Intermonte

Milan, 11 March 2025

Italian Equity Research –Change in View/FY24 Results

TESMEC

OUTPERFORM

Sector: Industrials

Price: Eu0.07 - **Target: Eu0.08**

Heading in the Right Direction. Upgrade to OUTPERFORM

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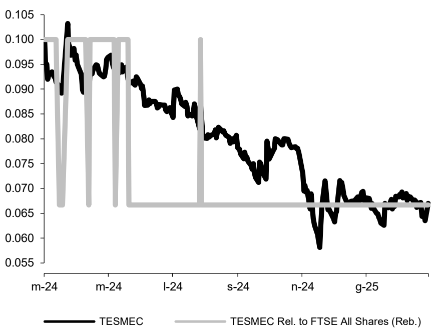
Stock Rating		
Rating:	from NEUTRAL to OUTPERFORM	
Target Price (Eu):	from 0.06 to 0.08	
	2025E	**2026E**
Chg in Adj EPS	n.m.	n.m.

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.9%	4.7%	-36.9%
Relative	-4.3%	-5.4%	-50.7%
12M (H/L)			0.10/0.06
3M Average Volume (th):			1,317.16

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	41
Total Mkt Cap (Eu mn):	41
Mkt Float - Ord (Eu mn):	19
Mkt Float (in %):	46.6%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	82
BVPS (Eu):	0.13
P/BV:	0.5
Net Financial Position (Eu mn):	-144
Enterprise Value (Eu mn):	185

- **FY24 results in line with challenging November guidance. Positive impact from Group Marais deconsolidation.** FY24 results were broadly in line with the targets set by management at the beginning of November, which were challenging considering the weak 9M24 performance. Management also disclosed the financial impact of the transaction with OT Engineering (which will own 50% of Group Marais, closing in April 2025) on Group Marais, now booked as a discontinued operation in Tesmec's financial statements. In fact, the transaction has a material positive impact on Tesmec, leading to a reduction of Eu9.5mn in net debt after Eu13.5mn of lower sales, but essentially with no impact on EBITDA. In detail: FY24 revenues came to Eu239mn (Eu253mn at constant scope in line with our estimate) vs. Eu252mn reported in FY23, suggesting stable sales excluding the scope effect vs. the 2% YoY decline shown in 9M24. EBITDA was Eu41.1mn (Eu41mn on the same scope, our estimate Eu37.4mn) up 21% YoY, with the margin improving to 17.2% vs. 13.5% reported in FY23 thanks to management efficiency initiatives and the strategic transaction announced in France. EBIT almost doubled YoY to Eu20.4mn (our estimate Eu14.0mn), leading to pre-tax profit of Eu3.8mn, reversing the Eu4.8mn loss posted in FY23. The bottom line was in the red at Eu5.2mn (our estimate Eu-5.4mn) due to a Eu5.1mn loss from discontinued operations, with net profit from continuing operations at Eu0.2mn, suggesting a positive bottom line in 2025E. Net debt was Eu147mn (Eu163mn at constant scope vs. Eu166mn expected) down Eu7mn vs. FY23 including a Eu9.5mn positive impact from the transaction with OT Engineering. We note FY24 cashflow generation of Eu10mn before Eu13mn of working capital absorption, boding well for 2025.
- **Outlook and 2025 guidance.** Although quantitative guidance targets were not provided, management expressed confidence on the expected performance for the current year, in light of growth in reference markets driven by the energy transition and manufacturing flexibility between Italian and US plants. In particular, management expects rising revenues, with the EBITDA margin continuing to benefit from the sales mix and fixed cost control, and net debt falling YoY thanks to curbing costs/ investments and other value realisation initiatives (i.e. Middle East) similar to the deal in France with OT Engineering.
- **Upgrade to OUTPERFORM; TP from Eu0.06 to Eu0.08.** Our model includes the transaction with OT Engineering and the deconsolidation of Group Marais in 2025E, resulting in a -6% reduction in FY25-26E sales, but a +5% rise in FY25-26E EBITDA, and a 7% reduction in net debt in 2025E. Despite a challenging macroeconomic environment and a financial structure that needs to be strengthened, we are upgrading Tesmec to OUTPERFORM, as the risk/return looks attractive, in our view. Our DCF-based EV for Tesmec is Eu200mn (4.4x EV/EBITDA 2025E), implying a fair equity value of Eu48mn (from Eu37mn previously). We think the equity component is so depressed that successful execution on de-leverage and extraordinary transactions might lead to significant performance, although it remains a risky bet.

Key Figures & Ratios	2022A	2023A	2024A	2025E	2026E
Sales (Eu mn)	245	252	240	256	275
EBITDA Adj (Eu mn)	35	34	41	44	49
Net Profit Adj (Eu mn)	8	-3	0	6	10
EPS New Adj (Eu)	0.013	-0.005	0.000	0.010	0.016
EPS Old Adj (Eu)	0.013	-0.005	-0.009	-0.002	0.003
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.0	6.9	4.9	4.2	3.7
EV/EBIT Adj	16.1	21.4	9.9	7.9	6.6
P/E Adj	5.1	nm	nm	6.6	4.2
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.5	3.6	3.3	2.9

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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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As at 31 December 2024 Intermonte's Research Department covered 132 companies.
As of today Intermonte's distribution of stock ratings is as follows:

BUY:	30.60 %
OUTPERFORM:	43.28 %
NEUTRAL:	26.12 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	50.70 %
OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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