Railcare Group

Sector: Industrial Goods & Services

Firm start to the year

Redeye is only making minor adjustments to our forecasts following the Q1 report. Railcare continues to show good growth and healthy EBIT margins ~11%, despite some weather-related challenges in the quarter. Market conditions remain favorable, enabling Railcare to further execute on its growth plan. Our valuation is unchanged with a Base case fair value ~SEK33 per share. This still indicates some potential, despite the recent strong share price performance.

Solid Q1 numbers

Net sales of SEK129m were 17% higher Y/Y and a little more than we expected. EBIT SEK14m is basically unchanged Y/Y and right on our estimate. Transport Scandinavia was again the shining star showing stronger growth and earnings than we anticipated. Contracting Sweden posted weak earnings due to cold weather causing delays in some contracting and relining assignments. These will however likely be completed later this year. And according to management, the overall outlook for Railcare's core operations look promising.

Derailing at Malmbanan – an eye opener (?)

The derailments at Malmbanan in northern Sweden during the winter brought traffic to a standstill for 76 days. Several companies delivering cargo to Narvik suffered major financial consequences. Fortunately, Railcare's contracts protect them from any losses. Hopefully, this incident serves as an eye opener to railroad authorities and politicians. Not just relating to Malmbanan, but Swedish railroads in general. Many industries, dependent on reliable railroads, may not be able to proceed with their expansion plans if transportations are not secured. This puts further focus on investments and maintenance of the Swedish railroads, and possibly favorable tailwinds for Railcare's services.

Forecasts and valuation intact

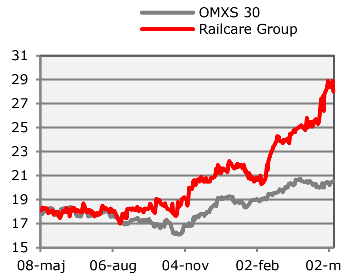
The Q1 report and other recent events are only causing very small adjustments to our financial forecasts. Our valuation is unchanged with a Base case fair value around SEK33 per share. Following a very strong share price performance in the last few months, we still see some potential to current share price levels.

Key Financials (SEKm)	2022	2023	2024e	2025e	2026e
Net sales	497	564	636	741	854
Sales growth	13%	14%	13%	16%	15%
EBITDA	95	112	128	147	175
EBIT	52	68	79	93	109
EBIT Margin (%)	11%	12%	12%	13%	13%
Net Income	37	44	53	63	77
EV/Sales	1.2	1.1	1.2	1.1	0.9
EV/EBITDA	6.5	5.9	6.3	5.5	4.6
EV/EBIT	11.7	9.7	10.2	8.7	7.4

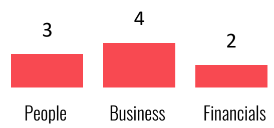
FAIR VALUE RANGE

BEAR	BASE	BULL
19.0	**33.0**	42.0

RAIL.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	RAIL.ST
Market	Nasdaq
Share Price (SEK)	28.1
Market Cap (MSEK)	678
Net Debt 24E (MSEK)	127
Free Float	60%
Avg. daily volume ('000)	20

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Highlights in the Q1 report

Railcare: Actual vs. Expectations

SEKm	Q1 2023	Q1 2024 Actual	Q1 2024e	Diff
Net sales	111.0	129.4	120.0	8%
EBIT	13.1	13.8	14.0	-1%
Pre Tax Profit	11.0	11.4	11.5	-1%
Sales growth Y/Y	16%	17%	8%	
EBIT margin	11.8%	10.7%	11.7%	

Source: Railcare, Redeye Research

Contracting Sweden was negatively affected by the extended winter causing some delays in assignments relating to rail contracting as well as relining. Hence a rather mediocre Q1 result. As far as we understand, the project pipeline for 2024 looks promising.

Contracting Abroad's sales and earnings were actually a little better than we anticipated. But the activity level remains low as the new UK control period (budget period for railroad maintenance) started in April and plans for new projects have not yet been determined.

Transport Scandinavia was again the shining star with 20% Y/Y growth and improving margins. More transports for LKAB and positive index adjustments in long-term contracts are probably the main contributors. The locomotive workshop had slightly lower revenues vs last year, but activity and pipeline of new business remains high, as far as we understand.

Machines and Technology has focused on testing the new MPV with a pantograph charging from the overhead lines. Following approval from The Swedish Transport Agency, the MPV will be used in Railcare's contracting operations starting in the second half of 2024.

On group level sales continued to grow by a solid 17% Y/Y with EBIT margins around 11%. Trailing 12 months, top-line shows 14% growth with EBIT margins close to 12%.

