repeating the same steps from locomotive to locomotive, such as in the installation of on-board equipment on five Traxx locomotives by Railcare in 2023, or the

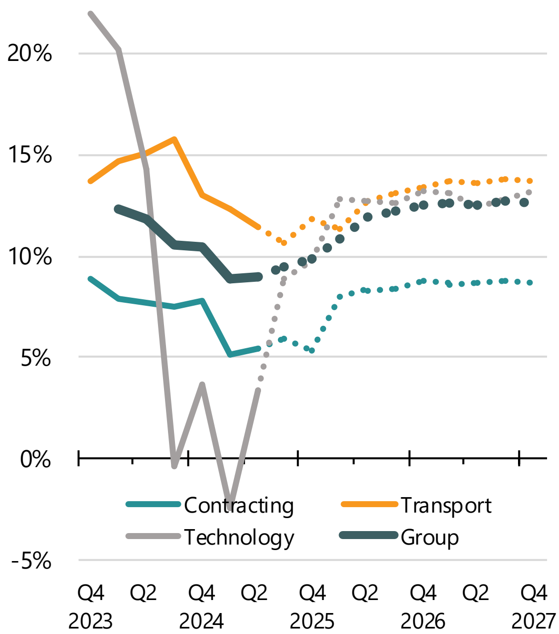
### Sales, roll. 4Q & forecasts




The thick dotted lines indicate our main scenario, with two new major transport contracts needed to reach the target of SEK 1 bn in 2027. The thin dotted lines show the development without new major transport contracts.

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

### EBIT-% roll. 4Q & forecasts




Source: The company (thick line), Analysguiden (estimates, thin line & forecasts, dotted line) construction of the third MPV currently underway, higher margins can often be achieved.

- There are also different margins on different types of projects, e.g. between a cab renovation and an engine replacement, which can vary between quarters within the same project.

Fluctuations in sales and earnings between quarters are therefore likely to remain the norm in the future, both in a positive and negative direction. However, this is nothing shareholders should worry about. On the contrary, overall it appears that Technology has good growth and margins over time, and that demand for its services remains very high and is expected to remain so, not least in light of the market outlook described above.

An expansion of the locomotive workshop in Långsele – if it happens – would probably mean further advantages beyond "more of the same", namely

- more types of services could 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.

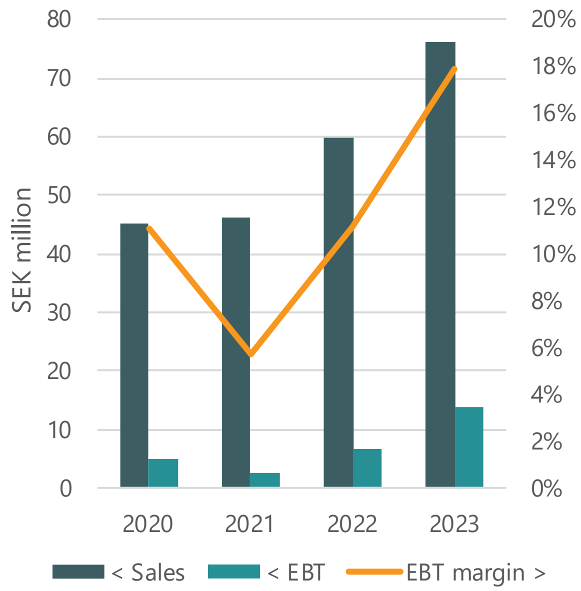
## Cost

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 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.

## Locomotive workshop



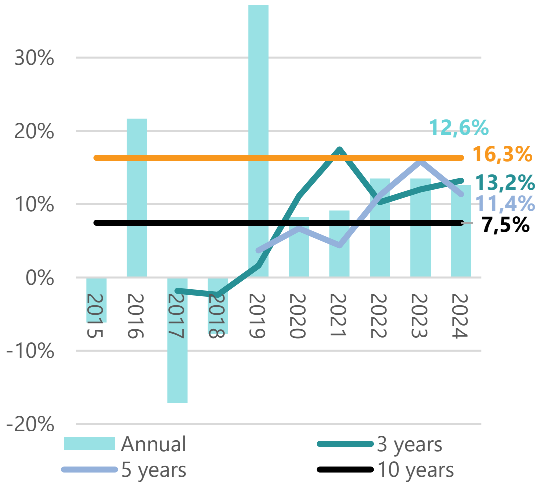

Source: Allabolag.se, Analysguiden (calculations)

The increased personnel costs since last autumn – mainly train drivers and machine operators, but also a strengthening of management functions – have not been immediately offset by increased revenues, but with increased volumes and new assignments, they will pay off in the long term. This includes recruitment costs, training and certification for new employees, etc. This cost package has proven to be more significant than we anticipated, but should gradually be covered by revenue from the deal during the second half of 2025 and begin to decline once the employees are in place.

