

TPS Group

Sector: Business Services



Analysts

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Fair Value (€) **9.47**Market Price (€) **5.75**Market Cap. (€m) **41.7**

Restart of M&A activity

TPS is a B2B tech enabler providing, to top tier industrial groups, highly specialized engineering advisory and design services, including technical publications, cost engineering, avionics software development, components manufacturing, training & certification and digital content management.

HB Technology deal

A few days ago, TPS has announced the acquisition of the whole share capital of HB Technology S.r.l., Italian-based provider of engineering services for the aerospace sector and manufacturer of small aeronautical parts and components.

We appreciate the industrial rationale of the acquisition, which we find in line with the growth strategy pursued by TPS so far. We highlight the following as main benefits deriving from the deal:

- ◆ Strengthening of TPS presence in the aeronautical design sector;
- ◆ Closer control over the value chain of parts and components manufacturing, specifically enabling TPS to oversee the initial stages of production;
- ◆ Restart of the M&A growth path, which in our view represents one of the triggers for stock re-rating.

2023E-25E Estimates update

In FY23E Pro-Forma we estimate HB to add to TPS figures ca. €6-6.3mn revenues, ca. €750k EBITDA and some €3.7mn Net Debt (taking into account both the cash out for the acquisition and the Net Debt position of the acquired company).

Our new 2023EPF-25E estimates are as follows:

1. Revenues likely to grow at a double-digit pace (12.1% CAGR22A-25E), up to ca. €53.2mn at the end of forecast period;
2. EBITDA and EBIT margins expected at ca. 19.6% and 15.1% respectively in 2025E;
3. Net Cash Position moving from €15.4mn (after acquisition cash-out) up to €23.2mn in 2025E, to be used mainly for further M&A deals.

Fair value increased to €9.5 (from €9.2)

Based on our estimates, we calculate HB deal multiples at ca. 0.6x EV/Sales and ca. 4.7x EV/Adj. EBITDA FY23E. In our view, HB deal adds ca. €0.30 per share to TPS valuation, so we are updating our Fair Value at €9.47 per share (from €9.17). At fair value, the stock would trade at 1.2x-1.0x EV/Sales and 6.0x-5.1x EV/EBITDA 2023E-24E multiples, still at deep discount vs. domestic and international peers.

KEY FINANCIALS (€m)	2022	2023E	2024E
REVENUES	37.8	46.3	49.6
EBITDA	7.6	8.9	9.7
EBIT	5.7	6.8	7.5
NET PROFIT	3.6	4.5	4.9
EQUITY	28.4	32.6	37.2
NET CASH POSITION	15.5	15.4	19.1
EPS ADJ. (€)	0.49	0.62	0.68
DPS (€)	0.06	0.07	0.08

Source: TPS Group (historical figures),
Value Track (2023E-24E estimates)

RATIOS & MULTIPLES	2022	2023E	2024E
EBITDA MARGIN (%)	20.2	19.2	19.5
EBIT MARGIN (%)	15.2	14.7	15.1
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	0.0	0.0	0.0
EV/SALES (x)	0.7	0.6	0.5
EV/EBITDA (x)	3.4	3.0	2.3
EV/EBIT (x)	4.6	3.9	3.0
P/E ADJ. (x)	11.6	9.3	8.5

Source: TPS Group (historical figures),
Value Track (2023E-24E estimates)

STOCK DATA

FAIR VALUE (€)	9.5
MARKET PRICE (€)	5.75
SHS. OUT. (m)	7.3
MARKET CAP. (€m)	41.7
FREE FLOAT (%)	16.4
AVG. -20D VOL.	2,575
RIC / BBG	TPS.MI / TPS.IM
52 WK RANGE	4.60 - 5.95

Source: Stock Market Data



Business Description

TPS is a B2B tech enabler providing highly specialized engineering advisory and design services to top tier industrial groups. Within the scope of its offering, TPS writes technical publications, implements cost engineering activities, develops proprietary software for avionics systems, designs and manufactures parts and components, trains and certifies aircraft technical maintainers, and offers digital content management services.

