

TXT e-solutions

H119 results

Growth accelerates in Q2

TXT reported strong organic revenue growth in both divisions in Q219, which combined with the contribution from recent acquisitions, translated into strong growth in EBIT and improved EBIT margins year-on-year. Recent acquisitions have been integrated and provide the potential for cross-selling in the banking & finance division, while the aerospace business has seen significant contract wins in North America. We have revised our forecasts to reflect stronger revenues, higher operating costs and higher tax rates in FY19 and FY20.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	35.9	3.0	0.19	1.00	45.0	12.0
12/18	40.0	1.5	0.10	0.50	81.3	6.0
12/19e	57.4	6.1	0.34	0.13	24.9	1.6
12/20e	64.4	6.0	0.32	0.15	25.8	1.8

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Strong organic growth in Q219

TXT reported year-on-year revenue growth of 57% for Q219, of which 26% was organic. The recent Cheleo and Assioma acquisitions contributed revenue of €3.0m in Q219. On a divisional organic revenue basis, the Aerospace, Aviation & Automotive division grew 25% and Banking & Finance 33% in Q219. Gross margins were lower on a year-on-year basis due to the higher mix of services revenues. Normalised EBIT grew 108% y-o-y, generating a margin of 7.3%, up from 5.5% a year ago. Net cash at the end of H119 was €44.2m, reflecting the payment of dividends and the acquisition of Assioma in H119.

Positive outlook

Management expects continued organic revenue growth in Q319 and improved EBITA versus Q318. We have revised our forecasts to reflect stronger services revenues in FY19 and FY20, higher operating expenses and a higher tax rate (to match the rate reported in H119). These changes, combined with movements in the value of short-term investments, result in a 9.5% upgrade to FY19 normalised EPS and a 5.8% reduction in FY20 EPS.

Valuation: Accretive acquisitions to drive upside

TXT is trading at a discount to its peer group on EV/Sales and EV/EBITDA multiples, with EBITDA and EBIT margins slightly below the group average. While the company still holds a high level of cash (we forecast €50m by the end of FY19), it continues to trade at a premium to peers on a P/E basis. Further acquisitions of earnings-enhancing businesses should reduce this premium.

Software & comp services

6 August 2019
Price €8.36

Market cap €98m

Net cash (€m) at end H119 44.2

Shares in issue 11.8m

Free float 45%

Code TXT

Primary exchange Borsa Italiana (STAR)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (0.6) (12.2) (14.3)

Rel (local) 5.0 (7.8) (10.0)

52-week high/low €10.26 €7.70

Business description

TXT e-solutions provides IT, consulting and R&D services to aerospace, aviation, automotive, banking and finance customers.

Next events

Q3 results 7 November 2019

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Review of H119 results

Exhibit 1: Q219 and H119 results highlights						
€m	Q219	Q218	y-o-y	H119	H118	y-o-y
Revenues	15.1	9.6	57.3%	27.0	19.0	42.0%
Licenses and maintenance	1.4	1.2	18.4%	2.9	2.4	24.9%
Services	13.7	8.4	62.9%	24.1	16.7	44.5%
Gross margin (%)	43.1%	43.8%	(0.7%)	43.5%	44.4%	(1.0%)
EBITDA	1.5	0.9	68.9%	2.8	2.1	34.7%
EBITDA margin (%)	9.9%	9.2%	0.7%	10.3%	10.9%	(0.6%)
Normalised EBIT	1.1	0.5	108.4%	2.1	1.4	50.0%
Normalised EBIT margin (%)	7.3%	5.5%	1.8%	7.6%	7.2%	0.4%
Reported net income	0.7	0.3	100.9%	2.1	0.9	139.5%
Net cash	44.2	74.0	(40.3%)	44.2	74.0	(40.3%)

Source: TXT e-solutions

TXT reported year-on-year revenue growth of 57.3% for Q219, compared with 26.5% in Q119, resulting in 42% growth for H119. Organic growth in Q219 was 26% y-o-y (Q119 17%), with a further €3.0m contribution in Q2 from the Cheleo and Assioma acquisitions (consolidated from 1 August 2018 and 1 May 2019, respectively).

Revenues from software licenses and maintenance increased 18.4% y-o-y in Q219 while revenue from services increased 62.9% y-o-y. Of the €3.0m acquired revenue contributed in Q219, €2.8m was reported within the services segment. The company noted that it had won important new contracts in the aerospace business, mainly in North America, which should provide further benefits to near-term results.

