

TESMEC

Sector: Industrials

BUY

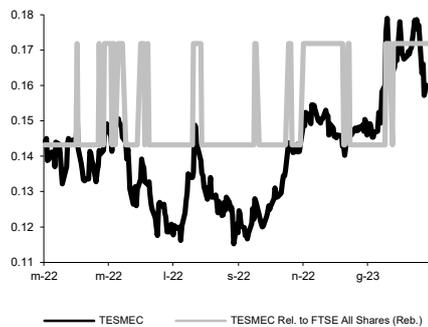
Price: Eu0.16 - Target: Eu0.22

Investing to Fuel Growth and Improve Margins

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	-18.4%	0.2%	-0.8%

TESMEC - 12M Performance



Stock Data			
Reuters code:	TES.MI		
Bloomberg code:	TES IM		
Performance	1M	3M	12M
Absolute	-10.4%	9.5%	12.1%
Relative	-4.5%	0.3%	6.2%
12M (H/L)	0.18/0.12		
3M Average Volume (th):	5,400.15		

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	97
Total Mkt Cap (Eu mn):	97
Mkt Float - Ord (Eu mn):	45
Mkt Float (in %):	46.3%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	95
BVPS (Eu):	0.16
P/BV:	1.0
Net Financial Position (Eu mn):	-122
Enterprise Value (Eu mn):	219

■ **Strong growth and resilient margins in FY22.** Tesmec's full FY22 results, disclosed on 16 March, were in line with expectations (preliminary sales, EBITDA and net debt had already been revealed in February), highlighting strong top line growth (+26% YoY to Eu245mn after a +14% increase in FY21) and resilient profitability (EBITDA +25% YoY to Eu35mn, with growth in Rail more than offsetting rising costs in Trenchers and Energy). Debt de-leverage was below the initial target, with net debt increasing by Eu7mn to Eu128mn in FY22, including a Eu6mn impact from scope changes (consolidation of Saudi Tesmec in Saudi Arabia and Tesmec Peninsula in Qatar).

■ **Positive outlook for 2023, CapEx needed to support growth in Trenchers.** Management also sounded confident about the growth outlook for 2023, with guidance pointing to: 1) sales of Eu280-290mn (+16% YoY at mid-point) driven by growth in Rail (mostly covered by the backlog) and in recurring rental & services revenues; 2) EBITDA at Eu45-50mn (+35% YoY with margins up 150-250bp to 16.0%/17.0% thanks to operating leverage and mix (growth in high-margin Rail). With Rail and Energy generating cash, the slower-than-expected debt deleverage (guidance assumes "improvement" in the net debt position vs. FY22) is associated with the transition of the Trencher business towards a rental model, implying investments in the fleet (we assume annual CapEx at Eu25mn) to support growth. Market opportunities are significant after Tesmec developed its first fully-electric trencher and strengthened its presence in the US (focus on fibre optic) and the Middle East (planned investments in infrastructures). We note CapEx is already covered by EBITDA (FY22 FCF was positive before working capital and the scope changes), implying a significant improvement in ratios going forward (debt/EBITDA 2.6x in FY23 vs. 3.6x in FY22 and 4.3x in FY21).

■ **2023-24 estimates:** following the full results release, we are updating our estimates to reflect FY22 figures and management's indications. We are raising FY23-24 sales by +7-10% to Eu285mn in FY23 (guidance Eu280-290mn) and Eu311mn in FY24. As for EBITDA, we are only fine-tuning our FY23 estimate (Eu48mn+1% vs. previous estimate, guidance Eu45-50mn) and raising FY24 by 11% to Eu56mn. FY23 EPS cut by 18% (net profit Eu3mn lower due to higher D&A and financial costs); FY24 EPS unchanged.

■ **BUY; target Eu0.22.** We confirm our Eu0.22 target price based on a DCF model, implying a fair 2023 EV/EBITDA of 5.2x (the stock is trading at 4.3x) and P/E of 10.0x (5.9x). The company is exposed to growth opportunities associated with rising infrastructure investments in Europe, US, and Middle East, underpinned by energy transition and digitalisation. The plan has execution risks, and Tesmec needs to build up a track record in combining growth with FCF generation. However, we think the stock has significant upside potential and the risk/return looks attractive.

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	0.015	0.027	0.032	0.039
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.8	6.0	4.6	3.7	3.0
EV/EBIT Adj	33.5	16.1	8.7	6.3	5.1
P/E Adj	79.3	12.1	7.1	5.0	4.1
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