

Biting the British bullet

In connection with the year-end report, it was announced that operations in the UK would be closed down. From a financial perspective, this is positive as unused resources can now be put to productive use, which should be reflected in margins going forward.

Q4 slightly lower than expected

An early and harsh winter and increased losses in the UK weighed on Contracting, with sales of SEK 64.4m (73.9) and an operating profit of SEK 1.3m (6.6). Transport performed better, with a 22% increase in sales to SEK 94.5m (77.3) and an operating profit of SEK 12.6m (4.6), which meant an operating margin of 13.4% (5.9%), helped by the new standby locomotives. The Group's sales increased by 8% to SEK 170m (157) and EBIT to SEK 14.9m (13.7), which meant an unchanged margin of 8.8% (8.8%).

Triggers in new contracts to achieve 2027 targets

New transport contracts need to be secured before next winter to achieve the company's financial targets of SEK 1 bn in sales and a 13% operating margin for 2027. This requires SEK 150m per year in order value, which corresponds to two Kaunis deals and the organisation has already been scaled up to handle this.

Management appears no less confident about the 2027 targets now than previously, and given the contracts Railcare has secured over the past two years, there is reason to believe that new ones will follow. In our forecasts, we expect to come close to the company's targets.

Good risk/reward

Our base case is that the targets will be achieved, and assuming the share will trade at EV/EBIT=12, corresponding to P/E=11, at the end of 2027, this justifies a share price today of SEK 43, i.e. a price potential of around 50%, or conversely an AROR of just over 40% including dividends. With 2027 less than two years away and good visibility, we extend our projections to 2035 with cautious assumptions about sales and margins which justifies significantly more than a doubling of today's price, with AROR ending up at over 25% per year until then.

The short-term risk is mainly that new contracts will not be secured as planned. The impact on the valuation is negligible if any agreement is postponed by a quarter or two, but the signal in not achieving the targets on time risks weighing on the share price. Conversely, any announcement of significant contracts should trigger a positive share price movement. However, if new assignments were to fail to materialise at all, and we calculate zero volume growth for 2027-2035 and a margin of 7% in a very pessimistic scenario, we can still justify SEK 35 per share today.

In other words, the risk/reward ratio appears very attractive in both the short and long term. Added to this are structurally growing, cyclically insensitive operations and good portfolio characteristics thanks to the diversification provided by the share.

Railcare Group AB

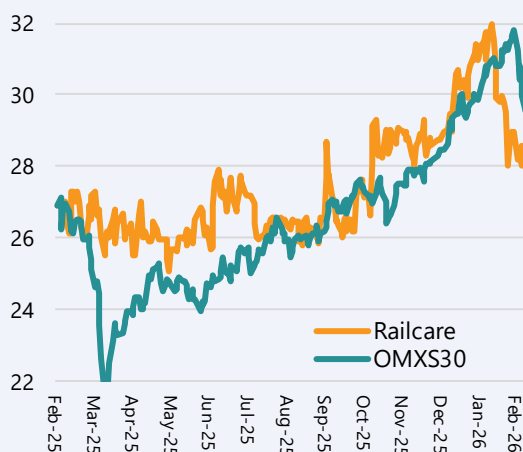
Report Comment - Q4 2025

Date 11 March 2026
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, 11/3 2026	28.50
Shares outstanding (millions)	24.1
Market cap SEKm	688
Net debt SEKm	571
Enterprise value SEKm	1259
Home page	www.railcare.se
Justified price	43,00
Next report	7 May 2026

Share price past year



Source: Refinitiv

Estimates & Key Ratios, SEKm

	2025	2026e	2027e	2028e
Turnover	668	791	990	1 080
Gross profit	429	505	630	690
EBIT	67.6	99	126	138
EBT	52.3	76	98	106
Net profit	39.8	58	74	80
Earnings/share, SEK	1.65	2.40	3.07	3.32
Dividend/share, SEK	0.70	0.80	1.10	1.20
Sales growth	18.3%	18.5%	24.5%	9.7%
Gross margin	64.3%	64%	64%	64%
EBIT margin	10.1%	12.5%	12.7%	12.8%
Net debt / Equity	1.7	1.6	1.4	1.2
Net debt / EBITDA	1.2	1.1	0.9	0.8
P/E ratio*	17.4	11.9	9.3	8.6
EV/EBIT*	18.1	12.7	10.0	9.1
EV/Sales*	1.8	1.6	1.3	1.2
Dividend yield*	2.4%	2.8%	3.9%	4.2%

* For 2025, based on price & data as per 2025-12-30

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. With these, the company specialises in confined environments that are highly sensitive to exhaust fumes and noise – small, specialised jobs that protect margins and competitiveness even if the economy slows down.

Successes with standby locomotives and increased transport needs, not least locally in Norrland for the heavy industry there, is the backdrop to the success of the Transport business, which is the company's fastest growing and now also largest business.

Low cyclical sensitivity

While Transport sees structural growth, mainly with private companies as customers, Contracting sees significant demand from the public sector, both contributing to low cyclical sensitivity. Many contracts are also indexed, so the customer pays for fuel and electricity in service sales, and product sales have high value-add with a clear focus on sustainability. Increases in input prices thus have a limited impact on earnings, and even higher interest rates are not particularly significant despite a capital-intensive business.

Although sensitivity to economic cycles is low, earnings may still vary somewhat over time, as operational leverage is high due to a high proportion of fixed costs for both machinery and personnel. The key to steady profit growth thus lies in finding ways to reduce fluctuations in capacity utilisation, for example through long-term contracts, which are being won to an increasing extent.

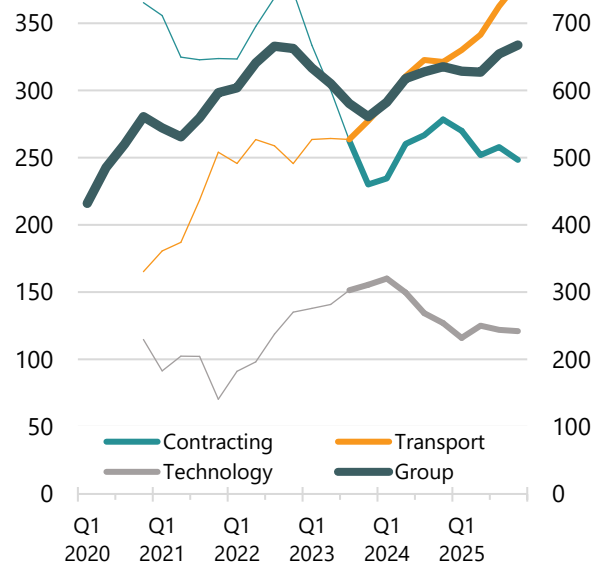
The share has clear potential

With our forecasts almost in line with the company's financial targets, we see a potential of 50% in the share price today, and significantly more with a longer horizon than 2027. However, this is based on new transport contracts being secured during this year. Even without new contracts, today's share price is still justified. With our base scenario, we are still not accounting for all opportunities out there, so there is room for upside surprises. In addition to a likely expansion of the locomotive workshop, new "pit stop" contracts and further new long-term contracts, the idea of a breakthrough in external sales of Railcare's unique machines is exciting.

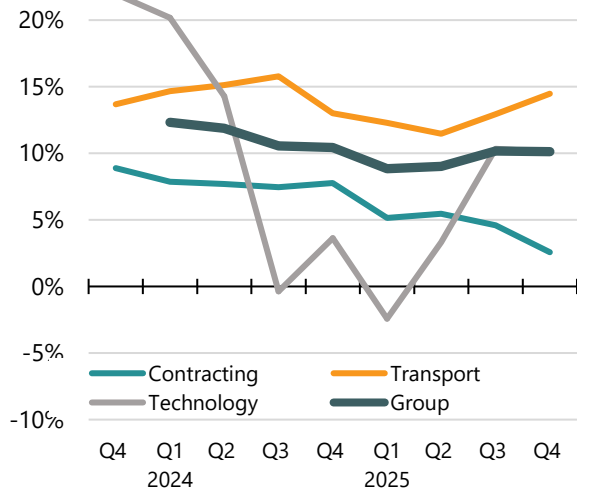
Factors that may hold back the share price include a lack of new contracts secured in the near future, a low market capitalisation with a low free float, which results in low liquidity in the share and a "small cap contagion", as well as a certain degree of operational volatility.

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

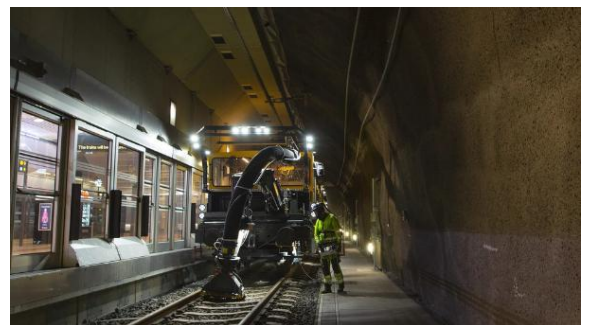
Sales roll. 4Q



EBIT-% roll. 4Q



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



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

Market development

Market

The Transport Administration's proposal for a national plan for Swedish infrastructure for the period 2026-2037, which was presented last autumn, is expected to be submitted to the government for a decision in the spring. Railway investments and maintenance will total SEK 500 bn, most of which will go towards maintenance. However, [according to Tågforetagen](#), this will only cover 10-15% of the maintenance backlog during the period, which, according to the Transport Administration, will not be cleared until 2050. It is still a significant shift, as the backlog, which is currently conservatively estimated at 91 bn, has actually *increased* until now and doubled since 2015. The situation is worst for the contact lines, where almost 40% are considered technically worn out according to the Transport Administration.

Maintenance work must however be balanced against a steadily increasing volume of traffic; finding time on the tracks to carry out maintenance is the biggest bottleneck, and there is competition with increased traffic on a facility that already has declining capacity due to e.g. speed restrictions on poorly maintained tracks. This means that efficiency in carrying out the work will be key, and Railcare is recognised as being at the forefront in this area. This, together with the Transport Administration's expectation of a 10-15% increase in maintenance per year until 2029, means good prospects for Railcare, both directly within Contracting and indirectly for, among other things, construction transport within the Transport business area.

The modus operandi must change

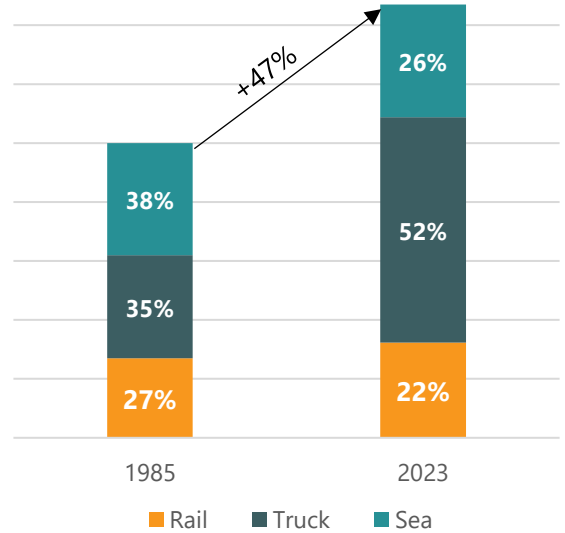
According to a [report from Innovationsforetagen](#), productivity in the construction industry is 4% *lower* today than it was 25 years ago – not the rate of change, but the level! According to the report, this applies in particular to infrastructure construction. The previous steady productivity growth of 1-2% per year was interrupted in the 1990s, but if the trend had continued as in other industries, 225 bn would have been saved, according to the report, which advocates more innovation and new working methods as a solution to the problem.

To reverse the trend, new approaches must be tried, the report says. Estimates indicate that rail delays cost society SEK 9 bn per year, so if that amount could instead be spent on maintenance, the backlog would be gone in 10 years – if it were enough to simply "throw money at the problem." However, as described above, time on the tracks is the bottleneck in the sector.

Instead, it is a matter of changing work processes, as the report points out. The pressure for efficiency is now definitely coming from the higher echelons as well, 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 in the summer of 2024. 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 make it more expensive – on the contrary – and innovative players such as Railcare are ready and willing to help the Transport Administration in this regard.

Freight transport work

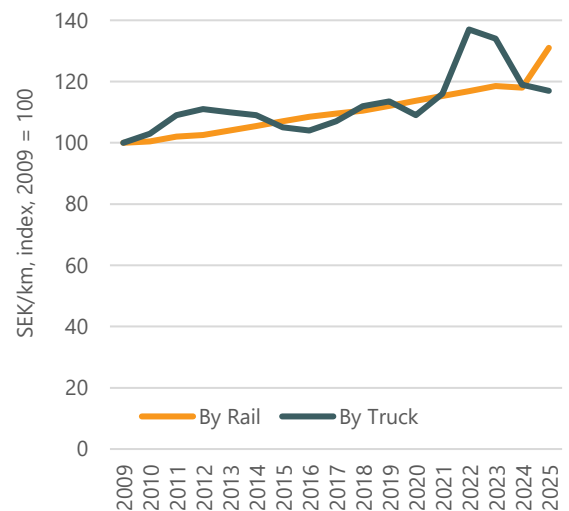
Sweden, tonne-kilometer total by Rail, Truck & Sea



Since 1985, almost all growth in freight transport has been by road. Rail and sea transport have seen their share decline, contrary to the objectives of EU and national transport policy. Data from the Swedish Transport Administration and Transport Analysis.

Source: jarnvagar.nu

Freight costs, Sweden



The figure shows how transport costs to customers have been affected by track access charges and diesel prices between 2009 and 2025. Index 2009=100. Source: Statistics from the Transport Administration, Drivkraft Sverige and KTH, processed by Professor Emeritus Bo-Lennart Nelldal, KTH.

Source: jarnvagar.nu

The Administration expects market growth of around 10% per year for many years to come. According to Railcare, the ambitions for increased efficiency are also beginning to be realised, as the Administration is becoming more adept at "getting the money out on the tracks". However, further necessary efficiency improvements require changes in working methods, including more night work, seasonal adjustments and larger and more 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 modes of transport, such as air travel, over rail. More importantly, the business sector is facing increased administration, costs and potential lost business and investments due to delays and cancellations, and the lack of capacity on the railways is increasingly threatening to stifle their growth opportunities. This has led to voices being raised also in large companies, so more sections of public opinion are pushing for change, which will benefit both construction and transport businesses in the short and long term.

However, changes are tested. A new procurement model, TLS, has just been tried in connection with sections of the East Link from Järna to Linköping – Sweden's largest infrastructure project, worth SEK 110 bn. In addition, longer freight trains and higher speeds are also tested in certain corridors to increase capacity.

NATO membership

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

- It means that external demands on Sweden to upgrade our railways are added to the demands from the public and businesses discussed above. To fulfil our obligations to the alliance, substantial measures must be taken immediately. Unlike the previous focus on north-south rail lines, west-east transport routes are now a priority for NATO, and the Malmbanan railway, sometimes called the Suez Canal of the North, is also central in this context. In addition to ensuring vital transport from the ore fields to Narvik for shipment to steel producers and consumers in Europe and around the world, it is absolutely central to northern Norway, and Norway is having the same discussions about the Norwegian part of the line, the Ofofbanen, as we are having about the Swedish part. It accounts for only one per cent of the Norwegian railway network but represents 60 per cent of their freight volume in terms of tonnage. In addition to ore, it transports, for example, fish worth NOK 25bn annually, half of all daily goods to Northern Norway, as well as mail, and it replaces 20,000 long-distance lorries per year. In many ways, it is the route to and from the Arctic. The upgrade, including longer and more passing tracks, cannot wait any longer, and it is probably largely in this light that the timing of the government's proposal for upgrading roads and railways should be seen. However, neither Swedish nor Norwegian politicians seem to dare to invest in double tracks yet, which would more clearly reduce vulnerability and increase capacity.
- Another effect of NATO membership is the prioritisation between climate initiatives and defence. We saw this in autumn 2024 with regard to offshore wind power, which was disqualified from 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 & steel industry

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

Öresund to Åland energy plan (), first by the defence forces and then, just days later, signed by the government. The demands of the defence forces are likely to prevail in the same way in the prioritisation of diesel over electric traction for locomotives, as electric traction is too vulnerable. The market is likely to move towards hybrid locomotives, but these are both more expensive to purchase and more difficult to obtain. It is interesting to note in this context that the Swedish Transport Administration has ordered new hybrid maintenance trains from Plasser & Robel. Sweden is not alone in this reprioritisation and is a small market that also runs on alternating- , which means that larger and simpler 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. In just a few years, road transport has become 20% cheaper than rail transport due to increased track access charges and lower diesel prices. This difference must be eliminated before railway lines start to be closed down due to lack of demand.

Overall, it appears that underlying growth for railways in general will be very good going forward. At the same time, the large maintenance backlog in the Swedish railway network is beginning to be paid off, albeit very slowly. While benefiting Construction, Railcare's expanding business with emergency locomotives, where Railcare is one of the few players that can offer the more environmentally friendly diesel locomotives, something that is possible following the deal with Norran Invest regarding the acquisition of AC Finance AB 2024, a locomotive rental company (see below and <https://mf.n.se/a/Analysguiden/kommentar-railcare-framtidsinvestering>).

And the green argument...?

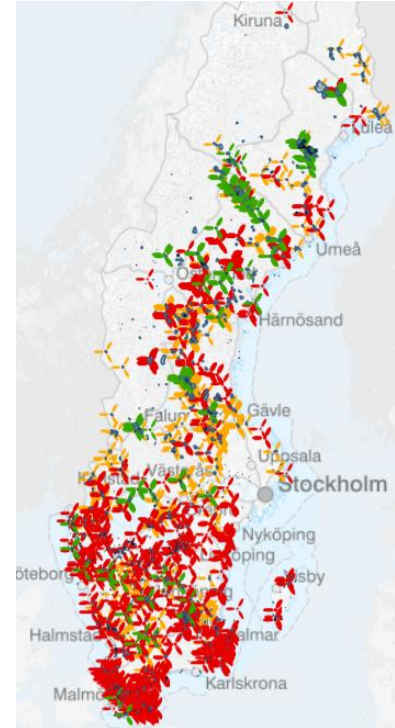
While it is becoming clear that not all the major industrial projects planned in Norrland in recent years will go ahead, those that remain will still mean a significant expansion of heavy industry. This accentuates the need for rail transport in the region, even compared to the rest of the country, and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

These new industries also tend to 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 Swedish 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 worked on sustainability issues for the railways for a long time, 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 MPV battery wagon and its new upgraded successor with pantograph, the MPVe, are perfectly suited to

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 review
Red = Rejected

Source: Vindbrukskollen

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; for financial reasons or because emission-free locomotives and machines will not be produced or converted to a sufficient extent by 2040, and those that do exist will be expensive to hire – if it is even possible. Many existing 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 completely new European signal and safety system, ERTMS (European Rail Traffic Management System), is being introduced, which in Sweden will replace the old ATC system. In the long term, this should eliminate many of the problems associated with crossing national borders, which has been a competitive disadvantage for railways compared to road or air transport. Current national systems are also outdated, and in some cases it is even difficult to get spare parts.

There are now two strong reasons for rebuilding large numbers of locomotives in the existing fleet: sustainability and technical requirements. Locomotives that are not too old are worth an overhaul, e.g. with new fuel-efficient and cleaner engines, or even with hybrid or battery power. However, replacing those reaching the end of their service life will not be cheap, as a new locomotive costs from SEK 30-35 million 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) is hardly worthwhile, as a conversion typically costs SEK 10-15 million. However, the Transport Administration's new 50% subsidy may improve the calculation¹. Even if that doesn't help, it may still be necessary to convert old vehicles if new locomotives cannot be procured, given the large number of locomotives needed, not only in Sweden but throughout Europe. The manufacturing capacity of locomotive manufacturers is simply not sufficient to meet demand. Whether it is new locomotives or refurbished ones, the industry is facing a significant investment bump, and Railcare is at the forefront thanks to its financial strength and foresight.

