

Tinexta

H120 results

Looking forward to recovery

Management believes the COVID-19 pandemic will have the greatest impact on Tinexta's profitability in the current financial quarter, before an anticipated recovery later in FY20. There is a confident message on cost savings and ongoing efficiencies to help mitigate some of the expected decline in revenue. We downgrade our forecasts to reflect a slower recovery in Digital Trust and a lower margin in Credit Information & Management. The EV/EBITDA multiple for FY20e is 8.9x.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	238.7	48.3	0.74	0.23	15.3	2.0
12/19	258.7	45.7	0.65	0.00	17.4	0.0
12/20e	250.8	48.6	0.71	0.23	15.9	2.0
12/21e	263.5	53.8	0.79	0.26	14.3	2.3

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

Q120 results: Affected by COVID-1

Tinexta's Q120 results showed the first impacts of the COVID-19 pandemic, with an organic revenue decline of 8.4% and a decline in adjusted EBITDA of 29.6%. The revenue declines were greater than we anticipated in Digital Trust and Innovation & Marketing Services, albeit the latter had a very strong comparative in Q119. All business units saw a decline in profitability given the speed and extent of the slowdown towards the end of the period. On the positive side, free cash flow generation improved significantly due to positive management of working capital. Management has said that it will provide new financial guidance for FY20 in late June: Q220 is expected to be the weakest period for growth, but recovery is anticipated thereafter.

Forecasts: FY20 EBITDA downgraded by 5.8%

We downgrade our FY20 EBITDA forecast by 5.8% due to a combination of declines reported in Q120, the assumption of a slower recovery in Digital Trust and a greater margin impact on Credit Information & Management. The downgrade takes our EBITDA forecast for FY20 to €71.3m, which is in line with reported EBITDA for FY19. Although there is no formal guidance, management does not expect 'great discontinuities compared to the previous year', as further cost savings and efficiencies are sought.

Valuation: Strong rebound in valuation

Multiples have increased given the recent strong share price performance and our downgrades to estimates. The EV/Sales multiples for FY20e and FY21e are 2.5x and 2.4x respectively. These compare with the long-term average since IPO of 1.8x, reflecting a better medium-term growth outlook from the newer group structure following M&A, and the resulting higher EBITDA margin of 29.7% in FY19 versus 18.8% in FY15. The EV/EBITDA multiples for FY20e and FY21e are 8.9x and 8.5x versus the long-term average since IPO of 8.5x.

Professional services

26 May 2020
Price €11.32
Market cap €534m

Net debt (€m) at 31 March 2020	110
Shares in issue	47.2m
Free float	34%
Code	TNXT
Primary exchange	Borsa Italiana STAR
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.6)	(11.6)	(12.1)
Rel (local)	(8.3)	15.2	1.7
52-week high/low		€14.36	€7.28

Business description

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

Next events

Guidance for FY20	June 2020
H120 results	4 August 2020
Q320 results	12 November 2020

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Q120 results: Affected by COVID-19

Tinexta's Q120 results showed the first signs of the impact of COVID-19 against a strong comparative in Q119. The first quarter is typically a seasonally less important quarter in the financial year. Organic revenue declined by 8.4% and organic EBITDA before non-recurring items declined by 25.5% at the business unit level. At the group level, ie including central corporate costs, the organic decline for adjusted EBITDA was 29.6% to €11.0m, as central costs increased by 12.6% to €1.9m.

Exhibit 1: Tinexta's quarterly revenue and profitability progression								
€000s	Q119	Q219	H119	Q319	Q419	H219	FY19	Q120
Revenue								
- Digital Trust	25,192	26,553	51,745	25,067	29,843	54,910	106,655	25,932
- Credit Information & Management	19,364	18,548	37,912	14,804	19,570	34,374	72,286	16,987
- Innovation & Marketing Services	15,178	21,757	36,935	14,705	28,141	42,846	79,781	11,992
Total	59,734	66,858	126,592	54,576	77,554	132,130	258,722	54,911
Organic growth y-o-y (%)								
- Digital Trust	9.5	10.5	10.0	11.2	12.9	12.1	11.1	2.9
- Credit Information & Management	(3.1)	(10.2)	(6.7)	(13.9)	(3.8)	(8.3)	(7.5)	(12.3)
- Innovation & Marketing Services	32.9	7.6	16.7	(10.0)	24.1	9.8	12.9	(22.3)
Total	10.2	3.3	6.4	(2.5)	11.8	5.4	5.9	(8.4)
EBITDA (before non-recurring items)								
- Digital Trust	5,984	7,374	13,358	7,710	8,502	16,212	29,570	5,919
- Credit Information & Management	5,289	4,240	9,529	3,144	4,809	7,953	17,482	3,584
- Innovation & Marketing Services	5,927	11,451	17,378	5,821	14,749	20,570	37,948	3,396
Subtotal (before central costs)	17,200	23,065	40,265	16,675	28,060	44,735	85,000	12,899
EBITDA Margin (%)								
- Digital Trust	23.8	27.8	25.8	30.8	28.5	29.5	27.7	22.8
- Credit Information & Management	27.3	22.9	25.1	21.2	24.6	23.1	24.2	21.1
- Innovation & Marketing Services	39.0	52.6	47.1	39.6	52.4	48.0	47.6	28.3
Total	28.8	34.5	31.8	30.6	36.2	33.9	32.9	23.5
Organic growth y-o-y (%)								
- Digital Trust	10.1	4.5	6.9	14.2	15.9	15.1	11.3	(1.1)
- Credit Information & Management	15.6	(2.5)	6.9	(19.6)	1.1	(7.8)	(0.4)	(32.2)
- Innovation & Marketing Services	98.3	10.8	30.2	(27.3)	16.3	(0.3)	11.7	(44.0)
Total	33.5	6.3	16.3	(10.6)	13.4	3.3	9.0	(25.5)

Source: Tinexta accounts, Edison Investment Research

Versus the expectations set out in our [update note](#) published on 15 April 2020, revenue growth for Digital Trust and Innovation & Marketing Services was lower than expected, but revenue growth for Credit Information & Management was roughly in line.

Digital Trust was affected by a significant slowdown in the Camerfirma business in Spain, as the start of the economic slowdown coincided with a number of contract renewals, as well as a smaller impact on the other businesses (InfoCert, Sixtema and Visura). Management believes the impact on Camerfirma should be short-lived and its near-term outlook is more positive than during Q120.

For Credit Information & Management, the real estate business was flat, performing better than we expected as existing work sustained the business through the early part of the lockdown. Conversely, the core credit information business was marginally worse than expected, with economic weakness affecting both financial and corporate customers.

Quarterly trends for Innovation & Marketing Services, notably for Warrant Hub, tend to be quite volatile, as can be seen by the organic growth trends in Exhibit 1. The comparative from Q119 was very strong, when organic revenue growth of 32.9% y-o-y was recorded.

The decline in EBITDA was greater than expected, most notably in Credit Information & Management. In the near term, a higher level of operational gearing reflected the speed and extent

of the economic lockdown. Performance in Credit Information & Management suggests that it may be becoming more difficult to find further cost savings following the cost cutting, which helped improve its margin in FY19 to 24.2% from 21.2% in FY18 despite an organic revenue decline of 7.5%. On area of potential growth post the COVID-19 pandemic is that of consultancy to SMEs to obtain Italian government guarantees that allow banks to offer very low cost financing.

Cash flow & balance sheet: Strong improvement in FCF

Free cash flow (FCF) improved to €20.1m from €17.9m in Q119 despite lower profitability, representing an improvement in FCF generation (relative to sales) of 36.6% from 30.0% in Q119. Operating cash flow improved by 7%, by €1.5m to €22.4m, with a strong improvement in working capital, and the investment in tangible and intangibles assets declined by €0.7m, from €3.0m to €2.3m.

At the period end, the net financial position had improved to €111.4m from €129.1m at the end of FY19. The total net financial position, which includes non-current financial assets, reduced from €128.0m to €110.1m.

Outlook: Revised FY20 guidance expected in late June

Management continues to believe the current outlook is too uncertain to provide updated financial guidance for FY20. It now expects to provide guidance by the end of June 2020, ie a month before the Q220 results. However, at the group level it does not expect to see 'great discontinuities compared to the previous year', which we assume to mean at the reported EBITDA level, ie €71.3m in FY19. This compares with our prior EBITDA forecast for FY20 of €75.6m. The current financial quarter should be the period that witnesses the greatest impact of COVID-19 and the lockdowns. By the end of June, management will have better visibility on group performance through to the end of May. Thereafter, management expects performance to improve.

The current financial year should benefit from the internal initiatives on the implementation of CRM, and management is proactively reducing costs. For example, personnel costs have been a great focus, with up to 170 employees from a total of c 1,300 employees placed on furlough.

Forecast changes

Our group revenue forecast for FY20 is relatively unchanged, with a reduction in our organic revenue growth assumption of 20bp from -3.0% to -3.2%. Our forecast for EBITDA before non-recurring costs in FY20 falls by 5.8% to €71.3m from €75.6m. Following our downgrade on 15 April, the cumulative downgrade to FY20e EBITDA is 11% (from €80.0m).

