

Surprisingly strong organic growth and underlying margins in Q1

Kontron reported Q1 numbers that clearly surpassed consensus expectations but were a bit below our optimistic projections at first glance, although organic growth was better than expected. The gross margin above 40% of sales and EBITDA margin of almost 10% were nevertheless positive surprises. Adjusted for one-offs and M&A-related costs, EBITDA would have been even at EUR 39.2m (adjusted margin 11%), which even exceeds our estimate. Kontron sticks to its 2023 outlook and still expects revenues of at least EUR 1.9bn, EBITDA of EUR 190m and a net income of EUR 100m for the full year. We have a buy rating on the share, PT EUR 31.

Kontron AG (EURm)	Actual			Pareto		Consensus	
	Q1 2023	Q1 2024	yoy (%)	Q1 2024	Delta (%)	Q1 2024	Delta (%)
Revenues	262	356	36	383	-7	352	1
Europe	158	207	31				
Global	50	59	18				
Software & Solutions	54	91	68				
Gross profit margin	91 34.9%	147 41.4%	61 642 bps	145 37.9%	2 349 bps		
EBITDA margin	29.6 11.3%	35.4 9.9%	20 -137 bps	36.8 9.6%	-4 34 bps	32.3 9.2%	10 76 bps
Europe margin	15.8 10.0%	13.1 6.3%	-17 -366 bps				
Global margin	4.0 8.1%	4.6 7.9%	15 -20 bps				
Software & Solutions margin	9.8 18.1%	17.7 19.5%	81 137 bps				
EBIT margin	20.6 7.9%	22.0 6.2%	7 -169 bps	22.8 5.9%	-3 23 bps		
Net Income (cont. oper.) margin	16.6 6.3%	16.3 4.6%	-2 -177 bps	18.1 4.7%	-10 -14 bps	15.9 4.5%	3 6 bps
EPS	0.26	0.26	0	0.29	-9		

Source: Pareto, Company, Factset

More insights from the report and the CC:

- The order book stood at EUR 1.8bn at the end of the quarter, which translates into an annualized book-to-bill ratio of around 1.4x, according to our calculations.
- EUR 2bn revenues and EUR 140m net income is still in reach for 2025.
- The gross margin of more than 40% should be sustainable for the full year.
- 50% of the one-offs resulted from M&A, 50% from the restructuring of the IT Service business. In Q2, Kontron expects EUR 1m additional burden from M&A, but nothing in the second half of 2024.
- The majority of one-offs have been incurred in the Europe segment, so the segment margin has recovery potential in the coming quarters.
- In Romania, IT Service should not be offered any more in the long-term. Instead, Kontron plans a design center in the region.
- Katek will post lower revenues in 2024 than 2023 because Kontron was a customer of Katek and the respective revenues will fall away in 2024.
- Expects EUR 60m of D&A in 2024.
- Organic growth was strong at roughly 14-15% in Q1 2024, according to KTN. We understand that KTN also closed down some minor activities in Q1.

Knud Hinkel

+49 69 58997 419, knud.hinkel@paretosec.com

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