

TXT E-SOLUTIONS

BUY

SECTOR: *Industrials*

Price (Eu):

7.70

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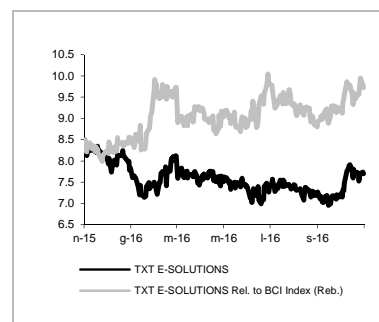
Target Price (Eu):

11.00

Quarterly Results Beat; Upgrade to BUY On Confident Outlook

- Quarterly results above our estimates.** In the 3Q16, TXT's revenues came to Eu16.9mn, up 18.5% YoY as PACE, consolidated for the first time, contributed Eu1.6mn. Organic growth was 10.3% in the NEXT division and +5.1% in RETAIL. EBITDA stood at Eu2.4mn in the 3Q16, up 49.0% YoY and 20.3% above our forecast; PACE contributed Eu0.2mn in the quarter. The margin on sales improved by 290bps YoY to 14.3%. Net profit increased by 46.9% YoY to Eu1.61mn, turning out to be 13.9% above our forecast. Finally, net cash increased QoQ from Eu0.5mn to Eu2.7mn.
- Key 9M facts.** In the 9M16, revenues grew by 10.3% to Eu50.1mn; the sale of licences and maintenance grew 9.7% YoY. EBITDA stood at Eu5.7mn, +14.7% YoY; the margin on sales went from 11.0% to 11.5%. Net profit increased by 5.5% to Eu3.6mn. PACE contributed Eu3.6mn to consolidated revenues and Eu0.4mn to EBITDA. In the 3Q2016, TXT RETAIL signed important new software contracts with many customers, including GiFi (F), WE Fashion (NL), Brunello Cucinelli (I), Christian Dior (F), Cotton-on (AUS). In the 9M16, TXT NEXT signed contracts with new customers including Pilatus (CH), Reiser Simulation & Training (D), Goodrich Control Systems (UK), and most recently the airline Icelandair.
- Confident outlook.** TXT's Chairman said the very good results in the 3Q in both divisions gave them confidence for a positive development of TXT in 2016, despite an almost daily worsening of the geopolitical environment in most of the countries of their customers. He added that the general uncertainty over outcomes and the consequences of current and recent events could nevertheless delay consumption and investment decisions at year-end, particularly in the retail market, which is very sensitive to short term trends.
- Estimates unchanged.** Following the release of 3Q16 results, we have left our 2016-18 estimates unchanged. For 2016, we assume 15.6% revenue growth, an improvement in the EBITDA margin from 9.6% to 11.1%, and a net profit of Eu5.17mn (+33.1%). The net cash position is expected to be at Eu1.5mn at the end of 2016. For 2017, we assume additional 9.0% revenue growth, a further improvement in the EBITDA margin up to 11.9%, and a net profit of Eu6.00mn (+16.6%). The net cash position is set to increase to Eu2.8mn at the end of 2017.
- Upgrade to BUY; target kept at Eu11.00.** We appreciate TXT RETAIL's focus on the luxury, fashion and specialist retail sectors, which offer significant and sustainable growth opportunities. Within TXT NEXT, we believe there are opportunities to extract revenue synergies from the PACE acquisition over the next few years. Indeed, TXT NEXT will have the opportunity to supply PACE's customer base (large companies including Airbus, Boeing, Safran, GE Aviation, COMAC, Sukhoi, Embraer, Rolls-Royce, Air France & KLM Engineering, Lufthansa and Delta Airlines) with its on-board software, flight simulators, and flight training systems. Our target price is unchanged at Eu11.00ps.

TXT E-SOLUTIONS - 12m Performance



RATING: from OUTPERFORM to BUY

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2016E	2017E
	0.0%	0.0%

STOCK DATA

Reuters code: TXTS.MI
Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	7.7%	4.3%	-8.9%
Relative	6.1%	4.6%	12.0%
12 months H/L:	8.49/6.96		

SHAREHOLDER DATA

No. of Ord. shares (mn):	13
Total No. of shares (mn):	13
Mkt Cap Ord (Eu mn):	100
Total Mkt Cap (Eu mn):	100
Mkt Float - ord (Eu mn):	44
Mkt Float (in %):	43.6%
Main shareholder:	
E-Business Consulting	26.4%

