

TESMEC

Sector: *Industrials*
NEUTRAL

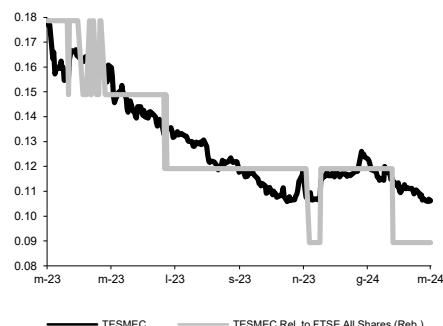
Price: Eu0.11 - Target: Eu0.117

FY23 results below targets. Focus on debt de-leverage

Enrico Coco +39-02-77115.230
enrico.coco@intermonte.it

Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	-135.8%	-79.7%	

TESMEC - 12M Performance



Stock Data			
Reuters code:	TES.MI		
Bloomberg code:	TES IM		
Performance	1M	3M	12M
Absolute	-2.9%	-9.7%	-40.5%
Relative	-10.0%	-19.4%	-58.4%
12M (H/L)	0.18/0.11		
3M Average Volume (th):	1,295.84		

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	64
Total Mkt Cap (Eu mn):	64
Mkt Float - Ord (Eu mn):	30
Mkt Float (in %):	46.6%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	73
BVPS (Eu):	0.12
P/BV:	0.9
Net Financial Position (Eu mn):	-151
Enterprise Value (Eu mn):	216

■ **FY23 results below targets (preliminary figures were already disclosed).** Tesmec's FY23 results were below management's targets, with a deterioration of operating trends in 4Q both at P&L and net financial position level driven by the Trencher business which suffered from a missed finalization of certain negotiations, especially in the US and Middle East markets. On the other hand, the Railway and Energy Stringing and Energy Automation segments achieved yearend results substantially in line with expectations. We note our estimates were already below the company guidance and Tesmec had disclosed preliminary FY23 figures of sales, EBITDA and net debt at end February. In FY23, Sales were up 2.7% at Eu252mn (preliminary figures range was Eu252/258mn), EBITDA was down 3.4% YoY at Eu34mn (13.5% margin vs. 14.4% in FY22 and compared to a preliminary range of Eu34/38mn), EBIT was Eu11.1mn vs. Eu13.1mn in FY22, and net results was negative for Eu2.7mn vs. Eu7.9mn profit in FY22. The net financial position at end 2023 was Eu153mn including IFRS16 leasing vs. Eu128mn at end 2022.

■ **Slowdown in 4Q driven by Trenchers and Rail.** The slowdown of volumes in 4Q (sales -19% YoY vs. +12% YoY in 9M23) was driven by the Trencher (sales down 11% YoY) and the Rail (sales down 46% YoY due to projects phasing) businesses, which also impacted profitability (EBITDA down 30% YoY in 4Q with margin at 11.2% vs. 13.0% in 4Q22). As for the net debt position, net debt as at end December of Eu153mn increased by Eu4mn QoQ (Eu149mn as of September 2023) and by Eu25mn vs. end 2022 (Eu128mn), mostly due to higher working capital (+Eu6mn vs. FY22, driven by inventories and WIP), and increase in IFRS16 debt (Eu15mn).

■ **Updated guidance and FY24-25 estimates.** During the call, management explained that the slowdown in 4Q was driven by Trenchers in US/Middle East, and the shift to 2024 of some orders in Rail (shift of advanced payments) and Energy Automation. Management also expressed confidence in improving profitability going forward, while no indication was provided on debt refinancing strategy (covenant of NFP/EBITDA adjusted for IFRS16 <3.5x). Guidance provided for 2024 point to sales growing 10% YoY, EBITDA margin improving vs. the 13.5% of 2023, and net debt position improving vs. 2023 level of Eu153mn thanks to a reduction of working capital/inventories. We have updated our estimates model and cut FY24-25e expectations (which were already below targets) by 7% as for sales (Eu274mn in FY24, +9% YoY), 16% for EBITDA (Eu40mn in FY24), with net debt now seen at Eu151mn at end 2024 vs. the previous estimate of Eu133mn

■ **Neutral, TP Eu0.117 (from previous Eu0.13). Debt reduction key.** Our updated target price of Eu0.117 (previous Eu0.13) is based on a DCF and implies a fair 2024e EV/EBITDA of 5.9x. We confirm our Neutral rating on the stock. Tesmec is exposed to growth opportunities associated with rising infrastructure investments (Middle East is a key area of development), although the track record on FCF generation is weak.

