

18-January-24

First glance: Kontron to acquire majority stake in listed KATEK

Kontron announced that it has agreed to acquire 59.4% in listed KATEK SE from shareholder PRIMEPULSE for € 15.00 per share, a c. 30% premium over the 5-day avg. The deal values KATEK at an EV of c. € 344m, comprising KATEK's € 217m market cap and an estimated € 127m in net debt (eHAIB). Kontron will launch a mandatory € 15.00 / share offer in March for the remaining shares. **Consolidation is expected for March or April at the latest.**

Kontron holds sufficient cash to finance the entire € 217m cash-out: we expect liquid assets to have reached c. € 450m in 2023, thanks to strong Q4 cash generation and the € 40m escrow payment from VINCI. Still, Kontron is considering to chip in a c. € 40m share-based component using treasury shares. Assuming a 100% cash consideration, net debt of the combined entity is seen at € 90-100m at the end of 2024E, as per management, which would imply <0.6x EBITDA. Note that the focus now is on integration, meaning there should be no further M&A in 2024E.

KATEK is a provider of electronic solutions and manufacturing services (EMS) focused on Solar and eMobility. We see 2023 revenues of c. € 800m (+16% yoy) with roughly € 40m adjusted EBITDA, or approx. a 5% EBITDA margin. **KATEK is a leader for residential solar inverters in Germany**, a € 200m revenue / 10% EBITDA margin vertical, serving Viessmann, Senec and sonnen, amongst others. In eMobility, KATEK is seen to generate a strongly growing € 40m of annual sales at break-even EBITDA, **supplying leading automotive OEMs with wallbox chargers. Respective revenues are seen to rise to € 100m this year and € 200m in FY2025E** (eHAIB), courtesy of a strong backlog for the Ghost One, which will be launched in June (eHAIB: the backlog offers almost € 1bn in lifetime revenue). Further, KATEK is supplying the demanding defense / aerospace verticals with complex electronic solutions (€ 50m sales p.a. / 10% EBITDA margin). However, it also operates a rather uninspiring EMS business with modest margin potential.

A look at the deal rationale and strategy going forward: admittedly, the deal is not straightforward, given KATEK's modest EBITDA margins, courtesy of a hardware-focused business and EMS footprint. **But this is exactly where Kontron can add the most value via software functionality to turn solar inverters and wallbox chargers into „smart devices“.** Software features should include: (i) the ability for users to benefit from dynamic pricing for eMobility charging; (ii) remote and predictive maintenance features; (iii) security / firewall functionality; (iv) the option to use solar energy to build large private grids with other residential users. In a nutshell, **some 70% of Katek's business should offer synergies with Kontron**, i.e. € 510m of revenues. NB: as Kontron is an existing customer of KATEK, there are some € 70m of inter-company revenues, which we exclude from the calculation. **We would not be surprised if Kontron were to divest the 30% of revenues** offering no synergies, though nothing has been disclosed in this regard.

Pro forma metrics of the combined company: management expects to be able to raise KATEK's gross margins by 5pp via software functionality, thus improving the target's group EBITDA margins to 10% or more. **The operating model for KATEK post synergies is € 500-600m annual revenues with at least € 50-60m EBITDA and € 30-40m net income. This means Kontron will be paying <7x EBITDA and <12x earnings**, which looks attractive, but is predicated on the realization of synergies. With consolidation expected for March / April, Kontron raises its FY'24E guidance to € 1.9bn in sales (prior: € 1.4bn) and € 100m in net income (prior: € >87m). We will adjust numbers with closing.

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Buy

Price target: EUR 30.00

Price: EUR 22.28

Close price as of: 17.01.2024

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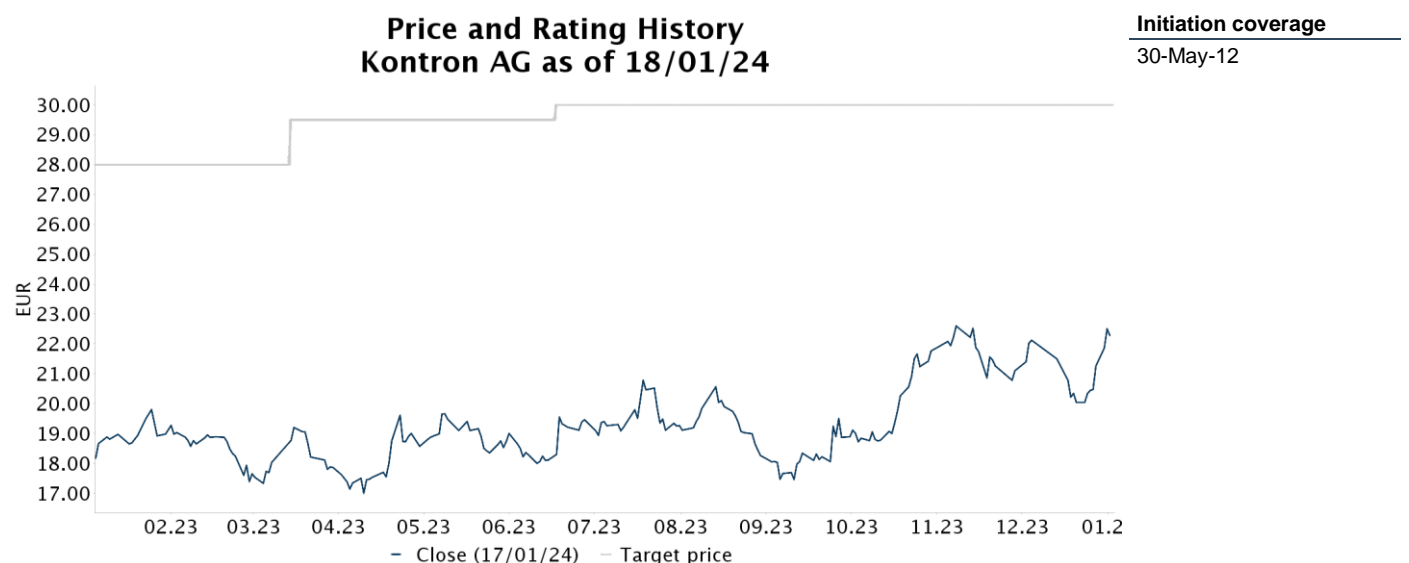
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Company	Disclosure
Kontron AG	

Historical target price and rating changes for Kontron AG in the last 12 months



Company	Date	Analyst	Rating	Target price	Close
Kontron AG	12.01.2024	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 21,26
	06.12.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 21,46
	17.11.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 21,76
	06.11.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,56
	03.11.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,26

30.10.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 19,07
12.10.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 19,50
25.09.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 17,69
29.08.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,56
04.08.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,46
03.08.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 20,78
01.08.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 19,51
04.07.2023	Wunderlich, CFA, Tim	Buy	EUR 30,00	EUR 19,55
06.06.2023	Wunderlich, CFA, Tim	Buy	EUR 29,50	EUR 18,90
25.04.2023	Wunderlich, CFA, Tim	Buy	EUR 29,50	EUR 17,00
05.04.2023	Wunderlich, CFA, Tim	Buy	EUR 29,50	EUR 18,66
31.03.2023	Wunderlich, CFA, Tim	Buy	EUR 29,50	EUR 19,20
02.03.2023	Wunderlich, CFA, Tim	Buy	EUR 28,00	EUR 18,88
07.02.2023	Wunderlich, CFA, Tim	Buy	EUR 28,00	EUR 19,50

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Sell	5.59 %	0.00 %
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