Gross margin reduced in both Q219 and H119 reflecting the higher proportion of lower margin services revenues compared to last year. Normalised EBIT more than doubled in Q219 and was 50% higher for H119, reflecting the contribution from the acquired businesses. We have treated €346k of reorganisation costs in H119 as exceptional.

In FY18, the company invested the majority of its excess cash in multi-segment insurance funds, which are marked to market. In H218, these were revalued downwards resulting in a net financial expense of €1.3m in FY18. Through the course of 2019 the assets have increased in value and the company reported net financial income of €1.8m for H119.

Net cash at the end of Q219 had reduced to €44.2m from €60.4m at the end of FY18, reflecting payment of the dividend in May (€5.8m), payment to acquire Assioma (€5.6m), purchase of treasury shares (€1m) and newly capitalised leases (€2.2m).

Exhibit 2: Divisional revenues				
Revenues (€m)		H119	H118	y-o-y
Aerospace, Aviation & Automotive (AAA)		18.6	15.2	22.7%
Banking & Finance (B&F)		8.4	3.8	119.0%
- Original business		4.5	3.8	18.2%
- Cheleo & Assioma		3.9	0	N/A

Source: TXT e-solutions

On a divisional basis, growth in the AAA division was all organic. Organic growth in the B&F division was similarly strong, boosted by a €3.9m contribution from acquisitions in H119. In Q219, growth in AAA was 25% (all organic) and 196% for B&F (33% organic).

Management changes

In Q2, Marco Guida, CEO of the AAA division and previously group CEO, resigned and has since left the business. Daniele Misani, who has worked his entire career at TXT, has been appointed to this role and also the board.

The CFO, Paolo Matarazzo, resigned in July and will leave TXT at the end of September. Stepping into this role is Eugenio Forcinito, who has worked closely with Paolo at TXT for many years.

Outlook and changes to forecasts

In Q319, the company expects further revenue growth, both organic and from acquisitions, and for Q319 EBITA to be significantly ahead of Q318.

We have revised our forecasts to reflect Q2 results (Exhibit 3). As services revenues saw strong growth in H119, we have increased our services revenue forecasts for the remainder of FY19 and for FY20. We have also increased our operating cost forecasts to reflect increased investment across all cost lines. Based on the 31% tax rate achieved in H119, we have increased our tax rate forecast from 28% to 31% in FY19 and FY20. In FY19, these changes result in a 9.5% increase in normalised EPS. In FY20, the increase in the tax rate outweighs the small increase in normalised EBIT, resulting in a 5.8% decrease in normalised EPS. We note that our normalised EPS forecasts include net financial income of €1.8m in FY19, reflecting the upward valuation of short-term investments in H119, whereas in FY20 we have a €0.3m net financial income forecast reflecting a modest return on cash (as we do not attempt to estimate the likely valuation of the short-term investments). This somewhat skews the growth of EPS in both years.

Exhibit 3: Changes to forecasts								
(€m)	FY19e old	FY19e new	change	y-o-y	FY20e old	FY20e new	change	y-o-y
Revenues	54.3	57.4	5.8%	43.7%	61.2	64.4	5.3%	12.2%
Gross margin (%)	42.8%	43.1%	0.3%	(1.2%)	42.2%	43.0%	0.8%	(0.0%)
Gross profit	23.2	24.7	6.5%	40.0%	25.8	27.7	7.3%	12.0%
EBITDA	5.5	5.8	5.9%	40.9%	7.3	7.2	(0.3%)	25.4%
EBITDA margin (%)	10.1%	10.1%	0.0%	(0.2%)	11.9%	11.2%	(0.6%)	1.2%
Normalised EBIT	3.9	4.3	9.3%	54.9%	5.6	5.7	0.6%	32.9%
Normalised EBIT margin (%)	7.2%	7.4%	0.2%	0.5%	9.2%	8.8%	(0.4%)	1.4%
Normalised net income	3.6	3.9	9.2%	226.1%	4.1	3.8	(6.2%)	(2.7%)
Normalised EPS (€)	0.31	0.34	9.5%	226.3%	0.34	0.32	(5.8%)	(3.2%)
Reported basic EPS (€)	0.25	0.26	4.4%	435.7%	0.29	0.27	(6.2%)	3.8%
Net cash	50.1	50.3	0.5%	(16.6%)	53.2	53.2	0.1%	5.8%
Dividend (€)	0.13	0.13	0.0%	(74.0%)	0.15	0.15	0.0%	15.4%

