

TECNOTREE

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INDERES CORPORATE CUSTOMER

COMPANY REPORT



A notch more moderate view is warranted

Tecnotree's reported deal in the US showed that the company's products are competitive in developed markets. In an optimistic scenario, the US could offer significant growth potential and help improve the company's cash flow profile, but we believe it is too early to count on conquering the US. In our view, the risks related to corporate governance have not been fully eliminated. Combined with the cash flow uncertainty, the risk/reward of the stock is still not attractive in our view. However, the announced deal was the first clear positive news for the company in a while, which, combined with the lower valuation, argues for a more middle-of-the-road view. We raise our recommendation to Reduce (was Sell) and reiterate our target price of EUR 3.0.

Growth in the US would be welcome

Last week, Tecnotree announced a multi-million-dollar deal with a US-based Tier 1 operator (more detailed comment [here](#)). We believe the announcement was encouraging for the company as it demonstrates that the company's products are competitive enough to compete in the highly sought after US market. Growth in developed markets is also generally welcome from our perspective, as it has the potential to improve the company's cash flow profile over the long term through faster cash collections and reduced foreign exchange risk. However, even in a good scenario, it takes time to change the business focus and thus the cash flow profile. On the flip side, we estimate that the more competitive environment in the US than in developed markets could put pressure on the company's margins. Maintaining technological competitiveness here will also require, we believe, continued and generous product development investments.

Weak investor confidence ultimately stems from weak cash flow

Tecnotree's investment story took a hit in the fall of 2024, when the company's acquisition raised concerns about its corporate governance and investor communications. In this regard, the company will have to build trust over time and the situation will not be repaired immediately. Also, at the heart of weak investor confidence has been poor cash flow, which has not reflected the company's performance. The company's ambition to grow in developed markets is one of the remedies, and the announced transaction is a promising step in this direction. However, one new agreement in the US does not change the overall picture as far as we can see, but more success is needed in the developed markets. Hence, cash flow development will continue to drive the investment story.

We believe that a more moderate view is justified

In our view, determining the fair value of Tecnotree is very challenging. We do not believe that cheap-looking earnings-based multiples can be relied upon, and visibility on the company's sustainable cash flow generation capacity is weak. Around the lower end of next year's cash flow guidance, the cash flow yield would be in the single digits, which we find unattractive given Tecnotree's risk level. The valuation should also take into account the dilution caused by the company's convertible bonds and the staff incentive plan in the coming years (combined effect of almost 50% at the current share price). We believe that the company's business risk level is high and that further evidence of the company's communication and corporate governance improvements is needed. In general, we see risks related to the quality of receivables and intangible assets. Looking at the big picture, we still think the risk/reward for investors is weak, although we think the recent announcement of a promising deal justifies a view one notch more moderate. We emphasize that Tecnotree's target price is illusory and suggest that investors pay particular attention to our recommendation.

Recommendation

Reduce

(was Sell)

Target price:

3.00 EUR

(was EUR 3.00)

Share price:

3.29

Business risk



Valuation risk



	2023	2024e	2025e	2026e
Revenue	78.4	77.4	79.9	82.6
growth-%	9%	-1%	3%	3%
EBIT adj.	23.8	22.8	23.2	24.1
EBIT-% adj.	30.4 %	29.5 %	29.0 %	29.2 %
Net income	11.2	12.0	14.6	15.3
EPS (adj.)	0.71	0.93	0.89	0.50

P/E (adj.)	9.6	3.5	3.7	6.6
P/B	1.2	0.5	0.5	0.6
P/FCF	neg.	10.3	10.3	7.3
EV/EBIT (adj.)	4.8	2.5	2.4	2.1
EV/EBITDA	4.1	2.0	1.7	1.4
EV/S	1.4	0.7	0.7	0.6