Key Figures & Ratios	2021A	2022A	2023A	2024E	2025E
Sales (Eu mn)	194	245	252	274	305
EBITDA Adj (Eu mn)	28	35	48	56	61
Net Profit Adj (Eu mn)	1	8	-3	-3	3
EPS New Adj (Eu)	0.002	0.013	-0.004	-0.005	0.005
EPS Old Adj (Eu)	0.002	0.013	0.007	0.015	0.023
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.8	6.0	4.9	3.9	3.4
EV/EBIT Adj	33.5	16.1	21.4	17.8	11.7
P/E Adj	52.9	8.1	nm	nm	23.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	3.6	3.2	2.7	2.4

TESMEC – Key Figures

Profit & Loss (Eu mn)	2020A	2021A	2022A	2023A	2024E	2025E
Sales	171	194	245	252	274	305
EBITDA	21	28	35	48	56	61
EBIT	-1	6	13	11	12	18
Financial Income (charges)	-8	-3	-2	-16	-15	-14
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	-9	3	12	-5	-3	4
Taxes	2	-1	-4	2	0	-1
Tax rate	24.3%	55.3%	31.8%	41.3%	0.0%	25.0%
Minorities & Discontinued Operations	0	0	0	0	0	0
Net Profit	-7	1	8	-3	-3	3
EBITDA Adj	21	28	35	48	56	61
EBIT Adj	-1	6	13	11	12	18
Net Profit Adj	-7	1	8	-3	-3	3
Per Share Data (Eu)	2020A	2021A	2022A	2023A	2024E	2025E
Total Shares Outstanding (mn) - Average	606	606	606	606	606	606
Total Shares Outstanding (mn) - Year End	607	607	607	607	607	607
EPS f.d	-0.011	0.002	0.013	-0.004	-0.005	0.005
EPS Adj f.d	-0.011	0.002	0.013	-0.004	-0.005	0.005
BVPS f.d	0.112	0.117	0.135	0.126	0.121	0.125
Dividend per Share ORD	0.000	0.000	0.000	0.000	0.000	0.000
Dividend per Share SAV	0.000	0.000	0.000	0.000		
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash Flow (Eu mn)	2020A	2021A	2022A	2023A	2024E	2025E
Gross Cash Flow	21	9	26	4	22	28
Change in NWC	2	-1	-3	2	0	-1
Capital Expenditure	-13	-25	-25	-16	-20	-20
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	10	-17	-2	-10	2	7
Acquisitions, Divestments & Other Items	-21	0	-6	-15	0	0
Dividends	0	0	0	0	0	0
Equity Financing/Buy-back	25	0	0	0	0	0
Change in Net Financial Position	13	-17	-7	-25	2	7
Balance Sheet (Eu mn)	2020A	2021A	2022A	2023A	2024E	2025E
Total Fixed Assets	100	103	112	120	112	103
Net Working Capital	64	77	81	87	89	93
Long term Liabilities	10	14	19	25	25	25
Net Capital Employed	174	194	212	232	226	222
Net Cash (Debt)	-104	-121	-128	-154	-151	-144
Group Equity	69	73	83	78	75	78
Minorities	2	2	2	2	2	2
Net Equity	68	71	82	76	73	76
Enterprise Value (Eu mn)	2020A	2021A	2022A	2023A	2024E	2025E
Average Mkt Cap	145	69	83	83	64	64
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	-104	-121	-128	-154	-151	-144
Enterprise Value	249	190	211	236	216	209
Ratios (%)	2020A	2021A	2022A	2023A	2024E	2025E
EBITDA Adj Margin	12.3%	13.2%	14.5%	17.4%		
EBIT Adj Margin	nm	2.7%	5.4%	4.0%		
Gearing - Debt/Equity	150.3%	166.8%	154.0%	196.3%	nm	185.9%
Interest Cover on EBIT	nm	1.9	8.7	0.7	0.8	1.3
Net Debt/EBITDA Adj	5.0	4.3	3.6	3.2	2.7	2.4
ROACE*	-0.5%	3.1%	6.5%	5.0%	5.3%	7.9%
ROE*	-12.2%	1.7%	10.4%	-3.4%	-4.4%	3.7%
EV/CE	1.5	1.0	1.0	1.1	0.9	0.9
EV/Sales	1.5	0.9	0.9	0.9		
EV/EBITDA Adj	11.9	6.8	6.0	4.9	3.9	3.4
EV/EBIT Adj	nm	33.5	16.1	21.4	17.8	11.7
Free Cash Flow Yield	15.4%	-25.9%	-2.8%	-15.6%	3.4%	10.7%
Growth Rates (%)	2020A	2021A	2022A	2023A	2024E	2025E
Sales	-15.0%	13.8%	26.2%	2.7%	8.9%	11.3%
EBITDA Adj	-23.6%	34.1%	25.1%	35.8%	16.5%	9.3%
EBIT Adj	nm	nm	130.7%	-15.7%	9.4%	47.1%
Net Profit Adj	nm	nm	554.8%	nm	nm	nm
EPS Adj	nm	nm	554.8%	nm	nm	nm
DPS						