Exhibit 2: Forecast changes

€000s	FY19	FY20e			FY21e		
		Old	New	Change %	Old	New	Change %
Revenue							
- Digital Trust	106,655	110,522	108,091	(2.2)	121,574	118,900	(2.2)
- Credit Information & Management	72,286	61,189	65,046	6.3	59,354	63,095	6.3
- Innovation & Marketing Services	79,781	79,319	77,635	(2.1)	83,284	81,517	(2.1)
Total	258,722	251,030	250,772	(0.1)	264,212	263,511	(0.3)
Organic growth y-o-y (%)							
- Digital Trust	11.1	3.6	1.3	(2.3)	10.0	10.0	0.0
- Credit Information & Management	(7.5)	(13.9)	(9.1)	4.8	(3.0)	(3.0)	0.0
- Innovation & Marketing Services	12.9	(1.1)	(5.5)	(4.4)	5.0	5.0	0.0
Total	5.9	(3.0)	(3.2)	(0.2)	5.3	5.1	(0.2)
EBITDA before non-recurring costs							
- Digital Trust	29,570	30,730	29,570	(3.8)	34,046	32,813	(3.6)
- Credit Information & Management	17,482	14,153	11,690	(17.4)	13,602	11,105	(18.4)
- Innovation & Marketing Services	37,948	37,763	37,010	(2.0)	39,746	38,951	(2.0)
sub-total	85,000	82,646	78,270	(5.3)	87,394	82,868	(5.2)
- Other	(8,173)	(7,000)	(7,000)	0.0	(7,350)	(7,350)	0.0
Total	76,827	75,646	71,270	(5.8)	80,044	75,518	(5.7)
EBITDA Margin (%)							
- Digital Trust	27.7	27.8	27.4	(0.4)	28.0	27.6	(0.4)
- Credit Information & Management	24.2	23.1	18.0	(5.2)	22.9	17.6	(5.3)
- Innovation & Marketing Services	47.6	47.6	47.7	0.1	47.7	47.8	0.1
sub-total	32.9	32.9	31.2	(1.7)	33.1	31.4	(1.6)
Total	29.7	30.1	28.4	(1.7)	30.3	28.7	(1.6)

Source: Edison Investment Research

The FY20e revenue change reflects lower revenue growth in Q120, as well as a reduction in the rate of recovery for Digital Trust in H220e to c 3% from c 5% and a shallower downturn for the real estate business, ReValuta, in the Credit Information & Management business unit.

We assume a lower EBITDA margin in FY20e for Digital Trust given the lower revenue growth mentioned above, and a lower margin for Credit Information given the impact on its margin in Q120.

Our underlying assumptions for FY21 are unchanged, with the absolute changes due to lower base forecasts flowing through from FY20.

Valuation

The share price has rebounded strongly to €11.32 following the sell-off due to concerns about the impact of COVID-19, which took it down to €7.28. When coupled with our downgrades, the relative valuation has increased. At the current share price, the EV/Sales multiples for FY20e and FY21e are 2.5x and 2.4x respectively. These compare with the long-term average since IPO of 1.8x, which reflects a better medium-term growth outlook and higher EBITDA margin of 29.7% in FY19 versus 18.8% in FY15.

The EV/EBITDA multiples for FY20e and FY21e are 8.9x and 8.5x versus the long-term average since IPO of 8.5x.

