

TXT E-SOLUTIONS

Sector: Industrials

OUTPERFORM

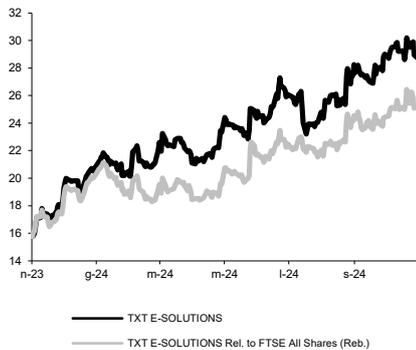
Price: Eu28.75 - Target: Eu34.70

Lifting Estimates to Factor in Recent M&A Deals

Andrea Randone +39-02-77115.364
 andrea.randone@intermonte.it

Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 31.40 to 34.70		
	2024E	2025E	2026E
Chg in Adj EPS	0.2%	11.5%	8.2%

TXT E-SOLUTIONS - 12M Performance



Stock Data			
Reuters code:	TXTS.MI		
Bloomberg code:	TXT IM		
Performance	1M	3M	12M
Absolute	-0.9%	19.5%	87.4%
Relative	3.1%	17.5%	73.2%
12M (H/L)	30.20/15.74		
3M Average Volume (th):	16.51		

Shareholder Data	
No. of Ord shares (mn):	13
Total no. of shares (mn):	12
Mkt Cap Ord (Eu mn):	374
Total Mkt Cap (Eu mn):	374
Mkt Float - Ord (Eu mn):	212
Mkt Float (in %):	56.7%
Main Shareholder:	
Enrico Magni (Laserline)	30.3%

Balance Sheet Data	
Book Value (Eu mn):	124
BVPS (Eu):	10.55
P/BV:	2.7
Net Financial Position (Eu mn):	-121
Enterprise Value (Eu mn):	460

■ **Organic growth remained surprisingly strong in 3Q24.** Revenues came to Eu81.4mn, up 56.3% YoY and 16% higher than expected. Organic growth was 35.8% YoY vs. 13.4% expected. All three business lines performed very well: Software Engineering was the main positive surprise, with organic growth of 43.9% (vs. 14.6% expected), while Smart Solutions grew 20.4% YoY organic (vs. 12.6% expected), and Digital Advisory was up 21.2% YoY (vs. 9.7% expected), a strong result considering the annualisation of the launch of many public sector administration contracts. EBITDA came in at Eu10.5mn, up 40.8% YoY and 7.6% better than our estimate: the margin was 12.9%, 150bp lower than in 3Q23 due to an increase in R&D spending (Eu+1.5mn in absolute terms), partly due to inefficiencies related to the rapid business growth. Below EBITDA, D&A was higher than expected, bringing quarterly net profit to Eu4.0mn, in line with our estimate but still up 33% YoY. As for net debt, at the end of September it stood at Eu79.3mn, Eu4mn higher than expected and up around Eu23mn in 3Q24, mainly due to the acquisition of Refine (Eu18mn including the earn-out) and the buyback (Eu1.9mn).

■ **Management outlook.** For 4Q24, management expects solid organic growth, albeit lower than in 9M24, and improvements in the EBITDA margin and cash generation. 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 (Eu10mn revenues in 9M24) with a lower added value, such as the resale of third-party software and hardware. As for 2025, management deems 10% organic growth with an EBITDA margin exceeding 14% to be achievable. YoY margin improvement is expected thanks to the elimination of inefficiencies that arose in 2024 as well as advisory fees entailed by the intense M&A activity, the discontinuation of reselling revenues and the consolidation of the highly profitable Webgenesys business. Management underlined that 70-75% of 2025 revenues are already secured through multiyear contracts, especially with the public sector. In terms of cash flow, management said that NWC absorption in 3Q24 was mainly related to one client, a situation that is expected to improve in 4Q24. Including the M&A cash-out, net debt, adjusted for the stake in Banca del Fucino, should be around Eu100mn at YE24, i.e. about 2x pro-forma EBITDA (with all acquisitions fully consolidated).

■ **Change in estimates.** We are raising our 2024/25 revenue forecast by 6.9% and 18.6%, partly from adjusting our organic growth assumption upwards and, more significantly, thanks to the consolidation of recent acquisitions (Focus PLM as of 1 October 2024 and Webgenesys as of 1 January 2025). Conversely, we are reducing our 2024 EBITDA margin estimate (from 13.9% to 13.2%) although this figure is expected to go up to 14.2% in 2025 for the reasons explained in the previous bullet point. EPS changes in 2025 and 2026 are +11.5% and +8.2% respectively.

■ **OUTPERFORM; target from Eu31.4 to Eu34.7.** 3Q24 figures were extremely positive and indications for 4Q24 remain supportive. The revision to our target price reflects the change in estimates, that remain a touch more prudent than management indications. Notably, the company should host a Capital Market Day with the approval of FY24 results in March 2025, which could represent a positive catalyst.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	151	224	302	381	411
EBITDA Adj (Eu mn)	22	32	40	54	59
Net Profit Adj (Eu mn)	11	19	21	28	31
EPS New Adj (Eu)	0.934	1.550	1.790	2.374	2.647
EPS Old Adj (Eu)	0.934	1.550	1.786	2.129	2.447
DPS (Eu)	0.180	0.250	0.272	0.378	0.432
EV/EBITDA Adj	7.6	8.5	11.5	8.2	7.1
EV/EBIT Adj	11.2	13.0	17.0	11.8	10.0
P/E Adj	30.8	18.5	16.1	12.1	10.9
Div. Yield	0.6%	0.9%	0.9%	1.3%	1.5%
Net Debt/EBITDA Adj	1.7	1.6	3.0	2.0	1.3

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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)

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Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIB30 Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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;

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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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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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