

Railcare Group

Sector: Industrial Goods & Services

Strong growth in Swedish operations

Redeye's view on the case remains intact and our forecasts on group level are virtually unchanged. The Q2 report was a bit of "swings and roundabouts" with solid performance in the Swedish operations while UK hit another low mark. Fortunately, the UK has limited impact on group numbers nowadays. We still see good potential in the share, with a Base case fair value around SEK 28 per share.

Q2, solid quarter with 40% top-line growth

Net sales of SEK 127m is 40% higher Y/Y and well above our forecast. Segments Transport Scandinavia and Contracting Sweden posted significant growth. Railcare had an early start of the contracting season and high utilization rates for both segments. Also, the relining operation is making very good progress. Machines and Technology had no major machine deliveries in Q2. A new version of the MPV is under construction and an important new feature will be the pantograph, which allows for charging from the overhead line. The project runs according to plan and is expected to be completed in the second half of 2023. The outlook for Railcare's operations in Sweden (currently >90% of sales) is overall positive.

UK market in the ice chest

Sales in the UK operations dropped by 49% Y/Y to a new low of only SEK 5m. Several negative factors coincided: Network Rail is undergoing a reorganization, the budget year starts in April often resulting in lower activity in Q2, and on top of this the weather was hot in June which means many railroad projects are postponed. We hope Q2 was a low point and expect to see clearly higher activity going forward. But the transparency into the UK market is low (for us as well as for Railcare).

Forecasts and valuation virtually unchanged

We are only making minor changes to our forecasts at this point. Operations in Sweden are running well and making up for the weak and uncertain situation in the UK, which is now less than 10% of group revenues (TTM). Our Base case fair value is unchanged at around SEK 28 per share.

KEY FINANCIALS (SEKm)	2020	2021	2022E	2023E	2024E	2025E
Net sales	401	438	466	478	533	586
EBITDA	114	108	106	108	124	127
EBIT	61	56	54	55	65	64
EPS (adj.)	1.7	1.6	1.5	1.6	1.9	1.9
EV/Sales	1.8	1.5	1.3	1.2	1.1	0.9
EV/EBITDA	6.2	6.1	5.7	5.5	4.6	4.3
EV/EBIT	11.6	11.8	11.2	10.8	8.7	8.5
P/E	12.9	13.3	12.6	12.3	10.1	10.2

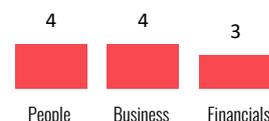
FAIR VALUE RANGE

BEAR	BASE	BULL
20.0	28.0	41.0

RAIL.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	RAIL.ST
Market	Nasdaq
Share Price (SEK)	20.0
Market Cap (MSEK)	482
Net Debt 22E (MSEK)	118
Free Float	60%
Avg. daily volume ('000)	10

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Strong growth in Swedish operations

The second quarter saw a significant improvement Y/Y, which was expected as Q2'21 was exceptionally weak with losses in the Contracting business. Q2'22 reported sales well above our forecast on group level, and earnings basically in line. Segment Transport Scandinavia was clearly stronger than we expected, while the opposite goes for Contracting Abroad.

Railcare: Actual vs. Expectations

MSEK	Q2'21	Q2'22	Q2'22E	Diff
		Actual		
Net sales	91.0	127.2	99.0	28%
EBIT	-2.5	13.0	11.8	10%
Pre Tax Profit	-3.4	11.9	10.5	13%
Sales growth Y/Y	-14%	40%	9%	
EBIT margin	-3%	10.2%	11.9%	

Source: Railcare, Redeye Research

Contracting Sweden showed a strong recovery in its core business. Also, relining of culverts are picking up and Railcare is optimistic about continued growth for this niche segment.

Contracting Abroad (now only UK) is again surprisingly weak. Network Rail is undergoing a major reorganization which has had a negative impact on demand, according to the report.

Transport Scandinavia posted significantly stronger sales and earnings than we expected. The new agreement with resumed transports for LKAB is probably the main reason. But overall, business activity is high throughout this business segment.

Machines and Technology had limited machine deliveries in Q2. The net sales number includes intra group invoicing, of the machine acquired from the Danish operations, to Contracting Sweden. A new version of the MPV (MPVe) is under construction and on schedule. Expected to be completed in the second half of 2023.

