

Tinexta

Q119 results

Broad-based strong profit growth

Tinexta reported strong Q119 results, with c 10% organic revenue growth, c 32% organic EBITDA growth, 50% EPS growth and improving free cash flow (FCF) generation. All divisions contributed to profit growth and the acquisitions made in FY18 are performing well. Management has reiterated guidance for FY19, which appears conservative even though Q1 is a seasonally less important quarter. We maintain our forecasts for now but will review them later in the year.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	174.8	30.5	0.46	0.14	27.0	1.1
12/18	238.7	48.6	0.74	0.23	16.8	1.9
12/19e	256.5	52.6	0.78	0.26	15.9	2.1
12/20e	272.9	57.4	0.85	0.28	14.6	2.3

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

Strong Q119 results

Tinexta has reported strong Q119 results, with c 10% organic revenue growth, 32% organic EBITDA growth and 50% EPS growth. M&A added a further c 6% to revenue and EBITDA. Revenue growth and margins were driven by the two most important divisions: Digital Trust and Innovation & Marketing Services, 35% and 34% of group EBITDA before central costs, respectively. Digital Trust's organic revenue and EBITDA growth was 9.5% and 10.1% respectively, and Innovation & Marketing Services was 32.9% and 98.3% respectively. Despite reporting a three percent decline in organic revenue, successful cost management by Credit Information and Management resulted in organic EBITDA growth of 15.6%.

Management's FY19 guidance looks conservative

Management has reiterated FY19 guidance for revenue of greater than €250m (+4%) and EBITDA of €68–70m (at least c 3% growth). Our forecasts, with revenue ahead of guidance and EBITDA roughly in line, remain essentially unchanged for now. However given that Q1 revenue growth rates in Digital Trust and Innovation & Marketing Services were ahead of our FY19 estimates we see scope to revisit these later in the year. The adoption of IFRS 16 could, we estimate, add €3–4m to EBITDA, although management has yet to issue firm guidance on this.

Valuation: Scope for expansion

Pre the adoption of IFRS 16, Tinexta's EV/EBITDA multiples of 9.9x for FY19e and 9.2x for FY20e look low versus peers given our possibly conservative forecast of c 6% average organic growth for EBITDA in FY19–21. The FCF yield is 6% in FY19. Our discounted cash flow (DCF) valuation remains at €14.2 per share.

Professional services

16 May 2019

Price €12.40

Market cap €578m

Net debt (€m) at 31 March 2019 132

Shares in issue 46.9m

Free float 34%

Code TNXT

Primary exchange Borsa Italiana STAR

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	15.8	46.7	92.9
Rel (local)	23.9	45.7	120.5
52-week high/low		€12.00	€5.35

Business description

Tinexta has three business divisions: Digital Trust – solutions to improve digital security; Credit Information & Management – information services to help manage corporate credit; and Innovation & Marketing Services – consulting services to help clients develop and/or grow their businesses.

Next events

Interim results 1 August 2019

Q3 results 14 November 2019

Analysts

Russell Pointon +44 (0)20 3077 5757

Fiona Orford-Williams +44 (0)20 3077 5739

media@edisongroup.com
[Edison profile page](#)

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Q119: Broad-based EBITDA growth

Group overview

Q119 results were strong, with organic revenue growth of 10.2%, organic EBITDA growth of 31.7% and EPS growth of 50%. Organic revenue growth was better than expected in Digital Trust and Innovation & Marketing Services. The reported group EBITDA margin increased from 19.8% in Q118 to 22.8% in Q119, before the adoption of IFRS 16, which added a further 1.4% to give a total of 24.2%. Management is yet to issue guidance on the impact of the adoption of IFRS 16 for FY19, but we estimate that this could add €3–4m to our forecast 2019 EBITDA of €70m. Free cash flow generation was strong, with growth of 67.8%, driven by the EBITDA margin improvement above and working capital.

Digital Trust (42% of revenue and 35% of EBITDA)

In what is typically a lower growth quarter for the business unit, Digital Trust reported 9.5% organic revenue growth, ahead of our forecast 9% for FY19. This compares with growth rates of 5.9% in Q117 and 3.1% in Q118. The quarter benefited from unexpected strength in certified electronic mail, as well as the expected and continued strong growth in Enterprise Solutions. Looking forward, management is confident of continuing to report high single-digit/low double-digit organic revenue growth, which, per management, could fluctuate between 8% and 12% on a quarterly basis. The underlying clean EBITDA margin, before the adoption of IFRS 16, fell slightly from 22.5% in Q118 to 22.2% in Q119, but this just reflects a seasonally less important quarter and includes upfront costs at the start of new contracts; we believe margin progression should resume through the year.

Credit Information & Management (32% of revenue and 31% of EBITDA)

Having returned to organic growth in FY18 (2.3%), after declines in FY16 (-3%) and FY17 (-6%), Credit Information & Management reported a decline in organic revenue in Q119 of 3.1%. This reflects tougher conditions, with competitive pricing pressure in the core credit information business, Innolva, and lower growth (c 2–3%) in the real estate valuation business, ReValuta, which had a strong FY18. Acquisitions made in FY18 added 8% to revenue growth. To counter the revenue declines, management continues to control costs well, such that clean EBITDA margin increased from 22.1% in Q118 to 26.3% in Q119, before the adoption of IFRS16, which added one percentage point to the business unit's margin. At this stage, our FY19 forecast for organic revenue growth of 3% appears high, but the FY18 acquisitions are performing better than expected and management's EBITDA margin target for FY19 of 23–24% is ahead of our 22.3%. Therefore, net-net there is no need to materially change the absolute forecasts. Comfort is provided by the fact that in Q119 the business unit has booked c 30% of our FY19 EBITDA forecast compared to c 26% of FY18 reported EBITDA in Q118.

