

Company Update

Add (from Buy)

12 March 2013

MARKET PRICE: **EUR7.82** TARGET PRICE: **EUR9.20 (from EUR8.20)**

Data

Shares Outstanding (m):	5.1
Market Cap. (EURm):	40.1
Enterprise Value (EURm):	38.4
Free Float (%):	42.0%
Av. Daily Trad. Vol. (m):	0.023
Main Shareholder:	4CV PTE LTD (29.7%)
Reuters/Bloomberg:	TXTS.MI TXT IM
52-Week Range	EUR4.5 EUR9.6

Performance

	1m	3m	12m
Absolute	11.1%	23.5%	72.8%
Rel. to FTSE IT	13.4%	18.9%	76.6%

Financials

(EURm)	2012	2013E	2014E
Revenues	46.5	56.3	60.5
EBITDA	5.3	7.0	8.7
Net Profit	5.1	3.9	5.2
EPS (EUR)	0.949	0.763	1.011
CFPS (EUR)	1.148	1.076	1.304
BVPS (EUR)	4.834	5.445	6.227
DPS (EUR)	0.400	0.229	0.303

Ratios

	2012	2013E	2014E
EBITDA margin	11.4%	12.4%	14.4%
ROI	21.9%	19.6%	26.5%
ROAE	22.1%	14.5%	17.3%
Debt/Equity	-0.1	-0.2	-0.3
Debt/EBITDA	-0.6	-0.7	-1.1

Valuation

	2012	2013E	2014E
P/E (x)	8.2	10.2	7.7
P/CF (x)	6.8	7.3	6.0
P/BV (x)	1.6	1.4	1.3
Dividend Yield	5.1%	2.9%	3.9%
EV/Sales (x)	0.9	0.7	0.6
EV/EBITDA (x)	8.0	5.5	3.9
EV/CE (x)	1.8	1.7	1.5

Source: Centrobanca estimates

Higher sales and improved profitability ahead

TXT e-solutions reported 4Q12 sales of EUR12.4 million, EBITDA of EUR0.96 million (a margin of 7.7% from 6.8% in 4Q11) and a net profit of EUR1.5 million. Net cash was EUR3.2 million from EUR4.3 million at end-September due to higher NWC attributable to some delays in the collection of credits in Italy. The outlook provided by management indicates higher sales and margins from the consolidation of Maple Lake and the provision of high tech solutions to international customers despite the poor economic scenario and the negative trend of the reference market in Italy (in FY12, the IT sector in Italy could have declined by 3.8%YoY). The proposed dividend of EUR0.4 per share (payout of ca. 40%, yield of ca. 5.0%) is above our expectation of EUR0.24 per share due to the group's decision to fully distribute the earn-out of EUR0.9 million related to the disposal of Polymedia. We are leaving our FY13 and FY14 sales estimates unchanged but make some changes to our EBITDA estimates and cut our net profit estimates by ca. 7.0% on average to incorporate additional costs expected from continued expansion in North America and the consolidation of Maple Lake despite the better tax rate stemming from greater exposure to regions where the taxation is more favourable. We also reduce our net cash assumptions as our NFP projection now includes the potential earn-out of EUR2.8 to be paid to Maple Lake on the achievement of certain targets in 2013 and 2014 (under IFRS3 standards) and, in addition, we have raised our NWC estimates to reflect some delays in the collection of receivables in Italy. Our revised estimates, rolled out projections to 2015 and some changes to our DCF second stage assumptions, contribute to an increase in our TP to EUR9.20 per share (from EUR8.20) and confirm our positive view on the stock. Add.

- 4Q/FY12 sales and EBITDA were in line with our estimates, while net profit was above expectations mostly due to the maturing of a share of the Earn-Out related to the disposal of Polymedia of EUR0.9 million. Net cash was EUR3.2 million vs our estimate of EUR6.4 million, mostly due to the inclusion of a provision of EUR2.8 million related to the potential Earn-Out to be paid to Maple Lake. Stripping out the provision, the net cash was EUR6.0 million.
- We leave our FY13 and FY14 sales unchanged as we believe that they reflect reasonably well the ongoing trend but we slightly reduce our FY13 EBITDA projection to factor in some additional costs related to the ongoing expansion. Our net cash FY13 and FY14 forecasts decline by EUR3.2 million.
- Our target price of EUR9.20 per share derives from a DCF and a relative valuation. The DCF method produces a fair value of EUR8.4 per share. The relative valuation, based on a comparison of multiples (P/E, EV/EBITDA and EV/SALES), a value of EUR12.3 per share.