BALANCE SHEET DATA

	2016
Book value (Eu mn):	36
BVPS (Eu):	2.76
P/BV:	2.8
Net Financial Position (Eu mn):	2
Enterprise value (Eu mn):	89

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Key Figures	2014A	2015A	2016E	2017E	2018E
Sales (Eu mn)	56	62	71	78	82
Ebitda (Eu mn)	7	6	8	9	10
Net profit (Eu mn)	4	4	5	6	7
EPS - New (Eu)	0.354	0.330	0.439	0.511	-5.544
EPS - Old (Eu)		0.330	0.439	0.511	-5.544
DPS (Eu)	0.227	0.248	0.263	0.280	-2.867

Ratios & Multiples	2014A	2015A	2016E	2017E	2018E
P/E	21.8	23.4	17.6	15.1	nm
Div. Yield	3.0%	3.2%	3.4%	3.6%	-37.2%
EV/Ebitda	12.1	13.9	11.2	9.6	8.2
ROCE	27.4%	20.9%	22.0%	22.1%	24.6%

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TXT E-SOLUTIONS - KEY FIGURES

		2014A	2015A	2016E	2017E	2018E
	Fiscal year end	12/12/2014	12/12/2015	12/12/2016	12/12/2017	12/12/2018
PROFIT & LOSS (Eu mn)	Sales	56	62	71	78	82
	EBITDA	7	6	8	9	10
	EBIT	5	5	7	8	9
	Financial income (charges)	(0)	(0)	(0)	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	5	5	6	8	9
	Taxes	(1)	(1)	(1)	(2)	(2)
	Tax rate (%)	20.0%	16.4%	20.0%	22.5%	25.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	4	4	5	6	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	7	6	8	9	10
	Ebit excl. extraordinary items	5	5	7	8	9
Net profit restated	4	4	5	6	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	13	13	13	13	13
	EPS stated fd	0.354	0.330	0.439	0.511	-5.544
	EPS restated fd	0.354	0.330	0.439	0.511	-5.544
	BVPS fd	2.227	2.585	2.758	2.983	3.249
	Dividend per share (ord)	0.227	0.248	0.263	0.280	-2.867
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	64.2%	75.4%	60.0%	54.8%	51.7%
	CASH FLOW (Eu mn)	Gross cash flow	5	6	7	8
Change in NWC		(2)	(5)	(4)	(3)	(2)
Capital expenditure		(1)	(1)	(1)	(1)	(1)
Other cash items		(0)	0	(1)	1	0
Free cash flow (FCF)		3	0	1	5	6
Acquisitions, divestments & others		0	0	(5)	(1)	0
Dividend		(3)	(3)	(3)	(3)	(3)
Equity financing/Buy-back		(1)	2	0	0	0
Change in Net Financial Position	(0)	(0)	(7)	1	3	
BALANCE SHEET (Eu mn)	Total fixed assets	18	18	22	23	22
	Net working capital	6	11	15	18	20
	Long term liabilities	(4)	(4)	(3)	(5)	(5)
	Net capital employed	21	25	34	36	36
	Net financial position	8	8	2	3	6
	Group equity	29	34	36	39	42
	Minorities	0	0	0	0	0
Net equity	29	34	36	39	42	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	100	100	100	100	100
	Adjustments (associate & minorities)	10	10	10	10	10
	Net financial position	8	8	2	3	6
	Enterprise value	82	82	89	88	85
RATIOS(%)	EBITDA margin*	12.2%	9.6%	11.1%	11.8%	12.5%
	EBIT margin*	9.8%	7.8%	9.2%	10.0%	10.9%
	Gearing - Debt/equity	-29.2%	-23.9%	-4.3%	-7.1%	-13.6%
	Interest cover on EBIT	22.0	31.8	65.6	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	27.4%	20.9%	22.0%	22.1%	24.6%
	ROE*	14.7%	12.4%	14.9%	16.1%	16.7%
	EV/CE	4.1	3.6	3.0	2.5	2.3
	EV/Sales	1.5	1.3	1.2	1.1	1.0
	EV/Ebit	15.0	17.2	13.5	11.3	9.5
Free Cash Flow Yield	3.4%	0.0%	1.2%	6.0%	7.0%	
GROWTH RATES (%)	Sales	6.3%	10.1%	15.6%	9.0%	5.7%
	EBITDA*	8.4%	-12.8%	33.6%	15.5%	12.6%
	EBIT*	10.3%	-12.3%	36.8%	18.5%	14.8%
	Net profit	-10.1%	-6.9%	33.1%	16.6%	12.3%
	EPS restated	-10.1%	-6.9%	33.1%	16.6%	nm