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.

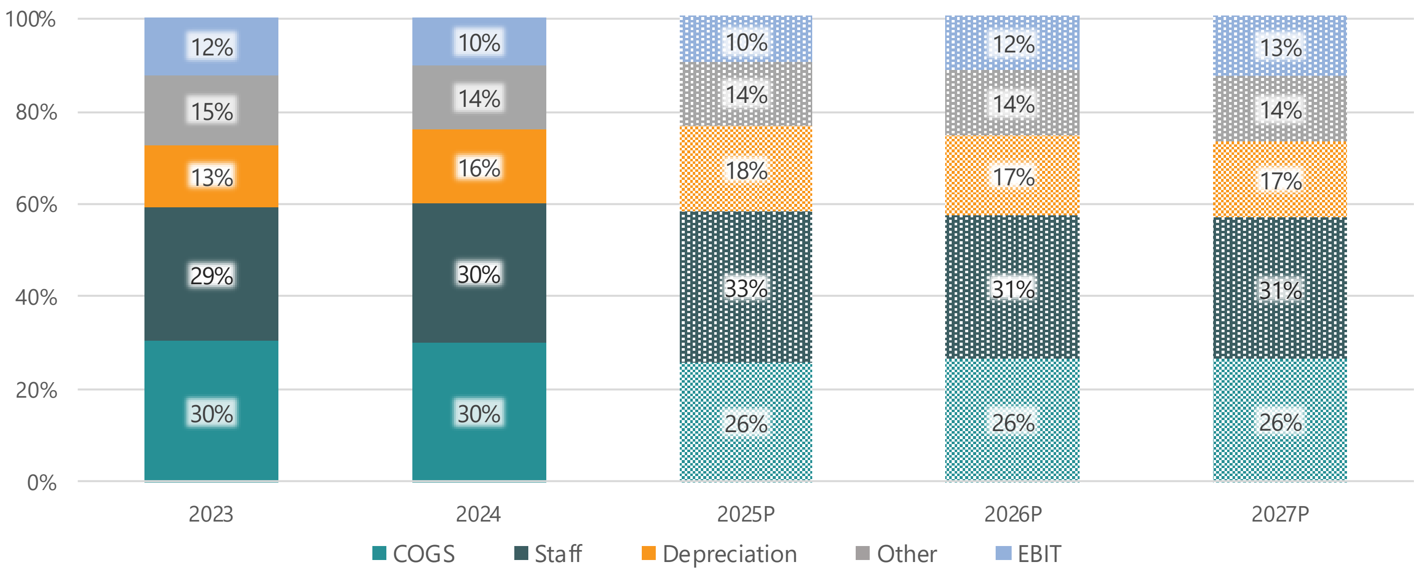
Nevertheless, a high proportion of fixed costs makes earnings sensitive to capacity utilisation. In other words, the company's operating leverage remains high, although it has declined over the years with a broadening of the service offering, more customers, an increasing share of longer contracts and 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.

## Historical Sales Growth




Source: Company, Analysguiden (calculations)

## Cost split



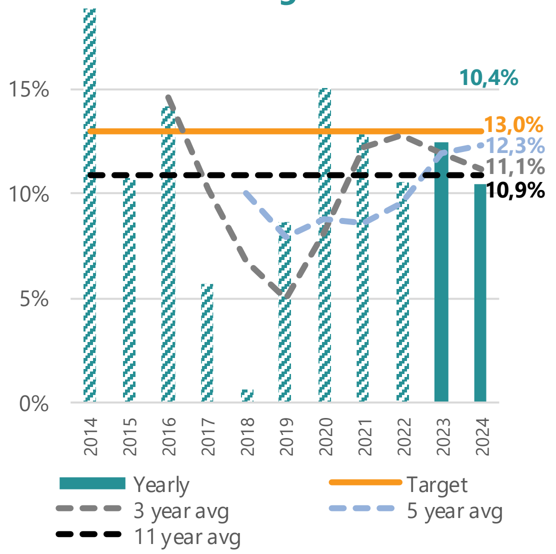

Source: The company, Analysguiden (calculations and forecasts)

Capacity utilisation within Contracting, which is crucial for margins in the short term, varies over time, but is difficult to forecast and often weather dependent. Capacity utilisation also depends on the planning of jobs by the infrastructure owner, which in Sweden usually is the Transport Administration, but this has improved recently. With an expected increase in volume, there will automatically be a certain levelling out of capacity utilisation, but increasing capacity is not entirely straightforward. There is a shortage of locomotives and trained personnel are almost impossible to find. Increasing capacity means that the company incurs higher fixed costs. The company invests heavily in its employees but, in return, places high demands on them as individuals, with the right attitude to service, flexibility and the ability to solve problems in the field themselves. Once recruitment is successful and the investment in necessary training and certification has been made, it takes a lot to let such a person leave the company, even if there is a downturn in business.

