TESMEC

NEUTRAL

Sector: Industrials

Price: Eu0.09 - **Target: Eu0.09**

Slowing growth, rising debt in 2Q24. TP lowered to Eu0.09

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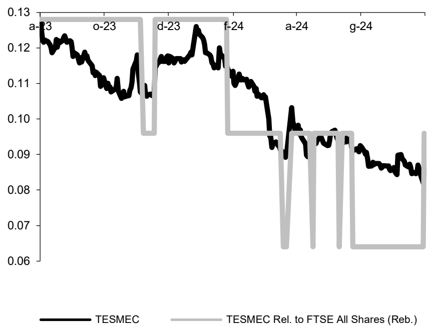
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 0.12 to 0.09
	2024E	**2025E**	**2026E**
Chg in Adj EPS	3.0%	-16.2%	-5.7%

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	1.6%	-6.1%	-33.5%
Relative	10.0%	2.2%	-42.0%
12M (H/L)			0.13/0.08
3M Average Volume (th):			986.51

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	53
Total Mkt Cap (Eu mn):	53
Mkt Float - Ord (Eu mn):	25
Mkt Float (in %):	46.6%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	73
BVPS (Eu):	0.12
P/BV:	0.7
Net Financial Position (Eu mn):	-161
Enterprise Value (Eu mn):	214

- **Weak top line, net increasing debt in 2Q24.** Tesmec's 2Q24 results came below our estimates for sales and THE net financial position and showed a deterioration of operating trends vs 1Q24. Sales of Eu65mn (Eu71mn expected) decreased 4% YoY vs. 3% YoY growth in 1Q24, with Energy growing 24% (similar trend to 1Q) but Trencher down 10% (vs. +2% in 1Q) and Rail down 21% (vs. -26% in 1Q). EBITDA of Eu10mn (+19% YoY after +21% YoY in 1Q24) was slightly above our estimate (Eu9.5mn) with the margin at 13.3%, in line with 1Q24 (13.2%) and growing 290bps YoY vs. 12.4% in 2Q23. The beat on the EBITDA margin was driven by the Trencher business, which reported a 17.2% margin in 2Q24 after 13.8% in 1Q24 thanks to a better sales mix. EBIT at Eu4mn (Eu3.5mn expected) was up 55% YoY with the bottom line negative by Eu1.6mn (Eu-0.2mn expected) after a Eu1.1mn net loss in 1Q24. The main negative was increasing net debt, which stood at Eu184mn as at end-June, up Eu17mn vs. end-March (Eu167mn) and up Eu30mn vs. FY23 (Eu154mn).
- **Slowdown in 2Q driven by Trenchers and Rail.** The slowdown of volumes in 2Q24 was driven by the Trencher business (sales down 10% YoY) due to weak US and France and the Rail (sales down 21% YoY) business. As for the net debt position, the increase by Eu17mn vs. end-March was mostly due to higher working capital (+Eu20mn vs. in 2Q24), and the increase in IFRS16 debt (Eu12mn). We note that backlog of Eu370mn as at end-June was down by Eu21mn vs. end-March (Eu391mn) and by Eu32mn vs. end-2023.
- **Updated guidance** During the call, management expressed confidence on an improving operating performance in 2H both on the top line and on cash flow, in particular in 4Q, while no indication was provided on the debt refinancing strategy. Updated guidance for 2024 points to sales at ca. Eu270mn (+7% YoY from previous guidance of >10% YoY growth), the EBITDA margin improving vs. 13.5% for 2023, and net debt position improving vs. 2023 the figure of Eu153mn.
- **FY24-25 estimates**. We have updated our estimates model and cut FY24-25e expectations by 4% for sales (Eu268mn in FY24, +6% YoY), -1% for EBITDA (Eu40mn in FY24E unchanged), with net debt now seen at Eu161mn as at end 2024 vs. the previous estimate of Eu151mn.
- **Neutral, TP Eu0.09 (from previous Eu0.117). Debt reduction is key.** Our updated target price of Eu0.09 (previous Eu0.117) is based on a DCF and implies a fair equity value of Eu54mn (previous Eu71mn). At target, the implied EV/EBITDA multiple 2025e is 5.2x. The lower fair value derived from our DCF mainly reflects Eu10mn higher net debt in 2024E. We confirm our Neutral rating on the stock. Tesmec is exposed to growth opportunities associated with rising infrastructure investments (the Middle East is a key area of development), although the track record on FCF generation is weak and debt leverage too high. We note that last April Tesmec's EGM approved the change to the company's by-laws and the introduction of increased voting rights (x2).

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	245	252	268	289	311
EBITDA Adj (Eu mn)	35	48	56	61	
Net Profit Adj (Eu mn)	8	-3	-3	2	7
EPS New Adj (Eu)	0.013	-0.005	-0.006	0.004	0.012
EPS Old Adj (Eu)	0.013	-0.004	-0.005	0.005	0.013
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.0	4.9	3.8	3.4	
EV/EBIT Adj	16.1	21.4	14.5	10.4	7.8
P/E Adj	6.6	nm	nm	22.5	7.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	3.2	2.9	2.5	

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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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BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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