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

TXT - Results

(Eu mn)	3Q15A	3Q16A	YoY	3Q16E	A vs E	9M15A	9M16A	YoY	2015A	2016E	YoY
Total revenues	14.3	16.9	18.5%	16.8	0.7%	45.4	50.1	10.3%	61.5	71.2	15.6%
<i>YoY growth</i>	<i>12.3%</i>	<i>18.5%</i>		<i>17.7%</i>		<i>8.9%</i>	<i>10.3%</i>		<i>10.1%</i>	<i>15.6%</i>	
Gross Profit	7.5	9.2	22.3%	9.1	0.3%	23.7	26.5	11.6%	32.4	38.1	17.8%
gross margin	52.5%	54.2%		54.4%		52.3%	52.9%		52.6%	53.6%	
EBITDA pre stock grant									6.7	7.9	
EBITDA IFRS	1.6	2.4	48.9%	2.0	20.3%	5.0	5.7	14.7%	5.9	7.9	33.6%
EBITDA margin	11.4%	14.3%		12.0%		11.0%	11.5%		9.6%	11.1%	
Depreciation and amortization <i>on revenues</i>	(0.3) -2.2%	(0.3) -2.0%		(0.3) -1.6%		(0.8) -1.8%	(0.9) -1.7%		(1.1) 1.9%	(1.4) 2.0%	
EBIT IFRS	1.3	2.1	57.9%	1.7	19.5%	4.2	4.9	16.6%	4.8	6.6	36.8%
<i>EBIT margin</i>	<i>9.3%</i>	<i>12.3%</i>		<i>10.4%</i>		<i>9.2%</i>	<i>9.7%</i>		<i>7.9%</i>	<i>9.5%</i>	
Financial income and charges	(0.0)	0.1		(0.0)		(0.1)	(0.1)		(0.2)	(0.1)	
Pre-tax profit	1.3	2.2	66.4%	1.7	27.4%	4.1	4.8	18.5%	4.6	6.5	39.1%
Income taxes <i>tax rate</i>	(0.2) -16.1%	(0.6) -25.9%		(0.3) -17.1%		(0.6) -15.2%	(1.2) -24.4%		(0.8) -16.4%	(1.3) -20.0%	
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0		0.0	0.0	
Net profit	1.10	1.61	46.9%	1.41	13.9%	3.44	3.63	5.6%	3.88	5.17	33.1%
<i>YoY growth</i>	<i>19.3%</i>	<i>46.9%</i>		<i>29.0%</i>		<i>-4.8%</i>	<i>5.6%</i>		<i>-6.9%</i>	<i>33.1%</i>	

Source: Company data (A) and Intermonte SIM estimates (E)

Estimates

TXT - Change in estimates

(Eu mn)	2015A	2016E	2017E	2018E
Total revenues new	61.5	71.2	77.6	82.0
Total revenues old		71.2	77.6	82.0
% change		0.0%	0.0%	0.0%
EBITDA pre stock grant new	6.7	7.9	9.6	10.9
EBITDA pre stock grant old		7.9	9.6	10.9
% change		0.0%	0.0%	0.0%
EBITDA new	5.9	7.9	9.1	10.3
EBITDA old		7.9	9.1	10.3
% change		0.0%	0.0%	0.0%
EBIT new	4.8	6.6	7.8	8.9
EBIT old		6.6	7.8	8.9
% change		0.0%	0.0%	0.0%
PBT new	4.6	6.5	7.8	9.0
PBT old		6.5	7.8	9.0
% change		0.0%	0.0%	0.0%
Net profit new	3.9	5.2	6.0	6.8
Net profit old		5.2	6.0	6.8
% change		0.0%	0.0%	0.0%
Net cash new	8.3	1.5	2.8	5.8
Net cash old		1.5	2.8	5.8
% change		0.0%	0.0%	0.0%

