

TPS Group

Sector: Business Services

2024 progressing positively

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.

Key takeaways from the meetings

Here are takeaways from a series of investors meetings with the company:

- ◆ The management expressed optimism in the company's 2024 performance to date and stated that it is in line with its expectations. We remind that our forecasts call for Revenues to grow at ca. 7.2% CAGR_{23A-26E}, with profitability remaining robust (EBITDA margin >18%). During 2024-2026, this is expected to result in ca. €30mn cumulated EBITDA and €13mn cumulated Free Cash Flow;
- ◆ As for underlying markets, aerospace and defense are the most dynamic ones, driven by key clients initiating several new projects. Opportunities are also noted in the energy and heavy machinery sectors, while automotive is more sluggish as mass market clients are relocating their engineering projects in low-cost countries;
- ◆ The integration of companies acquired back in 2H22-2023 is progressing well, and should positively impact margins in 1H24. However, we do not expect significant margin improvements in the full year, as the scheduled wage adjustments under the industry labour agreement in 2H24 should take their toll;
- ◆ Growth strategies are substantially confirmed: 1) M&A, which will be the primary use of the cash position and where TPS is scrutinizing several opportunities in Aeronautics, Railway, and Industrial Automation; 2) Possible expansion in US, also leveraging HB Technology's Philadelphia office; 3) Expansion of the service portfolio;
- ◆ The ability to attract and retain skilled labor remain a key focus. The management believes that TPS widespread presence in Italy and the Training Academy are proving to be crucial in mitigating churn, which is higher among young workers, especially in Northern Italy.

Our take: strong investment case, very undemanding price

The meetings confirmed a robust investment case, ideal for value investors seeking strong cash flows at very attractive valuations.

Based on our estimates, we highlight the following: 1) At the current price, the stock trades at 3.2x EV/EBITDA 2024, while the sector stands at more than double that figure; 2) EFCF Yield is forecasted consistently over 10%; 3) 35-40% of the current Equity Value is represented by the cash position.



Analysts

Marco Greco

+39 02 80886654

marco.greco@value-track.com

Luca Bernini

luca.bernini@value-track.com

Fair Value (€) **9.50**

Market Price (€) **6.25**

Market Cap. (€m) **45.4**

KEY FINANCIALS (€m)	2023	2024E	2025E
REVENUES	48.3	51.8	55.5
EBITDA	8.7	9.5	10.4
EBIT	6.7	7.4	7.9
NET PROFIT	3.3	4.8	5.2
EQUITY	31.1	35.7	40.6
NET CASH POSITION	10.6	15.0	20.0
EPS ADJ. (€)	0.66	0.66	0.71
DPS (€)	0.08	0.08	0.08

Source: TPS Group (historical figures), Value Track (2024E-25E estimates)

RATIOS & MULTIPLES	2023	2024E	2025E
EBITDA MARGIN (%)	17.9	18.3	18.7
EBIT MARGIN (%)	13.8	14.4	14.3
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x)	0.6	0.6	0.5
EV/EBITDA (x)	3.4	3.2	2.4
EV/EBIT (x)	4.4	4.0	3.1
P/E ADJ. (x)	8.4	9.4	8.7

Source: TPS Group (historical figures), Value Track (2024E-25E estimates)

STOCK DATA	
FAIR VALUE (€)	9.5
MARKET PRICE (€)	6.3
SHS. OUT. (m)	7.3
MARKET CAP. (€m)	45.4
FREE FLOAT (%)	16.4
AVG. -20D VOL.	3,294
RIC / BBG	TPS.MI / TPS IM
52 WK RANGE	5.05 – 7.45

Source: Stock Market Data



TPS Group: Profit & Loss 2023A-26E

(€, mn)	2023A	2024E	2025E	2026E
Value of Production	48.3	51.8	55.5	59.6
Raw Materials, Δ Inventory (Finished Goods)	-1.9	-2.3	-2.5	-2.7
Costs of Services	-10.7	-11.1	-11.9	-12.8
Labour Costs	-27.0	-28.9	-30.7	-32.7
EBITDA	8.7	9.5	10.4	11.3
EBITDA Margin (%)	17.9%	18.3%	18.7%	19.0%
D&A (excl. goodwill)	-1.9	-2.0	-2.4	-2.8
Provisions	-0.1	0.0	0.0	-0.1
EBIT	6.7	7.4	7.9	8.5
EBIT Margin (%)	13.8%	14.4%	14.3%	14.2%
Interest Expenses	-0.2	-0.1	-0.1	0.0
Other Non-Operating Income/Expenses	-0.1	0.0	0.0	0.0
Extraordinary Items	-1.2	0.0	0.0	0.0
Taxes	-1.6	-2.2	-2.4	-2.5
Minorities	-0.2	-0.3	-0.3	-0.3
Net Profit	3.3	4.8	5.2	5.5

Source: TPS Group, Value Track Analysis

TPS Group: Cash Flow Statement 2023A-26E

(€mn, IAS IFRS)	2023A	2024E	2025E	2026E
EBITDA	8.7	9.5	10.4	11.3
Δ Net Working Capital	-6.8	0.5	0.5	-0.9
Capex	-2.8	-3.1	-3.3	-3.6
Δ Provision	1.6	0.3	0.4	0.4
OpFCF b.t.	0.7	7.4	8.0	7.2
As a % of EBITDA	7.9%	77.9%	76.7%	63.6%
Cash Taxes	-1.6	-2.2	-2.4	-2.5
Others (incl. Financial Inv.)	-2.8	0.0	0.0	0.0
Net Financial Charges	-0.2	-0.1	-0.1	0.0
Dividends Paid	-0.6	-0.6	-0.6	-0.6
Net Cash Generated (Absorbed)	-5.0	4.5	4.9	4.1

Source: TPS Group, Value Track Analysis

TPS Group: Balance Sheet 2023A-26E

(€mn, IAS IFRS)	2023A	2024E	2025E	2026E
Net Fixed Assets	11.0	12.1	13.0	13.7
Net Working Capital	15.5	14.9	14.3	15.2
Provisions	6.0	6.3	6.7	7.1
Total Capital Employed	20.6	20.7	20.7	21.9
Group Net Equity	31.1	35.7	40.6	45.9
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	10.6	15.0	20.0	24.0

Source: TPS Group, Value Track Analysis

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