Analyst

Antonella De Bartolomeo
antonella.de.bartolomeo@centrobanca.it
Tel. +39 02 7781 4304

Website: www.centrobanca.it

Figure 1. TXT e-solutions – 4Q/FY12 results

4Q12 sales were favourably impacted by the positive trend of international sales (ca. 56% of total sales) which rose 28% in the quarter. 4Q sales also benefited from the consolidation of Maple Lake which added EUR1.3 million to total sales. However, like for like 4Q12 sales rose 11% YoY to EUR11.1 million due to the positive effect of the company's stand alone growth strategy. Sales of new licenses and maintenance services increased by ca. 18%YoY. EBITDA of EUR0.96 million was due to the positive impact of group efficiency plans and provision of new licenses and value added services. Net profit of EUR1.5 million was also impacted by the exceptional repayment of IRAP related to the Save-Italy Decree (Italian Legislative Decree 201/2011). Net cash was EUR3.2 million due to the inclusion of a provision of EUR2.8 million related to the potential Earn-Out to be paid to Maple Lake on reaching certain targets in 2013 and 2014. Stripping out the provision, net cash was EUR6.0 million (broadly in line with our expectation of EUR6.4 million).

(EURm)	4Q11A*	4Q12A	% Chg.	4Q12E	delta vs CB	FY11A*	FY12A	% Chg.
Sales	9.98	12.40	24.2%	12.70	-2.4%	40.14	46.50	15.8%
EBITDA	0.68	0.96	41.0%	0.90	6.8%	4.40	5.32	21.0%
EBITDA margin (%)	6.8%	7.7%		7.1%		11.0%	11.4%	
D&A	-1.04	-0.34	-67.8%	-0.26	28.2%	-3.53	-1.08	-69.5%
EBIT	-0.36	0.62	nm	0.64	-2.0%	0.87	4.25	nm
EBIT margin (%)	-3.6%	5.0%		5.0%		2.2%	9.1%	
Pre-Tax Profit	-0.44	0.51	nm	0.71	-27.3%	0.94	4.38	nm
Net profit	-2.39	1.51	nm	0.58	nm	14.18	5.14	-63.8%
Net Debt/(Cash)	-12.5	-3.2	-74.4%	-6.4	-49.8%	-12.5	-3.2	-74.4%

Source: Company data, Centrobanca estimates; *pro-forma ex Polymedia

Figure 2. TXT e-solutions – FY13-14 revised estimates and roll out to 2015

We are downgrading our FY13 EBITDA, EBIT and net profit estimates to factor in additional commercial costs expected from continued expansion in North America and some additional D&A costs arising from the consolidation of Maple Lake despite the better tax rate attributable to greater exposure to regions where taxation is more favourable. We are slightly increasing our FY14 EBITDA estimates, as we believe that profitability could increasingly benefit from i) the incremental sales of new licenses in the US, ii) higher provision of maintenance services arising from a larger portfolio and iii) some synergies (mostly in R&D). However, we downgrade our net profit estimates by ca. 4% due to higher D&A attributable to the consolidation of Maple Lake. The change in our net cash projections is attributable to the inclusion of the potential Earn-out of EUR2.8 million to be paid to Maple Lake to the achievement of certain targets, the assumption of higher receivable days due to the trend that emerged in 4Q12 when the group slightly suffered from delays in the collection of credits in Italy and, as for the FY13, the distribution of a dividend of EUR0.4 per share (above our expectation of EUR0.24 per share).

(EURm)	2012A	2013E		2014E		2015E
		Old	New	Old	New	
Sales	46.5	56.3	56.3	60.5	60.5	65.5
% change			0.0%		0.0%	
EBITDA	5.3	7.4	7.0	8.5	8.7	9.8
% change			-5.3%		2.3%	
Pre tax profit	4.4	6.7	5.3	8.2	7.2	9.0
% change			-21.3%		-12.3%	
Net profit	5.1	4.3	3.9	5.4	5.2	6.3
% change			-9.7%		-4.1%	
Net Debt (Cash)	-3.2	-8.5	-5.0	-12.9	-9.7	-14.4
% change			-40.3%		-25.2%	
EPS	0.95	0.83	0.76	1.04	1.01	1.23
% change			-8.3%		-2.6%	

Source: Company data, Centrobanca estimates

Income Statement

(EURm)	2012	2013E	2014E	2015E
Net Revenues	46.5	56.3	60.5	65.5
EBITDA	5.3	7.0	8.7	9.8
EBITDA margin	11.4%	12.4%	14.4%	15.0%
EBIT	4.2	5.4	7.2	8.8
EBIT margin	9.1%	9.6%	11.9%	13.5%
Net financial income /expense	0.1	-0.1	0.0	0.1
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	4.4	5.3	7.2	9.0
Taxes	-0.2	-1.4	-2.0	-2.7
Minorities & discontinued ops	0.9	0.0	0.0	0.0
Net Income	5.1	3.9	5.2	6.3