Source: Intermonte SIM estimates

TXT E-SOLUTIONS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT E-SOLUTIONS	7.70	EUR	100	7.7%	4.3%	0.8%	-5.3%	-8.9%	-0.6%
AMERICAN SOFTWARE	10.19	USD	297	-4.7%	-7.9%	13.6%	0.1%	-2.4%	6.9%
ATOSS SOFTWARE	56.20	EUR	223	1.2%	-5.8%	-16.9%	-18.3%	-2.7%	87.9%
CAPGEMINI	74.06	EUR	12,629	-12.0%	-13.4%	-6.1%	-13.5%	-9.9%	36.0%
COMPUTACENTER	7.21	GBP	885	5.0%	-11.8%	-15.3%	-15.4%	-5.1%	17.6%
DESCARTES SYSTEMS	27.67	CAD	2,098	-0.3%	4.1%	15.9%	-0.6%	15.8%	63.7%
DEVOTEAM	48.50	EUR	370	-2.5%	10.4%	17.3%	44.8%	55.0%	225.5%
MANHATTAN ASSOCIATE	51.46	USD	3,663	-10.3%	-12.1%	-12.2%	-22.2%	-32.6%	28.5%
ORACLE	39.13	USD	160,654	1.1%	-4.9%	-0.7%	7.1%	-3.7%	-2.0%
REPLY	114.30	EUR	1,069	-8.1%	-7.5%	-6.6%	-9.2%	-4.4%	103.0%
SAP	78.51	EUR	96,450	-2.0%	1.4%	16.5%	7.0%	7.3%	46.5%
SOPRA GROUP	91.75	EUR	1,839	-7.8%	-11.4%	-19.7%	-15.3%	-17.2%	56.8%
SQS SOFTWARE	6.03	EUR	208	-4.0%	15.0%	8.6%	-17.3%	-18.3%	-14.6%
Mean performance				-2.8%	-3.0%	-0.4%	-4.5%	-2.1%	50.4%
Italy FTSE Mib	16,817.4	EUR	241,737	2.5%	0.4%	-5.7%	-21.5%	-25.4%	-11.9%

Source: FactSet

TXT E-SOLUTIONS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
TXT E-SOLUTIONS	7.70	EUR	100	1.2	1.1	11.2	9.6	13.5	11.3	17.6	15.1	3.4%	3.6%
AMERICAN SOFTWARE	10.19	USD	297	1.9	1.8	13.1	11.9	19.1	16.7	31.4	28.3		
ATOSS SOFTWARE	56.20	EUR	223	4.1	3.6	15.0	13.0	15.8	13.8	25.5	22.8	2.0%	2.2%
CAPGEMINI	74.06	EUR	12,629	1.1	1.0	8.6	7.7	10.0	8.9	14.2	13.1	1.9%	2.1%
COMPUTACENTER	7.21	GBP	885	0.2	0.2	6.3	5.9	8.5	7.9	13.8	13.0	3.1%	3.3%
DESCARTES SYSTEMS	27.67	CAD	2,098	7.5	6.7	22.0	19.1	44.7	33.3	61.9	48.1	0.0%	0.0%
DEVOTEAM	48.50	EUR	370	0.6	0.5	7.2	6.0	7.8	6.5	19.4	16.2	1.2%	1.6%
MANHATTAN ASSOCIATE	51.46	USD	3,663	5.8	5.1	16.0	13.9	16.9	14.7	27.9	25.3		
ORACLE	39.13	USD	160,654	3.9	3.8	8.8	8.1	9.2	8.7	14.9	13.6	1.5%	1.6%
REPLY	114.30	EUR	1,069	1.3	1.2	9.6	8.1	10.4	8.9	16.8	14.6	1.0%	1.1%
SAP	78.51	EUR	96,450	4.5	4.2	13.9	12.5	15.1	13.6	20.7	18.6	1.6%	1.7%
SOPRA GROUP	91.75	EUR	1,839	0.7	0.6	7.4	6.3	9.0	7.5	11.3	9.7	2.2%	2.4%
SQS SOFTWARE	6.58	EUR	208	0.6	0.6	7.0	6.2	9.2	7.9	15.1	13.5	2.3%	2.5%
Median				1.6	1.5	9.2	8.1	10.2	8.9	18.1	15.4	1.8%	1.9%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TXT E-SOLUTIONS		
Current Recomm:	BUY	Previous Recomm:	OUTPERFORM
Current Target (Eu):	11.00	Previous Target (Eu):	11.00
Current Price (Eu):	7.70	Previous Price (Eu):	7.33
Date of report:	09/11/2016	Date of last report:	11/08/2016

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- 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 2.5% and a risk premium of 5.0% 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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BUY:	14.67 %
OUTPERFORM:	48.00 %
NEUTRAL:	30.67 %
UNDERPERFORM:	05.33 %
SELL:	01.33 %

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BUY:	22.73 %
OUTPERFORM:	54.55 %
NEUTRAL:	22.72 %
UNDERPERFORM:	00.00 %
SELL:	00.00 %

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Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
CHL	0.81	SHORT
COGEME SET SPA	1.6	SHORT
IKF	0.57	SHORT
OLIDATA	0.89	SHORT
STEFANEL	0.6	SHORT
WASTE ITALIA	0.91	SHORT
ZEPHYRO SPA	1.38	LONG

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