Key Financials

€mn	2022A	2023E	2024E	2025E
Total Revenues	37.8	46.3	49.6	53.2
Chg. % YoY	0.6%	22.4%	7.2%	7.2%
EBITDA	7.6	8.9	9.7	10.4
EBITDA Margin (%)	20.2%	19.2%	19.5%	19.6%
EBIT	5.7	6.8	7.5	8.0
EBIT Margin (%)	15.2%	14.7%	15.1%	15.1%
Net Profit	3.6	4.5	4.9	5.3
Chg. % YoY	4.0%	25.3%	9.6%	7.4%
Adjusted Net Profit	3.6	4.5	4.9	5.3
Chg. % YoY	4.0%	25.3%	9.6%	7.4%
Net Fin. Position	15.5	15.4	19.1	23.2
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-3.3	-2.3	-2.5	-2.7
OpFCF b.t.	2.6	2.4	6.6	7.2
OpFCF b.t. as % of EBITDA	34.2%	27.3%	67.7%	68.8%

Source: TPS SpA (historical figures), Value Track (estimates)

Investment case

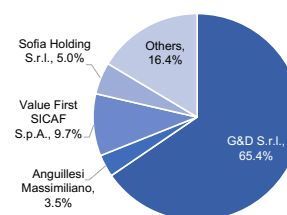
Strengths / Opportunities

- ◆ Human capital is TPS most strategic asset, with ca. 94% of workforce being composed by university/high-school graduates;
- ◆ Strong ties with clients, all top tier multinationals active in the A&D and Automotive sectors, often dating back to the Company's foundation;
- ◆ Strongly cash-generative business model with very low capital requirements;
- ◆ A&D/automotive markets growth rates expected to remain positive.

Weaknesses / Risks

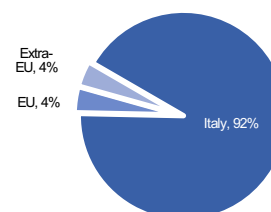
- ◆ Revenue concentration on a very few clients, with top 5 customers accounting for ca. two thirds of FY22 revenues;
- ◆ Challenges in attracting qualified workforce may still limit TPS' potential for sustained growth.

Shareholders Structure



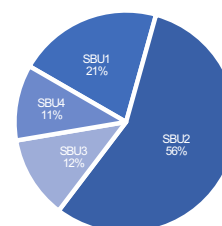
Source: TPS SpA

FY22 Revenues by geography



Source: TPS SpA

FY22 Revenues by business line



Source: TPS SpA

Stock multiples @ €9.47 Fair Value

	2023E	2024E
EV / SALES (x)	1.2	1.0
EV / EBITDA (x)	6.0	5.1
EV / EBIT (x)	7.8	6.6
EV / CAP.EMP. (x)	3.1	2.7
OpFCF Yield (%)	4.6	13.2
P / E (x)	15.3	14.0
P / BV (x)	2.2	1.9
Div. Yield. (%)	0.7	0.8

Source: Value Track

HB Technology Acquisition

The deal at a glance

A few days ago, TPS Group announced the acquisition of a 100% stake in HB Technology S.r.l. ("HB"), Italian-based player active in the provisioning of engineering services for the aerospace sector and in the production and assembly of aeronautical parts and components.

HB has its registered office in Gallarate as well as an operational office in Rome and a manufacturing plant in Faggiano (TA).

HB transaction was settled entirely via cash, with no additional provisions required.

In FY23E Pro-Forma we estimate HB to add to TPS figures ca. €6-6.3mn revenues, ca. €750k EBITDA and some €3.7mn Net Debt (taking into account both the cash out for the acquisition and the Net Debt position of the acquired company).

Based on our estimates, we calculate acquisition multiples at ca. 0.6x EV/Sales and ca. 4.7x EV/Adj. EBITDA FY23E, broadly consistent with our IoC M&A simulation.

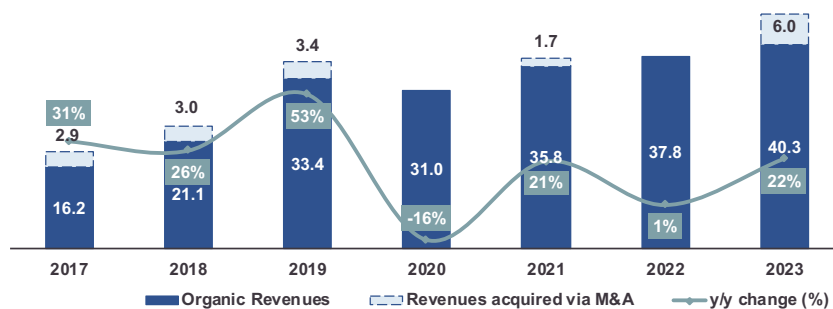
Our view of the deal

We appreciate the industrial rationale of the acquisition, which: 1) is consistent with TPS' strategy aimed at diversifying and expanding the tech service portfolio, with a focus on value-added engineering services; 2) resumes the Company's M&A growth path, which in our view represents the main trigger for the stock re-rating (by converting excess cash in Ebitda).

Furthermore, we have identified the following as key operational benefits arising from the transaction:

- ◆ **Grants TPS greater control over the value chain** of parts and components, specifically enabling them to oversee the initial stage of production;
- ◆ **Consolidates TPS' presence in the aeronautical design** sector - both at the Gallarate site and, in particular, at the Rome site, i.e. also expanding the geographical footprint.

TPS Group: M&A Impact on Total Revenues FY2017A-FY2023E



Source: Value Track analysis

Change in 2023E-25E estimates

We are changing our 2023E-25E estimates to take into account of HB line by line consolidation starting as of January 2023 on a pro-forma basis.

We forecast HB's Revenues at €6.3mn at FY23 and then growing at a 6.0% CAGR between 2023-2025E, contributing for ca. 13/14% of Group's Total Value of Production and ca. 8% of total EBITDA in the next three years.

HB Technology: P&L figures 2022A-25E

€mn	2022A	2023E	2024E	2025E
Total Revenues	6.3	6.3	6.6	7.0
EBITDA Adj.	0.7	0.8	0.8	0.8
<i>EBITDA Adj. Margin (%)</i>	11.7%	12.0%	12.0%	12.0%
EBITDA	0.0	0.8	0.8	0.8
<i>EBITDA Margin (%)</i>	nm	12.0%	12.0%	12.0%
EBIT	-0.3	0.5	0.6	0.6
Reported Net Profit	-0.3	0.5	0.5	0.6

Source: HB (historical figures), Value Track (forecasts)

That said, our 2023PF-25E financial forecasts for TPS Group can be summarized as follows:

- ◆ **Revenues** at €46.3mn in 2023PF, growing at a double-digit pace (12.1 %CAGR_{22A-25E}), moving from €37.8mn as of 2022A (before consolidation) to ca. €53.2mn at the end of forecast period;
- ◆ **EBITDA and EBIT margins** expected to converge to 19.6% and 15.1% respectively in 2025E, slightly diluted due to HB lower margins;
- ◆ **Net Financial Position** moving up from €15.4mn in FY23PF (after acquisition cash-out) up to €23.2mn in 2025E thanks to ca. €7.7mn cumulated Free Cash Flow over 2023E-2025E.

TPS: Old vs. New Estimates 23E-25E

€mn	2023E			2024E			2025E		
	Old	New	Δ(%)	Old	New	Δ(%)	Old	New	Δ(%)
Total Revenues	40.0	46.3	16%	43.0	49.6	15%	46.2	53.2	15%
EBITDA	8.1	8.9	10%	8.8	9.7	10%	9.5	10.4	10%
<i>EBITDA Margin (%)</i>	20.2%	19.2%	-103 bps	20.5%	19.5%	-96 bps	20.5%	19.6%	-95 bps
EBIT	6.2	6.8	10%	6.8	7.5	9%	7.3	8.0	9%
<i>EBIT Margin (%)</i>	15.4%	14.7%	-72 bps	15.9%	15.1%	-82 bps	15.9%	15.1%	-80 bps
Net Profit	4.0	4.5	11%	4.5	4.9	10%	4.8	5.3	10%
Net Fin. Position	18.9	15.4	-3.5	22.5	19.1	-3.4	26.4	23.2	-3.2

Source: Value Track Analysis

TPS Group: Profit & Loss 2022A-25E

(€, mn)	2022A	2023E	2024E	2025E
Value of Production	37.8	46.3	49.6	53.2
Raw Materials, Δ Inventory (Finished Goods)	-1.3	-1.6	-1.7	-1.9
Costs of Services	-7.0	-10.0	-10.7	-11.4
Labour Costs	-21.8	-25.8	-27.5	-29.5
EBITDA	7.6	8.9	9.7	10.4
EBITDA Margin (%)	20.2%	19.2%	19.5%	19.6%
D&A (excl. goodwill)	-1.9	-1.9	-2.1	-2.3
Provisions	0.0	-0.2	-0.1	-0.1
EBIT	5.7	6.8	7.5	8.0
EBIT Margin (%)	15.2%	14.7%	15.1%	15.1%
Interest Expenses	-0.2	-0.1	-0.2	-0.2
Other Non-Operating Income/Expenses	-0.1	0.0	0.0	0.0
Taxes	-1.6	-2.0	-2.2	-2.4
Minorities	-0.2	-0.2	-0.2	-0.2
Net Profit	3.6	4.5	4.9	5.3

