

TXT E-SOLUTIONS

Sector: Industrials

OUTPERFORM

Price: Eu21.00 - Target: Eu24.00

Excellent Organic Growth in 2Q23, Positive View Confirmed

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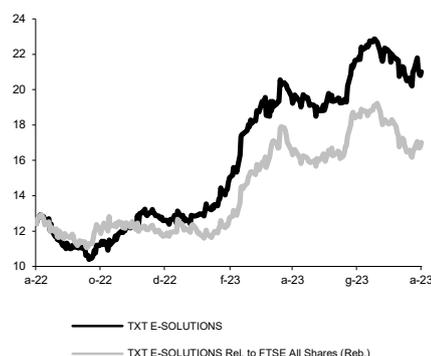
Stock Rating

| | | | |
|---------------------------|---------------------|--------------|--------------|
| Rating: | Unchanged | | |
| Target Price (Eu): | from 23.20 to 24.00 | | |
| | 2023E | 2024E | 2025E |
| Chg in Adj EPS | 1.2% | -2.4% | -0.9% |

Next Event 9M23 Results

Results Out 9 November 2023

TXT E-SOLUTIONS - 12M Performance



Stock Data

| | | | |
|-------------------------|-------------|-----------|------------|
| Reuters code: | TXTS.MI | | |
| Bloomberg code: | TXT IM | | |
| Performance | 1M | 3M | 12M |
| Absolute | -5.2% | 11.6% | 69.4% |
| Relative | -5.7% | 5.3% | 46.0% |
| 12M (H/L) | 22.85/10.40 | | |
| 3M Average Volume (th): | 22.19 | | |

Shareholder Data

| | |
|---------------------------|-------|
| No. of Ord shares (mn): | 13 |
| Total no. of shares (mn): | 12 |
| Mkt Cap Ord (Eu mn): | 273 |
| Total Mkt Cap (Eu mn): | 273 |
| Mkt Float - Ord (Eu mn): | 137 |
| Mkt Float (in %): | 50.0% |
| Main Shareholder: | |
| Enrico Magni (Laserline) | 29.6% |

Balance Sheet Data

| | |
|---------------------------------|-------|
| Book Value (Eu mn): | 122 |
| BVPS (Eu): | 10.00 |
| P/BV: | 2.1 |
| Net Financial Position (Eu mn): | -29 |
| Enterprise Value (Eu mn): | 286 |

■ **2Q23 organic revenue growth at 16.9%, stronger than expected.** 2Q23 revenues came to Eu55.0mn, +71.7% YoY and +1.4% vs. our expectations, thanks to 16.9% organic growth (an excellent performance that even beat our 12.8% forecast) and a Eu17.6mn contribution from recent acquisitions. EBITDA came in at Eu7.1mn, up +50.9% YoY and 0.9% above expectations. The EBITDA margin was 12.9% vs. 14.7% in 2Q22, mainly due to the dilutive impact of acquisitions. EBIT came to Eu4.5mn, up 33.3% YoY after higher D&A than expected, while net financial charges were surprisingly positive, taking net profit to Eu3.9mn, up 167% YoY and 23.9% better than expected. Finally, net debt was Eu38.9mn as at end-June 2023, Eu4.9mn higher than expected, mainly due to the ongoing buyback (Eu4.6mn cash-out in 2Q22). As at end-June there were 1.22mn treasury shares, or 9.35% of the capital.

■ **Looking at the different business segments:** (i) Smart Solutions (proprietary software and solutions) grew 13.3% organically to Eu10.3mn with a 17.1% EBITDA margin; (ii) Digital Advisory, thanks in particular to the start of the activities on CONSIP contracts in Italy, grew 45.2% organically to Eu7.8mn with a 15.4% EBITDA margin; (iii) Software Engineering (a wide range of services for innovation) grew 11.8% organically to Eu36.9mn with an 11.2% EBITDA margin.

■ **Management outlook.** In 2H23, the Smart Solutions segment is expected to grow thanks to new recurring contracts in the Aerospace market, driven by the aviation industry's recovery and the transition to green solutions; the Digital Advisory division should benefit from public contracts linked to the NRRP and expanded offerings in Healthcare and Space, leveraging strategic acquisitions; Software Engineering is expected to continue growing thanks to new contracts in Fintech and Defence, boosted by access to Telco & Gaming markets. In terms of margins, TXT expects to achieve a stronger EBITDA margin in 2H23 compared to 1H23, as it tries to reach the 14% target for the FY. Management is working on closing new acquisitions, as it has high financial flexibility. We note that on 11 July the company signed an asset purchase agreement (APA) for the Embedded Graphics (EG) business of Presagis, a company entirely owned by Canadian group CAE Inc.

■ **Change in estimates.** We confirm our 2023 organic growth estimate at 11% while adjusting 2024 up from +8.0% to +9.9% and adding the contribution from Embedded Graphics from 2024. In terms of EBITDA, we are trimming the 2023/24 margin forecast by 40bps. Below this line, we are slightly increasing D&A charges (including PPA) but trimming financial charges at the same time. All in all, we change 2023 and 2024 EPS by +1.2% and -2.4% respectively.

■ **OUTPERFORM, target Eu24.0 from Eu23.2.** Quarterly results were appreciable, especially in terms of organic revenue growth. Even after the recent positive stock performance, the valuation remains attractive, especially in relation to the expected growth rates. Our target revision is explained by our revenue estimate upgrade.

| Key Figures & Ratios | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn) | 96 | 151 | 226 | 253 | 270 |
| EBITDA Adj (Eu mn) | 15 | 22 | 31 | 36 | 39 |
| Net Profit Adj (Eu mn) | 8 | 11 | 15 | 17 | 19 |
| EPS New Adj (Eu) | 0.675 | 0.934 | 1.241 | 1.374 | 1.540 |
| EPS Old Adj (Eu) | 0.675 | 0.934 | 1.225 | 1.408 | 1.553 |
| DPS (Eu) | 0.000 | 0.180 | 0.228 | 0.253 | 0.283 |
| EV/EBITDA Adj | 7.2 | 7.6 | 9.1 | 7.7 | 6.6 |
| EV/EBIT Adj | 10.5 | 11.2 | 13.4 | 10.9 | 9.1 |
| P/E Adj | 31.1 | 22.5 | 16.9 | 15.3 | 13.6 |
| Div. Yield | 0.0% | 0.9% | 1.1% | 1.2% | 1.3% |
| Net Debt/EBITDA Adj | 0.6 | 1.7 | 0.9 | 0.5 | 0.0 |