Segments by quarter

SEKm	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24
Contracting Sweden					
Net sales	41	58	58	60	47
PTP	2	5	6	5	1
PTP margin	4%	8%	10%	9%	1%
Contracting Abroad					
Net sales	13	5	6	8	9
PTP	2	-1	-1	-2	1
Profit margin	neg	neg	neg	neg	8%
Transport Scandinavia					
Net sales	68	82	97	92	82
PTP	7	9	18	13	10
Profit margin	10%	11%	18%	14%	12%
Machines and Technology					
Net sales	18	18	24	21	24
PTP	1	1	1	-2	1
Profit margin	5%	8%	3%	neg	3%
Group sales:	**111**	**145**	**159**	**149**	**129**
Growth Y/Y	17%	14%	9%	17%	17%
Growth, TTM	15%	10%	8%	14%	14%
EBIT	**13**	**15**	**27**	**13**	**14**
EBIT-margin	12%	10%	17%	9%	11%
EBIT margin TTM	11.1%	11.1%	11.3%	12.1%	11.8%

Source: Railcare, Redeye Research

Financial forecasts

Forecasts basically unchanged

We are only making some minor adjustments to our financial forecasts following the Q1 report and other recent events. On Group level we now expect a little higher top-line 2024-26e and EBIT margins virtually unchanged around 12-13%.

Railcare presented new and more ambitious financial targets in February this year. They now target SEK 1 billion in sales and at least 13% EBIT margin by 2027. Previous targets for 2027 were SEK 800 million in sales and over 10% EBIT margin. So, the bar has been raised quite significantly and signals a higher ambition and confidence in their growth strategy. Although the new targets are challenging, we think they are backed by good market opportunities and not least, Railcare's own track record of profitable growth. New long-term transportation contracts are likely required in order to meet the new growth target. And as for the margin target, a revival of machine sales would be highly supportive. We expect to see progress in both areas, but our Base case scenario still doesn't quite assume that Railcare will reach its financial targets.

Main considerations to our forecast:

Contracting Sweden has a solid market position and demand for contracting services as well as relining remain high. We expect some further growth and margins ~10-12%.

Contracting Abroad (UK) is still facing major uncertainty but at least operations are running around break-even. Our expectations are quite low and will hopefully be exceeded.

Transport Scandinavia is probably the segment with the most obvious growth opportunities. Within transports as well as services offered by the locomotive workshop. The contract for standby locomotives support growth in 2025-26, but beyond that it's more unpredictable. We expect margins to remain just over 10%.

Machines and Technology has the potential to offer significant leverage to the groups' margins. The unique product range, mainly based on the Railvac systems, has historically been sold to customers overseas. And the new electric MPV will enhance the offering further. Our forecasts include some, but still rather modest success, in 2025 and forward.

Forecasts per segment

SEKm	2021	2022	2023	2024e	2025e	2026e
Contracting Sweden						
Net sales	131	186	217	228	239	251
Wherof leasing operators to UK	-	-	23	23	25	27
PTP	8	21	17	21	24	28
Margin	6%	11%	9%	10%	11%	12%
Contracting Abroad						
Net sales	48	36	32	32	36	39
PTP	4	-9	-3	0	1	2
Margin	8%	-25%	-8%	0%	3%	5%
Transport Scandinavia						
Net sales	274	279	340	381	446	512
PTP	39	28	46	46	49	56
Margin	14%	10%	14%	12%	11%	11%
Machines and Technology						
Net sales	37	88	81	100	130	160
PTP	1	8	1	5	13	19
Margin	2%	9%	1%	5%	10%	12%
Group net sales	**438**	**497**	**564**	**636**	**741**	**854**
EBIT	**56**	**52**	**68**	**79**	**93**	**109**
Sales growth, Y/Y	9%	13%	14%	13%	16%	15%
EBIT margin	12.8%	10.5%	12.0%	12.4%	12.6%	12.8%