*Excluding extraordinary items

Source: Intermonte SIM estimates

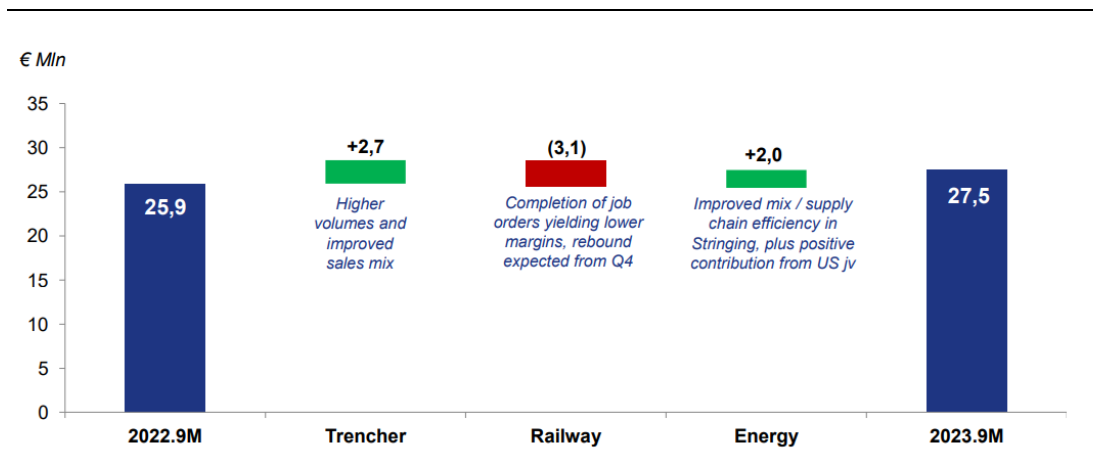
9M23 Results Review

Tesmec – Quarterly trend

(Eu mn)	1Q22	2Q22	3Q22	4Q22	FY22	1Q23	2Q23	3Q23	4Q23	FY23	FY23E	FY24E	Guidance 2024
Energy	12.7	11.0	14.3	20.3	58.2	13.9	17.0	18.4	18.4	67.7	69.2	72.1	10% YoY growth
Trencher	32.8	33.7	32.5	35.0	134.0	33.5	35.4	37.3	31.1	137.3	148.3	148.0	
Railways	10.4	12.7	13.4	16.5	53.0	10.0	15.5	12.5	8.9	46.9	53.3	54.1	
Revenues	55.9	57.4	60.1	71.8	245.2	57.5	67.8	68.2	58.4	251.9	270.8	274.2	
Energy	1.6	2.2	1.6	2.6	7.8	2.0	2.8	2.4	2.8	10.0	9.5	11.2	Improving vs. 2023
Trencher	4.5	4.9	1.8	2.6	13.4	3.2	3.3	6.9	2.0	15.4	20.8	18.1	
Railways	2.1	4.0	3.9	4.0	14.0	1.8	2.0	3.0	1.8	8.6	10.1	10.6	
EBITDA	8.3	10.4	7.2	9.3	35.2	7.0	8.1	12.3	6.5	34.0	40.4	39.9	
Margin	14.8%	18.1%	12.0%	13.0%	14.4%	12.3%	12.0%	18.1%	11.2%	13.5%	14.9%	14.6%	Improving vs. 2023