The significant refurbishment needs benefit Railcare's locomotive workshop, which has already seen such a sharp rise in demand in recent years that it has essentially reached its capacity limit. A decision to expand seems likely, as several preparations are already underway, 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, benefiting customers and thus the locomotive workshop's margins.

Another wild card in the game is Finland's recent decision to change the standard of its entire railway network from the current Russian standard to the European standard, which means, among other things, a change in track gauge of just under 9 cm. This will obviously not be done overnight, or even in a decade, and will require enormous investments, where Railcare may perhaps be able to bid for contracts?

¹ All vehicles on Swedish railways must be converted to ERTMS by 2030, and the Swedish Transport Administration is now allocating a budget of SEK 3 billion to cover 50% of the conversion costs for freight and passenger traffic.

Nordic Hydrogen Route

4. Hydrogen for industrial processes and fuel

A 1,300 km long 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.

Fourth quarter performance²

The report as a whole did not quite meet our expectations. Revenue for the fourth quarter came in 9% below our forecast – albeit 8% higher than last year – at SEK 170.1m (157.0 for Q4-24). The operating margin was unchanged at 8.8% (8.8%) based on earnings of SEK 14.9m (13.7), which was well below our expectations of SEK 18.9m. The main reasons for the deviations lie with Contracting and are attributable to

- an early and harsh start to the winter compared with the mild start to last winter, which affected the construction business,
- an increased loss in the UK, where operations are now being shut down, and
- no "pit stop assignments" were received; in fact, none were received throughout 2025, despite successful ones in 2024.

For the full year, sales increased by a fairly modest 5.1% to SEK 668m (635), mainly since last year was inflated by "pit stop assignments". Adjusted for this alone, growth would be in double digits, but other factors also contributed to limiting growth in 2025, albeit to a lesser extent.

Business areas

Contracting

Contracting held back the Group's performance in Q4 for the reasons above, which reduced the business area's turnover by -13% to SEK 64.4m (73.9) and operating profit by -80% to SEK 1.3m (6.6), resulting in an operating margin of 2.0% (9.0%), whereas we had anticipated a slight increase in sales and unchanged earnings. Nevertheless, the number of relinings increased compared with Q4 last year, which is a high-margin business. Of course, it is impossible to influence or predict the weather a quarter ahead, but it is nevertheless clear that optimisation of the business is needed and can now hopefully be facilitated by the closure of the UK.

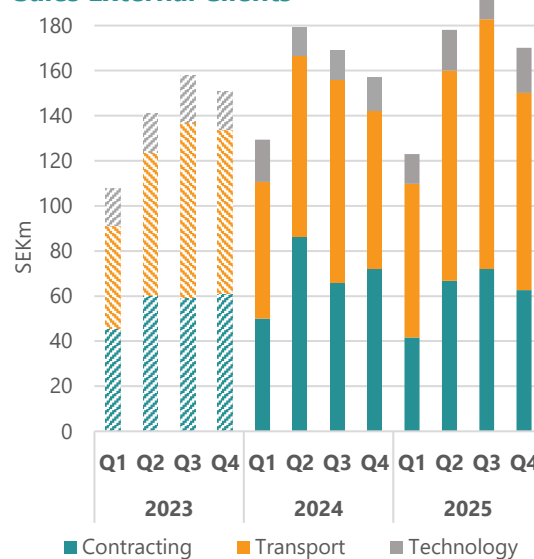
For the full year, turnover decreased by 10.8% to SEK 248m (278) and operating profit by 70% to SEK 6.2m (21.3), resulting in an operating margin of 2.5% (7.6%).

² Please note two changes to accounting practices from 2025:

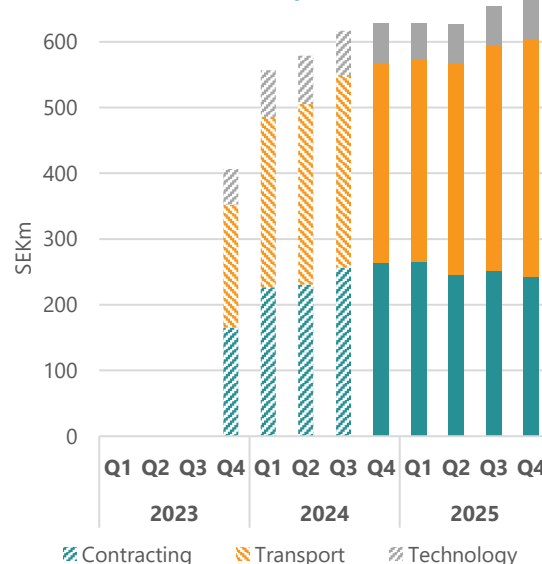
- Locomotive rentals are reclassified as leasing (IFRS 16), which means improvements in gross profit and EBITDA in particular, but also EBIT.
- Change in business area classification: Contracting International will be merged into Swedish Construction, and the Locomotive Workshop will move from Transport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

We believe that both changes are beneficial for understanding the Group structure, but they make it more difficult to compare with historical figures and lead to slightly greater uncertainty in the forecasts, particularly at the business area level. At the 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.

Sales External Clients



Sales External Clients, roll. 4Q



Source: The company, Analysguiden (estimate, dotted line)

Transport

The trend was even better in Transport, where preparations for the new emergency locomotive assignments are now beginning to pay off. Revenue in Q4 increased by 22% to SEK 94.5m (77.3) and operating profit by 178% to SEK 12.6m (4.6), resulting in an operating margin of 13.4% (5.9%).

Of course, last year was affected by the build-up of the organisation ahead of the start of the standby locomotive assignments, but it is nice to see confirmation that they are delivering financially according to plan. Now we await the effect from 1 January of the last of the five new locomotives covered by the agreement. Good occupancy rates in general have also contributed to the increase in turnover.

Another piece of good news was that the Transport Administration is exercising the option to extend the agreement for the four standby locomotives that Railcare already had (in addition to the five new ones and one renewed one included in the latest contract) by one year, so that they now run until the end of December 2027. A few weeks ago, the Swedish Transport Administration also terminated its agreement with Protrain for standby locomotives in Stockholm, Gothenburg and Herrljunga because the locomotives did not meet the requirements. These will now be subject to a new procurement process at the turn of the year, and Railcare's locomotives are among the few that meet all the requirements.

Although construction transport is in “winter hibernation” during Q4 and Q1, many track replacements are planned for the coming years, so if Railcare's customers are awarded the track replacement contracts, this should be good for the company going forward.

The third part of Transport’s businesses is the long-term fixed contracts – such as ore transport for Kaunis Iron and LKAB – which are also unaffected by seasonality. We hope to receive news of new contracts of this type in the coming quarters so that the Group can achieve its financial targets.

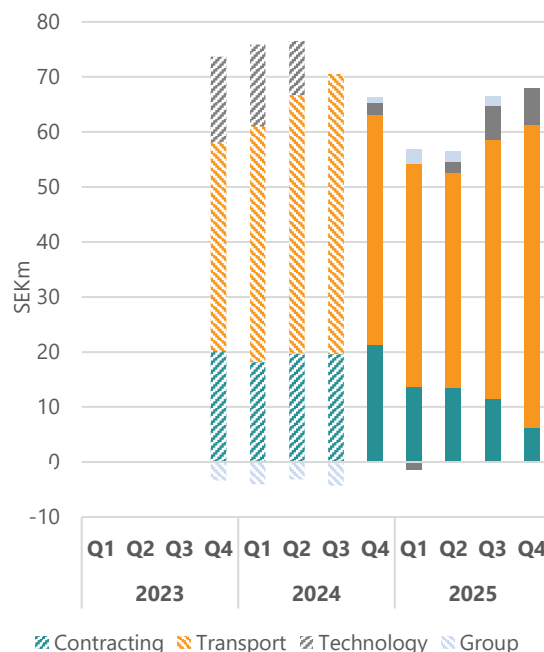
Technology

The business area's turnover fell slightly to SEK 28.6m (29.5) and operating profit rose to SEK 1.5m (1.2), improving the operating margin to 5.4% (3.9%). For the full year, sales fell to SEK 121m (127), although revenue from external customers rose by 9% to SEK 64.8m (59.4), in line with the ongoing shift towards external sales, partly following the completion of the MPVs for own use.

Improved cash flow

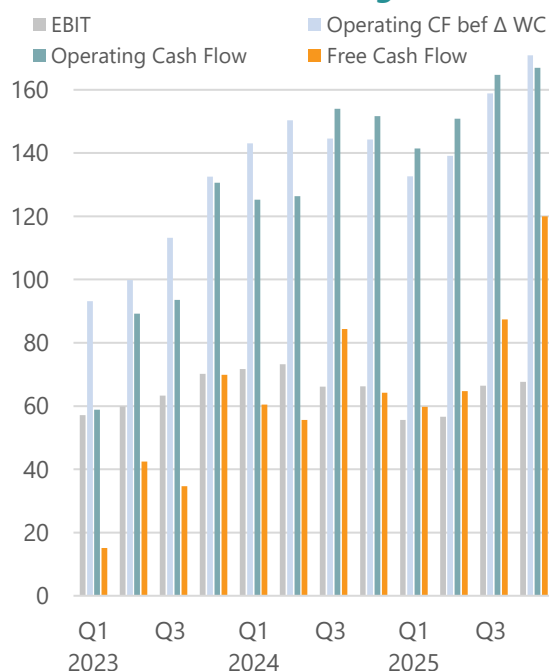
Free cash flow continued to improve significantly to a new record level of SEK 120m on a rolling 12-month basis. This reflects both an increase in cash flow from operating activities and the fact that the heavy investment period is now behind us.

