

# Tessi

France | Support services | MCAP EUR 444.8m

13 September 2018

## Buy

Target Price	EUR 185.00 (210.00)
Current Price	EUR 159.00
Up/downside	16.4%
Change in TP	-11.9%
Change in EPS	-16.7% 18E / -10.0% 19E

## Transformation story faces headwinds

We cut our EBIT estimates and TP after disappointing H1 results. Tessi's transformation from a local family business into a larger structured and decentralised organisation is proving more difficult than expected. We maintain our Buy rating, given solid catalysts (improvement in earnings, M&A newsflow).

### Severe and unexpected decline of operating profitability

Interim results released yesterday were clearly disappointing, as evidenced by a 10% decline in the share price. EBIT came down 15% and the margin down 220bp to 10.6% (vs. +6% and margin up 30bp expected) while net profit decreased 6% (excl. CPoR). Drivers include: 1) difficulties at Diagonal, the Spanish BPO specialist acquired in late 2015; 2) a high basis of comparison; 3) negative impact from changes to tax and employment-related items in France; 4) higher costs for innovation; 5) sustained rate of hiring in accordance with digital transformation; and 6) (expected) losses at Dhimyotis (acquired in July 2017).

### The integration of Diagonal is painful and will take some time

The need for structuring the Spanish BPO business was known but obviously underestimated. The lack of solid foundations in process and organisation had a direct impact on Diagonal's commercial performance. Sales volumes at a key client were reduced significantly (est. EUR2m impact on EBITDA). Tessi is pursuing efforts to lift EBITDA at Diagonal (6% and 8% margin targeted in 2018 and 2019, respectively) towards the standards of the French legacy market (c.15%), but it will take some time.

### We cut estimates despite likely better H2

H2 will be better considering: 1) the CFO confirms a strong pipeline of new business recorded in H1; 2) a more favourable base effect; 3) possibly some synergies kicking in from the acquisition of Owliance in May; and 4) gradual recovery of Diagonal: from EURO.9m operating loss in H1 to positive EBIT as of H2. Even after taking into account those elements, we nevertheless lower our EBIT estimates (-14% in 2018, -11% in 2019) to account for higher opex in the industrialisation phase.

### Transformation story is still on, TP of EUR185

The main shareholder wants Tessi to play a significant role in the consolidation of the BPO industry in Europe through the leveraging of the balance sheet and active M&A. In this respect, a deep screening of potential targets was done in the UK, Germany and Italy, and a deal is very likely in 2019. Catalysts in the next 18 months (improvement in earnings, M&A newsflow) should provide solid support for the shares. The revision of our estimates impacts our DCF-derived valuation. New TP is EUR185.

### Baptiste de Leudeville

Equity Research Analyst

bdeleudeville@keplercheuvreux.com

+33 1 53 65 36 55

#### Market data

Bloomberg: TES FP	Reuters: TESI.PA
Market cap (EURm)	445
Free float	42%
No. of shares outstanding (m)	3
Avg. daily volume (EURm)	0.1
YTD abs performance	-9.7%
52-week high/low (EUR)	1.91/1.59

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
Sales (m)	420,8	461,2	478,6
EBITDA adj (m)	54,1	61,9	66,8
EBIT adj (m)	41,5	48,1	52,4
Net profit adj (m)	23,9	28,8	32,0
Net fin. debt (m)	-61,7	-85,8	-114,0
FCF (m)	38,5	35,5	39,6
EPS adj. and fully dil.	8,54	10,28	11,43
Consensus EPS	10,25	11,42	12,00
Net dividend	2,00	2,00	2,00

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
P/E adj and ful. dil.	18,6	15,5	13,9
EV/EBITDA	7,7	6,8	6,4
EV/EBIT	10,1	8,8	8,1
FCF yield	8,7%	8,0%	8,9%
Dividend yield	1,3%	1,3%	1,3%
Net fin.debt/EBITDA	-1,1	-1,4	-1,7
Gearing	-33,2%	-40,8%	-47,9%
ROIC	19,3%	23,7%	25,8%
EV/IC	2,8	2,8	2,8