Source: Inderes

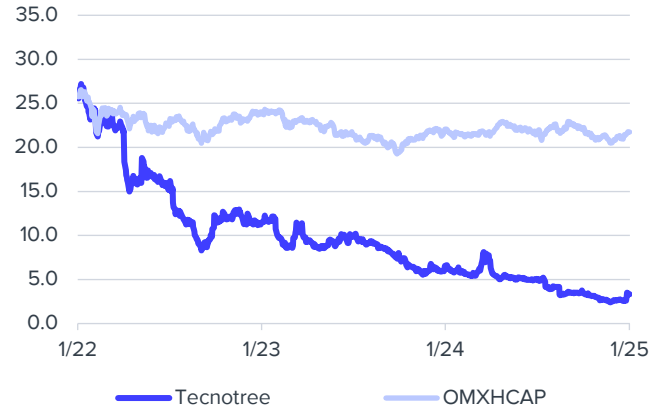
Guidance

(Unchanged)

Tecnotree expects in 2024: Revenue to be higher by 2%-7% compared to 2023. Operating profit (EBIT) to be higher by 7%-15% compared to 2023 Tecnotree expects free cash flow to reach 2-5 MEUR in the second half of 2024.

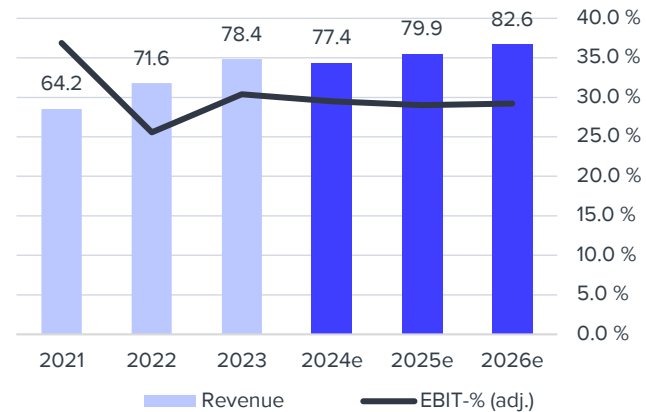
In 2025, Tecnotree expects a capital expenditure to revenue ratio of 10-12% and a free cash flow above 3 MEUR.

Share price



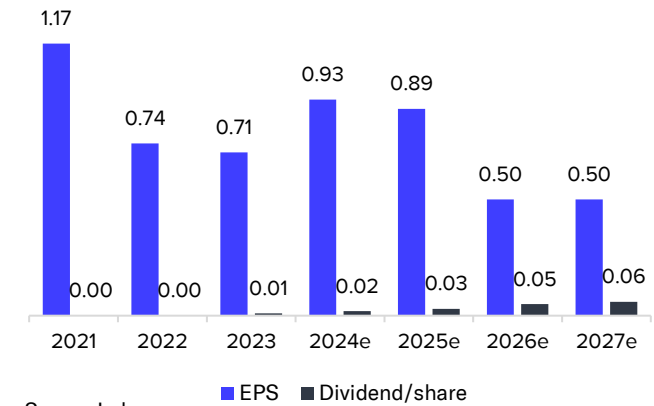
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Clear and sustainable improvement in cash flow
- Value-creating M&A
- Industry's organic drivers are strong and longer-term growth outlook is good
- Increase in recurring revenue
- Technologically competent product portfolio

Risk factors

- Shortcomings in investor communications and corporate governance
- Quality of trade receivables and intangible assets
- Risks related to cash collections
- Failure in M&A
- Customer portfolio structure concentrated at top level
- Failure in product development work and reading the industry
- Some cyclical in operators' investments
- Political and legislative threats in emerging countries

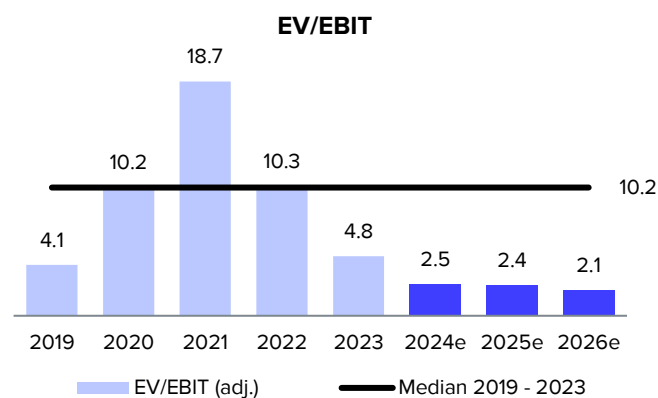
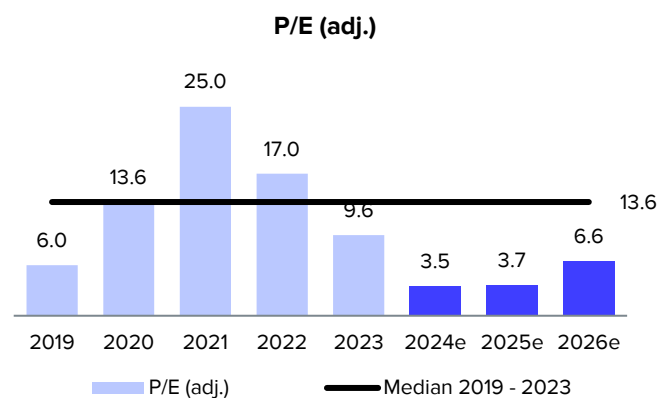
Valuation	2024e	2025e	2026e
Share price	3.29	3.29	3.29
Number of shares, millions	16.0	16.3	30.5
Market cap	53	54	100
EV	57	56	50
P/E (adj.)	3.5	3.7	6.6
P/E	4.4	3.7	6.6
P/B	0.5	0.5	0.6
P/S	0.7	0.7	1.2
EV/Sales	0.7	0.7	0.6
EV/EBITDA	2.0	1.7	1.4
EV/EBIT (adj.)	2.5	2.4	2.1
Payout ratio (%)	2.7 %	3.4 %	10.0 %
Dividend yield-%	0.6 %	0.9 %	1.5 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.40	14.0	29.4	12.6	6.80	3.29	3.29	3.29	3.29
Number of shares, millions	11.8	13.7	15.7	15.5	15.8	16.0	16.3	30.5	30.8
Market cap	40	192	460	196	108	53	54	100	101
EV	53	198	443	189	114	57	56	50	41
P/E (adj.)	6.0	13.6	25.0	17.0	9.6	3.5	3.7	6.6	6.6
P/E	5.2	14.2	25.0	17.0	9.6	4.4	3.7	6.6	6.6
P/B	11.7	9.7	6.8	2.4	1.2	0.5	0.5	0.6	0.5
P/S	0.9	3.6	7.2	2.7	1.4	0.7	0.7	1.2	1.2
EV/Sales	1.1	3.7	6.9	2.6	1.4	0.7	0.7	0.6	0.5
EV/EBITDA	3.4	9.7	17.5	9.5	4.1	2.0	1.7	1.4	1.1
EV/EBIT (adj.)	4.1	10.2	18.7	10.3	4.8	2.5	2.4	2.1	1.7
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	1.4 %	2.7 %	3.4 %	10.0 %	11.9 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.1 %	0.6 %	0.9 %	1.5 %	1.8 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
			2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Amdocs Ltd	9147	9310	10.6	10.2	9.0	8.6	2.0	2.2	13.2	12.2	2.2	2.0	2.8
CSG Systems International Inc	1509	1910	10.2	9.8	8.0	7.8	1.7	1.7	12.7	12.1	2.2	2.3	