EBIT, roll. 4Q



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

Cash Flow, 12 mth rolling



Source: The company, Analysguiden (calculations)

Forecasts

Short term

We would like to remind you 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 figures over a rolling four quarters and forecasts for the slightly longer term. That said, there are short-term factors that we think are worth considering and which we describe below.

- Contracting**

The first quarter is typically the weakest quarter of the year, as few construction projects are planned for this period due to frost and snow. Against this background, the snow clearance contract that Railcare secured with the Transport Administration last year is very valuable. However, demand for the business area's services is not normally sufficient to achieve the same capacity utilisation as in other quarters, mainly the summer months.

Even though operations in the UK are now being shut down, it will take some time before resources are reallocated in an efficient manner, and certain minor transition costs cannot be ruled out. The impact of these operations may therefore continue to weigh slightly on the figures, but we believe that this will be to a lesser extent than last year.

Our expectations for Q1-26 are for overall revenue growth of just over 10% to SEK 47m (42.5), compared with the former Contracting Sverige's revenue of SEK 46.7m for Q1-24, before the snow clearance contract. We believe the operating margin will be close to 5%, but with a large margin of uncertainty due to the UK.

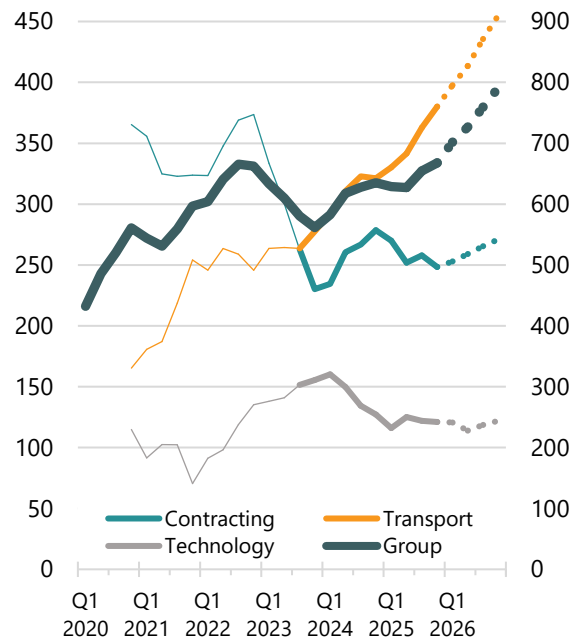
Now that Contracting has finally rid itself of the long-standing extra burden of its loss-making operations in the UK, the focus is now on optimising the business area's resources to increase the overall capacity utilisation rate.

- Transport**

Of the six standby locomotives covered by the agreement with the Transport Administration signed two years ago, the last of these entered service at the turn of the year, so the full effect of the deal will now be felt from Q1-26. Railcare now has a total of 10 locomotives on standby assignments, and there is capacity for more thanks to the availability of new locomotives that meet all the Transport Administration's requirements via AC Finance.

The fixed long-term transport assignments are rolling along with a good base load for the business area, but construction transport is now in hibernation for the winter. Nevertheless, it is encouraging for the upcoming high seasons that the Transport Administration is ordering more major track replacements and more preparatory work for these from the big players in the sector. This should reasonably benefit Railcare's construction transport operations. If there are also larger jobs in the same location, this is beneficial not only for turnover but also for margins.

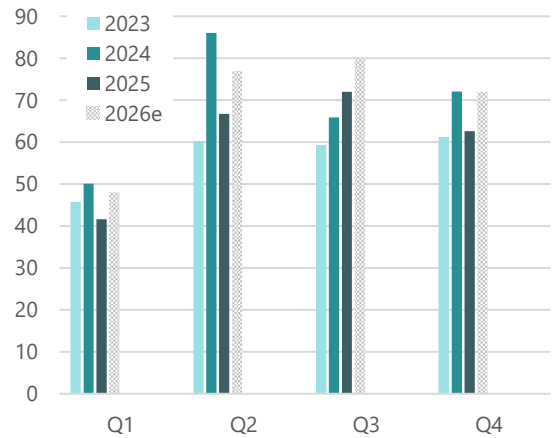
Sales, roll. 4Q & forecasts



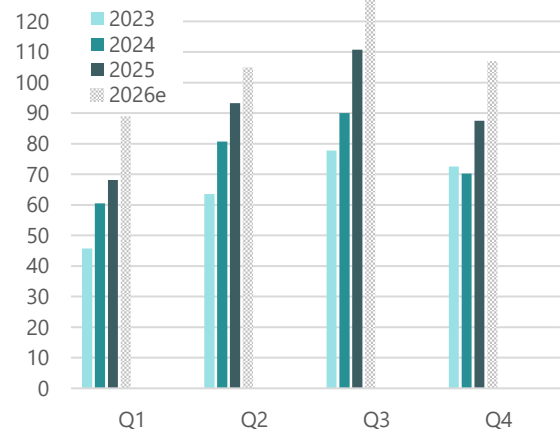
Source: The company (solid line), Analysguden (estimates, thin line & forecasts, dotted line)

Seasonal variations

Contracting



Transport



Source: The company, Analysguden (estimate, shaded)

Overall, we expect Transport to grow by just under 23% to SEK 95m (77.5) in Q1, mainly thanks to the new standby locomotives, and for the operating margin to remain at last year's 12% (12.0%).

• **Technology**

Short-term forecasts for Technology are difficult because it is hard for an external observer to keep track of settlements on various projects, what type of work dominates and how much work is done for the company itself versus for external customers, even though the latter are set to take over more and more.

Work is continuing on the Railvac that Norsk Baneservice ordered in the spring and is due to be completed in Q1. At the same time, a reallocation is underway to allow the workshop in Skelleftehamn to take over some of the work from the locomotive workshop in Långsele. It does not seem far-fetched that this could involve locomotive conversions (from diesel to electric/hybrid operation), given the expertise in electrical engineering that has reasonably been built up in Skelleftehamn during the development and construction of the MPVs. A decision on the expansion of the locomotive workshop has not been ruled out, but is awaiting, among other things, an approved detailed plan, and the wheels of bureaucracy turn slowly...

In the longer term, both processes should contribute to a higher proportion of turnover coming from external customers and also to a strengthening of earnings.

We also note that the Swedish krona has continued to strengthen slightly against the euro so far this quarter, which is positive for net financial income for the quarter if it persists, as several locomotive lease agreements are denominated in euros.

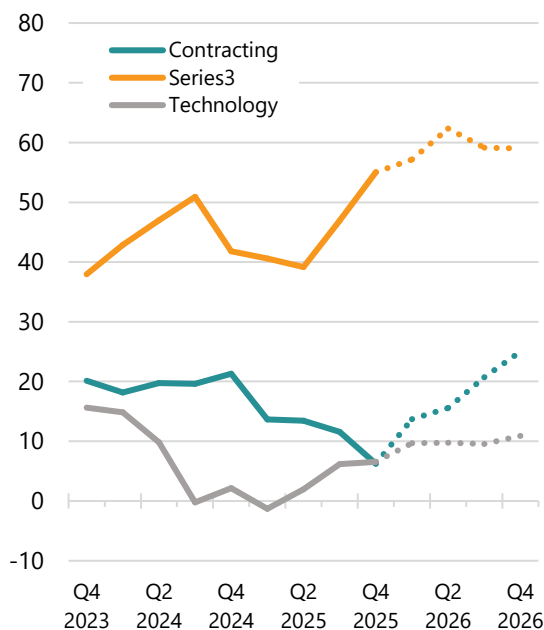
The coming quarters overall

When we summarise all this, our forecast for first-quarter revenue is SEK 157m, significantly higher than last year's SEK 123m, driven mainly by the full effect of three new standby locomotives. This will also have a positive effect on operating profit, which we believe will be SEK 17m (4.4). We then expect Q2-26 to be significantly better than Q2-25 in terms of both sales and earnings, partly thanks to the standby locomotives and partly because the scaling costs will almost disappear. We then expect a seasonally strong operating margin of just over 13%.

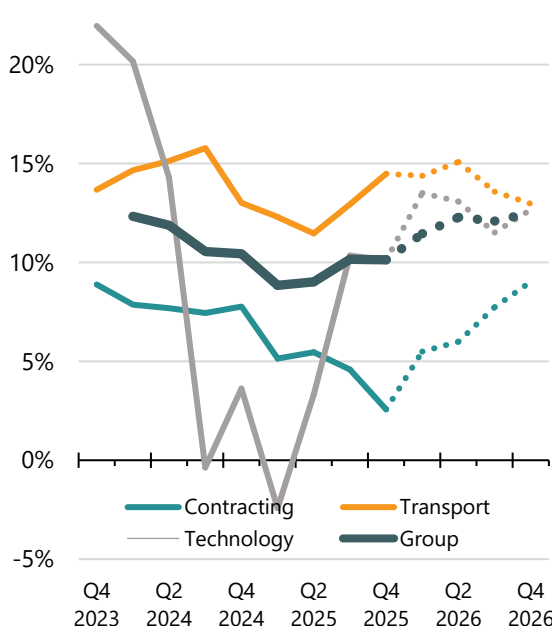
Longer term: Sales forecasts

The company appears unwavering in its belief that it will achieve its financial targets of SEK 1,000m in sales for the full year 2027 and an operating margin of 13%. However, the full effect of the new standby locomotives will not be enough; new contracts are needed, and the passage in the half-year report from this summer stating that "...there are good prospects of obtaining new transport assignments in the coming years, which is necessary to achieve the set targets" sounds reassuring.

EBIT roll.4Q & forecasts



EBIT-% roll. 4Q & forecasts



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

Contracting

Now that Contracting has finally been freed from the long-standing extra burden of the loss-making operations in the UK, the focus is now on optimising the business area's resources to increase the overall utilisation rate. The two Railvacs and one Ballast Feeder that have been virtually idle at will now be put to better use wherever they are moved.