Source: Railcare, Redeye Research

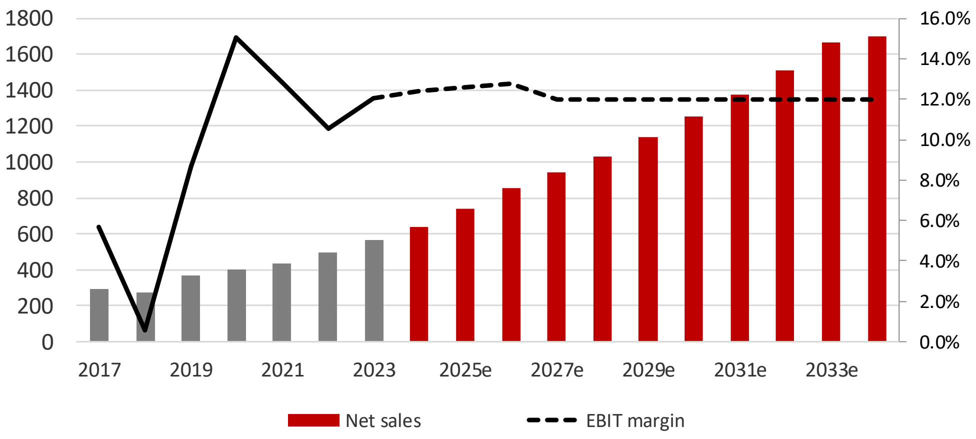
Long-term assumptions, years 2027-33

No changes have been made to our long-term assumptions in terms of growth and EBIT margins. Railcare's target is to reach sales of SEK 1 billion by 2027 (previous target: SEK800m). We don't think it's impossible, but our forecasts imply that it will take until ~2028. As for EBIT margins we believe the 13% target is fair, but we are still slightly more cautious at this point. Our long-term assumptions are:

- 10% annual growth
- 12% EBIT margins
- From 2033 (Terminal year): 12% EBIT margin and 2% annual growth

In the period up until 2033 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 2033 will reach close to SEK1.7bn.

Net sales and EBIT margins



Source: Railcare, Redeye Research

Valuation

Fair value: ~SEK 33 per share

Our cash flow model indicates a fair enterprise value around SEK 941m. After deducting net debt, we arrive at a fair equity value just above SEK 800m, or SEK ~33 per share, which is unchanged vs previously. Assumptions for our Base case scenario and valuation remain the same and are summarized in the table below.

Railcare: Base case

Assumptions	**2027-33e**	**DCF-value**	
CAGR	10%	WACC	10.0%
EBIT margin	12%	NPV FCF 2024-33	308
ROIC (avg)	17%	NPV FCF Terminal	633
		Total (EV)	941
Terminal		Net debt	138
Net sales 2034 (SEKm)	1 697		
Growth FCF	2%	Fair value	803
EBIT margin	12%	Fair value per share	33.3
EV/S Exit multiple	1.0	Share price	28.1
EV/EBIT Exit multiple	8.0	**Potential**	**18%**

Source: Redeye Research

Multiples still rather attractive

Due to a strong share price performance lately, Railcare's earnings multiples are now not quite as appealing as they were a few months ago. Based on our estimates, 2024e is more in line with previous years. With a rather stable business and continued good outlook, we still find forward looking multiples rather attractive. EV/EBIT is in our view the most relevant multiple since it also takes net debt into account. We are not including leasing debt in our EV/EBIT. It is however included in our EV/EBITDA multiple.

Railcare: Valuation multiples

	2021	**2022**	**2023**	**2024e**	**2025e**	**2026e**
P/E	13.3	13.1	12.3	12.8	10.7	8.8
EV/EBIT	11.8	11.7	9.7	10.3	8.8	6.3
EV/EBITDA	6.6	7.1	7.6	6.7	5.9	4.9
P/S	1.2	1.2	1.1	1.3	1.1	0.9
Share price	22.4	20.5	21.8	28.1	28.1	28.1

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 Rilcare can improve its manufacturing process. Growth driven by machine sales should also drive margins. Assumptions for our Bull case:

- CAGR 2023-33: ~13%, taking sales to ~SEK 2 billion in 2033.
- Sustainable EBIT margins of 13%.
- Bull case fair value around SEK 42 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. Bear case assumptions:

- CAGR 2024-33: ~6% taking sales to ~SEK 1 billion in 2033.
- Sustainable EBIT margins of 10%.
- Bear case fair value around SEK 19 per share.

Investment Thesis

Unique position in attractive market segment

Railcare has established a solid position in the railway maintenance market, with an offer based on its own unique proprietary vacuum technology. The company has developed efficient systems to handle ballast replacement that standard excavators are unable to perform. This means maintenance work can be done at a lower cost and with less interruptions in railroad traffic. The global market potential is huge and if executed well, Railcare has decades of major growth opportunities ahead.

Successfully validated

The Railvac systems have been operating successfully in Sweden and the UK for many years and been exported to several markets overseas. It has become a well-known concept, validated by partners and clients. With the new all-electric MPV (emission-free and low noise), Railcare is adding features very appealing to niche applications like maintenance in subways, tunnels and populated areas.

Challenges

Limited progress in export sales lately

In recent years, export sales of Railvac systems have been quite few and far apart. This is reason for some concern, as we believe the company's ambition has been higher. We don't really know the reasons behind this. When it comes to Railcares' overall growth ambitions, our sense is that they have been somewhat defensive and not too eager. This may be changing considering the new financial sales target of SEK1000m by 2027, corresponding to a CAGR ~15%.