Comarch SA	776	708	21.2	16.6	12.6	10.8	1.6	1.5	21.8	17.6	1.5	1.7	1.9
Sterlite Technologies Ltd	572	816	18.6	33.6	9.7	12.8	1.2	1.3	15.2		2.4	0.6	2.0
Cerillion PLC	555	523	25.1	22.4	22.4	20.0	10.0	8.9	32.4	29.1	0.8	0.8	9.8
Tecnotree (Inderes)	53	57	2.5	2.4	2.0	1.7	0.7	0.7	3.5	3.7	0.6	0.9	0.5
Average			17.1	18.5	12.3	12.0	3.3	3.1	19.1	17.8	1.8	1.5	4.1
Median			18.6	16.6	9.7	10.8	1.7	1.7	15.2	14.9	2.2	1.7	2.4
Diff-% to median			-87%	-85%	-79%	-84%	-57%	-57%	-77%	-75%	-72%	-45%	-78%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	71.6	15.5	19.3	21.4	22.2	78.4	16.3	18.7	19.0	23.4	77.4	79.9	82.6	85.1
EBITDA	19.8	4.2	6.9	7.4	9.3	27.7	6.0	5.8	7.1	9.2	28.1	33.3	34.8	35.9
Depreciation	-1.5	-0.6	-0.7	-1.2	-1.4	-3.9	-1.6	-2.2	-2.1	-2.2	-8.1	-10.1	-10.7	-11.8
EBIT (excl. NRI)	18.3	3.6	6.2	6.2	7.9	23.8	4.4	6.5	5.0	6.9	22.8	23.2	24.1	24.1
EBIT	18.3	3.6	6.2	6.2	7.9	23.8	4.4	3.6	5.0	6.9	19.9	23.2	24.1	24.1
Net financial items	-1.1	-1.0	-1.9	-1.9	-5.1	-9.9	-2.3	-0.8	-0.1	-1.3	-4.5	-4.0	-4.0	-4.0
PTP	17.2	2.7	4.3	4.2	2.8	13.9	2.1	2.8	4.9	5.6	15.4	19.2	20.1	20.1
Taxes	-5.7	-0.9	-0.5	-1.0	-0.3	-2.8	-0.4	-0.8	-0.8	-1.4	-3.4	-4.6	-4.8	-4.6
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	11.6	1.8	3.8	3.2	2.5	11.2	1.6	2.0	4.1	4.2	12.0	14.6	15.3	15.5
EPS (adj.)	0.74	0.11	0.24	0.20	0.16	0.71	0.10	0.31	0.26	0.26	0.93	0.89	0.50	0.50
EPS (rep.)	0.74	0.11	0.24	0.20	0.16	0.71	0.10	0.13	0.26	0.26	0.75	0.89	0.50	0.50