With the substantial infrastructure investment we have described under Market and increased pressure from the business community, the general public, the armed forces and, not least, politicians, the railways will receive more resources. The Transport Administration itself is talking about at least 10% growth per year. Over the past nine years, the old Entreprenad Sverige has grown by 7.7% per year, over the past five years by 13% per year and by more than 18% per year during the three years prior to 2025 (almost 30% per year if you only count Swedish contracting activities!). However, the company points out that the capacity of its unique machines is not unlimited and that good profitability takes priority over rapid growth.

However, growth may temporarily increase at a faster rate, particularly if the Transport Administration decides to proceed with procurement based on [the "pit stop model"](#). There are signs that several such contracts may be put out to tender, including the government's transport infrastructure plan, which clearly points to the need for increased efficiency at the agency, as confirmed by the report from Innovationsföretagen described above.

Overall, we conservatively expect growth of just under 9% per year in the coming years, compared with the significantly higher figures in previous years, and hope to be pleasantly surprised. However, we expect the operating margin to benefit from the closure of the British operations in the future, with the best quarters reaching the Group's target of 13%, while the winter quarters will bottom out at half that figure, for a rolling 12-month average of just under 10%.

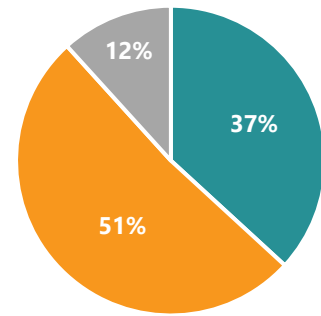
Transport

At the turn of the year, the last of the five new standby locomotives was put into service in Hallsberg. The agreement for a total of six locomotives will expire gradually during 2030, but the contract includes a 1+1 year option. This is in addition to the four existing standby locomotives that Railcare has a contract for, which runs until the end of 2027, after which a new procurement process will begin. Although the Transport Administration is then obliged to accept the offered price, there will be a number of requirements that must be met, including ERTMS and environmental requirements, where Railcare is well positioned with its brand new locomotives. Revenues are secured in this agreement until 2027, but new agreements are needed to reach the 2027 turnover target of one bn.

Management has talked about two new "Kaunis-class" agreements, or one large and a couple of smaller ones. Given how confident management appears to be in achieving the target, it is clear that several negotiations are currently underway. These are likely to involve both private operators with transport needs and public sector clients.

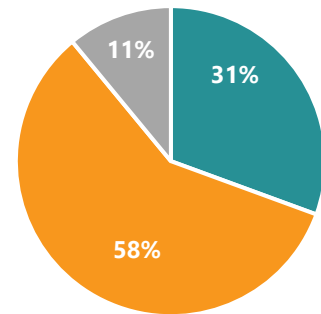
It is worth noting here that, at the beginning of February, the Transport Administration terminated its agreement with Protrain regarding standby locomotives in Stockholm, Gothenburg and Herr-

Business areas Q4-25



■ Contracting ■ Transport ■ Technology

Business areas Q4-27p



■ Contracting ■ Transport ■ Technology

Despite expected strong growth for Transport, there will be no significant change in the revenue distribution 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

ljunga ahead of schedule, as it became apparent that Protrain did not meet the Administration's requirements. Grenland Rail was temporarily allowed to take over in Gothenburg and Herrljunga through a supplementary agreement with lower requirements, but before the end of the year, the Transport Administration will put the contract out to tender again, and Railcare is one of very few companies that can meet the Transport Administration's requirements with its new Effishunter locomotives. If we base the value of such a contract on the contract that Railcare took on in 2023, it points to a figure near SEK 25m per year.

Other transport buyers are also satisfied with Railcare's service, flexibility and expertise, as evidenced by the nearly 20% annual growth in the 2020s. Several likely customers can be identified, such as LKAB, where Railcare has gained a firm foothold in recent years, or why not Boliden, where CEO Mattias Remahl has his background? New companies such as Stegra are also conceivable, but regardless, Railcare is likely to hold discussions with most of them.

Overall, our base scenario means that new contracts will be announced during the current year, corresponding to an increase in turnover of SEK 150m on an annual basis in 2027, which would mean that the target is almost achieved. It is possible that the small gap from our forecast of SEK 985m could be covered by an increase in the volume of construction transport, but we are not counting on this. We also expect the operating margin to reach the target of 13%, in line with historical figures.

As 2027 is less than a year away, we have also begun to outline the years thereafter, and by 2030 we expect a declining growth rate down to 13% per year and then down to 10% in the years leading up to 2035, with an operating margin close to 13%. Transport's major contracts span many years, which provides a certain degree of predictability, but during this time, several of them will of course come up for renewal/renegotiation. Of course, we do not know what our competitors' bids will look like at that time, but with the right type of locomotives, established routines and, in the standby locomotive business, economies of scale, the conditions should be good for a renewal on attractive terms for Railcare.

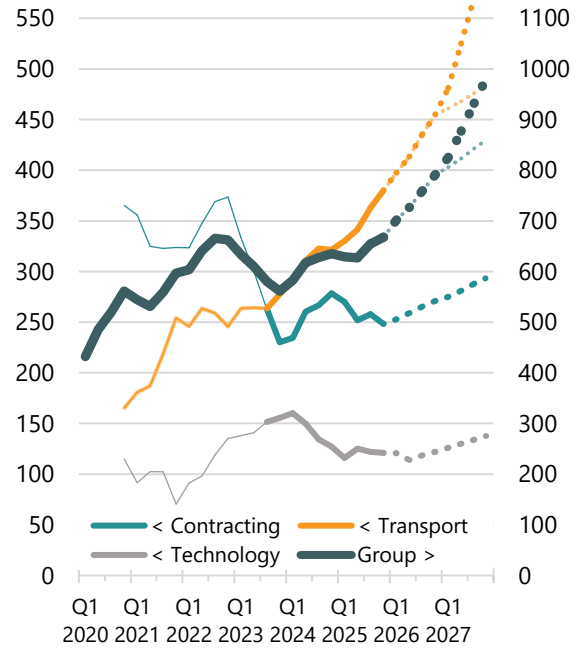
Technology

Now that in-house machine manufacturing is declining and capacity is being freed up for external customers, certain jobs that were previously carried out in the locomotive workshop in Långsele are planned to be accommodated in Skelleftehamn in parallel with any future machine construction for sale. The workshops are close to each other in terms of operations, so the flexibility created by closer integration and exchange between Långsele and Skelleftehamn is positive.

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

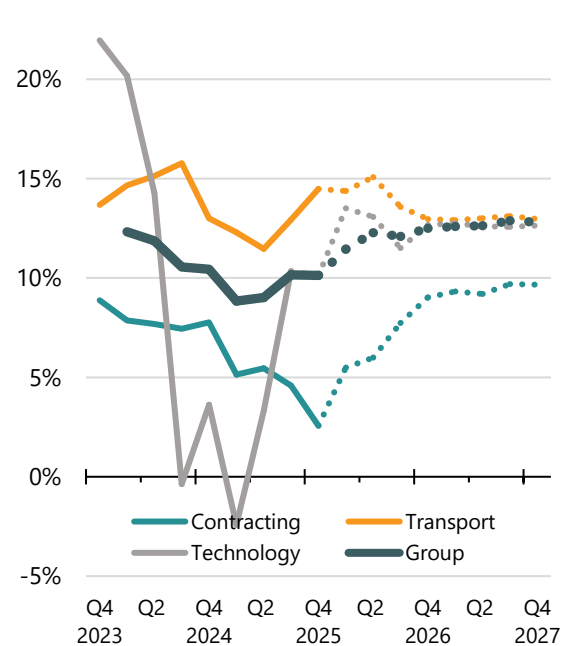
- They are project-oriented activities where each project is unique in different ways and often runs over several quarters, not infrequently at a fixed price.
- This can result in lower or higher settlements for ongoing projects for a given period.

Sales, roll. 4Q & forecasts



Source: The company (solid line), Analysguiden (forecasts, dotted line). The thin dotted lines for Transport and the Group show the development if no new transport contract is awarded that will start in 2027.

EBIT-% roll. 4Q & forecasts



Source: The company (solid line), Analysguiden (forecasts, dotted line)

- 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 when installing on-board equipment on five Traxx locomotives, as Railcare did in 2023, or reasonably in the construction of the third MPV currently under-way, 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 for a shareholder to worry about. On the contrary, Technology should be well positioned to show good growth and margins over time, as demand for its services remains very high and is expected to remain so, not least in light of the market outlook described above.

The expansion of the locomotive workshop in Långsele, which is under discussion, would probably bring further benefits 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 through the premises becoming more suitable for their purpose.

Cost³

Raw materials

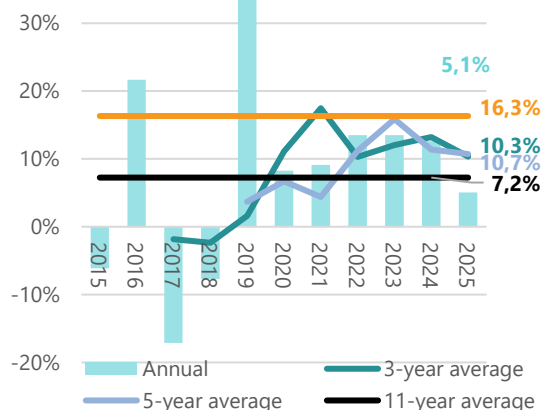
A slight increase in service revenue, including from the standby locomotives, has gradually reduced raw material costs as a percentage of total sales. Last year's reinterpretation of IFRS also led to a clear improvement in the gross margin, albeit only in accounting terms. The added value in most of the operations is generally high, so any changes in raw material costs have only a minor impact on earnings. The same should reasonably also apply to Transport as a whole, which also accounts for an increasing share of Railcare's sales.