Exhibit 3: Financial summary

	€'k	2016	2017	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		146,920	174,790	238,701	258,722	250,772	263,511
Operating costs		(116,673)	(135,938)	(172,119)	(181,895)	(179,502)	(187,993)
EBITDA before non-recurring costs		30,247	38,852	66,582	76,827	71,270	75,518
EBITDA		29,274	40,630	65,958	71,287	71,270	75,518
Normalised operating profit		18,447	28,959	50,763	51,027	51,816	56,923
Amortisation of acquired intangibles		0	0	0	0	0	0
Exceptionals		(1,029)	(1,861)	(2,849)	(3,529)	0	0
Share-based payments		0	0	0	0	0	0
Reported operating profit		17,418	27,098	47,914	47,498	51,816	56,923
Net Interest		(1,042)	1,523	(2,520)	(4,149)	(1,924)	(1,624)
Joint ventures & associates (post tax)		13	4	106	(1,139)	(1,253)	(1,503)
Exceptionals		0	0	0	0	0	0
Profit Before Tax (norm)		17,418	30,486	48,349	45,739	48,640	53,796
Profit Before Tax (reported)		16,389	28,625	45,500	42,210	48,640	53,796
Reported tax		(4,784)	(8,420)	(12,564)	(13,432)	(14,349)	(15,870)
Profit After Tax (norm)		12,334	21,519	34,998	31,184	34,291	37,926
Profit After Tax (reported)		11,605	20,205	32,936	28,778	34,291	37,926
Minority interests		(51)	(78)	(586)	(597)	(711)	(787)
Discontinued operations		0	0	0	0	0	0
Net income (normalised)		12,283	21,441	34,412	30,587	33,581	37,141
Net income (reported)		11,554	20,127	32,350	28,181	33,580	37,139
Average number of shares outstanding (m)		37	46	46.6	46.9	47.2	47.2
EPS - basic normalised (€)		0.33	0.46	0.74	0.65	0.71	0.79
EPS - diluted normalised (€)		0.33	0.46	0.74	0.65	0.71	0.79
EPS - basic reported (€)		0.31	0.43	0.69	0.60	0.71	0.79
Dividend (€)		0.09	0.14	0.23	0.00	0.23	0.26
Revenue growth (%)		18.3	19.0	36.6	8.4	(-3.1)	5.1
EBITDA Margin before non-recurring costs (%)		20.6	22.2	27.9	29.7	28.4	28.7
Normalised Operating Margin		12.6	16.6	21.3	19.7	20.7	21.6
BALANCE SHEET							
Fixed Assets		216,369	275,773	307,147	316,738	309,284	303,298
Intangible Assets		200,690	260,630	272,104	269,935	267,560	265,065
Tangible Assets		7,050	8,287	8,232	21,215	16,136	12,646
Investments & other		8,629	6,856	26,811	25,588	25,588	25,588
Current Assets		122,590	125,844	143,406	139,350	178,770	214,090
Stocks		1,001	2,072	1,344	1,145	1,110	1,166
Debtors		50,948	80,285	86,321	89,775	87,016	91,437
Cash & cash equivalents		60,431	36,987	35,136	33,600	75,814	106,657
Other financial assets		6,352	4,311	8,186	6,593	6,593	6,593
Other		3,858	2,189	12,419	8,237	8,237	8,237
Current Liabilities		(89,792)	(102,868)	(194,356)	(160,441)	(158,115)	(160,605)
Creditors		(33,185)	(47,725)	(93,905)	(92,675)	(90,349)	(92,839)
Tax and social security		(1,481)	(6,125)	(704)	(2,911)	(2,911)	(2,911)
Short term borrowings		(36,947)	(21,723)	(97,380)	(62,001)	(62,001)	(62,001)
Other		(18,179)	(27,295)	(2,367)	(2,854)	(2,854)	(2,854)
Long Term Liabilities		(119,246)	(155,535)	(110,823)	(146,220)	(146,220)	(146,220)
Long term borrowings		(100,839)	(123,800)	(70,667)	(107,039)	(107,039)	(107,039)
Other long term liabilities		(18,407)	(31,735)	(40,156)	(39,181)	(39,181)	(39,181)
Net Assets		129,921	143,214	145,374	149,427	183,719	210,564
Minority interests		(187)	(537)	(3,757)	(3,859)	(4,570)	(5,357)
Shareholders' equity		129,734	142,677	141,617	145,568	179,149	205,207
CASH FLOW							
Operating cash flow		20,038	32,151	43,404	55,214	56,136	56,158
Capex		(5,745)	(6,486)	(13,095)	(13,527)	(12,000)	(12,610)
Acquisitions/disposals		(36,993)	(61,072)	(33,182)	(47,463)	(28,000)	0
Net interest		(1,017)	(1,526)	(1,441)	(2,472)	(1,924)	(1,624)
Equity financing		48,179	1,078	1,080	1,078	0	0
Dividends		(3,820)	(6,977)	(12,067)	(16,396)	0	(11,081)
Borrowings		19,398	15,170	17,317	23,714	0	0
Other		1,076	4,219	(3,866)	(1,683)	28,000	0
Net Cash Flow		41,116	(23,443)	(1,850)	(1,535)	42,213	30,843
Opening net debt/(cash)		46,879	68,333	103,844	123,792	127,974	85,761
FX		0	0	0	0	0	0
Other non-cash movements		(62,570)	(12,068)	(18,098)	(2,647)	0	0
Closing net debt/(cash)		68,333	103,844	123,792	127,974	85,761	54,918

Source: Company accounts / Edison Investment Research

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