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	11.5 %	17.0 %	5.4 %	7.4 %	10.4 %	9.5 %	4.7 %	-3.4 %	-10.9 %	5.5 %	-1.3 %	3.3 %	3.4 %	3.0 %
Adjusted EBIT growth-%	-22.7 %	77.5 %	21.1 %	22.2 %	28.5 %	30.2 %	21.5 %	5.2 %	-19.0 %	-11.8 %	-4.2 %	1.5 %	4.1 %	-0.1 %
EBITDA-%	27.7 %	27.2 %	35.6 %	34.5 %	41.7 %	35.4 %	37.1 %	30.9 %	37.3 %	39.2 %	36.3 %	41.6 %	42.2 %	42.2 %
Adjusted EBIT-%	25.6 %	23.3 %	32.0 %	28.9 %	35.4 %	30.4 %	27.0 %	34.9 %	26.3 %	29.6 %	29.5 %	29.0 %	29.2 %	28.3 %
Net earnings-%	16.1 %	11.3 %	19.4 %	15.0 %	11.1 %	14.3 %	10.0 %	10.9 %	21.5 %	18.0 %	15.5 %	18.2 %	18.5 %	18.2 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	26.4	36.3	41.3	43.6	46.1
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	23.6	33.5	38.4	40.6	43.1
Tangible assets	0.4	0.4	0.5	0.5	0.6
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	1.8	1.9	1.9	1.9	1.9
Deferred tax assets	0.6	0.5	0.5	0.5	0.5
Current assets	77.4	91.9	97.2	125	137
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	65.1	71.1	76.6	84.7	86.7
Cash and equivalents	12.3	20.8	20.6	40.5	50.7
Balance sheet total	104	128	139	169	184