Source: TPS Group, Value Track Analysis

TPS Group: Cash Flow Statement 2022A-25E

(€mn, IAS IFRS)	2022A	2023E	2024E	2025E
EBITDA	7.6	8.9	9.7	10.4
Δ Net Working Capital, Provisions	-1.7	-4.2	-0.7	-0.6
Capex	-3.3	-2.3	-2.5	-2.7
OpFCF b.t.	2.6	2.4	6.6	7.2
As a % of EBITDA	34.2%	27.3%	67.7%	68.8%
Cash Taxes	-1.6	-2.0	-2.2	-2.4
Others (incl. Financial Inv.)	0.7	0.0	0.0	0.0
Net Financial Charges	-0.2	-0.1	-0.2	-0.2
Dividends Paid	-0.6	-0.4	-0.5	-0.5
Net Cash Generated (Absorbed)	1.0	-0.1	3.7	4.1

Source: TPS Group, Value Track Analysis

TPS Group: Balance Sheet 2022A-25E

(€mn, IAS IFRS)	2022A	2023E	2024E	2025E
Net Fixed Assets	8.5	8.7	9.0	9.3
Net Working Capital	8.8	13.2	14.2	15.1
Provisions	4.4	4.7	5.0	5.4
Total Capital Employed	12.9	17.2	18.2	19.0
Group Net Equity	28.4	32.6	37.2	42.2
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	15.5	15.4	19.1	23.2

Source: TPS Group, Value Track Analysis

Valuation Update

Taking into account updated TPS financial forecasts, **we update our fair value at €9.47 per share (from €9.17)**, that would imply 1.2x-1.0x EV/Sales and 6.0x-5.1x EV/EBITDA 2023E-24E multiples, still at deep discount vs. domestic and international peers. Overall, in our view the HB deal adds ca. €0.30 per share to TPS valuation.

TPS Group: Peers' Trading Multiples

Peers	Mkt Cap (€mn)	EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
		2023E	2024E	2023E	2024E	2023E	2024E
International Peers							
Alten	4,947	12.6	11.0	11.0	9.4	9.1	5.8
Sogeclair	56	14.5	7.4	5.4	4.1	18.4	0.5
Bertrandt Group	505	14.5	10.0	8.9	7.6	11.2	1.3
EDAG Engineering Group	250	8.2	7.7	8.4	6.6	12.0	12.2
Ricardo PLC	348	12.7	12.2	9.0	10.3	11.1	0.7
Arcadis	3,403	14.8	12.2	12.4	9.8	8.1	6.6
EU Tech Enablers - Average	1,585	12.9	10.1	9.2	8.0	11.6	4.5
EU Tech Enablers - Median	427	13.6	10.5	9.0	8.5	11.2	3.6
Domestic Peers							
TXT e-solutions	286	22.3	13.2	16.4	10.8	6.1	4.2
Star7	72	15.6	10.8	10.2	7.7	9.8	3.3
Reti	19	14.6	9.2	16.2	8.5	6.2	12.6
TNXT	850	20.6	17.5	17.3	13.2	5.8	6.0
Spindox	54	20.3	13.1	<0	10.4	<0	0.0
Reply	3,928	13.5	12.8	14.6	12.0	6.8	6.4
ITA Tech Enablers - Average	868	17.8	12.7	14.9	10.4	6.9	5.4
ITA Tech Enablers - Median	179	17.9	12.9	16.2	10.6	6.2	5.1
Total Average	1,227	15.3	11.4	11.8	9.2	9.5	5.0
Total Median	317	14.6	11.6	11.0	9.6	9.1	5.0
TPS Fair Multiple		2.1	4.6	4.2	3.5	2.7	3.6

Source: Market Consensus, Value Track Analysis

TPS Group: DCF Model with Rolling Capital Structure

(€mn, g = 2.0%)	(€mn)
PV of Future Cash-Flows 2024E-2030E	24.2
PV of Terminal Value 2030E	31.8
Fair Enterprise Value	56.0
Net Cash Position 2023YE	15.4
Minorities, Other Liabilities / Assets	0.0
100% Fair Equity Value	71.4
Fair Equity Value p.s. (€)	9.8

Source: Value Track Analysis

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