Intermonte

Milan, 07 November 2022

Italian Equity Research – 3Q22 Results

TESMEC

BUY

Sector: Industrials

Price: Eu0.14 - **Target: Eu0.22**

Solid 3Q22 results and positive outlook for 2023

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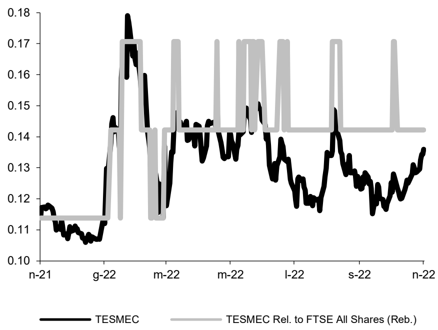
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2022E	**2023E**	**2024E**
Chg in Adj EPS	4.0%	0.0%	

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	8.6%	0.7%	19.5%
Relative	1.8%	-0.8%	36.1%
12M (H/L)			0.18/0.11
3M Average Volume (th):			1,542.73

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	82
Total Mkt Cap (Eu mn):	82
Mkt Float - Ord (Eu mn):	42
Mkt Float (in %):	51.4%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	80
BVPS (Eu):	0.13
P/BV:	1.0
Net Financial Position (Eu mn):	-117
Enterprise Value (Eu mn):	199

- **3Q22 results.** After a solid 1H showing an improvement in operating performance vs FY21, 3Q22 results showed an acceleration of the growth trend (+27% YoY vs. +17% in 1H22) although the EBITDA margin at 12.0% vs 16.5% in 1H22 was impacted by rising costs (freight and electricity). Revenues were up +27% YoY to Eu60.1mn (3% better than expected), driven by a 63% YoY growth at Rail vs. +60% in 1H22 (backlog covers >2 years of revenues and conversion is accelerating); 25% YoY growth at Trenchers vs. +13% in 1H22; and a +9% YoY growth at Energy after a flattish 1H22 (+1%). EBITDA at Eu7.2mn in 3Q was ca. stable YoY (Eu7.5mn in 3Q21) with the EBITDA margin at 12.0% vs. 15.8% in 3Q21 and 16.5% in 1H22. EBIT came to Eu1.6mn vs. Eu2.0mn in 3Q21, with net profit of Eu1.3mn vs. Eu1.1mn in 3Q21 (9M22 Eu9.2mn vs. Eu2.1mn in 9M21, reflecting over Eu8mn in ForEx gains below EBIT, mostly booked in 1H22). Net debt was Eu126mn vs. Eu131mn expected and Eu138mn as at end-June driven by a Eu5mn decrease in working capital vs. end-June. Backlog as at end-September Eu310mn (Energy Eu102mn, down Eu7mn vs. end-June; Trenchers Eu79mn, up Eu4mn; Rail Eu129mn, up Eu28mn vs. end-March).
- **Positive outlook for 2023**. Demand at Trenchers, which is the business segment most exposed to global macro, is supported by fibre optic/5G deployment and higher investments in the Middle East. Outlook at Energy (transition to renewables and investments in power grids) remains positive although the business is suffering from the shortage of electronic components. Rail (high speed lines require higher maintenance, development of the rail diagnostic business also internationally) is benefitting from the internationalization path thanks to the latest orders acquired. The company also announced an increase of its stake in Tesmec Saudi Arabia LLC to 65% of the share capital. We note 56% of 9M22 revenues refer to recurring business (rental, spare parts, services and maintenance, Automation and Rail backlog).
- **FY22 guidance update.** Management confirmed FY22 guidance for sales exceeding Eu240mn, with the EBITDA margin at 15%/16% (previous >16%), and a reduction of net debt vs. 2021 (confirmed). We have updated our estimates, which were below previous targets, with sales now seen at Eu242mn vs. previous Eu235mn (+3%), EBITDA almost unchanged vs. previous estimate (+1%) at Eu38mn (margin at 15.8% vs. previous 16.0%), and net debt at Eu117mn (previous Eu115mn). More importantly, management confirmed targets for 2023 of sales of Eu275mn-290mn vs. our Eu265mn, and EBITDA of Eu53-58mn vs. our Eu48mn.
- **BUY; target Eu0.22,** implying a fair 2022 EV/EBITDA of 6.7x and P/E of 15.0x. The company is exposed to growth opportunities associated with rising infrastructure investments supported by stimulus plans in Europe and the US, underpinned by sustainability and digitalisation. If 2023 targets were achieved, the stock would trade slightly above 3x EV/EBITDA.

Key Figures & Ratios	**2020A**	**2021A**	**2022E**	**2023E**	**2024E**
Sales (Eu mn)	171	194	242	265	278
EBITDA Adj (Eu mn)	21	28	38	48	50
Net Profit Adj (Eu mn)	-7	1	9	16	19
EPS New Adj (Eu)	-0.011	0.002	0.015	0.027	0.032
EPS Old Adj (Eu)	-0.011	0.002	0.014	0.027	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	11.9	6.8	5.2	3.7	2.9
EV/EBIT Adj	nm	33.4	12.1	6.7	5.1
P/E Adj	nm	67.7	9.1	5.0	4.2
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	5.0	4.3	3.1	2.0	1.3

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (52 in total) is as follows:

BUY:	38.46 %
OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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