Milan, 07 November 2023

Italian Equity Research – Change in View/3Q23 Results

TESMEC

NEUTRAL

Sector: Industrials

Price: Eu0.11 - **Target: Eu0.13**

Better 3Q although debt stays high. Downgrade to Neutral

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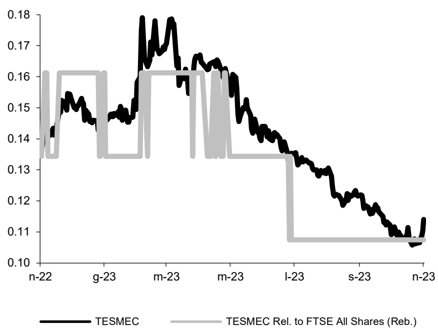
Stock Rating			
Rating:			from BUY to NEUTRAL
Target Price (Eu):			from 0.22 to 0.13
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-68.4%	-52.3%	-40.9%

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	4.4%	-12.3%	-15.2%
Relative	0.2%	-11.8%	-39.3%
12M (H/L)			0.18/0.11
3M Average Volume (th):			1,131.94

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	69
Total Mkt Cap (Eu mn):	69
Mkt Float - Ord (Eu mn):	32
Mkt Float (in %):	46.3%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	86
BVPS (Eu):	0.14
P/BV:	0.8
Net Financial Position (Eu mn):	-138
Enterprise Value (Eu mn):	207

- **3Q shows improving trends vs. 1H, although debt stays high due to working capital (inventories).** Tesmec's 3Q23 results were better than expected for profitability with net debt in line, and showed an improving trend vs. 1H, although 9M23 net debt at Eu149mn (stable QoQ) was up Eu21mn on December 2022. Sales of Eu68.2mn (+3% vs. our Eu66mn estimate) were up 13% YoY in 3Q23 vs. +11% in 1H23, driven by Energy (+30%, in line with the 1H trend) and Trenchers (+15% vs. +3% in 1H). EBITDA of Eu12.3mn (Eu8.7mn expected) reported a strong margin at 18.1% in 3Q vs. 12.1% in 1H thanks to the sales mix, the absence of non-recurring items (-Eu2mn in 1H), and recovery of the impact of inflation on the cost base. We note 9M23 EBITDA of Eu27.5mn was up 6% YoY, recovering the 19% decline in 1H and leading to a slightly positive net profit in 9M23 vs. the Eu3mn net loss in 1H23. Net debt as at end September of Eu149mn was stable QoQ and increased by Eu21mn on FY22, entirely due to higher working capital (+Eu25mn vs. FY22, driven by inventories and WIP), and cash flow from operations (Eu14mn) which offset CapEx (Eu12mn).
- **Updated FY23 Guidance.** Management updated 2023 guidance as follows: 1) sales Eu270/280mn vs. previous Eu280/290mn; 2) EBITDA margin confirmed in the 16.0%/17.0% range (low-end of range; guidance excludes Eu2.0mn one-offs associated with Trenchers in Australia booked in 1H); 3) year-end net debt foreseen at Eu135-140mn, i.e. below 9M23 (Eu149mn) but higher than FY22 (Eu128mn) vs. previous target of <Eu128mn. The revised target requires a reduction of working capital in 4Q23 (-Eu12mn in 4Q22). During the call, management explained that the revised outlook reflects, amongst other things, lower volumes in Trenchers in US/Middle East, the shift to 4Q23/1Q24 of some orders in Rail and Energy Automation, and the shift of advance payments associated with new tenders in the Rail business. Management also expressed confidence in improving the positive recovery of the EBITDA margin, targeted at 20% in 4Q vs. 18% in 3Q. They also showed that covenants (NFP/EBITDA adjusted for IFRS16 <3.5x, debt/equity <1.5x) remain within the thresholds assuming the low end of the guidance range (NFP/EBITDA 3.46x, debt/equity 1.34x). By region, Italy accounted for 21% of 9M23 sales, Europe 24%, US and Central America 19%, Middle East 15%, Others 17%.
- **Change in estimates.** Following the release of 9M23 results and revised guidance, we have updated our estimates model and cut FY23-24e expectations by 5% for sales (Eu271mn in FY23), 15% for EBITDA (Eu40mn in FY23) and 60% for EPS, with net debt now seen at Eu138mn vs. the previous Eu122mn.
- **Downgrade to Neutral on tough macro despite positive signs in 3Q. Debt reduction key.** Our updated target price of Eu0.13 (previous Eu0.22) is based on a DCF and implies a fair 2024e EV/EBITDA of 4.5x (previous 5.2x) and P/E of 8.5x (previous 10.0x). We change rating from Buy to Neutral as we prefer to assume a more cautious stance in light of the expected macro slowdown. Tesmec is exposed to growth opportunities associated with rising infrastructure investments (Middle East is a key area of development), although the track record on FCF generation is weak.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	194	245	271	297	329
EBITDA Adj (Eu mn)	28	35	48	56	61
Net Profit Adj (Eu mn)	1	8	4	9	14
EPS New Adj (Eu)	0.002	0.013	0.007	0.015	0.023
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	4.3	3.6	3.2
EV/EBIT Adj	33.5	16.1	11.9	8.3	6.5
P/E Adj	56.7	8.7	16.2	7.4	5.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	3.6	2.9	2.4	2.1

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