Segments by quarter

SEKm	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Contracting Sweden (prev: Construction Sweden)						
Net sales	31	24	36	40	37	52
PTP	2	-7	7	7	5	5
PTP margin	5%	-30%	19%	16%	13%	10%
Contracting Abroad (prev: Construction Abroad)						
Net sales	19	10	6	14	11	5
PTP	4	-2	-3	5 *	-1	-5
Profit margin	22%	-24%	-47%	20% *	-7%	-100%
Transport Scandinavia						
Net sales	48	52	89	85	43	73
PTP	4	5	17	14	0	11
Profit margin	8%	9%	19%	16%	0%	15%
Machines and Technology (prev: Machine Sales)						
Net sales	5	20	6	7	22	23
PTP	-1	3	0	-1	3	2
Profit margin	-21%	14%	-1%	-13%	13%	7%
Group sales:	89	91	126	132	95	127
Growth Y/Y	-16%	-14%	34%	38%	7%	40%
Growth, TTM	-2%	-9%	1%	9%	16%	30%
EBIT	9	-2	25	25	9	13
EBIT-margin	10%	-3%	20%	19%	9%	10%
EBIT margin TTM	13%	9%	11%	13%	13%	15%

* including capital gains from divestment.

Source: Railcare, Redeye Research

Financial forecasts

Our forecasts on group level are basically unchanged, although we have made some adjustments to the individual segments. For Contracting Abroad, we are again cutting our forecasts. We expect this to be balanced by a stronger performance within Transport Scandinavia. As for segment Machines and Technology, the higher sales forecasts now vs. previously is only a consequence of the intra-group invoicing mentioned above.

We believe Railcare will reach its financial sales target of SEK 500m in 2024, while the EBIT margins are expected to remain above the company's 10% target for the period.

Contracting Sweden has good prospects for the remainder of 2022 as we understand the booking levels are high. The relining operations is still small but picking up pace and has made some recruitments, which is encouraging. Relining is a higher margins business with large untapped market potential. Not just within the railroad but also for ordinary roads and industries. Going forward we have assumed EBIT margins around 12%, which is in line with five-year average since 2017.

Contracting Abroad is really struggling with low volumes and apparently limited visibility. Our forecasts have been cut and are obviously still uncertain. Railcare now has a new framework agreement with Network Rail which includes price adjustments and a new webtool that makes it easier for the customers to book Railcare's services.

Transport Scandinavia has lower track replacement transports in 2022 compared to the record year 2021. To some extent this is balanced by new contracts such upgrades of diesel locomotives and standby locomotives. But all and all we expect lower sales and earnings in the coming years compared to 2021, which was exceptionally strong. EBIT margins have improved significantly in the last few years to 13-14% in 2020-21. This may be sustainable, but we are a bit more cautious and expect margins around 10% going forward.

Machines and Technology is still the segment that probably holds the greatest potential. The new all-electric MPV combined with Railvac systems or snow melters give Railcare a truly unique offering. We expect substantially more business to be generated in the next few years compared to earlier. But since the order book for machine sales at the moment is basically empty, our forecasts should rather be viewed as "guesstimates".

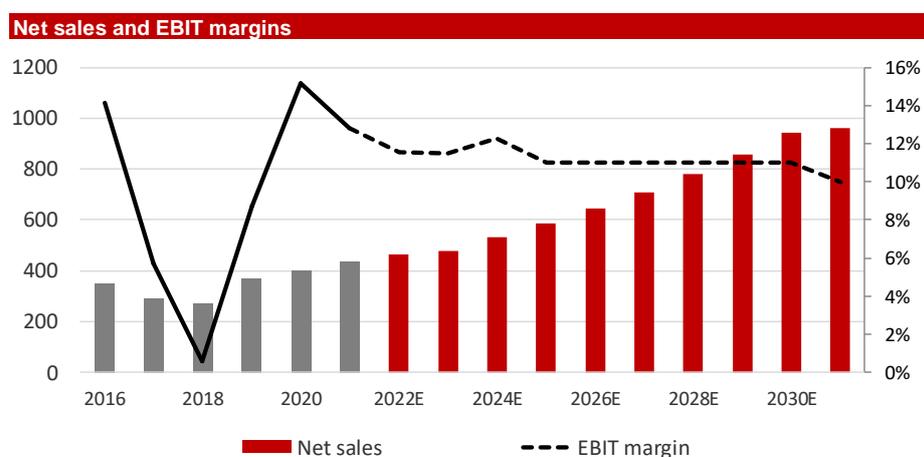
Forecasts per segment						
SEKm	2019	2020	2021	2022E	2023E	2024E
Contracting Sweden						
Net sales	171	159	131	177	174	182
PTP	22	18	8	22	21	22
Margin	13%	11%	6%	13%	12%	12%
Contracting Abroad						
Net sales	68	60	48	31	40	45
PTP	-1	2	4	-12	-4	0
Margin	-2%	3%	8%	-37%	-10%	0%
Transport Scandinavia						
Net sales	158	184	274	264	264	275
PTP	5	24	39	32	26	28
Margin	3%	13%	14%	12%	10%	10%
Machines and Technology						
Net sales	19	83	37	89	100	130
PTP	1	11	1	7	8	13
Margin	4%	14%	2%	8%	8%	10%
Group net sales	371	401	438	466	478	533
EBIT	32	61	56	54	55	65
Sales growth, Y/Y	37%	8%	9%	6%	3%	12%
EBIT margin	9%	15%	13%	12%	11%	12%