The answer has been for Railcare to focus more on leasing locomotives and ensuring that its staff have as broad a training as possible so that they can fill in at different positions. This reduces costs and increases flexibility, as staff can move more easily between sites, even if it may require more certifications and permits.

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 consistent occupancy and predictability, which facilitates effective planning. One example is Railcare's breakthrough contract with Kaunis Iron, worth a total of SEK 740m over 10 years, to transport ore concentrate from the transshipment station in Pitkäjärvi to the port of Narvik. Two others are the contract for standby locomotives from autumn 2023 and the LKAB contract in Q4. The Swedish Transport Administration's renewal and extension in January of the snow clearance contract for 4+1+1 years, worth SEK 59m per year, is similarly valuable, not least because it provides predictable occupancy during the slow season for Contracting.

## Historic EBIT-margin




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

Source: The company, Analysguiden (calculations)

## Income statement, SEKm

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | *2025e* | *2026e* | *2027e* |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 270 | 371 | 401 | 438 | 497 | 564 | 635 | *669* | *823* | *998* |
| Other operating income | 7 | 9 | 20 | 15 | 15 | 18 | 25 | *43* | *44* | *44* |
| COGS | -142 | -177 | -181 | -204 | -269 | -262 | -289 | *-282* | *-349* | *-419* |
| Gross Profit | 135 | 203 | 241 | 249 | 243 | 321 | 372 | *430* | *518* | *623* |
| Staff | -108 | -120 | -125 | -139 | -146 | -170 | -197 | *-232* | *-270* | *-318* |
| Other operating expenses | -1 | -1 | -2 | -2 | -2 | -3 | -2 | *-3* | *-3* | *-3* |
| **EBITDA** | 26 | 82 | 114 | 108 | 95 | 147 | 173 | *195* | *245* | *302* |
| Depreciations | -24 | -50 | -53 | -52 | -43 | -77 | -106 | *-131* | *-150* | *-173* |
| **EBIT** | 2 | 32 | 60 | 56 | 52 | 70 | 66 | *64* | *95* | *129* |
| Net financial items | -5 | -6 | -5 | -4 | -5 | -12 | -26 | *-22* | *-33* | *-41* |
| **EBT** | -4 | 27 | 56 | 52 | 47 | 58 | 41 | *42* | *62* | *88* |
| Taxes | 2 | -6 | -12 | -11 | -10 | -14 | -10 | *-10* | *-15* | *-22* |
| **Net result** | -1 | 21 | 44 | 41 | 37 | 44 | 30 | *32* | *47* | *66* |

Source: The company, forecasts Analysguiden

## Margin development

The company's financial target is to achieve an operating margin of 13% by the end of 2027. There is a reasonable chance of achieving this, and the change in accounting principles will help – by approximately half a percentage point for 2023, but this figure has likely increased significantly with the expanding number of leased locomotives. Other factors pointing to the margin target being achievable are:

- Railcare notes that the Transport Administration already pays slightly more for work where Railcare is one of the few operators that can work sustainably. This applies e.g. to sensitive work that can almost only be carried out with the MPV, which meets the zero-emission requirements, such as work in city centres, tunnels, etc. This will hopefully increase in the future and Railcare is preparing with another MPV on the way.
- It is also reasonable that Railcare, as one of very few operators that meets the Transport Administration's increasingly stringent environmental requirements and has proven to be reliable and flexible in previous deliveries of standby locomotive services, has had room to negotiate a premium for this.
- The locomotive workshop likely also has margins that over time reflect the high demand for its services, even if they vary between quarters depending on the nature of the projects as described above. Over time, growth of the locomotive workshop should increase its share of sales and thus help up the average margin.
- Added to this is a more even workload for Contracting, not least with an increasing number of long-term contracts, which should benefit the average margin going forward, even if new "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 blood flow can finally be stopped in the foreign part of the contracting business, this will of course also be of great help.

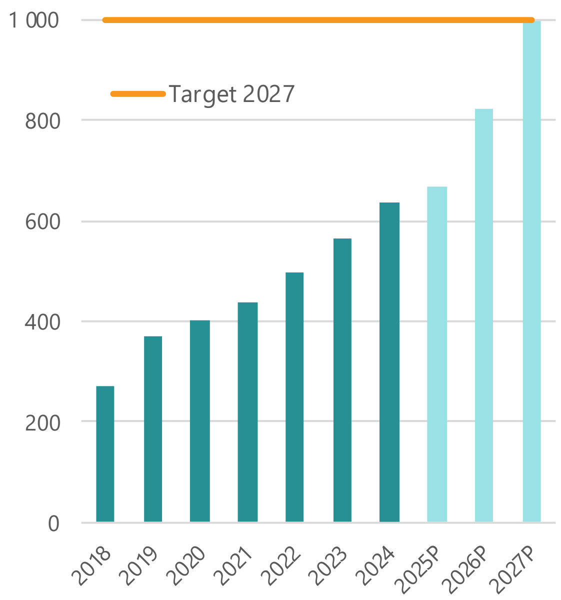
Overall, we assess that the operating margin target will not be easy to achieve, but that it may be within reach towards the end of the period.