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	80.1	86.5	98.3	113	170
Share capital	1.3	1.3	1.3	1.3	44.4
Retained earnings	49.5	55.9	67.7	81.9	96.7
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	29.3	29.3	29.3	29.3	29.3
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	5.5	25.8	25.8	45.8	2.7
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	2.4	1.0	0.0	0.0	0.0
Convertibles	0.0	21.1	23.1	43.1	0.0
Other long-term liabilities	3.1	3.7	2.7	2.7	2.7
Current liabilities	18.2	15.9	14.4	10.4	10.3
Interest bearing debt	2.5	4.5	2.0	0.0	0.0
Payables	15.8	11.3	12.4	10.4	10.3
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	104	128	139	169	184

DCF-calculation

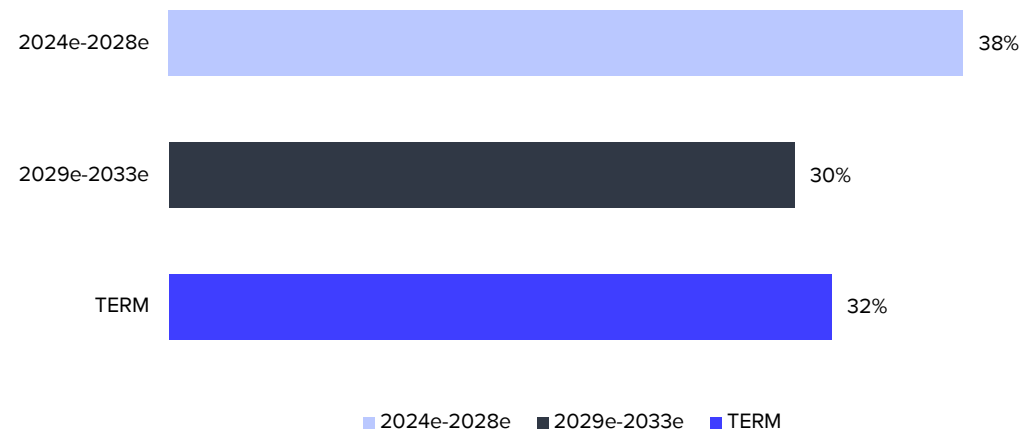
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	9.5 %	-1.3 %	3.3 %	3.4 %	3.0 %	3.3 %	3.0 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	30.4 %	25.8 %	29.0 %	29.2 %	28.3 %	26.8 %	26.2 %	25.8 %	25.5 %	25.5 %	25.5 %	25.5 %
EBIT (operating profit)	23.8	19.9	23.2	24.1	24.1	23.6	23.7	24.1	24.4	25.0	25.5	
+ Depreciation	3.9	8.1	10.1	10.7	11.8	12.9	13.4	13.9	14.1	14.8	14.7	
- Paid taxes	-2.7	-3.4	-4.6	-4.8	-4.6	-4.3	-4.3	-4.4	-4.5	-4.6	-5.2	
- Tax, financial expenses	-2.0	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.4	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-10.4	-4.4	-10.1	-2.1	-1.9	-0.8	-1.5	-1.5	-1.1	-1.1	-1.7	
Operating cash flow	12.7	19.2	17.6	27.0	28.5	30.4	30.4	31.2	32.0	33.1	32.9	
+ Change in other long-term liabilities	0.6	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-13.9	-13.1	-12.4	-13.2	-14.2	-14.7	-15.2	-14.7	-14.6	-14.6	-14.6	
Free operating cash flow	-0.6	5.1	5.2	13.8	14.3	15.7	15.2	16.5	17.4	18.5	18.3	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-0.6	5.1	5.2	13.8	14.3	15.7	15.2	16.5	17.4	18.5	18.3	125
Discounted FCFF		5.1	4.5	10.2	9.0	8.5	7.1	6.5	5.9	5.4	4.6	31.2
Sum of FCFF present value		98.1	93.0	88.5	78.3	69.2	60.7	53.6	47.1	41.2	35.8	31.2
Enterprise value DCF		98.1										
- Interest bearing debt		-26.7										
+ Cash and cash equivalents		20.8										
-Minorities		0.0										
-Dividend/capital return		-0.2										
Equity value DCF		92.1										
Equity value DCF per share		5.8										

WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	3.0 %
Equity Beta	2.50
Market risk premium	4.75%
Liquidity premium	2.50%
Risk free interest rate	2.5 %
Cost of equity	16.9 %
Weighted average cost of capital (WACC)	16.9 %

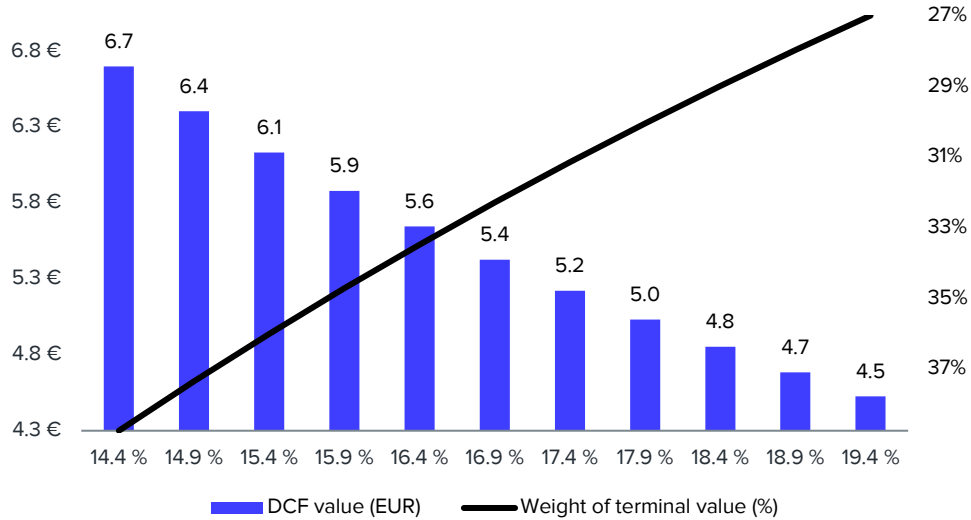
Source: Inderes

Cash flow distribution

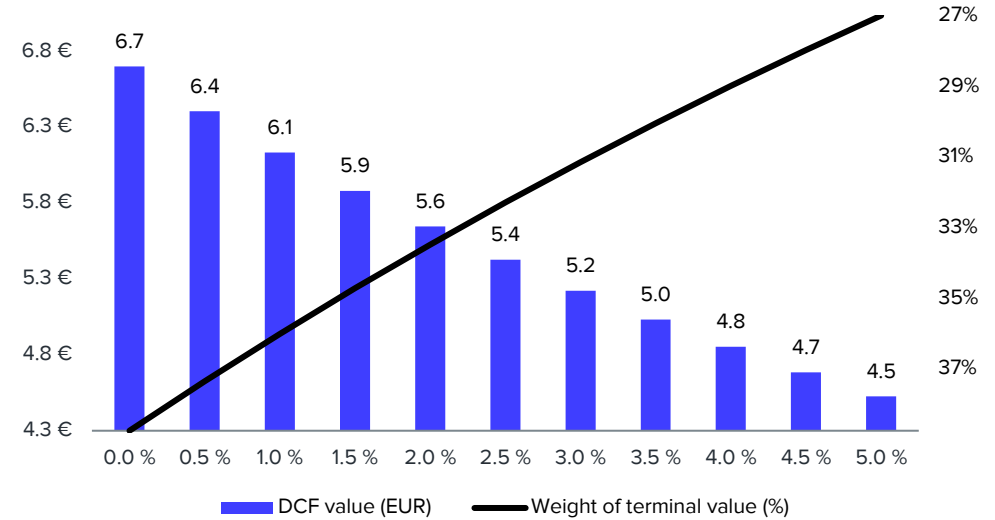


DCF sensitivity calculations and key assumptions in graphs

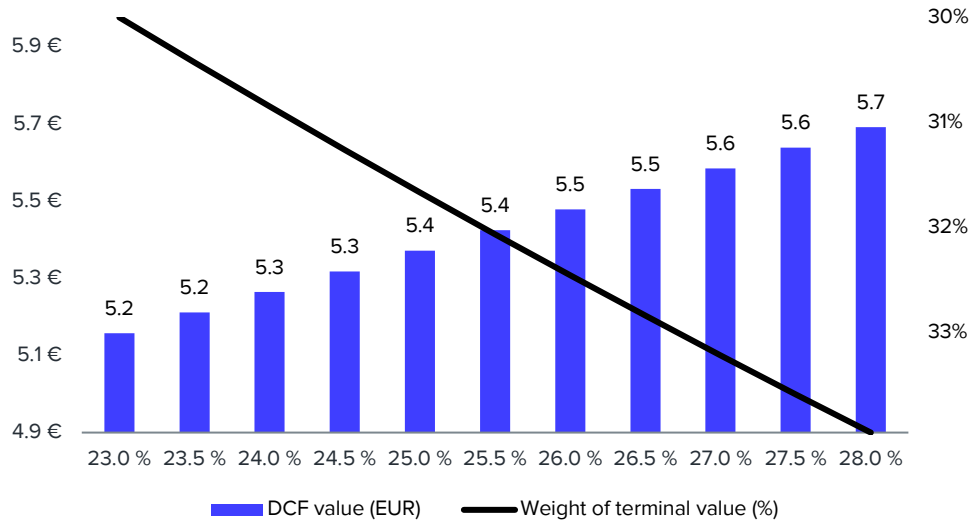
Sensitivity of DCF to changes in the WACC-%