EBIT	2.9	5.1	1.6	3.4	13.1	1.4	2.2	6.6	0.7	11.1	17.4	12.1	
Margin	5.3%	8.9%	2.7%	4.8%	5.3%	2.5%	3.3%	9.7%	1.3%	4.4%	6.4%	4.4%	
Net Profit	2.0	5.9	1.3	-1.3	7.9	-2.5	-0.1	2.8	-2.9	-2.7	4.2	-3.3	
Net Debt	119.4	133.1	125.8	128.4	128.4	139.5	150.3	149.0	153.5	153.5	137.6		Improving vs. 2023

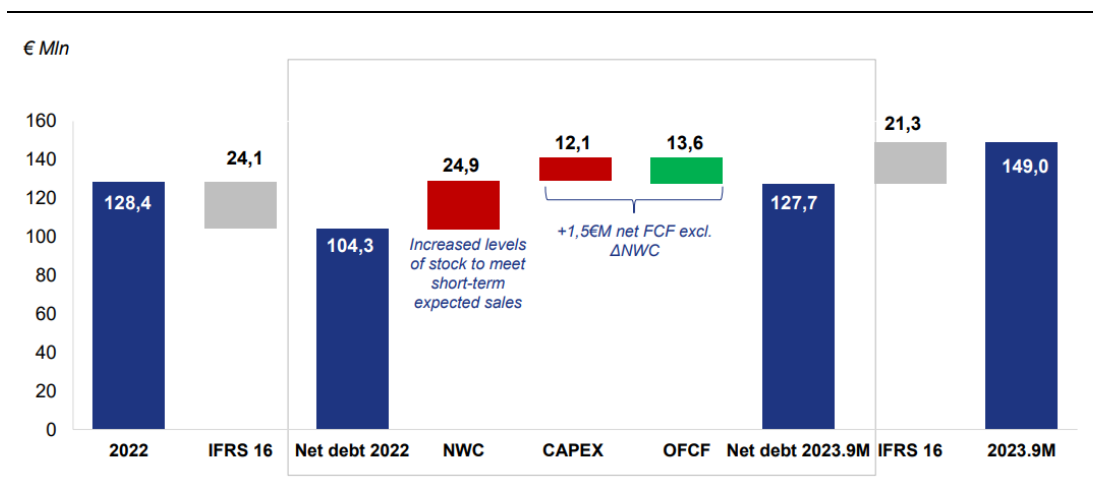
Source: company data, Intermonte estimates

FY23 EBITDA Evolution by BU



Source: Company data

FY23 NFP and FCF Evolution



Source: Company data

Valuation

Our updated DCF model yields a fair equity value of Eu71mn (previous Eu79mn) or Eu0.117 (previous Eu0.13) per share. At target, we value Tesmec FY24e at an EV/EBITDA of 5.9x. We consider Tesmec not to have any direct peers, as competitors are either private companies or divisions of industrial conglomerates.