Personnel

The size of the organisation is now at the right level according to management, and the number of employees actually decreased by one person in Q4, after two fewer in Q3, so the company's preparations for a larger business volume are now complete. This is not only a matter of salaries, but also recruitment costs, training, certifications, etc. This

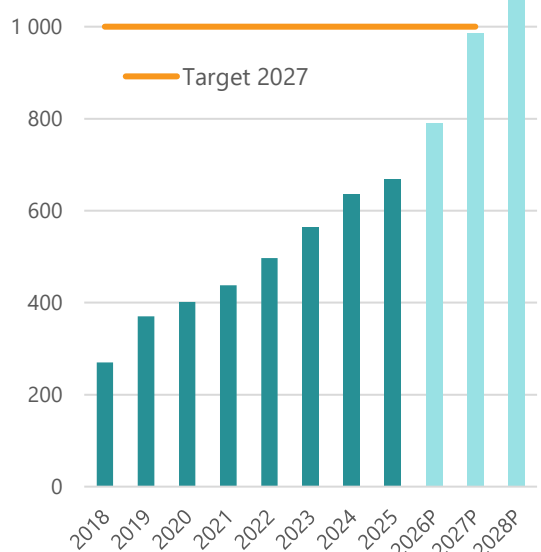
³ Note that the reinterpretation of IFRS 16 from the turn of the year 2024/25 means that costs are moved down in the income statement, from Raw Materials & Supplies to Depreciation and Financial Expenses. In addition to clearly positive effects down to the EBITDA level in the income statement, and some positive impact further down, cash flow from operating activities will be higher while financing activities will be weighed down. The lease liability increases the balance sheet total, and since several contracts are written in EUR and the liability is translated into SEK on the balance sheet date, the currency effects will be more apparent in the accounts and increase the fluctuations between quarters without any expected impact in the longer term.

Historical Sales Growth



Source: The Company, Analysguiden (calculations)

Sales forecast, SEKm



The new contract for standby locomotives is clearly visible in the shift in levels in 2026 and expected new assignments in 2027.

Source: The company, Analysguiden (forecasts)

means that these latter costs have reasonably begun to fall now that employees are starting to get to work. We therefore expect personnel costs as a percentage of revenue, which peaked at just over 32% on a rolling 4-quarter basis, to slowly decline somewhat as revenue rises and fills out the cost structure.

Depreciation/Write-downs

As this is heavy industry, capital tied up is high. There is a shift towards an increasing proportion of leased vehicles and machinery, while the reinterpretation of IFRS 16 pushes down the costs of these from an operating lease fee under cost of goods sold to justifiably considering this cost as depreciation and financial expenses, respectively. This means that depreciation as a percentage of sales will increase compared with previously, even if this does not fully correspond to the reduction in the previous operating leasing cost higher up. The majority of the difference will therefore end up in net financial items, which will increase operating profit by an estimated one percentage point compared with before the reinterpretation.

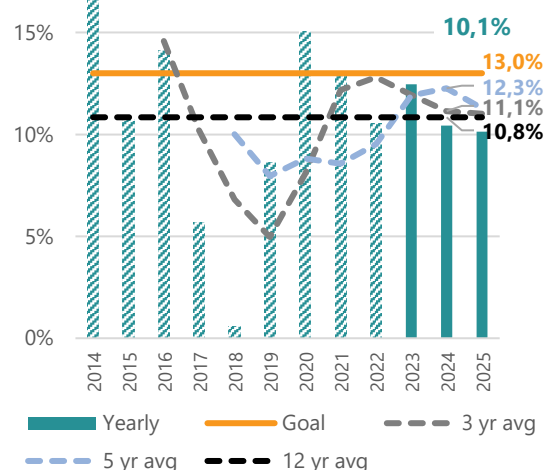
We also expect that any expansion of the locomotive workshop will have some impact on both the income statement and further down in the cash flow statement, but with positive effects on earnings further ahead.

The mechanics of cost development

A high proportion of fixed costs makes earnings sensitive to occupancy. In other words, there is high operational leverage in the company, even though it has decreased over the years with a broadening of the service offering, more long-, a larger proportion of longer contracts and a changed product mix. However, there will be downturns in the future, both due to dips in demand and equipment maintenance. The stoppage on the Malmbanan railway last winter is a case in point, when Railcare took the opportunity to carry out maintenance on the locomotives. The second half of 2022 is another example, when increased activity began to take its toll on staff and machinery. This meant that the end of 2022 was characterised by recruitment and increased maintenance requirements for the machinery. The result was increased maintenance costs, but also increased costs for renting machinery to replace those that were being serviced. Although the company took the opportunity to take these measures during a slightly less hectic period, this is something we can expect to see again from time to time, perhaps especially after a period of high activity.

The workload on the contracting side, which is crucial for short-term margins, varies over time, but is difficult to predict and often depends on the weather. The workload also depends on the planning of jobs by the facility owner, which in Sweden is usually the Transport Administration, and which has nevertheless improved recently. With an expected increase in volume, there will also be a certain amount of automatic levelling of capacity utilisation, but increasing capacity is not entirely straightforward. There is a shortage of locomotives, the company's own specialised machinery has limited capacity, 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

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 to 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)

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 several different locations. This reduces costs and increases flexibility, as staff can move more easily between different workplaces, even if it may require more certifications and permits.

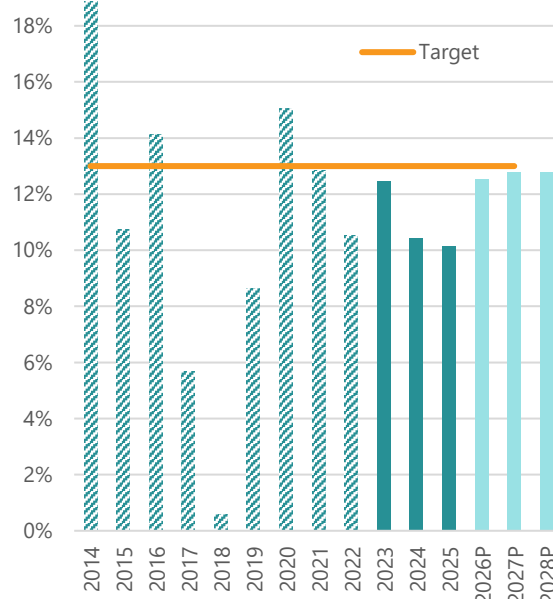
The long-term contracts that the company has signed and may sign in the future are particularly valuable in this context, as they provide both consistent utilisation and predictability, which facilitates effective planning (). One example is Railcare's breakthrough contract with Kaunis Iron, worth a 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 Q4-24. The Swedish Transport Administration's renewal and extension in January 2025 of the snow clearance contract for 4+1+1 years, worth SEK 59m per year, is also very valuable in the same way, not least because it provides predictable capacity utilisation during the low season.

Margin development

There is a reasonable chance that the company will achieve its margin target of 13% for operating profit at the end of 2027, and the change in accounting principles will help – calculated on the 2023 figures by approximately half a percentage point, but that figure has reasonably increased significantly with an ever-increasing number of leased locomotives. Other factors that indicate that the margin target could be achieved 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 in particular to sensitive work that can almost only be carried out with MPVs – and thus meets zero emission requirements – such as work in city centres, tunnels such as the Citybanan, etc., something that will hopefully increase in the future and for which the company is preparing with the latest MPV that has just been completed.
- It is also reasonable that Railcare, as one of the 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 emergency locomotive services, has had room to negotiate a premium for this.
- Although they vary between quarters depending on the nature of the projects, Technology should also be able to increase its margins over time, with an increasing proportion of external customers and the high demand for their services as described above.
- Added to this is a more even workload on the contracting side and the closure of operations in the UK, which should benefit the average margin going forward. New "pit stops" are likely to reduce the margin itself despite rising earnings, as in Q2-24, because Railcare then brings in a lot of subcontractors and thus retains a lower share of the added value.

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)

Overall, we assess that the operating margin target is not easy to achieve, but that it should be within reach by the end of 2027. Thereafter, we expect the margin to be 12-13%.

Forecast summary

In summary, we consider the revenue target to be more difficult to achieve than the margin target, 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 it will do this: with more large transport assignments. The investments to make this possible have now been made over the past year, so now the company needs to grow into its new, larger role in order to fully reap the rewards of its investments.

Our main scenario is that the 2027 target will be achieved with two assignments of "Kaunis size", i.e. approximately SEK 75m per year, and that these will start next winter. This will give us a turnover for 2027 of almost one bn. This would also make it easier to achieve the margin target. However, these assignments have not yet been secured, so without them we will end up with SEK 165m lower turnover and an operating margin that will barely reach double digits, at least until the suit is filled out or adjusted downwards to the Group's revenues.

For the years after 2027, we are projecting a growth rate of 10-11% and an operating margin of 12-13%. If the business grows faster, it may cost a little on the margin during the investment periods, but this will be offset by improvements in the bottom line in the longer term.

In terms of cash flow, the outlook remains positive thanks to strong operating results, despite the fact that growth comes at a cost in terms of increased working capital and necessary investments. Towards the end of 2027, the question of raising the 30-40% dividend payout ratio may become relevant again, unless new interesting investments become available.

Income statement, SEKm

	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Net Sales	270	371	401	438	497	564	635	668	791	985	1 081
growth, %	-83%	+37%	+8%	+9%	+13%	+14%	+13%	+5%	+18%	+25%	+10%
Other operating income	7	9	20	15	15	18	25	30	16	16	16
COGS	-142	-177	-181	-204	-269	-262	-289	-268	-302	-373	-409
Gross Profit	135	203	241	249	243	321	372	429	505	628	688
Staff	-108	-120	-125	-139	-146	-170	-197	-220	-241	-297	-326
Other operating expenses	-1	-1	-2	-2	-2	-3	-2	-4	-8	-10	-10
EBITDA	26	82	114	108	95	147	173	205	256	321	352
Depreciations	-24	-50	-53	-52	-43	-77	-106	-137	-157	-195	-214
EBIT	2	32	60	56	52	70	66	68	99	126	138
Net financial items	-5	-6	-5	-4	-5	-12	-26	-15	-23	-28	-32
Intresseföretag	0	0	0	0	0	0	0	0	0	0	0
EBT	-4	27	56	52	47	58	41	52	76	98	106
Taxes	2	-6	-12	-11	-10	-14	-10	-13	-18	-24	-26
Net result	-1	21	44	41	37	44	30	40	58	74	80

Source: The company, forecasts Analysguiden

Valuation⁴

Cash flow valuation

The emphasis in our valuation of Railcare shares has always been 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.

