

Tessi

France | Support services | MCAP EUR 349.7m

09 January 2019

Accept Offer (Buy)

Target Price	EUR 160.00 (185.00)
Current Price	EUR 125.00
Up/downside	28.0%
Change in TP	-13.5%
Change in EPS	none 18E / none 19E

Pixel launches offer on all shares

Pixel Holding offers to acquire all Tessi shares at a price of EUR160 per share. We recommend accepting the offer.

Simplified tender offer at EUR160per share

Majority shareholder Pixel Holding (currently 54% of capital) announced it will make a simplified tender offer on the totality of shares at a price of EUR160 (vs. the current price of EUR125, i.e. a 28% premium). The offer is backed by the totality of the Supervisory Board. As a reminder, Pixel Holding is owned by investment group HLDI, controlled by the Dentressangle family. In June 2016, Pixel Holding had acquired the majority shareholding of founder and CEO Marc Rebouah at a price of EUR132.25 per share.

A rather attractive offer in the current context

Although the price of EUR160 per share stands 13% below our current target price of EUR185, the offer looks reasonably fair. Valuation-wise, it still fits into the lower limit of the valuation range provided by our DCF. The offered price is consistent with parameters/assumptions that we regard as credible (WACC 10%, LTG 2%, LT EBITDA margin 14%). Besides, we argue that the immediate materialisation of a 28% upside is relevant given the challenging market configuration for small caps and low liquidity stocks heading to 2019. Finally, we add that Tessi is going through a pretty heavy transformation phase that could continue to weigh on newsflow and results in the next quarters. This transformation phase from a family/local business to a structured/decentralised organisation requires the integration of Spanish activities, the industrialisation of business processes at a group level and a substantial effort in the strengthening of management teams. Taking those elements into account, the offer looks like a fair exit point for shareholders with short/mid-term investment horizons.

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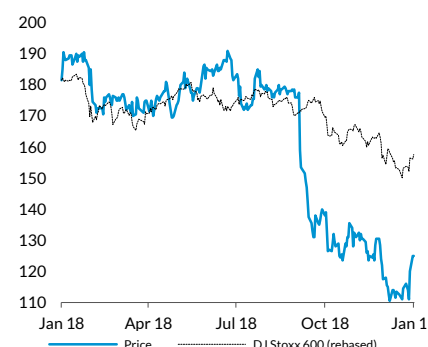
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Market data

Bloomberg: TES FP	Reuters: TESI.PA
Market cap (EURm)	350
Free float	42%
No. of shares outstanding (m)	3
Avg. daily volume (EURm)	0.1
YTD abs performance	7.8%
52-week high/low (EUR)	191.00/110.50

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)	-25.2	-46.0	-73.7
FCF (m)	28.0	32.2	39.1
EPS adj. and fully dil.	8.54	10.28	11.43
Consensus EPS	8.54	10.28	11.43
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.	14.6	12.2	10.9
EV/EBITDA	6.6	5.9	5.5
EV/EBIT	8.7	7.7	7.1
FCF yield	8.0%	9.2%	11.2%
Dividend yield	1.6%	1.6%	1.6%
Net fin. debt/EBITDA	-0.5	-0.7	-1.1
Gearing	-19.3%	-29.6%	-40.2%
ROIC	20.5%	26.7%	28.6%
EV/IC	2.7	2.7	2.7



Key financials

FY to 31/12 (EUR)	12/13	12/14	12/15	12/16	12/17	12/18E	12/19E	12/20E
Income Statement (EURm)								
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
Cash Flow Statement (EURm)								
Cash flow from operating activities	30.0	31.2	43.9	37.2	20.7	40.6	46.0	53.5
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	28.0	32.2	39.1
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	-60.6	-5.6	-5.6
Others	-0.8	-1.0	-1.5	-3.4	-5.8	79.2	-5.8	-5.8
Change in net financial debt	8.5	-13.9	-39.3	3.6	-85.3	1.6	20.8	27.7
Balance Sheet (EURm)								
Intangible assets	49.5	73.2	136.9	150.4	172.8	140.8	140.8	140.8
Tangible assets	26.7	34.8	40.2	49.4	48.7	40.7	40.7	40.7
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	130.6	155.4	183.3
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	357.9	360.5	360.6
Net financial debt	-106.6	-87.9	-85.9	-74.6	-23.6	-25.2	-46.0	-73.7
Working capital requirement	-30.0	-31.4	-62.1	-44.1	-53.4	-50.2	-46.2	-46.0
Invested Capital	46.1	76.6	115.0	155.7	168.1	131.3	135.3	135.5
Per share data								
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	14.52	16.44	19.11
Book value per share	51.26	54.94	62.06	69.86	53.90	41.33	50.16	60.15
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
Ratios								
ROE (%)	16.1%	12.3%	14.0%	16.4%	-3.6%	18.0%	22.5%	20.8%
ROIC (%)	86.8%	40.4%	32.3%	26.6%	20.3%	20.5%	26.7%	28.6%
Net fin. debt / EBITDA (x)	-2.3	-2.1	-1.7	-1.2	-0.9	-0.5	-0.7	-1.1
Gearing (%)	-68.6%	-53.2%	-45.3%	-35.2%	-14.2%	-19.3%	-29.6%	-40.2%
Valuation								
P/E adjusted	11.0	14.0	12.3	13.1	na	14.6	12.1	10.9
P/E adjusted and fully diluted	11.0	14.0	12.3	13.1	na	14.6	12.2	10.9
P/BV	1.7	1.7	1.6	2.0	2.9	3.0	2.5	2.1
P/CF	8.0	8.2	6.4	10.6	21.2	8.6	7.6	6.5
Dividend yield (%)	2.3%	2.2%	2.0%	17.2%	1.3%	1.6%	1.6%	1.6%
FCF yield (%)	7.1%	6.0%	11.2%	7.2%	2.2%	8.0%	9.2%	11.2%
EV/Sales	1.3	1.2	1.1	1.1	1.1	0.9	0.8	0.8
EV/EBITDA	6.6	7.0	6.0	7.4	16.6	6.6	5.9	5.5
EV/EBIT	8.1	8.8	7.4	9.2	10.1	8.7	7.7	7.1

