

TXT E-SOLUTIONS

Sector: Industrials

OUTPERFORM

Price: Eu23.45 - Target: Eu29.00

Lifting Estimates After Excellent Start to the Year

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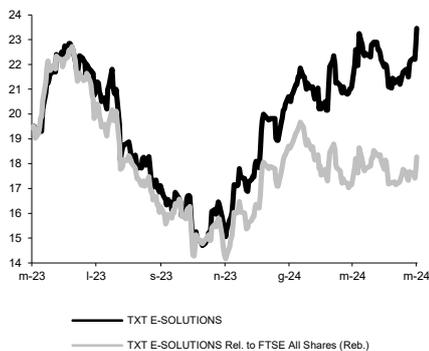
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 26.10 to 29.00		
	2024E	2025E	2026E
Chg in Adj EPS	5.2%	7.8%	7.5%

Next Event 1H24 Results

Results Out 10 September 2024

TXT E-SOLUTIONS - 12M Performance



Stock Data

Reuters code:	TXTS.MI
Bloomberg code:	TXT IM

Performance	1M	3M	12M
Absolute	6.6%	15.5%	20.6%
Relative	0.7%	4.4%	-7.7%
12M (H/L)	23.45/14.70		
3M Average Volume (th):	18.22		

Shareholder Data

No. of Ord shares (mn):	13
Total no. of shares (mn):	12
Mkt Cap Ord (Eu mn):	305
Total Mkt Cap (Eu mn):	305
Mkt Float - Ord (Eu mn):	173
Mkt Float (in %):	56.7%
Main Shareholder:	
Enrico Magni (Laserline)	30.3%

Balance Sheet Data

Book Value (Eu mn):	124
BVPS (Eu):	10.52
P/BV:	2.2
Net Financial Position (Eu mn):	-38
Enterprise Value (Eu mn):	314

■ **Exceptional 1Q24 results outstrip expectations.** 1Q24 revenues came to Eu67.1mn, up 28.3% YoY and 7.9% better than expected. International revenues amounted to 27% of the total. Group organic growth came to 21.3% YoY vs. 11.5% expected. All three lines of business performed very well: Smart Solutions was up 21.1% YoY organically (vs. 13.0% expected), Software Engineering was up 16.3% organically (vs. 10% expected) and Digital Advisory was up 48.8% YoY (vs. 18% expected), an extraordinary performance achieved thanks to the start of numerous contracts with the public sector administration. In core markets, revenues generated in the Aerospace and Defence sector represented 27% of the total and were up 40% YoY, proving the company's ability to extract cross-synergies from acquisitions. EBITDA came in at Eu8.8mn, up 28.1% YoY and 6.4% above our estimate: the margin was 13.0%, in line with 1Q23 despite a +51.2% YoY increase in R&D spending (Eu1.1mn absolute value). Below EBITDA, D&A and financial charges were lower than forecast, bringing quarterly net profit to Eu4.1mn, up 41% YoY and 38% higher than forecast. Net debt at end-March 2024 came to Eu45.8mn, nearly in line with our estimate despite Eu1.5mn of cash absorption from the buyback.

■ **Management outlook.** For the remainder of the year (from April to December), 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. Management confirmed that, if we assume 10% organic growth in the period from April to December 2024, we can calculate 14%-15% organic growth in FY24. The Smart Solution business has a strong pipeline, as does the Digital Advisory business (contracts with the public sector). The Software Engineering business consolidated Eu3mn of revenues in 1Q24 from the resale of third-party software, an activity that will not continue in the remainder of the year and that slightly diluted quarterly margins. As for EBITDA margin guidance, management comments indicated a level in line with FY23: 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.

■ **Change in estimates.** In this report we are raising our 2024/25 revenue forecast by 4.5% (now assuming organic growth of 13.5%) while we are cautiously trimming our 2024 EBITDA margin estimate (from 14.4% to 14.1%, i.e. FY23 level). The change in 2024 and 2025 EPS is +5.2% and +7.8%, respectively.

■ **OUTPERFORM; target from Eu26.1 to Eu29.0.** 1Q24 figures were extremely positive and support our view on the stock, which should remain well placed in 2024 to continue to benefit from both organic growth and new M&A deals. Our 13.5% organic growth assumption for this year is slightly more cautious than management guidance. Our target revision mainly reflects the change in estimates.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	151	224	268	288	309
EBITDA Adj (Eu mn)	22	32	38	42	45
Net Profit Adj (Eu mn)	11	19	20	23	26
EPS New Adj (Eu)	0.934	1.550	1.729	1.953	2.230
EPS Old Adj (Eu)	0.934	1.550	1.643	1.812	2.075
DPS (Eu)	0.180	0.250	0.240	0.283	0.337
EV/EBITDA Adj	7.6	8.5	8.3	7.0	6.0
EV/EBIT Adj	11.2	13.0	13.8	11.1	9.2
P/E Adj	25.1	15.1	13.6	12.0	10.5
Div. Yield	0.8%	1.1%	1.0%	1.2%	1.4%
Net Debt/EBITDA Adj	1.7	1.6	1.0	0.4	-0.2

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
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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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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.

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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short
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