# Key financials

FY to 31/12 (EUR)	12/13	12/14	12/15	12/16	12/17	12/18E	12/19E	12/20E
<b>Income Statement (EURm)</b>								
Sales	239,3	247,2	290,0	404,0	389,1	420,8	461,2	478,6
% Change	-3,0%	3,3%	17,3%	39,3%	-3,7%	8,2%	9,6%	3,8%
EBITDA adjusted	46,3	42,1	51,7	60,2	26,9	54,1	61,9	66,8
EBITDA margin (%)	19,4%	17,0%	17,8%	14,9%	6,9%	12,9%	13,4%	13,9%
EBIT adjusted	38,1	33,5	41,8	48,7	44,4	41,5	48,1	52,4
EBIT margin (%)	15,9%	13,5%	14,4%	12,1%	11,4%	9,9%	10,4%	10,9%
Net financial items & associates	-0,4	-0,2	-5,5	-3,0	-5,8	-5,8	-5,8	-5,8
Others	-0,1	-0,4	0,0	-0,9	-0,3	-0,3	-0,3	-0,3
Tax	-11,3	-10,0	-10,7	-11,2	-11,4	-8,9	-10,6	-11,8
Net profit from continuing operations	24,2	19,7	25,0	31,8	-4,2	25,4	30,3	33,5
Net profit from discontinuing activities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net profit before minorities	24,2	19,7	25,0	31,8	-4,2	25,4	30,3	33,5
Net profit reported	21,8	18,3	22,9	30,2	-6,2	23,9	28,8	32,0
Net profit adjusted	21,8	18,3	22,9	30,2	-6,2	23,9	28,8	32,0
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	30,0	31,2	43,9	37,2	20,7	51,1	49,3	54,0
Capex	-13,0	-15,8	-12,3	-8,9	-11,1	-12,6	-13,8	-14,4
Free cash flow	17,0	15,3	31,6	28,2	9,6	38,5	35,5	39,6
Acquisitions & Divestments	0,0	-20,6	-63,8	-15,3	-18,3	-45,0	0,0	0,0
Dividend paid	-7,6	-7,7	-5,7	-6,0	-70,8	-5,6	-5,6	-5,6
Others	-0,8	-1,0	-1,5	-3,4	-5,8	50,2	-5,8	-5,8
Change in net financial debt	8,5	-13,9	-39,3	3,6	-85,3	38,1	24,1	28,2
<b>Balance Sheet (EURm)</b>								
Intangible assets	49,5	73,2	136,9	150,4	172,8	164,0	164,0	164,0
Tangible assets	26,7	34,8	40,2	49,4	48,7	46,5	46,5	46,5
Financial & other non-current assets	13,2	19,0	13,5	14,2	12,5	12,5	12,5	12,5
Total shareholders' equity	155,5	165,3	189,7	212,1	165,8	185,6	210,4	238,3
Pension provisions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Liabilities and provisions	241,8	293,3	414,6	419,2	433,3	428,6	429,0	428,8
Net financial debt	-106,6	-87,9	-85,9	-74,6	-23,6	-61,7	-85,8	-114,0
Working capital requirement	-30,0	-31,4	-62,1	-44,1	-53,4	-60,7	-60,0	-60,3
Invested Capital	46,1	76,6	115,0	155,7	168,1	149,8	150,4	150,1
<b>Per share data</b>								
EPS adjusted	7,76	6,53	8,20	10,78	-2,21	8,55	10,30	11,45
EPS adj and fully diluted	7,76	6,53	8,20	10,78	-2,21	8,54	10,28	11,43
% Change	6,2%	-15,9%	25,6%	31,5%	-chg	+chg	20,4%	11,2%
EPS reported	7,76	6,53	8,20	10,78	-2,21	8,55	10,30	11,45
Cash flow per share	10,70	11,11	15,69	13,28	7,39	18,28	17,63	19,30
Book value per share	51,26	54,94	62,06	69,86	53,90	60,99	69,82	79,81
Dividend per share	2,00	2,00	2,00	24,20	2,00	2,00	2,00	2,00
Number of shares, YE (m)	2,80	2,81	2,80	2,80	2,80	2,80	2,80	2,80
<b>Ratios</b>								
ROE (%)	16,1%	12,3%	14,0%	16,4%	-3,6%	14,9%	15,7%	15,3%
ROIC (%)	86,8%	40,4%	32,3%	26,6%	20,3%	19,3%	23,7%	25,8%
Net fin. debt / EBITDA (x)	-2,3	-2,1	-1,7	-1,2	-0,9	-1,1	-1,4	-1,7
Gearing (%)	-68,6%	-53,2%	-45,3%	-35,2%	-14,2%	-33,2%	-40,8%	-47,9%
<b>Valuation</b>								
P/E adjusted	11,0	14,0	12,3	13,1	na	18,6	15,4	13,9
P/E adjusted and fully diluted	11,0	14,0	12,3	13,1	na	18,6	15,5	13,9
P/BV	1,7	1,7	1,6	2,0	2,9	2,6	2,3	2,0
P/CF	8,0	8,2	6,4	10,6	21,2	8,7	9,0	8,2
Dividend yield (%)	2,3%	2,2%	2,0%	17,2%	1,3%	1,3%	1,3%	1,3%
FCF yield (%)	7,1%	6,0%	11,2%	7,2%	2,2%	8,7%	8,0%	8,9%
EV/Sales	1,3	1,2	1,1	1,1	1,1	1,0	0,9	0,9
EV/EBITDA	6,6	7,0	6,0	7,4	16,6	7,7	6,8	6,4
EV/EBIT	8,1	8,8	7,4	9,2	10,1	10,1	8,8	8,1

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## Companies mentioned

Stock	ISIN	Currency	Price
Tessi	FR0004529147	EUR	159,00

Source: Factset closing prices of 12/09/2018

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Total	100%	100%

Source: KEPLER CHEUVREUX

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	05/06/2018 08:28	Equity Research	Buy	215.00	186.00
	03/08/2018 08:31	Equity Research	Buy	210.00	179.50

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**Amsterdam**

Kepler Cheuvreux Benelux  
Johannes Vermeerstraat 9  
1071 DK Amsterdam  
+31 20 573 06 66

**Brussels**

Kepler Cheuvreux  
Rogier Tower  
Place Rogier 11  
1210 Brussels, Belgium  
+32 11 491460

**Frankfurt**

Kepler Cheuvreux Germany  
Taunusanlage 18  
60325 Frankfurt  
+49 69 756 960

**Geneva**

Kepler Cheuvreux SA  
Route de Crassier 11  
1262 - Eysins  
Switzerland  
+41 22361 5151

**London**

Kepler Cheuvreux UK  
5th Floor  
95 Gresham Street  
London EC2V 7NA  
+44 20 7621 5100

**Madrid**

Kepler Cheuvreux Espana  
Paseo de la Castellana, 52  
28046 Madrid  
Tel: +34 914 36 5100

**Milan**

Kepler Cheuvreux Italia  
Via C. Cornaggia 10  
20123 Milano  
+39 02 8550 7201

**Oslo**

Kepler Cheuvreux Norway  
Filipstad Brygge 1  
Pb. 1671 Vika  
0120 Oslo  
+47 23 13 9080

**Paris**

Kepler Cheuvreux France  
112 Avenue Kleber  
75016 Paris  
+33 1 53 65 35 00

**Stockholm**

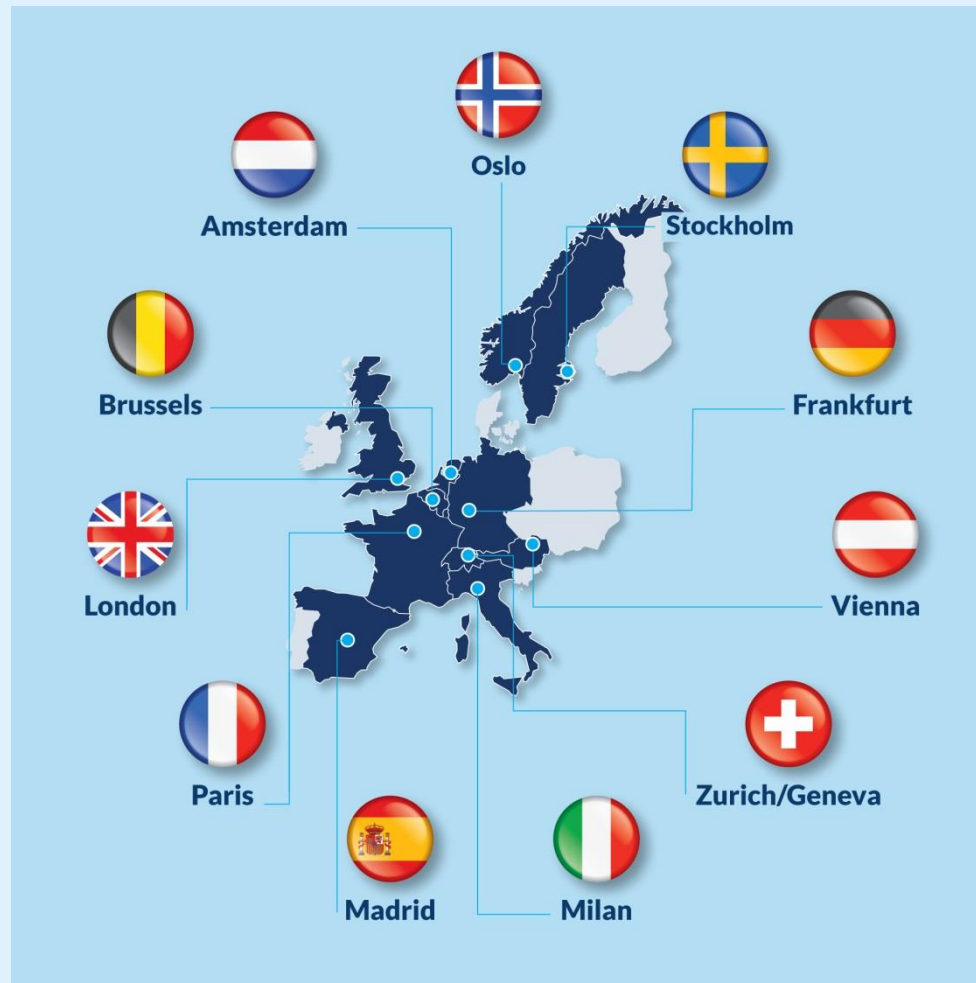
Kepler Cheuvreux Sweden  
Malmskillnadsgatan 23  
11157 Stockholm  
+468 723 51 00

**Vienna**

Kepler Cheuvreux Vienna  
Schottenring 16/2  
Vienna 1010  
+43 1 537 124 147

**Zurich**

Kepler Cheuvreux Switzerland  
Stadelhoferstrasse 22  
Postfach  
8024 Zurich  
+41 43 333 66 66



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## North America

**Boston**

Kepler Capital Markets, Inc.  
225 Franklin Street, Floor 26  
Boston, MA 02110  
+1 617 217 2615

**New York**

Kepler Capital Markets, Inc.  
Tower 49  
12 East 49th Street, Floor 36,  
10017 New York, NY USA  
+1 212 710 7600