Source: Edison Investment Research

Valuation

Exhibit 4: Peer group valuation multiples																
Company	Share price	Market cap m	Rev growth		EBIT margin		EBITDA margin		EV/Sales		EV/EBITDA		P/E		Div yield	
			CY	NY	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
TXT	€ 8.36	€ 98	43.7%	12.2%	7.4%	8.8%	10.1%	11.2%	0.9	0.8	9.4	7.5	24.9	25.8	1.6%	1.8%
AKKA Technologies	€ 61.90	€ 1,253	21.5%	5.3%	8.4%	8.8%	10.2%	10.6%	0.8	0.8	8.3	7.5	12.4	10.9	1.8%	2.0%
Alten	€ 107.1	€ 3,623	14.5%	7.3%	9.8%	9.9%	10.6%	10.7%	1.4	1.3	13.1	12.1	19.5	17.7	0.9%	1.0%
Altran	€ 14.35	€ 3,680	11.0%	5.6%	11.2%	12.0%	14.8%	15.3%	1.5	1.4	10.3	9.4	16.8	14.5	1.6%	1.9%
AtoS	€ 70.24	€ 7,653	(5.8%)	2.0%	9.9%	10.3%	14.5%	14.8%	1.0	1.0	7.0	6.8	8.6	8.0	2.3%	2.5%
Cap Gemini	€ 112.0	€ 18,696	7.5%	5.3%	12.1%	12.3%	15.4%	15.4%	1.4	1.3	9.1	8.6	17.2	15.6	1.7%	1.8%
Devoteam	€ 105.6	€ 878	18.7%	11.5%	11.0%	11.1%	11.9%	12.1%	1.1	1.0	9.2	8.1	18.9	16.7	1.2%	1.4%
ESI Group	€ 30.40	€ 181	1.8%	8.0%	6.1%	6.9%	8.5%	9.7%	1.5	1.4	17.3	14.1	36.6	27.6	0.0%	0.0%
Exprivia	€ 0.99	€ 51	0.0%	3.4%	4.2%	4.7%	7.5%	7.8%	0.5	0.4	6.0	5.7	9.9	6.2	0.0%	0.0%
Reply	€ 53.3	€ 1,990	13.7%	8.5%	12.7%	12.9%	14.6%	14.7%	1.7	1.5	11.5	10.5	18.8	17.1	0.9%	1.0%
Sopra Steria	€ 114.0	€ 2,336	7.9%	5.1%	7.2%	8.2%	10.4%	11.2%	0.7	0.6	6.5	5.7	11.8	9.5	2.0%	2.5%
Average			9.1%	6.2%	9.2%	9.7%	11.9%	12.2%	1.2	1.1	9.8	8.9	17.0	14.4	1.2%	1.4%
(Discount)/premium to peers									(18%)	(22%)	(4%)	(16%)	46%	79%	24%	28%

Source: Edison Investment Research, Refinitiv (as at 5 August 2019)

TXT is trading at a discount to its peer group on EV/Sales and EV/EBITDA multiples. While the company still holds a high level of cash (we forecast €50m by the end of FY19), it continues to trade at a premium to peers on a P/E basis. Further acquisitions of earnings-enhancing businesses should reduce this premium.

Recent M&A highlights the attraction of outsourced IT services

In June, CGI announced that it had made a cash offer for Scisys at 254.15p per share. This valued the company at a market cap of £78.9m. Based on consensus forecasts at the time, this equates to a FY19 EV/Sales multiple of 1.3x and a FY19 P/E of 19.0x, above the average of the peer group. Scisys was forecast to generate an EBIT margin of 8.9% in FY19 and revenue growth of 5.8%.

Exhibit 5: Financial summary

	€'000s	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		54,410	61,540	33,060	35,852	39,957	57,426	64,417
Cost of sales		(26,455)	(29,189)	(18,954)	(20,224)	(22,289)	(32,697)	(36,708)
Gross profit		27,955	32,351	14,106	15,628	17,668	24,730	27,708
EBITDA		5,324	6,659	4,260	3,536	4,098	5,776	7,241
Operating Profit (before amort and except)		4,284	5,820	3,954	3,180	2,755	4,269	5,673
Amortisation of acquired intangibles		(285)	(285)	(264)	(439)	(610)	(960)	(960)
Exceptionals and other income		1,468	0	(557)	0	(300)	(346)	0
Other income		0	(740)	0	(69)	0	0	0
Operating Profit		5,467	4,795	3,133	2,672	1,845	2,963	4,713
Net Interest		(249)	(151)	48	(208)	(1,284)	1,800	300
Profit Before Tax (norm)		4,035	5,669	4,002	2,972	1,471	6,069	5,973
Profit Before Tax (FRS 3)		5,218	4,644	3,181	2,464	561	4,763	5,013
Tax		(1,046)	(762)	(661)	(710)	4	(1,476)	(1,554)
Profit After Tax (norm)		3,226	4,739	3,170	2,170	1,204	4,187	4,122
Profit After Tax (FRS 3)		4,172	3,882	2,520	1,754	565	3,286	3,459
Average Number of Shares Outstanding (m)		11.5	11.7	11.7	11.7	11.7	11.7	11.8
EPS - normalised (€)		0.281	0.406	0.271	0.186	0.103	0.335	0.325
EPS - normalised fully diluted (€)		0.276	0.403	0.271	0.186	0.103	0.335	0.325
EPS - (IFRS) (€)		0.364	0.333	0.475	5.874	0.048	0.258	0.268
Dividend per share (€)		0.23	0.25	0.30	1.00	0.50	0.13	0.15
Gross margin (%)		51.4	52.6	42.7	43.6	44.2	43.1	43.0
EBITDA Margin (%)		9.8	10.8	12.9	9.9	10.3	10.1	11.2
Operating Margin (before GW and except) (%)		7.9	9.5	12.0	8.9	6.9	7.4	8.8
BALANCE SHEET								
Fixed Assets		18,019	18,132	25,428	8,860	22,942	30,995	28,907
Intangible Assets		15,078	14,692	21,296	7,332	17,751	24,163	23,175
Tangible Assets		1,249	1,361	1,598	793	3,680	5,321	4,221
Other		1,692	2,079	2,534	735	1,511	1,511	1,511
Current Assets		34,892	38,946	37,085	109,426	134,674	123,872	121,569
Stocks		1,820	2,075	3,146	2,528	3,141	3,441	3,741
Debtors		20,768	27,791	26,369	17,215	16,992	24,421	27,394
Cash		12,304	9,080	7,570	89,683	114,541	96,010	90,434
Other		0	0	0	0	0	0	0
Current Liabilities		(17,451)	(18,349)	(21,051)	(13,612)	(30,086)	(30,636)	(32,816)
Creditors		(15,297)	(17,528)	(20,243)	(12,937)	(12,782)	(18,232)	(20,412)
Short term borrowings		(2,154)	(821)	(808)	(675)	(17,304)	(12,404)	(12,404)
Long Term Liabilities		(6,491)	(5,105)	(7,180)	(4,781)	(41,184)	(37,584)	(29,084)
Long term borrowings		(1,685)	0	(1,391)	(1,688)	(36,882)	(33,282)	(24,782)
Other long term liabilities		(4,806)	(5,105)	(5,789)	(3,093)	(4,302)	(4,302)	(4,302)
Net Assets		28,969	33,624	34,282	99,893	86,346	86,647	88,575
CASH FLOW								
Operating Cash Flow		5,404	2,412	10,676	119	2,039	3,496	6,149
Net Interest		(249)	(151)	105	(208)	(69)	1,800	300
Tax		(1,344)	(1,461)	(2,022)	379	(624)	(1,476)	(1,554)
Capex		(615)	(763)	(738)	(661)	(548)	(620)	(440)
Acquisitions/disposals		0	0	(5,403)	82,250	1,314	(6,500)	0
Financing		(597)	2,215	(828)	(6)	(7,227)	(931)	0
Dividends		(2,615)	(2,678)	(2,931)	(3,496)	(11,710)	(5,781)	(1,531)
Net Cash Flow		(16)	(426)	(1,141)	78,377	(16,825)	(10,012)	2,924
Opening net debt/(cash)		(8,575)	(8,465)	(8,259)	(5,371)	(87,320)	(60,336)	(50,324)
HP finance leases initiated		0	0	0	0	(2,788)	(2,500)	0
Other		(94)	220	(1,747)	3,572	(7,371)	2,500	0
Closing net debt/(cash)		(8,465)	(8,259)	(5,371)	(87,320)	(60,336)	(50,324)	(53,248)

Source: TXT e-solutions, Edison Investment Research

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