Source: Railcare, Redeye Research

Long-term assumptions, years 2025-30:

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

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



Source: Railcare, Redeye Research

Valuation

Fair value:
~SEK 28 per share

Our cash flow model indicates a fair enterprise value of SEK 800m. After deducting net debt, we arrive at a fair equity value of SEK 680m, or **SEK ~28 per share** (unchanged vs previously). Assumptions for our Base case scenario and valuation are summarized in the table below.

Railcare: Base case			
Assumptions	2025-30E	DCF-value	
CAGR	10%	WACC	10.0%
EBIT margin	11%	NPV FCF 2022-30	459
ROIC (avg)	18%	NPV FCF Terminal	341
		Total (EV)	800
		Net debt	120
Terminal (from 2031)			
Growth FCF	2%		
EBIT margin	10%	Fair value	680
		Fair value per share	28.2
EV/S Exit multiple	1.0		
EV/EBIT Exit multiple	10.1	Share price	20.0
		Potential	41%

Source: Redeye Research

Multiples still attractive

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

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

Valuation multiples	2019	2020	2021	2022E	2023E	2024E
P/E	29.4	12.9	13.3	12.6	12.3	10.1
EV/EBIT	23.3	11.6	11.8	11.7	11.5	9.6
EV/EBITDA	9.8	6.7	6.6	6.4	6.3	5.5
P/S	1.6	1.4	1.2	1.0	1.0	0.9
Share price	26.6	23.3	22.4	20.0	20.0	20.0

Source: Railcare, Redeye Research

Scenarios

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

Bull-case

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

Bear-case

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

		DCF-value, SEK per share				
		EBIT margin 2025 =>				
		9%	10%	11%	12%	13%
CAGR 2025-30						
0%		17	20	24	26	28
5%		20	23	26	28	30
10%		23	26	29	31	33
15%		26	29	32	36	39
20%		28	33	37	41	48

Source: Redeye Research

Summary Redeye Rating

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

Rating changes in the report: No changes

People: 4

Management is very active in daily operations and have extensive experience from the railroad industry. However, Mattias Remahl is newly appointed as CEO and we really cannot evaluate him in this capacity yet. Communication and financial reports are relevant and transparent and Railcare is ticking most boxes in the People category. Furthermore, the two dominant owners are represented on the Board of directors, which also has some independent members.

Business: 4

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

Financials: 3

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

INCOME STATEMENT	2020	2021	2022E	2023E	2024E
Net sales	401	438	466	478	533
Total operating costs	-287	-330	-359	-370	-409
EBITDA	114	108	106	108	124
Depreciation	-53	-52	-52	-53	-58
Amortization	0	0	0	0	0
Impairment charges	0	0	0	0	0
EBIT	61	56	54	55	65
Share in profits	0	0	0	0	0
Net financial items	-5	-4	-5	-4	-4
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	56	52	49	50	61
Tax	-12	-11	-11	-11	-14
Net earnings	44	41	38	39	48

