Milan, 05 August 2024

Italian Equity Research – 2Q24 Results

TINEXTA

BUY

Sector: Industrials

Price: Eu14.56 - **Target: Eu24.00**

Soft 2Q Hit by ABF Underperformance and Industry 5.0 Delays

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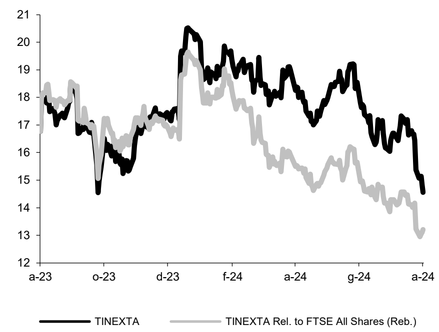
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 29.00 to 24.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-13.0%	-12.4%	-12.7%

TINEXTA - 12M Performance



Stock Data			
Reuters code:			TNXT.MI
Bloomberg code:			TNXT IM
Performance	**1M**	**3M**	**12M**
Absolute	-11.4%	-18.7%	-13.2%
Relative	-7.1%	-13.7%	-23.4%
12M (H/L)			20.52/14.55
3M Average Volume (th):			68.72

Shareholder Data	
No. of Ord shares (mn):	47
Total no. of shares (mn):	47
Mkt Cap Ord (Eu mn):	687
Total Mkt Cap (Eu mn):	687
Mkt Float - Ord (Eu mn):	304
Mkt Float (in %):	44.3%
Main Shareholder:	
Tecno Holding S.p.A.	55.8%

Balance Sheet Data	
Book Value (Eu mn):	432
BVPS (Eu):	10.28
P/BV:	1.4
Net Financial Position (Eu mn):	-238
Enterprise Value (Eu mn):	1,115

2Q results were in line with our expectations, showing a weak quarter mainly due to the Business Innovation division, which was penalised both by delays related to Industry 5.0 incentives affecting the subsidised finance business, and by the poor performance of ABF, which accumulated ~6 months of delays compared to initial projections. As a result, the company lowered its 2024 guidance, cutting adj. EBITDA by about 7%.

- **Soft 2Q as expected**: as expected 2Q results were rather soft, with turnover closing at Eu104.6mn (Eu104.8mn exp.), up 8.5% YoY thanks to an ever-solid performance of Digital Trust, where the 15.8% rise (of which 10% organic), was enough to offset organic declines at Cybersecurity, down 2.3%, and Business Innovation, up 8.4% but down -9.4% in organic terms. The top line performance was reflected in profitability, with adj. EBITDA coming in at Eu19.1mn (vs. Eu18.9mn exp.), down from Eu23mn last year, largely due to lower margins at Cybersecurity (greater use of external personnel to carry out projects) and Business Innovation (seasonality further exacerbated by ABF's delays, the aforementioned delays on Industry 5.0 and a less favourable mix). Finally, net debt stood at Eu279mn (vs. Eu271mn exp.), up from Eu240mn as at end-March due mainly to the payment of the dividend (~Eu22mn), and the acquisition of Lenovys (Eu17mn).
- **Guidance revised downwards:** in light of 1H results and considering ABF's disappointing performance, the BoD revised its guidance, now expecting group revenues to grow by ~20% (from +21-23% previously) and adj. EBITDA to grow by ~22% (from +28-32% previously). The main reason for this cut relates to the revised outlook for ABF, which is expected to reach previous targets with a delay of 6-9 months. As a matter of fact, ABF is now expected to contribute Eu25-29mn to group revenues (from Eu37mn previously) and Eu10-12mn to group EBITDA (from Eu18mn previously). The leverage ratio (NFP/adj. EBITDA) is confirmed at around ~1.9x at the end of 2024, with the lower adj. EBITDA recovered at net debt level as the company will not pay the two earn-outs envisaged in the ABF deal and the value of call options has been redetermined (total impact ~Eu23mn).
- **Estimates:** we are revising our estimates to include the reduced contribution expected from ABF, while we are also cutting BI organic growth due to Industry 5.0 delays. This results in a 7.5% average cut in our adj. EBITDA estimates for the next three years.
- **BUY unchanged, target from Eu29.0 to Eu24.0.** Despite this setback, we believe the company has all the credentials to resume its growth path thanks to structurally-growing reference markets in Digital Trust and Cybersecurity, where Tinexta positions itself as a potential consolidator, taking advantage of its leadership position, while in Business Innovation the accumulated delays should gradually be recovered in the coming quarters. We believe that the company's focus in the coming months will have to be on consolidating recently-acquired companies (or those about to be acquired in the case of DTH) and extracting synergies, rather than on further acquisitions. Our target price, the average of the outcomes of a DCF and an SOP, is reduced from Eu29.0 to Eu24.0 to reflect the estimate cut made in the report (Eu-3.5) and the lower multiples used in the SOP (Eu-1.5) as a result of the de-rating of peers.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	357	396	472	517	564
EBITDA Adj (Eu mn)	95	103	125	144	159
Net Profit Adj (Eu mn)	50	54	58	70	81
EPS New Adj (Eu)	1.058	1.154	1.223	1.481	1.717
EPS Old Adj (Eu)	1.058	1.154	1.405	1.690	1.967
DPS (Eu)	0.510	0.460	0.207	0.388	0.476
EV/EBITDA Adj	14.8	11.6	8.9	7.5	6.5
EV/EBIT Adj	18.1	15.0	11.8	9.6	8.2
P/E Adj	13.8	12.6	11.9	9.8	8.5
Div. Yield	3.5%	3.2%	1.4%	2.7%	3.3%
Net Debt/EBITDA Adj	0.8	1.0	1.9	1.4	1.0

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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 4.0% and a risk premium of 5.5% 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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OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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