## Forecast summary

In summary, we assess the revenue target as slightly more difficult to achieve after a weaker than expected first quarter of this year, 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. The company has even indicated how this will be achieved: with more large transport assignments. The investments to make this possible have largely been made during the current year, so now the company needs to grow into its new, larger organisation.

Our main scenario is that this will be achieved through two contracts of "Kaunis-size", i.e. SEK 75m per year, and that these will start before the end of 2026. This would give a turnover of SEK 1 bn for 2027. It would also help to bring the margin target within reach. However, these assignments are not yet secured, so without them turnover will end up SEK 150m lower and significantly lower margins, at least until the suit is filled out or adjusted downwards to the Group's revenues.

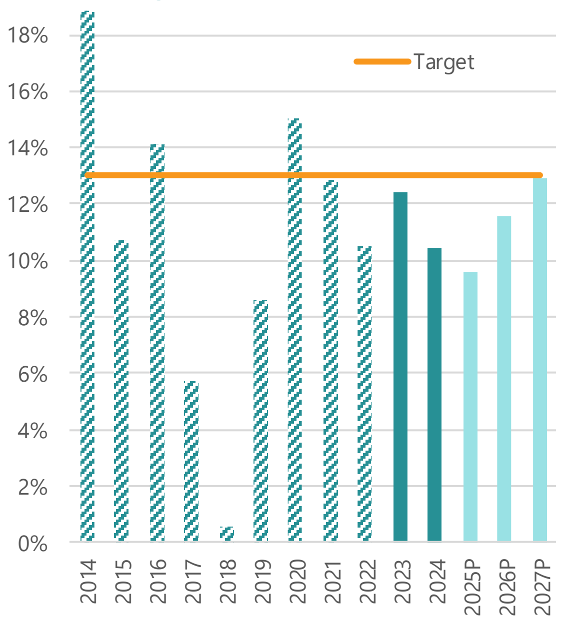
## Sales forecast, SEKm




The new contract for standby premises is clearly visible in the shift in levels in 2026.

Source: The 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 slight underestimation of the operating margin compared with today's standard. However, the effect is likely to be small, as the leasing share was previously significantly lower than today.

Source: The company, Analysguiden (forecasts)

For the years after 2027, we are projecting a growth rate of 10-11%, albeit lower in 2031 and 2032 when the standby locomotive agreements expire, and an operating margin of 12-12.5%. If the business grows faster, which is far from impossible, it will cost a little on the margins during the investment periods, but this will be offset by improvements in the bottom line longer term.

Regarding cash flow, the outlook remains positive thanks to strong operating results, despite the cost of growth in terms of increased working capital and necessary investments. Towards the end of 2027, after Railcare's investment peak, the question of raising the 30-40% dividend payout ratio may become relevant again, unless new interesting investments become available.

# 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 a slightly higher required rate of return, as the debt ratio has increased, and a lower terminal multiple as earnings multiples fall.*

We continue to base our scenario on the company essentially achieving its financial targets for 2027. With two new "Kaunis-class" transport contracts, the revenue target will be achieved according to our forecasts, and if this happens, the margin target is just around the corner. Under these conditions, the P/E ratio will be 9.6 for 2027, compared with double that for the current investment-heavy year and 13.5 for next year. This is considered low despite the help from IFRS 16, given that it is a very solid, cash flow-positive and dividend-paying company that is expected to continue to grow at double-digit rates for many years to come.

An attractive P/E ratio is all well, but the emphasis in our valuation of Railcare shares is still on a cash flow valuation (DCF), as we have a good basis for forecasts and can capture the dynamics of the company's development in a DCF and then compare this with other valuation indicators.

## Cash flow valuation

Our return requirement on the company's equity is based on the risk-free 10-year government bond yield of 2.4%, to which we add a general risk premium for equity investments of 6%. In addition, there is a small company and illiquidity premium, which we reduced to 2.5% at the end of last year in view of the company's increasing share of longer contracts and improved breadth of product range, but which we raised back to 3% in view of the accounting changes. This totals 11.4%. This is still relatively high for a company in such a mature

