Intermonte

Milan, 12 September 2024

Italian Equity Research – 2Q24 Results

TXT E-SOLUTIONS

OUTPERFORM

Sector: Industrials

Price: Eu25.35 - **Target: Eu31.40**

Lifting Estimates to Factor in Recent M&A Deals

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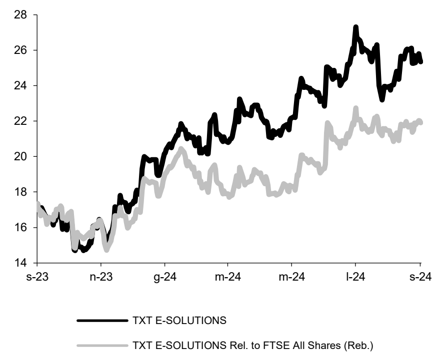
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 29.00 to 31.40
	2024E	**2025E**	**2026E**
Chg in Adj EPS	3.3%	9.0%	9.7%

Next Event 9M24 Results
Results Out 14 November 2024

TXT E-SOLUTIONS - 12M Performance



Stock Data			
Reuters code:			TXTS.MI
Bloomberg code:			TXT IM
Performance	**1M**	**3M**	**12M**
Absolute	6.1%	10.9%	46.2%
Relative	2.0%	13.2%	30.6%
12M (H/L)			27.30/14.70
3M Average Volume (th):			18.03

Shareholder Data	
No. of Ord shares (mn):	13
Total no. of shares (mn):	12
Mkt Cap Ord (Eu mn):	330
Total Mkt Cap (Eu mn):	330
Mkt Float - Ord (Eu mn):	187
Mkt Float (in %):	56.7%
Main Shareholder:	
Enrico Magni (Laserline)	30.3%

Balance Sheet Data	
Book Value (Eu mn):	123
BVPS (Eu):	10.43
P/BV:	2.4
Net Financial Position (Eu mn):	-65
Enterprise Value (Eu mn):	364

- **Organic growth still surprisingly strong in 2Q24**. 2Q24 revenues were Eu71.1mn, up 29.2% YoY and 5.6% above expectations. Group organic growth was 22.5% YoY compared to 15% forecast. All three business lines did very well: Software Engineering was the main surprise with organic growth of 25.8% (compared to 15.7% forecast), Smart Solutions grew 14.7% YoY organically (compared to 13.3% forecast), and Digital Advisory grew 17.2% YoY (compared to 14.1% forecast), a strong result considering the annualization of numerous contracts commenced with public sector bodies. In core markets, revenues generated in the Aerospace and Defence sector represented % of the total and were up % YoY, proving the company's ability to extract cross-synergies from acquisitions. EBITDA was Eu8.7mn, up 23.4% YoY and in line with our estimates: the margin was 12.3%, 60bp lower than in 2Q23 due to a 48.3% YoY rise in R&D spending (+Eu1.1mn in absolute terms). Below EBITDA, D&A and financial charges were below forecasts, taking quarterly net profit to Eu3.8mn, in line YoY but 12.6% higher than estimates. Regarding net debt, as at end-June it was Eu56.2mn, in line with our estimates and up circa Eu4.5mn in 1H24, mainly due to the acquisition of "I Mille Group" at the end of the period (Eu8.5mn), the buyback (Eu2.7mn), and payment of the dividend (Eu2.9mn).
- **Management outlook.** For the remainder of the year, TXT management is targeting low double-digit organic growth thanks to the good market prospects and the expected contribution from cross and up-selling initiatives on the group's customer base. The Smart Solution business has a strong pipeline, as does the Digital Advisory business (contracts with the public sector). The Software Engineering business consolidated some revenues from activities in the Telco segment with a lower added value such as the resale of third-party software. As for EBITDA margin guidance, management confirmed the ambition to reach 14%: TXT is investing to develop new smart solutions and the ramp-up of new projects will require some front-loaded investments, so growing margins is not the key target for this year. With reference to the 2024 M&A plan, TXT confirms the aim of integrating new technologies and specialist digital skills. Without exceeding a 2.5x debt/EBITDA leverage ratio, TXT has firepower greater than Eu50mn on top of treasury shares worth about Eu30mn.
- **Change in estimates.** We are raising our 2024/25 revenue forecast by 6.2% and 12.2%, partly adjusting up our organic growth assumption (at 13.6% from 13.5%) and, more significantly, thanks to the consolidation of recent acquisitions (I Mille Group and Refine, creating a new "Martech" business segment, and ProSim in the Aerospace and Defence sector). Conversely, we are cautiously trimming our 2024 EBITDA margin estimate (from 14.1% to 13.9%, a touch below guidance of 14%). The changes in 2024 and 2025 EPS are +3.3% and +9.0% respectively. Acquisitions are also included in the cash flow.
- **OUTPERFORM; target from Eu29.0 to Eu31.4.** 2Q24 figures were extremely positive and support our view on the stock, which should remain well placed in 2024 to continue to benefit from organic growth and from new M&A deals. Our target revision reflects the change in estimates. Notably the company should host a Capital Market Day before the end of the year, that could represent a positive catalyst.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	151	224	283	321	347
EBITDA Adj (Eu mn)	22	32	39	46	51
Net Profit Adj (Eu mn)	11	19	21	25	29
EPS New Adj (Eu)	0.934	1.550	1.786	2.129	2.447
EPS Old Adj (Eu)	0.934	1.550	1.729	1.953	2.230
DPS (Eu)	0.180	0.250	0.248	0.310	0.372
EV/EBITDA Adj	7.6	8.5	9.3	7.5	6.4
EV/EBIT Adj	11.2	13.0	14.9	11.8	9.7
P/E Adj	27.1	16.4	14.2	11.9	10.4
Div. Yield	0.7%	1.0%	1.0%	1.2%	1.5%
Net Debt/EBITDA Adj	1.7	1.6	1.7	1.0	0.5

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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.
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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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OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
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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