

FLASH NOTE

Kontron - Buy

Target Price: EUR 26.46 | Close as of 02/05/2024: EUR 19.01

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1Q24 CC highlights - very confident on margins

Key takeaways: Kontron posted strong results for 1Q24, well maintaining double digit top line growth and beating expectations on all lines. Katek (60% stake) has been fully consolidated since March. Order book now pipeline stand at impressive record highs. A positive surprise was the strong profitability, which, despite the dilutive consolidation of Katek and after adjusting for one-off costs related to the acquisition even expanded slightly.

FY24 guidance was confirmed with above EUR 1.9bn in revenue, and EUR 100mn in net profit. Additionally, Kontron targets EBITDA at around EUR 190mn, translating into an EBITDA margin of around 10%, which is a positive statement when reflecting on the dilution expected from Katek (less than half of Kontron's EBITDA margin). For FY25 management confirmed revenue of more than EUR 2.2bn and a net profit of at least EUR 140mn.

We see the stock as an attractive buying opportunity.

Order book at EUR 1.84bn (+17% y/y; +9% q/q) and order pipeline at EUR 5.35bn (+60% y/y; +30% q/q) at record highs.

Profitability in 1Q24 was flattish / slightly better when adj. for one-offs (adjustments). This stems from an improving sales mix with a lower share of IT services and an increase in higher margin software and solutions (train business).

Adjustments in 1Q24: two parts - about half each attributable to the acquisition and the transformation from IT to OT solutions in Europe. About EUR 1mn in M&A related one-offs expected in 2Q24 and no more one-offs in 2H24.

Katek acquisition: Kontron acquired 60% of Katek from its majority investor and has started fully consolidating Katek in March. The offer to minorities for EUR 15 per share is open until May 13, midnight. Kontron will delist Katek after closing, targeted still for May. No squeeze out is targeted in the short run. Kontron hopes to hold about 80% of shares after the offer.

Katek contribution to Kontron: Katek has added EUR 140mn on order intake and order book in 1Q24, EUR 54 in revenue. Kontron is very confident to leverage on especially revenue synergies by adding smart software to Katek's GreenTec product portfolio (inverters, EV chargers, aviation - ~60% of Katek revenue). There are some cost synergies as well of some EUR 12mn p.a. Discontinuation of low margin manufacturing (ODM) business at Katek should help improving the sales mix as well. ODM margin target is 5-10% within 2-3 years. In FY24, revenue is expected at about 500-600mn from Katek (FY23: EUR 760mn).

Update on business drivers:

- IoT software to run machines or connect devices (e.g. to the electricity grid). Already supplied to e.g. Viessmann. Massive cost savings for intelligent EV charging stations justifying higher margins (Porsche, VW).
- AI solutions - helping further increase the rate and efficiency of automation
- High-speed train communication solutions and control centers
- Green products (EV, inverters)
- Aerospace / Defence - mission critical solutions, high bandwidth, internet on planes

Guidance: Kontron confirmed **FY24 targets** of EUR 1.9bn in revenue, EUR 100mn in net profit and added about EUR 190mn in EBITDA (~10% margin). **For FY25**, revenue of more than EUR 2.2bn, and a net profit of EUR 140mn is targeted.

Our view: *Management is very confident on profitability targets that stem from improving sales mix with an increasing share of higher valued products / solutions. There is seemingly a good visibility on new product demand, which is backed by the well booked order backlog and the increase in the order pipeline (i.e. signed but not yet contracted business). Obviously, we need to see a step up in absolute EBITDA and net profit from 2Q24 to have a chance to meet the guidance. Some risk might be attached to net profit guidance with respect to the level of ownership Kontron will hold upon closing of the offer to minorities. Management mentioned an 80% target share - we would expect some 70-80% as it will depend if still undecided shareholders will sell to hedge funds on the market or to Kontron. In this respect, we might see also short selling on Kontron in order to push undecided shareholders to sell for a slight premium (above EUR 15) on the market vs making use of the alternative share exchange offer from Kontron (3 Kontron for 4 Katek shares), which starts being in the money above EUR 20.*

Valuation-wise, Kontron remains is very attractive on both EV/EBITDA (below 7x on FY24 guide) and P/E (about 12x on FY24 guide; below 9x on FY24 guide).

