TESMEC

NEUTRAL

Sector: Industrials

Price: Eu0.07 - **Target: Eu0.06**

FY24 Outlook Trimmed, Weak Capital Structure

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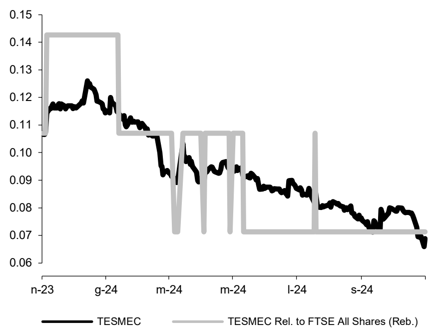
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 0.09 to 0.06
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-58.8%	-153.8%	-74.7%

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	-13.7%	-14.9%	-35.5%
Relative	-8.6%	-15.1%	-48.3%
12M (H/L)			0.13/0.07
3M Average Volume (th):			1,053.30

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	42
Total Mkt Cap (Eu mn):	42
Mkt Float - Ord (Eu mn):	19
Mkt Float (in %):	46.6%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	71
BVPS (Eu):	0.12
P/BV:	0.6
Net Financial Position (Eu mn):	-166
Enterprise Value (Eu mn):	208

- **9M24 results: weak sales trend but improving NFP.** Tesmec's 9M24 results showed a deterioration in the sales trend (Eu65mn in 3Q24, down 5.0% YoY vs. -1% in 1H24), although the EBITDA margin improved slightly QoQ to 15.6% (still 290bp below 3Q23), and net debt decreased by Eu8mn vs. 1H24, coming to Eu176mn as at end-September 2024 vs. Eu184mn in June 2024 and Eu153mn in December 2023. Financial charges came to Eu13.3mn in 9M24 and Eu4.5mn in 3Q (the same level as 2Q), driving the P&L into the red, with a net loss of Eu4.4mn in 9M24 and Eu1.7mn in 3Q24. Quarterly results showed weakness in Trenchers (sales down 18% YoY in 3Q24 vs. -4% in 1H24), growth in Energy (sales +7% YoY in 3Q24 vs. +25% in 1H), and rising volumes in Rail (Eu15mn sales in 3Q24 or Eu2.2mn higher than in 3Q23). As for profitability, 3Q24 EBITDA of Eu10mn was stable QoQ but down 20% YoY (Eu-2.5mn) entirely driven by the Trenchers business, which reported EBITDA of Eu4.5mn in 3Q24 vs. Eu7.1mn in 3Q23. Group EBIT of Eu4.3mn was down 37% YoY, leading to a net loss of Eu1.7mn in 3Q24 after a net loss of Eu1.1mn in 1Q24 and Eu1.6mn in 2Q24.
- **Trenchers weak in most markets, Rail profitability expected to improve.** The slowdown in volumes was driven by Trenchers, which suffered declining sales in US, Australia and France, only partially offset by growth at Tesmec Saudi. Management believes there are opportunities to grow in the US (gas pipelines, FTTH) and Australia (renewables infrastructure) despite the current weak performance. In Rail, Tesmec started to install its diagnostic technology on vehicles produced by other manufacturers. This was the case for the contract recently signed in Switzerland and should support better margins and improving business fundamentals going forward.
- **Sale and lease-back on trenchers fleet.** Management explained that debt reported under IFRS16, which grew from Eu39mn in December FY23 to Eu48mn in 9M24, mainly refers to the lease-back of trenchers in the fleet, used as a debt refinancing option with no impact on the P&L.
- **FY24 guidance lowered**. The company expects FY24 revenues to come in below the previous Eu270mn target, although the EBITDA margin is still seen above the 13.5% posted at FY23. Net debt is seen fairly flat vs. FY23 (Eu154mn) from the previous target for an improved NFP. We are cutting FY24-26 sales by 5% and EBITDA by 7%.
- **Capital structure needs to be strengthened in our view.** Tesmec has opportunities associated with rising investments in energy and rail grids. However, while waiting for operational improvements, Trencher and Rail remain high capital intensity businesses, both of which are absorbing cash. With Eu176mn net debt and over Eu13mn of interest charges in 9M24, we believe the group needs to strengthen its capital structure as interest costs absorb half of the EBITDA before capex and investments in inventories (and taxes). Other strategic options vs. the current perimeter might be considered. We are lowering our target from Eu0.09 to Eu0.06, after cutting EV by 6% to Eu207mn but slashing the fair equity value by over 30% (from Eu54mn to Eu37mn) due to the high debt component in the EV (debt is >80% of enterprise value).

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	245	252	253	271	292
EBITDA Adj (Eu mn)	35	34	37	42	47
Net Profit Adj (Eu mn)	8	-3	-5	-1	2
EPS New Adj (Eu)	0.013	-0.005	-0.009	-0.002	0.003
EPS Old Adj (Eu)	0.013	-0.005	-0.006	0.004	0.012
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.0	6.9	5.6	4.8	4.2
EV/EBIT Adj	16.1	21.4	14.8	11.7	9.4
P/E Adj	5.2	nm	nm	nm	22.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.5	4.4	3.8	3.3

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- 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.
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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;
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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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