Milan, 07 August 2023

Italian Equity Research – 2Q23 Results

TESMEC

BUY

Sector: Industrials

Price: Eu0.13 - **Target: Eu0.22**

Better sales trend in 2Q23, although margins remained weak

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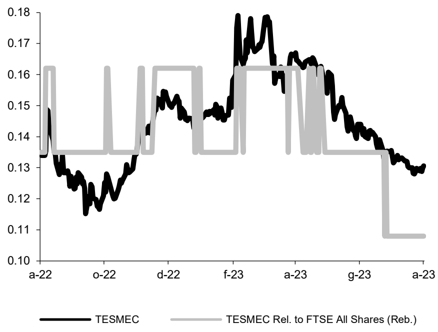
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	-3.7%	-15.2%	-3.3%
Relative	-4.2%	-21.4%	-26.6%
12M (H/L)			0.18/0.12
3M Average Volume (th):			1,746.44

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	79
Total Mkt Cap (Eu mn):	79
Mkt Float - Ord (Eu mn):	37
Mkt Float (in %):	46.3%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	95
BVPS (Eu):	0.16
P/BV:	0.8
Net Financial Position (Eu mn):	-122
Enterprise Value (Eu mn):	201

- **Sales growth accelerating, solid backlog, but margins were below expectations.** Tesmec's 2Q23 results were broadly in line with expectations for sales (+18% YoY and +1% above our estimate), although the EBITDA margin at 12.2% was below estimate (13.5%) and net debt increased by Eu11mn vs. end-March to Eu150mn (Eu147mn expected), mainly due to higher working capital. With each division contributing ca. 1/3 of new orders, order intake in 2Q23 was strong at Eu95mn (1.4x book to bill, ca. double the figure for 1Q23) and resulted in backlog of Eu429mn as at end-June. FY23 guidance, to which we are aligned, was reiterated, as management expects growth to be much more profitable in 2H (higher contribution from Energy Automation and change in mix in the Rail business). Orders recently acquired, accelerating growth in Trenchers in the Middle East, and an easing YoY impact of inflationary trends on the cost base should support a significant improvement of profitability in 2H23, although guidance appears increasingly challenging on EBITDA (2H23 implied margin of ca. 20%) and net debt (decrease in working capital, with 2H sales growing >20% YoY).
- **Weakness in margins comes from Trenchers.** Sales of Eu67.8mn (Eu67.3mn expected) were up 18% YoY vs. +3% YoY in 1Q23. EBITDA of Eu8.2mn (Eu9.1mn expected) declined 22% YoY vs. -15% in 1Q23, with the margin at 12.0% (estimated 13.5%), approx. in line vs. 1Q23 (12.3%) but significantly below 2Q22 (18.1%). The contraction of margins reflected weak profitability in the Trenchers business, which reported a 520bp YoY reduction in the margin in 2Q23 to 9.4% vs. 14.5% in 2Q22 (similar trend in 1Q23 vs. 1Q22). During the call, management explained that the 2Q23 cost base includes Eu2.0mn in one-offs, mainly associated with the Trencher business in Australia. EBIT was down 55% YoY to Eu2.2mn (Eu3.5mn expected), with a net loss of Eu0.1mn (net profit of Eu0.1mn expected) after Eu1.3mn positive taxes booked in the quarter. Net debt increased Eu11mn on end-March 2023 to Eu150mn, driven by a Eu10mn rise in working capital in the quarter (inventories +Eu7mn after +Eu8mn in 1Q23) to support expected sales for the year.
- **Guidance reiterated but challenging.** Management confirmed FY23 guidance of: 1) sales of Eu280-290mn (+16% YoY at mid-point); 2) EBITDA at Eu45-50mn (margins at 16.0%/17.0%); 3) improvement in the net debt position vs. Eu128mn for FY22. Guidance appears achievable for the top line (ca. +20% implied YoY growth in 2H23 following +18% in 2Q23), but increasingly challenging for EBITDA and net debt, although expected growth in the second part of the year should be more profitable.
- **Estimates and TP unchanged.** Based on management indications, we leave our estimates (aligned to company guidance) unchanged. Our TP of Eu0.22 is based on a DCF model and implies a fair 2023 EV/EBITDA of 5.2x and P/E of 10.0x. The company is exposed to growth opportunities associated with rising infrastructure investments although the track record on FCF generation is weak.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	194	245	285	311	338
EBITDA Adj (Eu mn)	28	35	48	56	61
Net Profit Adj (Eu mn)	1	8	13	19	23
EPS New Adj (Eu)	0.002	0.013	0.022	0.032	0.039
EPS Old Adj (Eu)	0.002	0.013	0.022	0.032	0.039
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.8	6.0	4.2	3.3	2.7
EV/EBIT Adj	33.5	16.1	8.0	5.8	4.6
P/E Adj	65.0	9.9	5.9	4.1	3.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	3.6	2.6	1.9	1.4