We see that stock as an attractive buying opportunity.

Quarterly snapshot

Consolidated, IFRS (Currency, mn)	Reported		Expected 1Q 24		Reported vs.			
	1Q 24	1Q 23	y/y	q/q	Erste	Cons.	Erste	Cons.
Order intake	512	391	31.1%	29.3%	375.0	-		
Order backlog	1842	1573	17.1%	9.2%	1713.3	-		
Order pipeline	5347	3369	58.7%	30.4%	-	-		
Revenue	356.1	277.7	28.2%	-2.5%	347.7	352.4	2.4%	1%
Segment Europe	206.9	158.2	30.8%	-17.4%				
Segment Global	58.5	49.6	17.9%	0.3%				
Segment S&S*	90.7	54.2	67.3%	26.1%				
EBITDA	35.4	29.6	19.6%	17.3%	29.5	32.3	20.0%	10%
Segment Europe	13.1	15.8	-17.1%	13.4%				
Segment Global	4.6	4.0	15.1%	-21.1%				
Segment S&S*	17.7	9.8	80.6%	38.1%				
EBIT	22.0	20.6	6.8%	18.1%	17.3	-	26.9%	-
Net Profit	16.2	16.6	-2.3%	-30.0%	14.6	15.9	11.3%	2%
EBITDA%	9.9%	10.7%	-0.7pp	1.7pp	8.5%	9.2%	1.45pp	0.78pp
EBITDA% Europe	6.3%	10.0%	-3.7pp	1.7pp				
EBITDA% Global	7.9%	8.1%	-0.2pp	-2.1pp				
EBITDA% S&S*	19.5%	18.1%	1.4pp	1.7pp				
adj. EBITDA%	11.0%	10.7%	0.3pp	0.3pp	9.3%	-	1.66pp	11.01pp
EBIT%	6.2%	7.4%	-1.2pp	1.1pp	5.0%	-	1.19pp	-

Source: Company Data, Erste Group Research;

Why is Katek a good acquisition ?

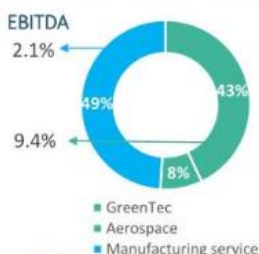
Transforming Green Technologies with IoT software



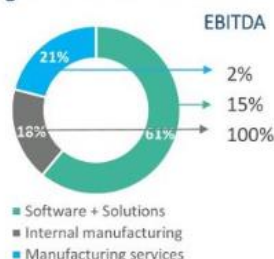
Product Synergies (Gross Margin)



Katek 2023 Revenues



Target in Kontron in 2024



➤ GreenTec Division will achieve 15% EBITDA in 2024 for Kontron's Software + Solutions segment

Huge product synergies (we expect +5% GM = EUR 32m)

- › Katek's solar and EV charger products are highly profitable
- › Adding intelligence and IoT connectivity will increase customer benefits and EBITDA margin significantly
- › Kontron will utilize 40% of Katek's manufacturing capacity and increase further – "made in Europe" politically supported

Cost synergies (EUR 12m)

- › Benefitting from favorable financing terms of Kontron
- › Only one stock exchange listing
- › Administrative cost savings

Kontron 2024 structure

10 new divisions in 3 segments



Europe



Rev FC 24*	EBITDA**	10%
GM		35%
€ 1,350m		

Global



Rev FC24*	EBITDA**	8%
GM		30%
€ 320m		

Software + Solutions



Rev FC24*	EBITDA**	15%
GM		50%
€ 750m		

* incl. EUR 1,900m external and EUR 520m IC revenues
** Margin on external revenues

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