Political risk

A significant part of the group's operations is exposed to public utilities and government budgets. Currently there is good support for railroad maintenance, but there is always a risk associated with political involvement. This can certainly be applied to Railcare's own contracting business, but also to some extent when it comes to exports of machinery and equipment.

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: 3

Management is very active in daily operations and have extensive experience from the railroad industry. However, Mattias Remahl is still rather new 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. So a good mix on the Board.

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: 2

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.

	2023	2024e	2025e	2026e
INCOME STATEMENT				
Net sales	564	636	741	854
Cost of Revenues	230	241	268	309
Gross Profit	352	405	472	544
Operating Expenses	240	277	325	370
EBITDA	112	128	147	175
Depreciation & Amortization	44	50	54	58
EBIT	68	79	93	109
Net Financial Items	-11	-10	-10	-8
EBT	57	69	83	101
Income Tax Expenses	14	16	20	24
Non-Controlling Interest	0	0	0	0
Net Income	44	53	63	77
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	39	42	38	44
Inventories	36	38	44	51
Accounts Receivable	57	64	67	68
Other Current Assets	36	38	44	51
Total Current Assets	168	182	193	215
Non-current assets				
Property, Plant & Equipment, Net	405	444	489	536
Goodwill	6	6	6	6
Intangible Assets	4	3	1	-1
Right-of-Use Assets	55	55	55	53
Shares in Associates	0	0	0	0
Other Long-Term Assets	5	5	5	5
Total Non-Current Assets	475	512	556	599
Total Assets	643	695	749	814
Liabilities				
Current liabilities				
Short-Term Debt	85	95	95	95
Short-Term Lease Liabilities	12	12	12	12
Accounts Payable	48	45	52	60
Other Current Liabilities	54	63	65	67
Total Current Liabilities	198	214	223	234
Non-current liabilities				
Long-Term Debt	74	74	74	74
Long-Term Lease Liabilities	37	37	37	37
Other Long-Term Liabilities	60	60	60	60
Total Non-current Liabilities	171	171	171	171
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	274	310	355	410
Total Liabilities & Equity	643	695	749	814
CASH FLOW				
NOPAT	84	97	115	135
Change in Working Capital	8	-5	-6	-5
Operating Cash Flow	102	97	111	130
Capital Expenditures	-57	-66	-75	-77
Investment in Intangible Assets	-3	-6	-7	-9
Investing Cash Flow	-61	-88	-97	-101
Financing Cash Flow	-34	-7	-19	-22
Free Cash Flow	41	25	29	44

DCF Valuation Metrics	**Sum FCF (SEKm)**
Initial Period (2024–2026)	62
Momentum period (2026-32)	246
Stable period (2033-)	633
Firm Value	941
Net Debt (last quarter)	138
Equity Value	803
Fair Value per Share	33.3

	2023	2024e	2025e	2026e
CAPITAL STRUCTURE				
Equity Ratio	0.4	0.4	0.5	0.5
Debt to equity	0.6	0.5	0.5	0.4
Net Debt	120	127	131	125
Capital Employed	445	481	526	581
Working Capital Turnover	36.2	30.7	27.6	26.7
GROWTH				
Revenue Growth	14%	11%	15%	15%
Basic EPS Growth	18%	21%	20%	22%
Adjusted Basic EPS Growth	18%	21%	20%	22%
PROFITABILITY				
ROE	17%	18%	19%	20%
ROCE	15%	16%	18%	19%
ROIC	20%	22%	23%	25%
EBITDA Margin (%)	20%	20%	20%	20%
EBIT Margin (%)	12%	12%	13%	13%
Net Income Margin (%)	8%	8%	9%	9%
VALUATION				
Basic EPS	1.8	2.2	2.6	3.2
Adjusted Basic EPS	1.8	2.2	2.6	3.2
P/E	12.3	12.8	10.7	8.8
EV/Revenue	1.1	1.2	1.1	0.9
EV/EBITDA	5.9	6.3	5.5	4.6
EV/EBIT	9.7	10.2	8.7	7.4
P/B	2.0	2.2	1.9	1.7

SHAREHOLDER STRUCTURE	**CAPITAL %**	**VOTES %**
Nornan Invest AB	29.5%	29.5%
TREAC Aktiebolag	9.9%	9.9%
Ålandsbanken AB	5.3%	5.3%
Försäkringsbolaget Avanza Pension	3.4%	3.4%
Bernt Larsson	3.1%	3.1%

SHARE INFORMATION	
Reuters code	RAIL.ST
List	Nasdaq Smallcap
Share price	28.1
Total shares, million	24.1

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

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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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Recommendation structure
Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

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CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No
Fredrik Nilsson owns shares in the company : No
Redeye performs services for the Company and receives compensation from the Company in connection with this.