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Prices in this report are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

Companies mentioned

Stock	ISIN	Currency	Price
Tessi	FR0004529147	EUR	125.00

Source: Factset closing prices of 08/01/2019

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Rating ratio Kepler Cheuvreux Q4 2018

Rating Breakdown	A	B
Buy	51%	49%
Hold	34%	34%
Reduce	14%	12%
Not Rated/Under Review/Accept Offer	1%	5%
Total	100%	100%

Source: KEPLER CHEUVREUX

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
Tessi (EUR)	05/06/2018 07:28	Equity Research	Buy	215.00	186.00
	03/08/2018 07:31	Equity Research	Buy	210.00	179.50
	13/09/2018 07:25	Equity Research	Buy	185.00	159.00

Credit research does not issue target prices. Left intentionally blank.

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Hold: The expected upside is below 10% (the expected upside could be higher in light of the company's risk profile).

Reduce: There is an expected downside.

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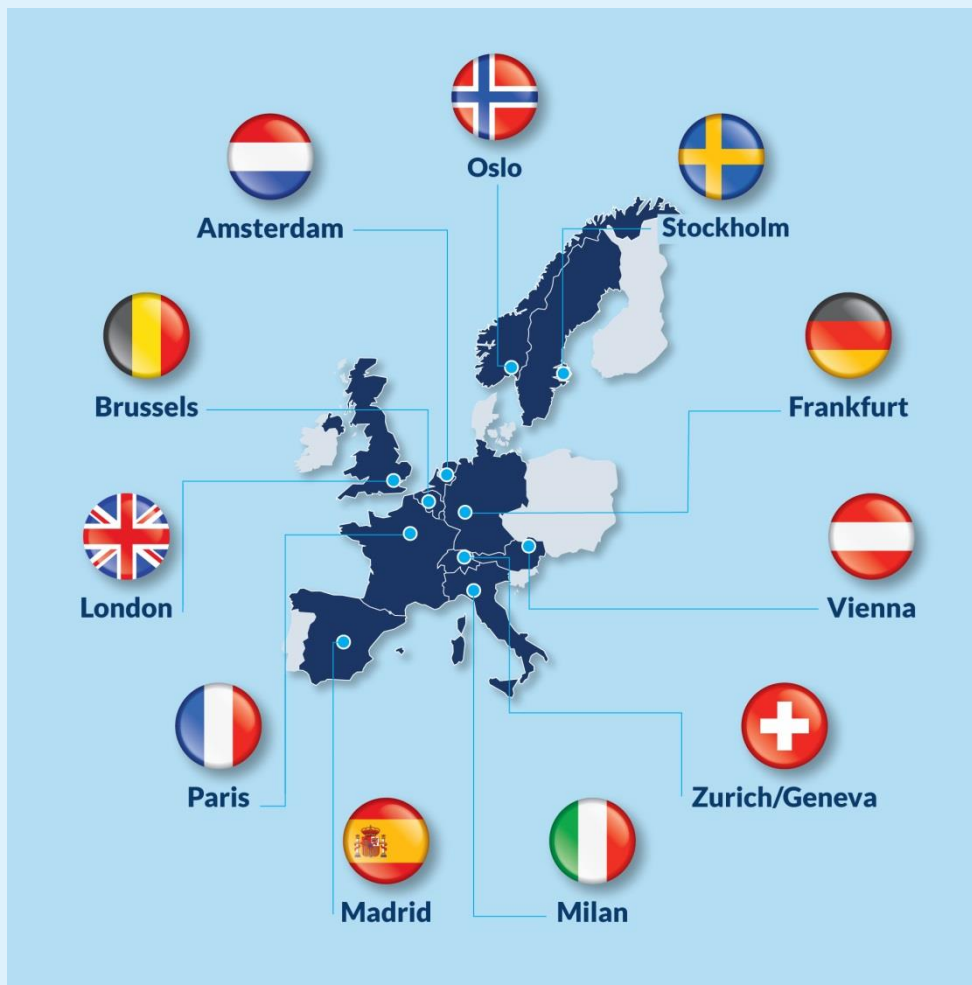
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