Multiples – current price vs. TP

	2019	2020	2021	2022	2023	2024E	2025E
Multiples @ current share price							
EV/SALES	0.8	1.0	1.0	0.9	0.9	0.8	0.7
EV/EBITDA	6.0	7.7	7.2	6.0	6.8	5.7	4.8
EV/EBIT	19.8	-188.1	35.8	16.1	20.8	18.8	12.4
P/E	14.9	-7.9	65.2	10.0	-26.9	-22.0	26.2
Multiples @TP 0.117							
EV/SALES	0.7	1.1	0.9	0.9	0.9	0.9	0.7
EV/EBITDA	4.9	8.9	6.1	6.0	6.9	5.9	4.9
EV/EBIT	16.2	-216.5	30.4	16.1	21.3	19.3	12.7
P/E	4.7	-11.5	65.2	10.0	-29.2	-23.9	28.4

Source: Factset, Intermonte estimates

Change in Estimates

Estimates Change 2024-26E

(Eu mn)	2021	2022	2023E	2024E	2025E	2026E
Sales new	194.3	245.2	251.9	274.2	305.2	332.9
Sales old			270.8	297.1	328.8	329.8
% change			-7.0%	-7.7%	-7.2%	0.9%
EBITDA new	28.1	35.2	34.0	39.9	46.2	52.4
EBITDA old			40.4	47.6	54.7	55.7
% change			-15.8%	-16.2%	-15.5%	-5.8%
EBIT new	5.7	13.1	11.1	12.1	17.8	23.3
EBIT old			17.4	24.5	30.4	31.4
% change			-36.6%	-50.6%	-41.4%	-25.7%
Pre tax Profit new	2.7	11.6	4.6	3.3	3.7	10.5
Pre tax Profit old			4.7	12.3	18.3	19.3
% change			-196.9%	-126.8%	-79.7%	-45.5%
Net Profit new	1.2	7.9	2.7	3.3	2.8	7.9
Net Profit old			4.2	9.2	13.7	14.7
% change			-163.6%	-135.8%	-79.7%	-46.4%
Net Debt new	121.1	128.4	153.5	151.3	144.4	134.3
Net Debt old			137.6	133.3	127.2	128.2
% change			11.5%	13.5%	13.6%	4.8%

Source: Factset, Intermonte estimates

Financials

Profit & Loss

(Eu mn)	2019	2020	2021	2022	2023	2024E	2025E
Energy	44	44	51	58	68	72	79
Trencher	125	94	110	134	137	148	160
Railway	31	26	33	53	47	54	66
Revenues	200.7	168.6	194.3	245.2	251.9	274.2	305.2
YoY change %	3%	-15%	14%	26%	3%	9%	11%
YoY change Eu mn	6	-30	24	51	7	22	31
Operating costs	-173	-150	-166	-210	-218	-234	-259
YoY change %	-1%	-14%	11%	26%	4%	8%	11%
Energy	5.6	5.3	7.8	7.8	10.0	11.2	13.0
Trencher	16.6	11.2*	13.4	13.4	15.4	18.1	20.2
Railway	5.2	4.1	6.9	14.0	8.6	10.6	13.0
EBITDA	27.4	20.9	28.1	35.2	34.0	39.9	46.2
margin %	13.7%	12.3%	14.5%	14.4%	13.5%	14.6%	15.1%
YoY change %	45.1%	-23.6%	34.1%	25.1%	-3.3%	17.2%	15.8%
D&A	-19.075	-21.8	-22.4	-22.1	-23.0	-27.8	-28.4
EBIT	8.4	-0.9	5.7	13.1	11.1	12.1	17.8
margin %	4.2%	-0.5%	2.9%	7.5%	4.4%	4.4%	5.8%
YoY change %	127.7%	-110.3%	-759.0%	130.7%	-15.7%	9.4%	47.1%
Financial expenses	-4.18	-8.175	-2.985	-1.507	-15.655	-15.4	-14.1
Pretax profit	4.2	-9.0	2.7	11.6	-4.6	-3.3	3.7
YoY change %	1270.6%	-315.5%	-129.9%	329.8%	-139.6%	-28.2%	-212.1%
Taxes	-1.2	2.2	-1.5	-3.7	1.9	0.0	-0.9
Tax rate %	29.3%	24.3%	55.3%	31.8%	41.3%	0.0%	25.0%
Net Profit before minorities	3.0	-6.8	1.2	7.9	-2.7	-3.3	2.8
YoY change %	6643.2%	-330.5%	-117.7%	554.8%	-134.1%	22.3%	-184.1%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	3.0	-6.8	1.2	7.9	-2.7	-3.3	2.8
YoY change %	10496.4%	-330.5%	-117.7%	554.8%	-134.1%	22.3%	-184.1%
Per share data	2019	2020	2021	2022	2023	2024E	2025E
Number of shares m	107.1	606.5	606.5	606.5	606.5	606.5	606.5
Shares net of treasury shares	102.4	601.7	601.7	601.7	601.7	601.7	601.7
EPS Adj.	0.028	-0.011	0.002	0.013	-0.004	-0.005	0.005
growth %	10496.4%	-140.7%	-117.8%	554.8%	-134.1%	22.3%	-184.1%
FCF per share	-0.205	0.016	-0.027	-0.003	-0.017	0.004	0.011
BVPS	0.415	0.112	0.117	0.135	0.126	0.121	0.125