## Justified price

Sensitivity analysis to 2027

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

If the company achieves our forecasts for operating margin and revenue growth through 2027, the table shows the justified price today, given the required return on investment and the multiple at which the share is expected to trade at 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 | 60 | 56 | 53 | 50 | 47 | 45 | 43 |
| 7 | 62 | 58 | 55 | 52 | 49 | 46 | 44 |
| 8 | 64 | 60 | 57 | 54 | 51 | 48 | 45 |
| 9 | 67 | 62 | 59 | 55 | 52 | 49 | 47 |
| 10 | 69 | 65 | 61 | 57 | 54 | 51 | 48 |
| **11** | 71 | 67 | **63** | 59 | 55 | 52 | 49 |
| 12 | 73 | 69 | 64 | 61 | 57 | 54 | 51 |
| 13 | 76 | 71 | 66 | 62 | 59 | 55 | 52 |
| 14 | 78 | 73 | 68 | 64 | 60 | 57 | 53 |
| 15 | 80 | 75 | 70 | 66 | 62 | 58 | 55 |
| 16 | 83 | 77 | 72 | 67 | 63 | 59 | 56 |
| 17 | 85 | 79 | 74 | 69 | 65 | 61 | 57 |
| 18 | 87 | 81 | 76 | 71 | 66 | 62 | 58 |

If the contingency contract expires without being replaced and other operations grow by only 10%/year over the next eight years (after 2027), while the company continues to achieve an operating margin of 12-13%, the justified price today will be significantly higher with the same assumption of P/E ratios at the end of that period.

Source: Analysguiden

industry, but reflects both a certain degree of operational volatility based on high fixed costs, and low liquidity in the share due to both the small size of the company and a low free float. It should be noted, however, that liquidity in the share has increased significantly over the past year compared with the previous year, but it is still low in absolute terms.

In light of the accounting changes noted above, we also cautiously lowered the terminal multiple from 12 to 11. In the discussion of the appropriate terminal multiple, it is interesting to note that if the company had achieved its margin target this year, the P/E ratio would have been 12.7 at the current price. With a final multiple of 11 and the forecasts according to the previous section, we arrive at a justified price of SEK 43 at the end of 2027, which discounted to today is SEK 35. Conversely, an investor today would receive an annual return of approximately 23% in addition to the dividend yield until the end of 2027.

If we were to sketch out a conservative extension of the forecast period to 2035, assuming that the standby locomotive contract expires after one of two option years without being replaced by any other revenue and the rest of the business grows by 10% per year to SEK 2 bn in 2035, while the operating margin remains around 12-13%, this would justify significantly more than a doubling of the current share price, with the same return requirement and given that the share is trading at a P/E ratio of 11 in 2035. Conversely, an investor today would receive just over 17% in annual returns in addition to the direct return until the end of 2035.

We should not forget that this is a share that is very little affected by economic cycles and thus also adds other qualities to a diversified share portfolio.

## Multiple valuation

Multiple measures are single-period measures, which are a significantly "poorer" model than a discounted cash flow model. They do not capture the dynamics of company development in the same way that a DCF calculation can. However, they have the advantage of being simple and are therefore widely used, which is why we include some of them here:

- As mentioned, the current year's P/E ratio is 19.8 and next year's is 13.5, falling to 9.6 in 2027 according to our forecasts. This does not seem expensive given the growth, qualities and potential that the company possesses, as described above.
- The same reasoning also applies to some extent to EV/EBIT, which stands at 17.5 for 2025, 11.8 for 2026 and 8.7 for 2027, which is not as clearly cheap.
- EV/Sales at 1.7 for 2025, 1.4 for 2026 and 1.1 for 2027 is not affected in the same way by the current cost or investment hump, but on the other hand does not capture the company's growth in a good way and is very rough, but not expensive.

Multiples are perhaps mainly used when comparing similar companies, but this is not entirely easy in Railcare's case, as the railway market for maintenance alone is fragmented into small niches and the companies are usually either unlisted, part of very large groups with

### Return on Equity


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

Source: Analysguiden

only a small proportion of their turnover in railways, or part of a large international group with a significant railway presence, but of which only a small part is attributable to Sweden or Railcare's niches.

## Valuation of equity

Another approach is to look at the valuation of equity and the level of its return. At the end of June, equity per share amounted to SEK 11.72. The current share price thus indicates a valuation of 2.3 times equity. At the same time, the return on equity (ROE) is just under 10% for the last 12 months and just over 18% on average for the last four financial years. These figures should be viewed in relation to our required return of 11.5%, which indicates a value of SEK 11 to 19 per share.

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

## Conclusions

Railcare's ability to win large, long-term contracts has increased in recent years, with the most important examples being the snow clearance contract with the Swedish Transport Administration at the beginning of the year, the agreement with LKAB in the autumn and, of course, the order for emergency locomotives in the autumn of 2023. The company's approach has also earned it a good reputation in the industry for flexibility, innovation and problem solving. It therefore seems likely that Railcare will be able to secure new contracts in the future – not least in a growing market – enabling it to deliver on its financial targets.