To date, we have used a method called "Free Cash Flow to Equity" (FCFE) or "Levered Free Cash Flow". This has the advantage of going directly to earnings per share and also using the P/E ratio to determine the terminal value in the calculation, which is familiar to equity investors.

With the reinterpretation of IFRS 16 and with significant (and likely rising) amounts for lease liabilities, "Free Cash Flow to Firm" (FCFF) or "Unlevered Free Cash Flow" appears to be an increasingly relevant alternative method. The calculation focuses on cash flow generation from operations without considering how it is financed, i.e. through debt or equity, and results in an estimated unlevered enterprise value (EV) from which net debt is deducted to arrive at the estimated market capitalisation and thus the justified share price. The advantage is the focus on the value of the business regardless of financing, while the disadvantage is that the EV/EBIT multiple we use to calculate the terminal value is a little less familiar to many equity investors than the P/E ratio.

In theory, both methods should give the same fair value, but in practice there may be some differences. In companies with a large proportion of borrowed capital, FCFF tends to give a higher fair value than FCFE, as it includes the tax effect of borrowing rates, which is actually more accurate. In general, however, these effects are relatively small compared to the valuation effects that can arise from differences in forecasts and other assumptions.

Assumptions

Our return requirement on the company's equity is based on the risk-free 10-year government bond yield of 2.6%, 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. We are now temporarily adding one percentage point pending the transport contracts that are needed to achieve our and the company's forecasts. This adds up to a total of 12.6%. This is relatively high for a company in such a mature industry, but reflects both a certain degree of operational volatility based on high fixed costs and low liquidity in the share, which is due to both the small size of the company and a low free float.

⁴ NOTE: The change in accounting principles regarding IFRS 16 from last year means that profit multiples will be lower – to varying degrees for different multiples – and cash flow measures will be higher, partly because the profit measure is higher and accumulated depreciation increases. Unadjusted, this has the effect of making the share appear cheaper than before.

Justified price

Sensitivity analysis to 2027

Justified price	Discount rate ---->						
	9%	10%	11%	12%	13%	14%	15%
6	32	31	31	30	30	30	29
7	34	34	33	33	32	32	31
8	37	36	36	35	35	34	34
9	40	39	38	38	37	37	36
10	42	42	41	40	40	39	39
11	45	44	43	43	42	42	41
12	47	47	46	45	45	44	43
13	50	49	49	48	47	46	46
14	53	52	51	50	50	49	48
15	55	54	54	53	52	51	51
16	58	57	56	55	55	54	53
17	61	60	59	58	57	56	55
18	63	62	61	60	59	59	58

If the company achieves our forecasts for operating margin and sales growth through 2027, the justified price today is shown in the table, given the required return on investment and the multiple at which the share is expected to trade at the end of 2027.

Note how little impact the required rate of return has on the justified price, as discounting only takes place from 2027 at the latest.

Source: Analysguiden

Short term

We continue to base our scenario on the company almost achieving its financial targets for 2027. With two new "Kaunis-class" transport assignments (or one large and two smaller assignments), the revenue target will be achieved according to our forecasts, and if this is achieved, the margin target is just around the corner.

Using the FCFF method, the discussion quickly turns to the question of a possible EV/EBIT multiple that it is reasonable to assume the market will price the share at the end of the final forecast year, i.e. at the end of 2027. At the end of 2025, the multiple was 18.1 (17.2 at the end of 2024) and the P/E ratio was 17.4 (20.0). For 2026, it now looks like it could end up close to 12.7, or a P/E of 11.8 based on today's price. The relationship between EV/EBIT and the P/E ratio is largely influenced by the debt ratio (including lease liabilities) and associated interest rates. In our calculation, it is therefore not unreasonable to use a slightly higher EV/EBIT multiple than the P/E multiple in the calculations of the respective terminal value. We have therefore chosen to use 12 for EV/EBIT and 11 for P/E as the levels at which we believe the market will trade the share at the end of 2027 at the very least. In our FCFF calculation under the above conditions, we arrive at a justified price of just under SEK 42.

Using the old method, FCFE, and in light of the accounting changes noted in footnote 4 to the section heading above, we cautiously lowered the P/E multiple in the terminal value calculation from 12 to 11 after the change. It is worth noting in this context that if the company had achieved its margin target this year, the P/E ratio would have been approximately 13 at the current share price and without full effect on sales, so it seems rather conservative to expect the market to trade the share at a P/E of 11. Based on these assumptions and our forecasts above, the justified share price has risen by a few kronor to 42.50. In fact, according to our forecasts, the discounted cash flows for 2025-2028 alone correspond to today's market capitalisation.

Regardless of the method, this means that if the above assumptions are realised, the share should be trading just north of SEK 50 in less than two years, which means that an investor will receive a return of just under 40% per annum, including dividends, until the end of 2027.

If, on the other hand, expectations for the new transport contracts are not met, or are significantly delayed, revenue growth for 2027 will fall from just over 20% to just under 10%. With reasonably conservative assumptions about cost control, limited increases in investments and reduced increases in working capital requirements, we arrive at a justified price of close to SEK 30. We therefore maintain our view that the market will trade the share at a P/E ratio of 11 at the end of 2027, which is cautious, especially if there is a delay in the new deals.

Overall, the risk/reward ratio looks favourable in the short term, with limited downside and good upside potential. However, we are now so close to the end of the forecast period that the terminal value accounts for the lion's share of the estimated value, which leads to something of a circular argument: "If the market pays a multiple of 11 in two years, then the market should pay multiple X now."

With a longer perspective

Justified price	Discount rate --->						
	9%	10%	11%	12%	13%	14%	15%
6	78	74	70	66	63	60	57
7	80	76	72	68	65	62	59
8	83	78	74	70	67	63	60
9	86	81	76	72	69	65	62
10	88	83	79	74	70	67	63
11	91	86	81	76	72	68	65
12	93	88	83	78	74	70	66
13	96	90	85	80	76	72	68
14	99	93	87	82	78	73	69
15	101	95	89	84	79	75	71
16	104	97	92	86	81	77	73
17	106	100	94	88	83	78	74
18	109	102	96	90	85	80	76

If the standby locomotive contract expires without being replaced and other operations grow by only 10% per year over the next eight years (after 2027), while the company continues to achieve an operating margin of 12-13%, the justified share price today will be significantly higher with the same assumption of P/E ratios at the end of 2035.

Source: Analysguiden

Longer term

To reduce the significant impact that the assumption about terminal value has on the valuation, we outline an extension of the forecast period to 2035. This may sound far away, but with such long-term stable conditions prevailing in almost all areas of operation, a longer forecast period provides significant insights into the share value.

Under conservative conditions, including the contingency contract expiring after one of two option years without being replaced by any other revenue and the rest of the business growing by 10% per year, this gives a turnover of approximately SEK 2 bn in 2035 and average growth for the Group of just under 9% per year. At the same time, if the operating margin can be maintained at around 12-13% – which seems entirely possible given the strong underlying earnings, not least in Transport – this would justify a further doubling of the short-term justified share price, with the current elevated return requirements, given that the share is trading at an EV/EBIT of 12, or P/E 11 in 2035. Conversely, an investor today would receive just over 25% in annual returns (including the dividend yield) until the end of 2035.

It is worth noting that with the longer horizon, the terminal value accounts for only about one-third of the total value, which gives considerably greater certainty in the calculation. With long-term transport agreements, a significant need for the locomotive workshop's services for the foreseeable future and the Transport Administration's long-term plan for Contracting, there is a solid foundation for long-term forecasting.

The calculation is also based on fairly conservative assumptions regarding sales growth, and we should not forget that this is for a business that is very little affected by the economic cycle and thus also adds other qualities to a diversified share portfolio.

In a truly pessimistic scenario, with no further transport assignments until 2027, followed by zero volume growth (= +3%/year nominal) until 2035 and an operating margin of only 7%, we can still justify a share price of SEK 35 today, i.e. an investor will receive a return of just over 16% per year until 2035, including dividends.

In summary, Railcare shares appear to offer an attractive risk/reward ratio, even in the longer term.

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:

- The P/E ratio for 2026 at the current share price is 11.9 and next year it is 9.3 according to our forecasts. This does not appear expensive given the growth, qualities and potential that the company possesses, as described above.
- The same reasoning also applies to EV/EBIT, which is 12.7 for 2026 and 10.0 for 2027, which, considering the large amount of capital tied up, cannot be considered expensive.

With other forecasts

Pessimist price,	EBIT-margin --->						
	7%	8%	9%	10%	11%	12%	13%
3%	35	37	39	41	44	46	48
4%	36	38	41	43	46	48	51
5%	37	40	42	45	48	50	53
6%	39	41	44	47	50	53	55
7%	40	43	46	49	52	55	58
8%	42	45	48	51	54	57	61
9%	44	47	50	54	57	60	63
10%	46	49	53	56	60	63	67
11%	48	51	55	59	62	66	70
12%	50	54	58	61	65	69	73
13%	52	56	60	64	69	73	77
14%	54	59	63	67	72	76	81
15%	57	61	66	71	75	80	85

Really pessimistic assumptions about growth rate and operating margin are needed to get down to the current price, and even then the investor still gets the required return (12.6%) on their investment every year until 2035.

Source: Analysguiden

- EV/Sales at 1.6 for 2026 and 1.3 for 2027 captures the company's growth less well and is very rough, but still 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 only a small part of their turnover in railways, or part of a large international group with a lot of railways, but only a small part of which is attributable to Sweden or Railcare's niches.

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 Transport Administration in early 2025, the agreement with LKAB in autumn 2024 and, of course, the order for standby locomotives in autumn 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 over 40% today, based on a cautious valuation – assumed EV/EBIT 12 and P/E 11 – at the end of 2027. That is now less than 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 a further doubling of the share price.