BALANCE SHEET	2020	2021	2022E	2023E	2024E
Assets					
<i>Current assets</i>					
Cash in banks	25	39	41	42	47
Receivables	45	47	54	55	62
Inventories	20	28	30	31	34
Other current assets	12	12	13	14	15
Current assets	101	125	137	142	158
<i>Fixed assets</i>					
Tangible assets	404	418	426	433	435
Associated comp.	0	0	0	0	0
Investments	1	1	1	1	1
Goodwill	7	7	7	7	7
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	3	2	12	22	27
0 non-current assets	5	4	4	4	4
Total fixed assets	419	433	450	467	474
Deferred tax assets	1	1	1	1	1
Total (assets)	521	558	589	610	632
Liabilities					
<i>Current liabilities</i>					
Short-term debt	60	62	62	58	52
Accounts payable	31	35	38	39	43
0 current liabilities	57	47	50	54	54
Current liabilities	147	144	150	151	149
Long-term debt	108	97	97	91	82
0 long-term liabilities	34	48	48	48	48
Convertibles	0	0	0	0	0
Total Liabilities	289	289	295	291	279
Deferred tax liab	38	48	48	48	48
Provisions	0	0	0	0	0
Shareholders' equity	195	221	245	271	305
Minority interest (BS)	0	0	0	0	0
Minority & equity	195	221	245	271	305
Total liab & SE	522	558	589	610	632

FREE CASH FLOW	2020	2021	2022E	2023E	2024E
Net sales	401	438	466	478	533
Total operating costs	-287	-330	-359	-370	-409
Depreciations total	-53	-52	-52	-53	-58
EBIT	61	56	54	55	65
Taxes on EBIT	-13	-12	-12	-12	-14
NOPLAT	47	44	42	43	51
Depreciation	53	52	52	53	58
Gross cash flow	101	96	94	96	109
Change in WC	-25	-16	-4	2	-7
Gross CAPEX	-54	-65	-70	-70	-65
Free cash flow	22	15	20	28	38

CAPITAL STRUCTURE	2020	2021	2022E	2023E	2024E
Equity ratio	37%	40%	42%	44%	48%
Debt/equity ratio	86%	72%	65%	55%	44%
Net debt	142	120	118	108	87
Capital employed	337	341	363	378	392
Capital turnover rate	0.8	0.8	0.8	0.8	0.8

GROWTH	2020	2021	2022E	2023E	2024E
Sales growth	8%	9%	6%	3%	12%
EPS growth (adj)	101%	-7%	-5%	2%	22%

DCF VALUATION	CASH FLOW, MSEK	
WACC (%)	10.0 %	
	NPV FCF (2022-2028)	459
	NPV FCF (2029-)	341
	Non-operating assets	39
	Interest-bearing debt	-159
	Fair value estimate MSEK	680

Assumptions 2020-2026 (%)			
Average sales growth	9.0 %	Fair value e. per share, SEK	28.2
EBIT margin	11.3 %	Share price, SEK	20.0

PROFITABILITY	2020	2021	2022E	2023E	2024E
ROE	25%	19%	16%	15%	17%
ROCE	18%	15%	14%	13%	15%
ROIC	16%	13%	12%	12%	13%
EBITDA margin	28%	25%	23%	23%	23%
EBIT margin	15%	13%	12%	11%	12%
Net margin	11%	9%	8%	8%	9%

DATA PER SHARE	2020	2021	2022E	2023E	2024E
EPS	1.81	1.68	1.59	1.63	1.99
EPS adj	1.73	1.61	1.52	1.56	1.90
Dividend	0.60	0.60	0.56	0.57	0.69
Net debt	5.91	4.98	4.91	4.46	3.59
Total shares	24.11	24.11	24.11	24.11	24.11

VALUATION	2020	2021	2022E	2023E	2024E
EV	704.2	660.4	600.6	589.8	568.9
P/E	12.9	13.3	12.6	12.3	10.1
P/E diluted	13.4	13.9	13.1	12.8	10.5
P/Sales	1.4	1.2	1.0	1.0	0.9
EV/Sales	1.8	1.5	1.3	1.2	1.1
EV/EBITDA	6.2	6.1	5.7	5.5	4.6
EV/EBIT	11.6	11.8	11.2	10.8	8.7
P/BV	2.9	2.4	2.0	1.8	1.6

SHARE PERFORMANCE	GROWTH/YEAR		18/20
1 month	5.6 %	Net sales	7.7 %
3 month	-2.0 %	Operating profit adj	-5.9 %
12 month	1.1 %	EPS, just	-6.3 %
Since start of the year	-11.5 %	Equity	12.2 %

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

SHARE INFORMATION	
Reuters code	RAILST
List	Nasdaq Small Cap
Share price	20.0
Total shares, million	24.1
Market Cap, MSEK	482.3

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

FINANCIAL INFORMATION	
Q3 report	November 03, 2022

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Redeye Rating and Background Definitions

Company Quality

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

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

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

People

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

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

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

Business

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

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

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

Financials

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

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

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

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Disclaimer

Important information

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Henrik Alveskog owns shares in the company : No

Fredrik Nilsson owns shares in the company : No

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