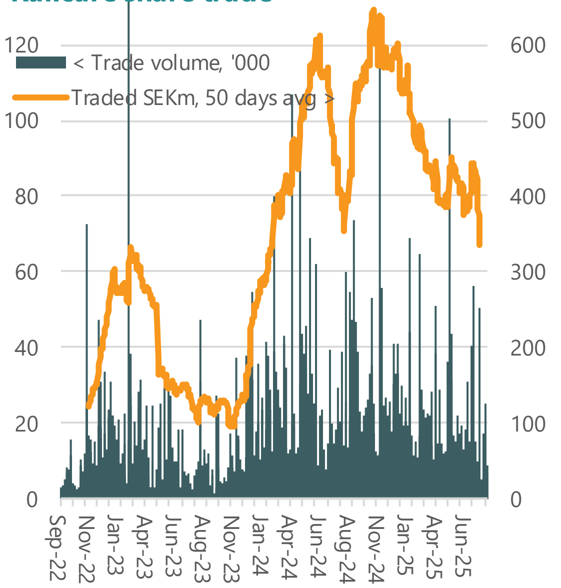
This is therefore the starting point for our forecasts, which lead to a price potential of 30% today, based on a cautious valuation – P/E 11 – at the end of 2027. That is now just over two years away, so with a longer perspective and cautious assumptions, the potential is significantly greater. Longer-term assumptions are possible given the stability of the business and the market, and our conservative outline until the mid-2030s justifies more than a doubling of the current share price.

However, if there are no further major assignments until 2027, both turnover and margins will naturally decline, but the long-term valuation will not be affected as much as one might think, given that we are still working with the same growth and margin assumptions for subsequent years.

However, there are additional reasons to consider an investment:

- We have not been particularly aggressive in our assumptions, either in terms of the final multiple for 2027 or the growth and margin assumptions for the years thereafter.
- There is potential in additional "pit stop assignments", external machine sales, the workshop business in Skellefteå and a possible expansion in Långsele, as well as another large contract, for example from one of the new establishments in Norrland. We have not taken any of this into account in our forecasts.

### Railcare share trade




The liquidity of the share has declined over the past six months. With improvements in both growth and margins, interest should return.

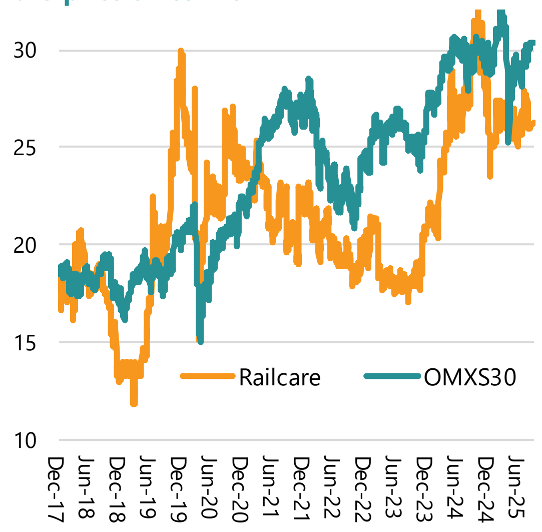
Source: Refinitiv

- It is a cyclically insensitive business that performs equally well in a weaker economy or stock market, as we saw during the stock market turbulence in April.
- Its nature also means that an investment in the share provides good portfolio characteristics in a diversified share portfolio.

Even if there were to be a temporary dip in assignments, and thus earnings, both should be well positioned to recover quickly , given the budget cycle of public sector contractors, increased pressure on maintenance and growing transport needs on the railways.

Nor can we completely rule out the possibility that Railcare, with its innovative products, could become the subject of a takeover, even if 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 infrastructure and services, is a conservative industry with heavy state dominance. Although the market is mature, it has seen improved growth conditions in recent years, mainly due to increased climate awareness, as rail transport is very energy efficient, but also due to the expansion of heavy industry in the north, severely neglected maintenance and increased interest from the 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 Transport Administration, which thus accounts for the lion's share of the construction market. A market characterised by a completely dominant buyer – which is also state-owned – will have its terms largely controlled by that buyer and will not necessarily be rationally market-driven. A concrete example is the way in which maintenance work is planned, communicated and outsourced. Within the framework of established framework agreements, specific work is outsourced to contracted suppliers. However, the lead time has sometimes been short, the work has been smaller parts of larger projects, and unwanted gaps have arisen between jobs, which makes it difficult for suppliers to see the big picture, plan, and maintain a steady workload over time. However, some improvement has started to show, albeit from a low level.

Many of the large jobs, not least in new construction, are carried out by the big players, such as the large 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 railway market, such as Railcare. Railcare's niche is maintenance in special environments such as railway yards, tunnels, etc., which are difficult to access, cramped and sensitive to exhaust fumes and noise. This also puts RailCare 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. The work often has to be carried out at night to avoid disrupting traffic flows, which must continue as normal, placing high demands on discipline, flexibility and a solution-oriented approach on the part of those carrying out the work. Railcare achieves this through a good personnel policy, a flat organisation and further training, which promotes low staff turnover, experienced staff and professional pride.

