

TXT E-SOLUTIONS

OUTPERFORM

Sector: Industrials

Price: Eu19.34 - Target: Eu23.20

Good 1Q23 Numbers, Encouraging Outlook

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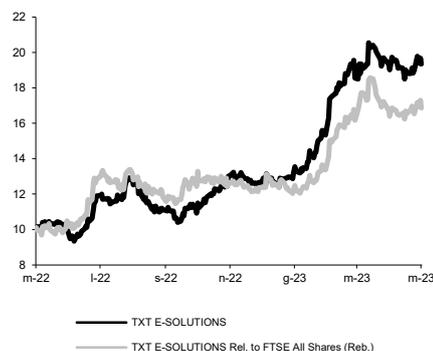
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 22.10 to 23.20		
	2023E	2024E	2025E
Chg in Adj EPS	1.9%	2.0%	2.3%

Next Event 1H23 Results

Results Out 3 August 2023

TXT E-SOLUTIONS - 12M Performance



Stock Data

Reuters code:	TXTS.MI		
Bloomberg code:	TXT IM		
Performance	1M	3M	12M
Absolute	1.7%	26.1%	91.5%
Relative	2.8%	26.1%	76.8%
12M (H/L)	20.55/9.35		
3M Average Volume (th):	30.60		

Shareholder Data

No. of Ord shares (mn):	13
Total no. of shares (mn):	12
Mkt Cap Ord (Eu mn):	252
Total Mkt Cap (Eu mn):	252
Mkt Float - Ord (Eu mn):	126
Mkt Float (in %):	50.0%
Main Shareholder:	
Enrico Magni (Laserline)	29.6%

Balance Sheet Data

Book Value (Eu mn):	122
BVPS (Eu):	9.98
P/BV:	1.9
Net Financial Position (Eu mn):	-30
Enterprise Value (Eu mn):	267

■ **1Q23 organic revenue growth stronger than expected.** 1Q23 revenues were Eu52.3mn, +71.4% YoY and 1.2% better than our expectations. On an unchanged consolidation perimeter, revenues grew +11.2%, markedly better than our estimate of +5.6%. EBITDA came to Eu6.8mn, slightly better than our estimate of Eu6.7mn and up 52.1% YoY. Margin dilution (from 14.7% to 13.1%) is mainly attributable to consolidation of new acquisitions. Presentation of 1Q23 results also reflected the group decision to change segment reporting, which is now based on the type of offer: (i) Smart Solutions: proprietary software and solutions; (ii) Digital Advisory: specialised consultancy services for digital innovation of processes at large enterprise and in the public sector; (iii) Software Engineering: software engineering services for innovation. In 1Q23, the contributions of the various divisions were: Eu9.3mn (18% of total) from Smart Solutions; Eu6.6mn (13% of total) from Digital Advisory and Eu36.3mn (69%) from Software Engineering. Debt as at 31 March 2023 was Eu24.6mn, slightly better than expected and down Eu13.7mn thanks to favourable seasonality of NWC and despite the share buyback for Eu3.4mn. We note that this figure includes the value of the TXT stake in Banca del Fucino, booked at a carry value of Eu16.5mn. The approval of 1Q23 results took place at the first meeting of the new board appointed by the AGM on 20 April, which confirmed Enrico Magni as chairman and Daniele Misani as CEO.

■ **Management outlook.** According to management, the Digital Advisory and Software Engineering divisions should continue organic growth in line with 1Q23 - +24.1% and +11.6% respectively – while Smart Solutions, which grew organically 4.5% in 1Q23, should accelerate from 2H23. Management is working on closing new acquisitions, as it has high financial flexibility. In 2023, TXT expects to achieve organic revenue growth in line with 1Q23 (11%) and an EBITDA margin of at least 14%. In relation to the 2023 M&A plan, TXT plans to continue with its acquisition plan aimed at integrating emerging technologies, specialised digital skills and excellence in markets that are already proprietary or adjacent to the current ones. Importantly, management is planning an investor day in July or September to better describe to the market its 3-year strategic outlook.

■ **Change in estimates.** Given the positive 1Q23 figures and encouraging management outlook, in this report we slightly raise our 2023/24 organic growth estimates (from +8.9%/+8.0% to +11.0%/+8.0%), while leaving our EBIT margin assumptions unchanged; we think our new assumptions, consistent with management indications (clearly, we do not include future M&A deals expected to be announced during the year), remain quite conservative. All in all, we are upgrading 2023 and 2024 EPS by 1.9% and 2.0% respectively.

■ **OUTPERFORM, target Eu23.2 from Eu22.1.** Good delivery on the M&A strategy coupled to organic performance, confirmed by 1Q23 results, remain the pillars on which our view on the stock rests. 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 estimate upgrade. The investor day presentation could be a relevant catalyst ahead.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	96	151	226	244	261
EBITDA Adj (Eu mn)	15	22	32	35	38
Net Profit Adj (Eu mn)	8	11	15	17	19
EPS New Adj (Eu)	0.675	0.934	1.225	1.408	1.553
EPS Old Adj (Eu)	0.675	0.934	1.202	1.380	1.518
DPS (Eu)	0.000	0.180	0.225	0.259	0.285
EV/EBITDA Adj	7.2	7.6	8.3	7.1	6.2
EV/EBIT Adj	10.5	11.2	11.5	9.6	8.3
P/E Adj	28.7	20.7	15.8	13.7	12.5
Div. Yield	0.0%	0.9%	1.2%	1.3%	1.5%
Net Debt/EBITDA Adj	0.6	1.7	0.9	0.4	-0.1