Source: Intermonte SIM

Balance Sheet

(Eu mn)	2019	2020	2021	2022	2023	2024E	2025E
Intangible assets	40.6	45.3	23.4	32.3	39.3	39.3	39.3
Tangible assets	42.5	49.8	71.0	73.7	74.0	66.2	57.8
Financial assets	3.9	4.4	8.6	5.6	6.3	6.3	6.3
Net fixed assets	87.0	99.5	103.0	111.6	119.6	111.8	103.4
Inventories	69.9	74.4	81.3	101.4	110.6	113.8	124.5
Receivables	67.9	60.4	54.4	56.2	45.6	63.1	69.6
Payables	-57.5	-61.4	-56.0	-74.2	-82.8	-87.7	-100.7
Other assets/liabilities	-7.3	-9.1	-3.2	-2.8	13.4	0.0	0.0
Net working capital	73.0	64.3	76.5	80.6	86.8	89.1	93.4
Other long term assets/liabilities	4.2	10.0	14.2	19.5	25.3	25.3	25.3
Net Invested Capital	164.2	173.8	193.7	211.8	231.7	226.2	222.1
Net Debt /(Cash)	118.0	104.4	121.1	128.4	153.5	151.3	144.4
Minorities	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Shareholders funds	44.5	67.7	70.9	81.7	76.5	73.2	75.9
Total Shareholders Funds	46.2	69.4	72.6	83.4	78.2	74.9	77.7
Total Sources	164.2	173.8	193.7	211.8	231.7	226.2	222.1

Source: Intermonte SIM

Cash Flow

(Eu mn)	2019	2020	2021	2022	2023	2024E	2025E
EBITDA	27.4	21.0	28.1	35.2	34.0	39.9	46.2
Capex	-14.3	-13.3	-25.0	-25.0	-16.4	-20.0	-20.0
Taxes	-1.2	2.2	-0.5	-2.7	1.9	0.0	-0.9
Change in working capital	-24.1	8.7	-13.5	-4.1	-6.2	-2.3	-4.3
Other operating items	-4.1	-0.5	0.4	-3.7	-7.7	0.0	0.0
Financial charges	-5.7	-8.2	-6.2	-1.5	-15.7	-15.4	-14.1
Free Cash Flow	-22.0	9.9	-16.7	-1.8	-10.0	2.2	6.9
Acquisitions/Disposals	0.0	-21.1	0.0	-5.5	0.0	0.0	0.0
Change in Equity	0.0	24.7	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-18.2	0.0	0.0	0.0	-15.1	0.0	0.0
Decrease/(Increase) in Net Debt	-40.2	13.5	-16.7	-7.3	-25.1	2.2	6.9
Net Debt end of period	117.9	104.4	121.1	128.4	153.5	151.3	144.4
Capex/Sales	7.1%	7.8%	12.9%	10.2%	6.5%	7.3%	6.6%
Working Capital/Sales	36.4%	37.7%	39.4%	32.9%	34.5%	32.5%	30.6%
Net Debt/EBITDA	4.3 x	5.0 x	4.3 x	3.6 x	4.5 x	3.8 x	3.1 x

Source: Intermonte SIM

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	TESMEC		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.117	Previous Target (Eu):	0.13
Current Price (Eu):	0.11	Previous Price (Eu):	0.12
Date of report:	11/03/2024	Date of last report:	07/11/2023

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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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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:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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