The Swedish part of the contracting business has quietly grown and achieved a more even occupancy rate over the past 2-3 years, which is also reflected in a more even margin development, with Q1-25 being the exception that proves the rule. This is partly explained by the company finding and focusing on niches where it has advantages with its ingenious technology – such as in snow clearance and lining operations – but also by its ability to take greater advantage of its organisational structure with broadly trained staff, a solution-oriented culture

### Relining

Over time, culverts and penetrations under the rails become damaged, but instead of costly replacement, Railcare relines the culvert by lining the inside with several layers of thick, hard fibreglass tubing.

Source: The company

### Ore transport

Railcare transports Kaunis Iron's ore the 220 kilometres from Pitkäjärvi to Narvik. Each train consists of two locomotives and 36 wagons and carries an average of 3,100 tonnes. Railcare runs two train services per day, seven days a week, which gives a volume of approximately 2.3 million tonnes of iron ore per year.

Source: The company

and the company's relatively small size, all of which provide flexibility. Recently, the Transport Administration's improved foresight in its allocation of work has also contributed to visibility and efficiency, and the new long-term snow clearance agreement will also provide more consistent workloads and better predictability.

However, with its specialised machinery, the business area has significantly higher operational leverage than, for example, the transport operations – if there are no jobs for the machines, they stand idle and cannot be used elsewhere. There is a high degree of dependence on what is essentially the sole purchaser of the services. The "pit stop" in Q2 last year, which had a strong positive impact on both sales and earnings, provides an illustration of how the contracting business may change as the Transport Administration's new working methods take effect in the future. Combined 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.

In addition to its ingenious specialised machinery and flexible, decentralised organisation with problem-solving and innovative staff, Railcare has a clear competitive advantage in its access to machinery and vehicles that meet high environmental and safety standards.

The snow clearance contract signed in January, mentioned above, is a good example in this context: the Transport Administration's requirements for the six contracted units – snow ploughs and snow melters – are that only HVO100 fuel may be used and that 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 it impossible for competitors who have not progressed as far as Railcare in their sustainability processes to submit bids. It also points to the potential of the locomotive workshop and its expansion, where machines are upgraded to these standards.

## Transport

The corporate culture has also benefited development in the Transport business area, where Railcare's delivery reliability and flexibility appear to have been a clear advantage in winning tenders. A breakthrough for Railcare was the uniquely long 10-year contract obtained with Kaunis Iron for ore transport from Pitkäjärvi to the shipping terminal in Narvik, starting in August 2018. Flexibility is key to good delivery – for example, regarding such things as problems in the mine, variations in ore content, ship docking times, etc. – as are quick, detailed decisions in the field by the to reduce stoppages and downtime and minimise cycle times, 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 assignment began at the end of March 2022, after a break during Q1-22 from previous assignments in 2021. It was therefore very gratifying that the company received a long-term assignment from LKAB last autumn.

However, the example of LKAB highlights the problem with capacity utilisation. During the first quarter of 2022, there were no assignments from LKAB and no one else to utilise these resources. It was possible to keep busy with other things to some extent, but the risk is

### RailVac

Railcare's RailVac works like a giant vacuum cleaner that sucks up old ballast, for example during ballast replacement or cable laying, as seen here during a maintenance project in northern Sweden.

Source: The company

that you are left with expensive machinery and personnel in which you have invested heavily and which you do not want to lay off for a short period. The staff are attractive, and it takes time and money to recruit and train new staff when demand returns. Redirecting resources involves terminal and other costs and may be dependent on certifications. The problems are the same in Contracting, and when they occur, they naturally weigh on margins but must be considered part of the business.

This cost was clearly visible in the first quarter of 2022. The setback caused by the pause in the LKAB deal meant that the margin in what was then Transport Scandinavia plummeted to zero. At the same time, however, Contracting Sweden performed better at group level and offset Transport Scandinavia's weak quarter.

Despite such setbacks, Transport has, perhaps somewhat unexpectedly, emerged as Railcare's star performer in recent years, and this was further reinforced by 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 in Skelleftehamn and, since the turn of the year, also the locomotive workshop in Långsele that was previously part of Transport and which carries out repairs, maintenance and upgrades for both external customers and its own machines. Several innovations have seen the light of day within Technology, such as

**RailVac:** This was the starting point for the company and is essentially a giant vacuum cleaner for ballast, i.e. the macadam that lies under the rails and sleepers and provides a shock-absorbing function. When, after a certain period of time, it begins to lose this ability, it needs to be replaced, and the old ballast must first be removed, which RailVac is excellent at doing, especially in confined spaces. RailVac also minimises the risk of damage to the cables that always run alongside the rails, and about half of its work involves specific cable lowering, even more so in the UK.

