

1H22 results: cash balance to be optimized

October 10th, 2022, at 10:00

1H results in line with our estimates

TPS Group reported its 1H22 results: consolidated Value of Production rose by 9% yoy to €19.2mln (€17.7mln in 1H21), broadly in line with our estimate (€18.8mln). Growth was in part organic (~5%), while the remainder was related to the consolidation of ASI. Growth was primarily driven by the design, engineering, and technical publishing SBUs, while IT services and digital content management SBUs remained stable. The incidence of 1H21 VoP on FY21 was 47%; for the FY22 we expect VoP at €40mln (+6% yoy) [Please refer to our Company Update on April, 27th 2022]. This means that the incidence of 1H22 VoP on our FY22E revenues is 48%. EBITDA remained stable at €4mln and was in line with our estimate (€3.9mln). Marginality declined by 1.8pp to 20.6% on the back of higher operating costs and following higher training costs in relation to TPS Training Academy. Net income increased by 6% to €2mln (€1.9mln in 1H21). Net cash improved by €1.6mln from the end of 2021 to €16.2mln at the end of June 2022, in line with our year-end forecast.

Estimates revision: fine-tuning 2022E-2024E

Since 1H22 results were on track to our FY22 expectations, we fine-tuned our 2022-2024 estimates. We kept unchanged our FY22 revenue forecast, while we slightly increased our EBITDA projection. From FY23E and beyond, we updated our main top-down drivers: i) we decreased the expected growth rate of Italian, European and Global GDP and ii) slightly increased the expected revenue growth rate of TPS competitor's proxy. Altogether, Value of Production is now seen growing at a 21-24E CAGR of 7.1% to €46.1mln in 2024. We kept our FY22 cost increase assumptions, which envisages a double digit yoy growth in the Costs of Raw Materials and a single digit one in the Cost of Purchased Services. We maintained an optimistic view for FY23 and FY24, with progressive declining input prices. EBITDA margin should slightly deteriorate to 18.9% in FY22 from 20.3% in FY21, amid rising input prices, to then return above 20% in FY24. Overall, EBITDA is expected to grow at a 21-24E CAGR of 7% to €9.3mln.

On the Balance Sheet side, we slightly increased intangible assets in 2023E and decreased them in 2024E following CapEx revisions, while we fine-tuned our drivers for NOWC estimates. Our net cash position estimate slightly improved to €16.5mln since the Company's reached our previous FY22 net cash target (€15.8mln) at the end of June 2022. We believe that TPS should optimize its net cash position as it is 1.4x its Invested Capital and ~60% of its Shareholders' Equity. According to our Income Statement and Balance Sheet estimates, we project €8.2mln of cumulated 2022-2024 Free Cash Flows, or an annual average of €2.8mln.

Valuation: TP decreased to €9.0; BUY confirmed

We confirm our BUY recommendation with a 12-month Target Price of €9.0 computed as the simple average of the fair value from DCF and the relative market multiples. Our DCF valuation decreased to €9.0/share vs previous €9.4, primarily as an effect of higher risk-free rate. On the other hand, relative valuation increased to €8.9/share vs previous €8.8 due to higher net cash position. TPS trades at a discount, with EV/EBITDA 22E-23E of 2.6x vs peers' average of 6.1x. Similarly, TPS 22-23 P/E stands at 9.9x, while peers trade at 12x.

Target Price

€9.0 (from €9.1)

Recommendation

BUY

Company Profile

Ticker TPS IM (BBG), TPS-IT (FactSet)
 Reference Industry Industrials – Engineering Services
 Stock exchange Italian Stock Exchange
 Reference Index FTSE Italia Small Cap

Market Data

Last Closing Price €5.3
 Number of shares (mln) 7.3
 Market cap. (mln) €38.5

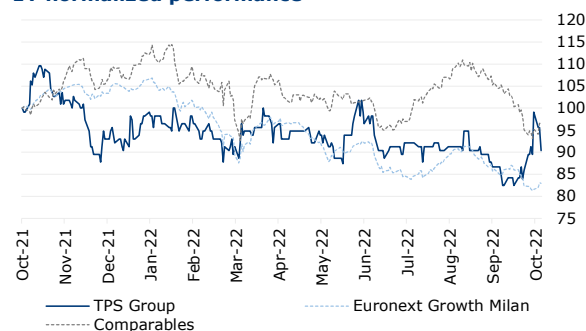
1Y performance

Absolute -6.2%
 Max / Min 6.25/4.7
 Average daily volumes 6,200

(€ mln)	2020	2021	2022E	2023E	2024E
VoP	31.0	37.6	40.0	43.6	46.1
yoy (%)	-16%	21%	6%	9%	6%
EBITDA	5.3	7.6	7.6	8.7	9.3
margin (%)	17%	20%	19%	20%	20%
EBIT	2.5	5.4	5.5	6.1	6.3
margin (%)	8%	14%	14%	14%	14%
Net Income	1.6	3.4	3.6	4.0	4.1
margin (%)	5%	9%	9%	9%	9%
Net Debt	(5.1)	(14.6)	(16.5)	(19.0)	(22.1)
Sh. Equity	20.8	24.3	28.1	32.2	36.5
Capex	1.2	1.3	1.6	2.6	2.8
FCFs	2.8	8.1	2.3	2.4	3.5

Source: Banca Profilo estimates and elaborations, Company data.

1Y normalized performance



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