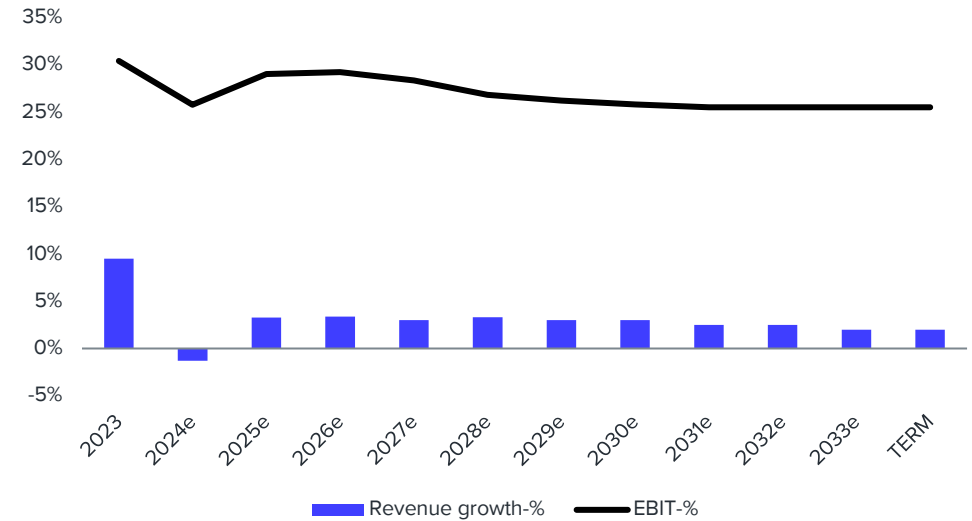
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	64.2	71.6	78.4	77.4	79.9	EPS (reported)	1.17	0.74	0.71	0.75	0.89
EBITDA	25.3	19.8	27.7	28.1	33.3	EPS (adj.)	1.17	0.74	0.71	0.93	0.89
EBIT	23.7	18.3	23.8	19.9	23.2	OCF / share	0.40	0.28	0.80	1.20	1.08
PTP	21.5	17.2	13.9	15.4	19.2	FCF / share	-0.30	-0.32	-0.04	0.32	0.32
Net Income	18.4	11.6	11.2	12.0	14.6	Book value / share	4.33	5.15	5.46	6.16	6.90
Extraordinary items	0.0	0.0	0.0	-2.9	0.0	Dividend / share	0.00	0.00	0.01	0.02	0.03
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	79.3	103.8	128.2	138.5	168.8	Revenue growth-%	22%	12%	9%	-1%	3%
Equity capital	67.7	80.1	86.5	98.3	112.6	EBITDA growth-%	24%	-22%	40%	1%	19%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	23%	-23%	30%	-4%	2%
Net debt	-17.6	-7.5	5.9	4.5	2.6	EPS (adj.) growth-%	14%	-37%	-5%	32%	-4%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	39.4 %	27.7 %	35.4 %	36.3 %	41.6 %
EBITDA	25.3	19.8	27.7	28.1	33.3	EBIT (adj.)-%	36.9 %	25.6 %	30.4 %	29.5 %	29.0 %
Change in working capital	-15.5	-9.6	-10.4	-4.4	-10.1	EBIT-%	36.9 %	25.6 %	30.4 %	25.8 %	29.0 %
Operating cash flow	6.3	4.4	12.7	19.2	17.6	ROE-%	42.0 %	15.6 %	13.4 %	13.0 %	13.8 %
CAPEX	-7.3	-14.8	-13.9	-13.1	-12.4	ROI-%	46.8 %	24.0 %	24.1 %	16.8 %	16.6 %
Free cash flow	-4.7	-4.9	-0.6	5.1	5.2	Equity ratio	85.4 %	77.1 %	67.5 %	71.0 %	66.7 %
						Gearing	-25.9 %	-9.3 %	6.8 %	4.5 %	2.3 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	6.9	2.6	1.4	0.7	0.7						
EV/EBITDA	17.5	9.5	4.1	2.0	1.7						
EV/EBIT (adj.)	18.7	10.3	4.8	2.5	2.4						
P/E (adj.)	25.0	17.0	9.6	3.5	3.7						
P/B	6.8	2.4	1.2	0.5	0.5						
Dividend-%	0.0 %	0.0 %	0.1 %	0.6 %	0.9 %						

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
8/5/2022	Accumulate	0.80 €	0.69 €
9/15/2022	Accumulate	0.65 €	0.54 €
10/24/2022	Accumulate	0.65 €	0.54 €
12/15/2022	Accumulate	0.70 €	0.63 €
2/27/2023	Reduce	0.58 €	0.54 €
3/28/2023	Accumulate	0.54 €	0.44 €
4/19/2023	Reduce	0.54 €	0.52 €
8/7/2023	Accumulate	0.54 €	0.48 €
10/30/2023	Reduce	0.42 €	0.38 €
2/23/2024	Reduce	0.35 €	0.32 €
<i>20:1 reverse split</i>			
4/29/2024	Reduce	7.00 €	6.30 €
5/10/2024	Reduce	6.00 €	5.41 €
8/12/2024	Reduce	5.50 €	5.14 €
9/9/2024	Sell	3.00 €	3.87 €
10/28/2024	Sell	3.00 €	3.65 €
1/28/2025	Reduce	3.00 €	3.29 €



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