**Ballast Feeder:** This is the next step in ballast replacement, where the new ballast must be laid evenly and precisely in an efficient manner. Railcare developed its Ballast Feeder for this purpose.

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

**MPV:** The latest major addition to the product range is the MPV, Multi Purpose Vehicle, which is like a giant power bank on rails. It has so far been linked to the RailVac, but can also be used in other contexts. It enables emission-free and much quieter working in environments where the power in the catenary – if there is one at all – cannot be turned on for safety reasons. In March 2023, for example, it was used for work in the City Tunnel in Stockholm, where it fits perfectly. Its successor, the MPVe, with a pantograph so that the batteries can

### Snow clearance machines

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

Source: The company

### Ballast Feeder

A Ballast Feeder facilitates the precise laying of gravel, which acts as a shock-absorbing layer under the rails.

Source: The Company

be charged if there is power in the catenary at the site or nearby, was launched a year ago.

In addition to these, battery conversion of diesel-powered machines is under development. This should bode well for Technology, but the market is conservative, locally produced prototypes are necessary, and politics may play a role. Railcare is not alone in the development of specialised machines. There is everything from small competitors such as EuroMaint and Svensk Järnvägsteknik on the Swedish market to large companies such as 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. One important reason for this has been a desire not to benefit competitors in the Swedish market, and no major successes have been achieved in foreign markets. This means that the value of the innovation capability is limited, and we do not attribute any greater value to it beyond the protection of the niches in which the company otherwise operates, primarily in the construction business. Should this change in the future, for example with the MPV, there is significant potential in this business.

The Technology business is perhaps the most difficult to forecast, as it is governed not only by exogenous factors but also by accruals and settlements. We therefore do not attach much importance to individual quarters. One-off construction projects can encounter unexpected problems and cost overruns/delays, and, as was the case in Q1-25, customers' need for spare parts may temporarily decrease. In longer projects that are settled each quarter, a larger balance item – positive or negative – may arise at the end in relation to how the project was calculated in the quotation and thus settled, which has a fairly significant impact on the business area's numbers for the quarter. One example is when the locomotive workshop completed work on five Traxx locomotives for Beacon Rail during Q3-23, where lessons were gradually learned from the first locomotive to be able to work significantly faster on the other four, which greatly increased the business area's results (then Transport Scandinavia) during the final quarter of the project. The lesson is that investors are best advised to look at the trend over several quarters instead. However, Technology offers good potential for Railcare in a profitable segment with high demand over a long period of time.

## Organisation

Railcare strives for 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 overhead costs are reduced. Employees grow with responsibility, professional pride increases and an entrepreneurial spirit permeates the company.

This has several effects:

+ More satisfied customers, as problems are solved quicker and smooth delivery is facilitated.
+ More satisfied employees who are recognised and become good ambassadors for the company.

## MPV


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

Source: The company

+ Better margins thanks to fewer stoppages and fewer people being involved in solving minor problems, as well as lower overhead costs.
– A higher investment in each employee to increase their skills, which means a longer training period for new employees and greater vulnerability if someone leaves.
– Greater sensitivity to capacity utilisation, as it is difficult and expensive to recruit and train new employees, so Railcare is reluctant to let go of skilled employees.

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

## Management and owners

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

As is often the case in smaller companies, ownership of Railcare is relatively concentrated in a few hands. Interestingly, in this case, it is not primarily the founders who hold the shares, but other long-term, institutional investors. This is the case after the previous main owners, Ulf Marklund and Leif Dahlqvist, sold their remaining holdings in autumn 2021 to Norra Västerbotten Fastighets AB, now Norman Invest AB, which, together with Treac AB, is a locally based business developer with a foundation.

| 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 | 767 258 | 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 | 321 655 | 1,3% |
| Torsten Germund Dahlqvist | 303 738 | 1,3% |
| Per-Ake Nilsson | 300 000 | 1,2% |
| Harry Markku Sjöblom | 270 000 | 1,1% |
| **10 largest, total** | **13 376 067** | **55,4%** |
| Other holdings, total | 10 748 100 | 44,6% |
| **Shares issued, total** | **24 124 167** | **100,0%** |
| Total No of shareholders | 5 096 | |

Source: Company

Most of the shares held by the ten largest shareholders can probably be considered long-term positions, and there are certainly several others in it for the long haul that fall outside the top ten list, so the free float is likely to be well below 50%. Combined with a market capitalisation of just over SEK 600m, liquidity in the share is hampered, even though turnover has increased in recent years to a median turnover of approximately SEK 500,000 per trading day in the past year. For those with a little more capital to invest, this still means that it takes time to build a position as well as to exit it, unless a so-called "block trade" is possible. It also means that a certain small-cap premium is still justified when valuing the share. However, this did not prevent Staffan Persson from becoming a major owner through his company Swedia Capital AB this summer.

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