



# Funkwerk AG

## Update report | Funkwerk quietly raised its guidance at the AGM

22 July 2021

Dear Reader,

Funkwerk held its annual general meeting on July 20, 2021. As usual, CEO Ms. Schreiber reported the 5-month figures as of May 30, 2021. The company not only had to adjust its guidance for fiscal year 2021 but also exceeded my expectations. Revenue increased by 23 % within the first five months of the fiscal year. EBIT increased by 77 % compared to the same period last year as a result of the VERY strong train radio segment.

€m	31.05.2020	31.05.2021	% YOY
Intake of orders	41,3	48,8	18 %
Order backlog	81,6	81,4	0 %
Revenue	36,0	44,1	23 %
EBITDA	6,1	10,3	69 %
<i>EBITDA margin</i>	<i>17 %</i>	<i>23 %</i>	
EBIT	5,3	9,4	77 %
<i>EBIT margin</i>	<i>15 %</i>	<i>21 %</i>	
EBT	5,2	9,2	77 %
<i>EBT margin</i>	<i>14 %</i>	<i>21 %</i>	

As I previously discussed in my last [update](#), the Company is currently benefiting from the German government's subsidy program which was set up in the wake of the COVID pandemic early in July 2020. The stimulus package is supporting the improvement of mobile communications reception along rail routes, for which train radios are being modernized and upgraded to interference-resistant GSM-R components and systems.

The program was originally scheduled to run until the end of 2021. As a result, Funkwerk expects one-off revenues in 2021, leading to the initial revenue guidance of €105 million to €110 million for 2021 (2020: €99 million). Likewise, EBIT in 2021 should reach the high level of the previous year (2020: €20.4 million).

**The guidance proved to be too conservative. Usual business at Funkwerk..**

[On July 1, 2021, the Federal Ministry of Transport and Digital Infrastructure extended the program by one year to 2022.](#) According to Ms. Schreiber, this was because the customer call-offs were coming more slowly than anticipated. She mentioned in passing that the

revenue and earnings forecast for 2021 has to be increased. **The company now guides revenue from €112 million to €118 million**, which would translate into revenue growth of 13 % to 19 % compared to 2020. EBIT is thus now expected to exceed the high level of 2020, but the margin is not expected to increase above the 2020 level, resulting in a flat margin compared to the previous year. **Note that they even did not prepare a single slide for the revenue guidance increase, nor did they release an official announcement regarding the guidance update in the aftermath of the AGM as they are not obliged to do so legally.**

As commonly known, order cycles in rail transport have a long lead time. However, Funkwerk operates in the train radio segment that will benefit in the long term (2035-2040) from the transformation to ETCS (simply put: digitization of rail infrastructure) and FRMCS (conversion from 2G to 5G for train radio). From today's perspective, however, it is very difficult to predict when the cycles will pass from the planning phase to the implementation phase and eventually lead to additional revenues for Funkwerk. Today, most of the revenue in the train radio segment comes from equipping new trains, and not yet from retrofitting existing trains.

Against this background, the statement that Ms. Schreiber expects a consistently high level of revenue in the coming years was an important insight for me! As I had been waiting for such a statement for a long time, I bought more shares immediately after the AGM.

An exciting development also occurred on the M&A side at the end of June. Since the company is rolling in money shareholders have been pondering for too long now what they will do with that cash. Finally, Funkwerk announced a long-awaited acquisition on June 29, 2021. The target company is called VIPRO.sys GmbH, based in Leipzig, Germany. Funkwerk's strategic goal is to offer integrated solutions in its remaining two business divisions (Traveler Information and Video Systems). The acquisition will certainly not move the needle much in the short term because the acquired company is insignificant in terms of revenue, but it is of great importance long-term strategically as Funkwerk will expand its competencies and increase its software know-how (presumably of higher margin).

What about valuation?

Today's closing price of €29.5 implies a market capitalization of approximately €240 million. As of December 31, 2021, the company had €52 million in net cash. The number is likely to have grown to €60 million in the meantime which implies an Enterprise Value of €180 million.

Based on the increased revenue and earnings guidance, I expect EBITDA to come in at €26-27 million for 2021. This puts the company at an EV/EBITDA of around 6.8 for 2021. If you are interested in DCF valuation, please don't hesitate to take a look at my [initial research report](#) and adjust the calculations to the even better prospects as of now.

The company will report its half-year figures in August. The next scheduled newsflow is not expected until April 2022. Unless an acquisition is reported in between, triggers may be missing in the short term. However, I confess that I do not sleep as calmly with any other stock as with Funkwerk. It is a boring company with conservative management, it is profitable and has lots of cash available and no debt. Besides, Funkwerk is the market leader

in train radio systems and possesses short- and long-term growth prospects in several business divisions..

If you want to double your money by tomorrow, go and buy something else. If you want a solid company, I think Funkwerk is the way to go due to the favourable risk-reward.

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