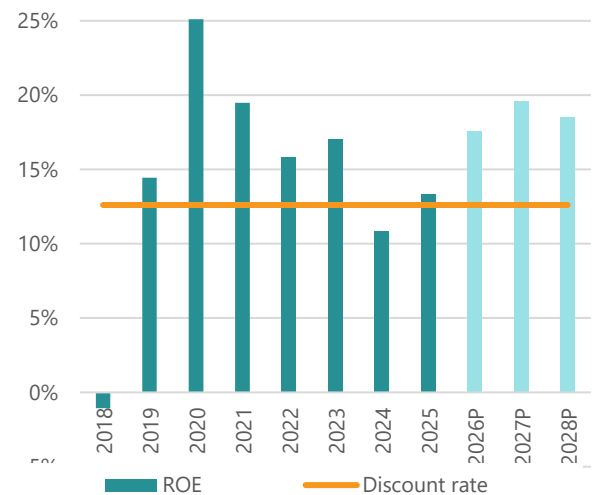
However, if there are no more major contracts until 2027, both sales and margins will naturally decline, but the long-term valuation will not be affected as much as one might think, given that we are still working with the same cautious growth and margin figures for the coming years.

However, there are further reasons to consider an investment:

- We have not been particularly aggressive in our assumptions, either in terms of the final multiple for 2027 or in terms of growth assumptions for the years thereafter.
- There is potential in additional "pit stop assignments," external machine sales, and the workshop business in both Skellefteå and a possible expansion in Långsele. We have not taken any of this into account in our forecasts.
- It is a cyclically insensitive business that performs equally well in a weaker economy or stock market, as we saw during the stock market turmoil in April last year, the inflation crisis in 2022 and the pandemic year of 2020.
- 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 occupancy, 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.

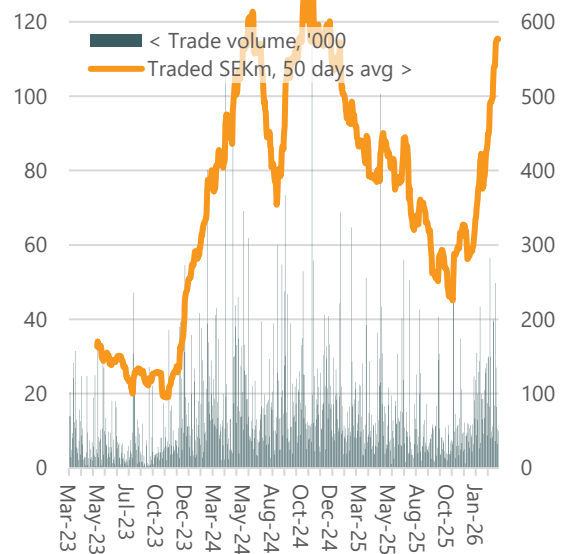
Return on Equity



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 2.3 times. The valuation model tends to underestimate the value as growth is not taken into account.

Source: Analysguiden

Railcare share trading



Liquidity in the share has fallen over the past six months. With improvements in both growth and margins, interest should return.

Source: Refinitiv

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.

Risks

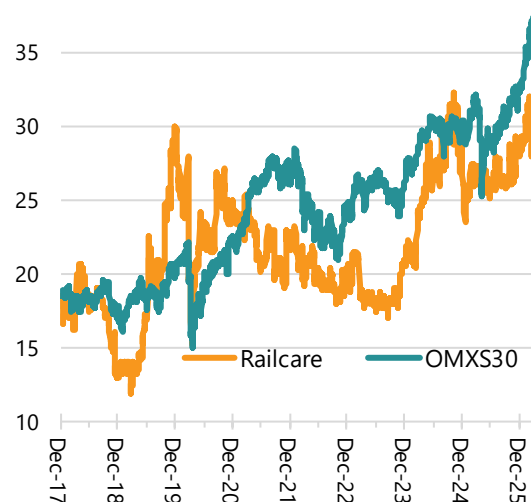
Railcare operates in a highly capital-intensive industry with high fixed costs, not only for fixed assets but also for hard-to-recruit personnel with long induction periods who are difficult to let go. In other words, the operational leverage is relatively high. Demand for the company's services can vary quite significantly at short notice, and historically, capacity utilisation has experienced occasional dips. Earnings have therefore been quite volatile, and although they have improved over the past 3-4 years, the underlying problem remains and may resurface in the future.

One significant risk, albeit primarily on a personal level, is railway safety. Railcare's motto is "We do it safely – or not at all". Despite this, accidents can of course happen 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 insurance does not cover.

From a market perspective, too few locomotives are being manufactured, and although Railcare owns a number of locomotives and secured access to shunting locomotives through the deal with AC Finance AB this summer, locomotives are also leased from other sources, e.g. mainline locomotives for long transport assignments. If a shortage arises, it can be difficult or expensive to renew leases in order to have enough machines to deliver on customer commitments, or Railcare's growth can be hampered by the shortage of locomotives. This is a shortage that is not easy to remedy.

Railcare's international ventures or machine sales have not yet borne fruit, despite many years of attempts. Competition is completely different in the larger international markets, and in a conservative industry with government buyers, it is highly likely that officials will choose domestic suppliers rather than take the risk with a new innovative upstart. So even though Railcare has proven its technology and service delivery at least at home, it remains to be seen whether these are commercially viable in an international market.

Share price since IPO



Source: Refinitiv

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 conditions 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 what's coming, plan, and have 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 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 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 done at night to avoid disrupting traffic flows, which must continue as usual, 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 closure of the British operations finally took place in Q1-26, allowing the business area to focus on the Swedish part of the contracting business, which has quietly grown better and achieved a more even occupancy rate over the past 2-3 years. This has also been reflected in a more stable 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

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

organisational structure with broadly trained staff, a solution-oriented culture and the company's relative small size, all of which provide flexibility. Recently, the Swedish Transport Administration's improved forward planning in its allocation of work has also contributed to stability, and the new long-term snow clearance agreement will also provide more stable capacity utilisation 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" during Q2 2024, which had a strongly positive impact on both sales and earnings, gives an indication 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 be promising.

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 environmental work to submit bids. It also points to the potential of the locomotive workshop and its expansion, where machines are upgraded to these standards.

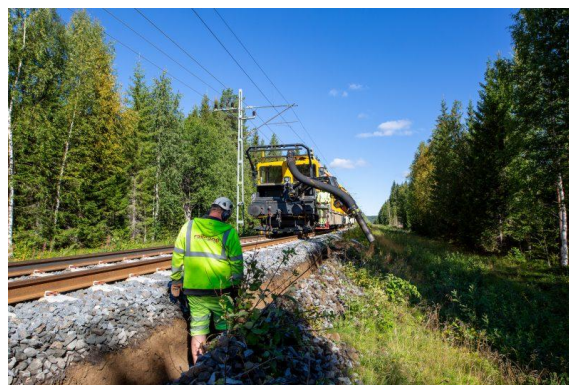
Transport

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 awarded by 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, with regard to issues such as problems in the mine, variations in ore content, ship docking times, etc. – as are quick, detailed decisions in the field by the o, in order 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 illustrates the problem with capacity utilisation. During the first quarter of 2022, there were no

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

assignments from LKAB, nor did anyone else utilise these resources. It was possible to engage in other activities to some extent, but the risk is that the company is left with expensive machinery and personnel in which it has invested heavily and which it does 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 fixed costs and is not free of charge, nor is it, 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 evident 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 Skandinavien plummeted to zero. At the same time, however, Contracting Sweden performed better at group level and offset Transport Skandinavien'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 revenue 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, since the turn of the year, also the locomotive workshop that was previously part of Transport and which carries out repairs, maintenance and upgrades for both external customers and its own machine park. 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 cable lowering, even more so in the United Kingdom.

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 removal 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 last year, the Swedish Transport Administration extended its contract with Railcare for snow clearance by a further 4+1+1 years, worth SEK 59m per year.

MPVn: The latest major addition to the product range is the MPVn, Multi Purpose Vehicle, which is like a giant power bank on rails. It has so far been connected to RailVacen, but can also be used in other contexts. It enables emission-free and much quieter work in environments where the power in the catenary – if there is one at all – cannot

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 in 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 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, has a pantograph so that the batteries can be recharged if there is power in the overhead line at the site or nearby.

In addition to these, battery conversion of diesel-powered machines is under development. This should bode well for Technology, but the market is conservative, prototypes in local production are necessary, and politics may play a role. They are 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 selling 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 attach 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 deviating quarters. One-off construction projects can encounter unexpected problems and cost overruns/delays, and as was the case in Q1-25, the need for spare parts among customers 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 figures 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-making paths and decentralised operational decision-making. In Swedish, 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 more quickly and smooth delivery is facilitated.
- + More satisfied employees who are recognised for their work and become good ambassadors for the company.

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: 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 occupancy, as it is difficult and expensive to recruit and train new employees, so companies are reluctant to lay off skilled employees.

Overall, Railcare's way of organising itself appears to be one of the most important success factors for the company in competing 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, despite the latter having 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 naturally 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 base.

Largest share holdings, %	No of shares	Share, %
Norman Invest AB	7 121 395	29.5%
Swedia Capital AB (Staffan Persson)	2 516 367	10.4%
Bernt Larsson	750 987	3.1%
Avanza Pension	695 168	2.9%
Canaccord Genuity Wealth Management	599 906	2.5%
Mikael Gunnarsson	507 000	2.1%
Nordnet Pensionsförsäkring	329 680	1.4%
Torsten Germund Dahlqvist	311 396	1.3%
Per-Åke Nilsson	310 000	1.3%
Christer Lundholm	287 000	1.2%
10 largest, total	13 428 899	55.7%
Other holdings, total	10 695 268	44.3%
Shares issued, total	24 124 167	100.0%
Total No of shareholders	5 098	

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 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 under SEK 700m, 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 and also 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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Analyst Johan Voss-Schrader does not own and is not permitted to own shares in the analysed company.

Analyst in charge:

Johan Voss-Schrader