

# TESMEC

Sector: Industrials

## NEUTRAL

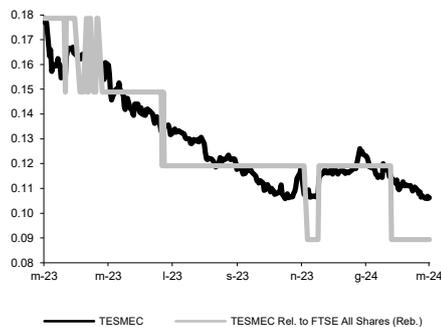
Price: Eu0.11 - Target: Eu0.117

### FY23 results below targets. Focus on debt de-leverage

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 0.13 to 0.117		
	2024E	2025E	2026E
Chg in Adj EPS	-135.8%	-79.7%	

#### TESMEC - 12M Performance



Stock Data			
Reuters code:	TES.MI		
Bloomberg code:	TES IM		
Performance	1M	3M	12M
Absolute	-2.9%	-9.7%	-40.5%
Relative	-10.0%	-19.4%	-58.4%
12M (H/L)	0.18/0.11		
3M Average Volume (th):	1,295.84		

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	64
Total Mkt Cap (Eu mn):	64
Mkt Float - Ord (Eu mn):	30
Mkt Float (in %):	46.6%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	73
BVPS (Eu):	0.12
P/BV:	0.9
Net Financial Position (Eu mn):	-151
Enterprise Value (Eu mn):	216

■ **FY23 results below targets (preliminary figures were already disclosed).** Tesmec's FY23 results were below management's targets, with a deterioration of operating trends in 4Q both at P&L and net financial position level driven by the Trencher business which suffered from a missed finalization of certain negotiations, especially in the US and Middle East markets. On the other hand, the Railway and Energy Stringing and Energy Automation segments achieved yearend results substantially in line with expectations. We note our estimates were already below the company guidance and Tesmec had disclosed preliminary FY23 figures of sales, EBITDA and net debt at end February. In FY23, Sales were up 2.7% at Eu252mn (preliminary figures range was Eu252/258mn), EBITDA was down 3.4% YoY at Eu34mn (13.5% margin vs. 14.4% in FY22 and compared to a preliminary range of Eu34/38mn), EBIT was Eu11.1mn vs. Eu13.1mn in FY22, and net results was negative for Eu2.7mn vs. Eu7.9mn profit in FY22. The net financial position at end 2023 was Eu153mn including IFRS16 leasing vs. Eu128mn at end 2022.

■ **Slowdown in 4Q driven by Trenchers and Rail.** The slowdown of volumes in 4Q (sales -19% YoY vs. +12% YoY in 9M23) was driven by the Trencher (sales down 11% YoY) and the Rail (sales down 46% YoY due to projects phasing) businesses, which also impacted profitability (EBITDA down 30% YoY in 4Q with margin at 11.2% vs. 13.0% in 4Q22). As for the net debt position, net debt as at end December of Eu153mn increased by Eu4mn QoQ (Eu149mn as of September 2023) and by Eu25mn vs. end 2022 (Eu128mn), mostly due to higher working capital (+Eu6mn vs. FY22, driven by inventories and WIP), and increase in IFRS16 debt (Eu15mn).

■ **Updated guidance and FY24-25 estimates.** During the call, management explained that the slowdown in 4Q was driven by Trenchers in US/Middle East, and the shift to 2024 of some orders in Rail (shift of advanced payments) and Energy Automation. Management also expressed confidence in improving profitability going forward, while no indication was provided on debt refinancing strategy (covenant of NFP/EBITDA adjusted for IFRS16 <3.5x). Guidance provided for 2024 point to sales growing 10% YoY, EBITDA margin improving vs. the 13.5% of 2023, and net debt position improving vs. 2023 level of Eu153mn thanks to a reduction of working capital/inventories. We have updated our estimates model and cut FY24-25e expectations (which were already below targets) by 7% as for sales (Eu274mn in FY24, +9% YoY), 16% for EBITDA (Eu40mn in FY24), with net debt now seen at Eu151mn at end 2024 vs. the previous estimate of Eu133mn

■ **Neutral, TP Eu0.117 (from previous Eu0.13). Debt reduction key.** Our updated target price of Eu0.117 (previous Eu0.13) is based on a DCF and implies a fair 2024e EV/EBITDA of 5.9x. We confirm our Neutral rating on the stock. 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	2023A	2024E	2025E
Sales (Eu mn)	194	245	252	274	305
EBITDA Adj (Eu mn)	28	35	48	56	61
Net Profit Adj (Eu mn)	1	8	-3	-3	3
EPS New Adj (Eu)	0.002	0.013	-0.004	-0.005	0.005
EPS Old Adj (Eu)	0.002	0.013	0.007	0.015	0.023
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.8	6.0	4.9	3.9	3.4
EV/EBIT Adj	33.5	16.1	21.4	17.8	11.7
P/E Adj	52.9	8.1	nm	nm	23.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	3.6	3.2	2.7	2.4

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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)

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Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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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:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
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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