Source: Centrobanca estimates

Balance Sheet

(EURm)	2012	2013E	2014E	2015E
Net working capital	6.3	7.3	7.8	8.4
Net Fixed assets	21.3	20.2	19.1	18.5
M/L term funds	-4.7	-4.7	-4.7	-4.7
Capital employed	22.9	22.9	22.3	22.3
Shareholders' equity	26.2	27.9	31.9	36.7
Minorities	0.0	0.0	0.0	0.0
Shareholders' funds	26.2	27.9	31.9	36.7
Net financial position/(cash)	-3.2	-5.0	-9.7	-14.4

Source: Centrobanca estimates

Cash Flow Statement

(EURm)	2012	2013E	2014E	2015E
NFP Beginning of Period	-12.5	-3.2	-5.0	-9.7
Group Net Profit	5.1	3.9	5.2	6.3
Minorities	0.0	0.0	0.0	0.0
D&A	1.1	1.6	1.5	1.0
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	6.2	5.5	6.7	7.3
Change In Working Capital	-1.5	-1.0	-0.5	-0.6
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	4.7	4.5	6.2	6.7
Capex	-0.8	-0.5	-0.4	-0.4
Other Investments	-14.0	0.0	0.0	0.0
Disposals	0.1	0.0	0.0	0.0
Free Cash Flow	-10.0	4.0	5.8	6.3
Dividends Paid	-2.0	-2.2	-1.2	-1.6
Other & Chg in Consolid. Area	0.0	0.0	0.0	0.0
Chg in Net Worth & Capital Incr.	2.8	0.0	0.0	0.0
Change in NFP	-9.3	1.8	4.6	4.7
NFP End of Period	-3.2	-5.0	-9.7	-14.4

Source: Centrobanca estimates

Financial Ratios

	2012	2013E	2014E	2015E
Net Margin	11.0%	6.9%	8.6%	9.6%
ROE	22.1%	14.5%	17.3%	18.4%
ROIC - after tax	14.7%	13.1%	17.7%	22.0%
Net Fin. Debt/Equity	-0.1	-0.2	-0.3	-0.4
Net Fin. Debt/EBITDA	-0.6	-0.7	-1.1	-1.5
NOPAT (EUR)	2.8	3.6	4.8	5.9
ROACE	18.5%	15.8%	21.4%	26.6%

Source: Centrobanca estimates

Per Share Data

(EUR)	2012	2013E	2014E	2015E
EPS	0.949	0.763	1.011	1.228
DPS	0.400	0.229	0.303	0.368
Op. CFPS	0.864	0.872	1.207	1.301
Free CFPS	-1.850	0.775	1.129	1.223
BVPS	4.834	5.445	6.227	7.152

Source: Centrobanca estimates

Stock Market Ratios

	2012	2013E	2014E	2015E
P/E	8.2	10.2	7.7	6.4
P/OpCFPS	9.1	9.0	6.5	6.0
P/Free CFPS	nm	10.1	6.9	6.4
P/BVPS	1.6	1.4	1.3	1.1
Div. Yield	5.1%	2.9%	3.9%	4.7%
Free Cash Flow Yield	nm	9.9%	14.4%	15.6%
EV (EUR)	42.4	38.4	33.8	29.0
EV/Sales	0.9	0.7	0.6	0.4
EV/EBITDA	8.0	5.5	3.9	2.9
EV/EBIT	10.0	7.1	4.7	3.3
EV/Capital Employed	1.8	1.7	1.5	1.3

Source: Centrobanca estimates

Growth Rates

	2012	2013E	2014E	2015E
Growth Group Net Sales	-1.5%	21.2%	7.4%	8.3%
Growth EBITDA	0.1%	31.6%	24.5%	13.0%
Growth EBIT	nm	27.3%	33.6%	22.6%
Growth Net Profit	-63.8%	-23.8%	32.4%	21.4%

Source: Centrobanca estimates

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- > A conflict of interest exists for the UBI Group inasmuch as it holds business relations with TXT E-SOLUTIONS Spa.

On the basis of the checks carried out no other conflict of interest arose.

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Reduce: if the target price is between 10% and 20% below the market price.

Sell: if the target price is 20% lower than the market price.

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TXT e-solutions – Historical recommendations and target prices

Date	Rating	TP	MKT Price
20.11.2009	Hold	7.86	7.76
11.03.2010	Hold	7.25	6.64
03.09.2010	Hold	5.93	5.43
14.03.2011	Buy	7.27	6.00
18.03.2011	Buy	12.10	7.97
05.09.2011	Buy	12.10	8.49
29.11.2011	Buy	14.90	13.02
15.12.2011	Buy	10.90	8.72
14.03.2012	Buy	11.85	9.12
11.05.2012	Buy	12.25	10.7
06.09.2012	Buy	7.25	4.93
04.10.2012	Buy	8.20	5.27