Innovation & Marketing Services (25% of revenue and 34% of clean EBITDA)

Innovation & Marketing Services' organic revenue increased by 32.9% in Q119 (+43.8% Q418). Growth was entirely driven by Warrant Hub, the innovation consultancy where demand continues to outstrip the company's capacity. Co.Mark, the export consultancy, is described as 'stable', as the new CEO formulates a new strategy for the business. We expect growth to moderate through FY19 given the capacity constraints at Warrant Hub. We continue to forecast 3% organic revenue growth in FY19.

Exhibit 1: Financial summary

	€'000s	2017	2018	2019e	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		174,790	238,701	256,470	272,913	290,650
Cost of Sales		0	0	0	0	0
Gross Profit		174,790	238,701	256,470	272,913	290,650
EBITDA		40,630	65,959	70,224	75,490	81,137
Normalised operating profit		28,959	50,999	54,588	59,311	64,353
Amortisation of acquired intangibles		(1,861)	(2,849)	0	0	0
Exceptionals		0	0	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		27,098	48,150	54,588	59,311	64,353
Net Interest		1,523	(2,520)	(2,737)	(2,802)	(2,577)
Joint ventures & associates (post tax)		4	106	770	847	1,016
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		30,486	48,585	52,621	57,356	62,792
Profit Before Tax (reported)		28,625	45,736	52,621	57,356	62,792
Reported tax		(8,420)	(12,629)	(15,260)	(16,633)	(18,210)
Profit After Tax (norm)		21,519	35,169	37,361	40,723	44,582
Profit After Tax (reported)		20,205	33,107	37,361	40,723	44,582
Minority interests		(78)	(588)	(664)	(723)	(792)
Discontinued operations		0	0	0	0	0
Net income (normalised)		21,441	34,581	36,697	40,000	43,792
Net income (reported)		20,127	32,519	36,697	39,999	43,790
Basic average number of shares outstanding (m)		46	47	47	47	47
EPS - basic normalised (€)		0.46	0.74	0.78	0.85	0.93
EPS - diluted normalised (€)		0.46	0.74	0.78	0.85	0.93
EPS - basic reported (€)		0.43	0.70	0.78	0.85	0.93
Dividend (€)		0.14	0.23	0.26	0.28	0.30
Revenue growth (%)		19.0	36.6	7.4	6.4	6.5
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		23.2	27.6	27.4	27.7	27.9
Normalised Operating Margin		16.6	21.4	21.3	21.7	22.1
BALANCE SHEET						
Fixed Assets		275,773	305,579	302,943	298,765	292,981
Intangible Assets		260,630	270,536	267,899	263,721	257,937
Tangible Assets		8,287	8,232	8,233	8,233	8,233
Investments & other		6,856	26,811	26,811	26,811	26,811
Current Assets		125,844	143,406	176,600	212,893	253,849
Stocks		2,072	1,344	1,444	1,537	1,637
Debtors		80,285	86,321	92,747	98,693	105,107
Cash & cash equivalents		36,987	35,136	61,805	92,059	126,500
Other financial assets		4,311	8,186	8,186	8,186	8,186
Other		2,189	12,419	12,419	12,419	12,419
Current Liabilities		(102,868)	(194,356)	(198,221)	(201,652)	(205,365)
Creditors		(47,725)	(93,905)	(97,770)	(101,201)	(104,914)
Tax and social security		(6,125)	(704)	(704)	(704)	(704)
Short term borrowings		(21,723)	(97,380)	(97,380)	(97,380)	(97,380)
Other		(27,295)	(2,367)	(2,367)	(2,367)	(2,367)
Long Term Liabilities		(155,535)	(109,085)	(109,085)	(109,085)	(109,085)
Long term borrowings		(123,800)	(70,667)	(70,667)	(70,667)	(70,667)
Other long term liabilities		(31,735)	(38,418)	(38,418)	(38,418)	(38,418)
Net Assets		143,214	145,544	172,238	200,921	232,380
Minority interests		537	3,757	4,421	5,144	5,936
Shareholders' equity		143,751	149,301	176,658	206,064	238,315
CASH FLOW						
Net operating cash flow		32,151	43,405	53,073	57,097	61,142
Capex		(6,486)	(13,095)	(13,000)	(12,000)	(11,000)
Acquisitions/disposals		(61,072)	(33,182)	0	0	0
Net interest		(1,526)	(1,441)	(2,737)	(2,802)	(2,577)
Equity financing		1,078	1,080	0	0	0
Dividends		(6,977)	(12,067)	(10,669)	(12,040)	(13,123)
Other		4,219	(3,866)	0	0	0
Net Cash Flow		(38,613)	(19,166)	26,667	30,254	34,441
Opening net debt/(cash)		71,003	104,225	124,726	98,059	67,805
FX		0	0	0	0	0
Other non-cash movements		5,391	(1,335)	0	0	0
Closing net debt/(cash)		104,225	124,726	98,059	67,805	33,364

Source: Company accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia