

Tecnotree

Company report

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✓ Inderes Corporate customer

This report is a summary translation of the report "Arvo ei vapise hinnan mukana" published on 10/12/2021 at 8:00 am

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Value doesn't shake with the price

During last month, Tecnotree has advanced in its new customer acquisition and finally been able to leave behind the restructuring program that partially limited its growth potential. Our view of the real value of the company hasn't changed, but with the decrease in the market price, we feel that the annual return expectation has improved to an excellent level. Thus, we reiterate our EUR 1.54 target price and raise our recommendation to Buy (previously Accumulate).

Sustainable competitive advantages are hard to find

Despite the excellent growth image of the OSS/BSS market, competition is fierce, as there are many suppliers in the market and the conditions for significant technological differentiation are narrow. Therefore, we estimate that long-term success requires competitive and continuous product development, as well as ability to anticipate own operating verticals. In our view, the main and most sustainable sources of competitive advantage come from the business-critical nature of the company's solutions, switching costs the customers face, and, thus, long customer relationships. Of course, it's also possible to obtain relative comparative advantages through economies of scale (e.g. range of resources). Tecnotree's own operational history is long and the last three years are convincing. Against this background, we believe that the company has proven good competitiveness. However, talking about sustainable competitive advantages isn't, at least yet, justified.

Estimates primarily unchanged

Tecnotree has provided no guidance for the full year due to the still on-going pandemic situation and the risks related to its development. The company's H1 was excellent and, based on recent news, the operating conditions haven't weakened. Thus, we have only made marginal adjustments to our short- or longer-term estimates. This year, we estimate Tecnotree's net sales will grow by 19% to EUR 63 million. In our view, the key growth drivers are the income from previously closed deals and new sales that are a result of the company's own technical capabilities. We estimate that operating profit increases to EUR 25 million driven by increased net sales, high gross margins and good cost-efficiency. In line with the longer-term growth outlook for the industry, Tecnotree's own competitiveness and the strategic freedom brought by the completed restructuring program, we expect the company to keep growing profitably in the coming years as well. In turn, Tecnotree's main risks are related as usual to (1) the timing of operators' investments, (2) the volatile nature of developing markets (e.g. repatriating cash flow), (3) the top-level structure of the customer portfolio, and (4) the success of capital allocation.

Return expectation has improved to an excellent level

Based on our estimates, Tecnotree's adjusted P/E ratios for 2021 and 2022 are 20x and 15x, while the corresponding EV/EBIT ratios are 13x and 10x. The multiples that look a year into the future are quite low in absolute terms, and we don't think they correctly take into account the company's current performance and its longer-term potential. The value indicated by our DCF model and the 1.1x PEG ratio relative to our earnings growth expectations in coming years also indicate the valuation being moderate. During last month, the share price has fallen quite clearly, but our view is that the real value hasn't changed. Given this, we see that the annual return expectation that consists of expected earnings growth and the upside in the multiples has become excellent.

Recommendation

Buy

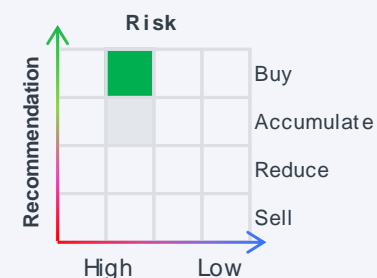
(previous Accumulate)

1.54 EUR

(previous EUR 1.54)

Share price:

1.14



Key figures

	2020	2021e	2022e	2023e
Net sales	52.8	62.6	71.8	82.0
growth %	12%	19%	15%	14%
EBIT adj.	19.3	24.8	29.8	35.6
EBIT % adj.	36.6%	39.6%	41.6%	43.5%
Net profit	13.6	18.1	23.6	28.2
EPS (adj.)	0.05	0.06	0.08	0.09
P/E (adj.)	13.6	19.8	15.1	12.6
P/B	9.7	5.9	4.3	3.2
P/Cash flow	33.3	21.3	19.6	15.8
EV/EBIT (adj.)	10.2	13.1	10.3	8.0
EV/EBITDA	9.7	12.3	9.1	7.2
EV/Sales	3.7	5.2	4.3	3.5

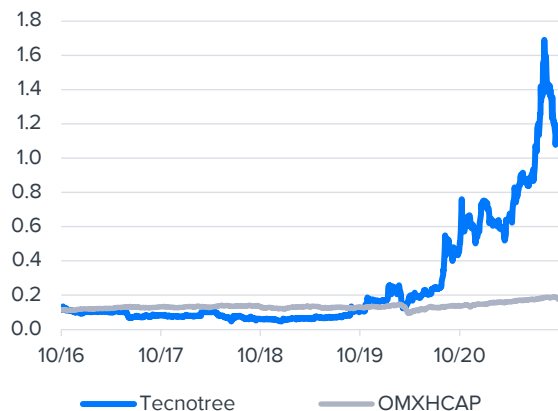
Source: Inderes

Guidance

(Unchanged)

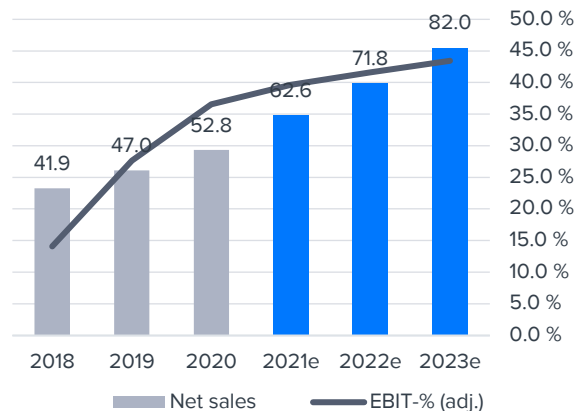
Tecnotree refrains from giving any guidance for the time being.

Share price



Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Industry's organic drivers are strong and longer-term growth outlook is good
- The company's business model is scalable and cost efficient
- Increasing recurring income flow
- Product portfolio technologically competent



Risk factors

- Customer portfolio's structure is concentrated at top level
- Failure in product development work and reading the industry
- Weakening of a cost-efficient operating model
- Some cyclicality in operators' investments
- Political and legislative threats in emerging countries
- Repatriating cash flow

Valuation level	2021e	2022e	2023e
Share price	1.14	1.14	1.14
Number of shares, million	313.2	313.2	313.2
Market cap	357	357	357
EV	325	307	285
P/E (adj.)	19.8	15.1	12.6
P/E	19.8	15.1	12.6
P/Cash flow	21.3	19.6	15.8
P/B	5.9	4.3	3.2
P/S	5.7	5.0	4.4
EV/Sales	5.2	4.3	3.5
EV/EBITDA (adj.)	12.3	9.1	7.2
EV/EBIT (adj.)	13.1	10.3	8.0
Dividend/earnings (%)	0.0%	0.0%	0.0%
Dividend yield %	0.0%	0.0%	0.0%

Source: Inderes

Estimates primarily unchanged

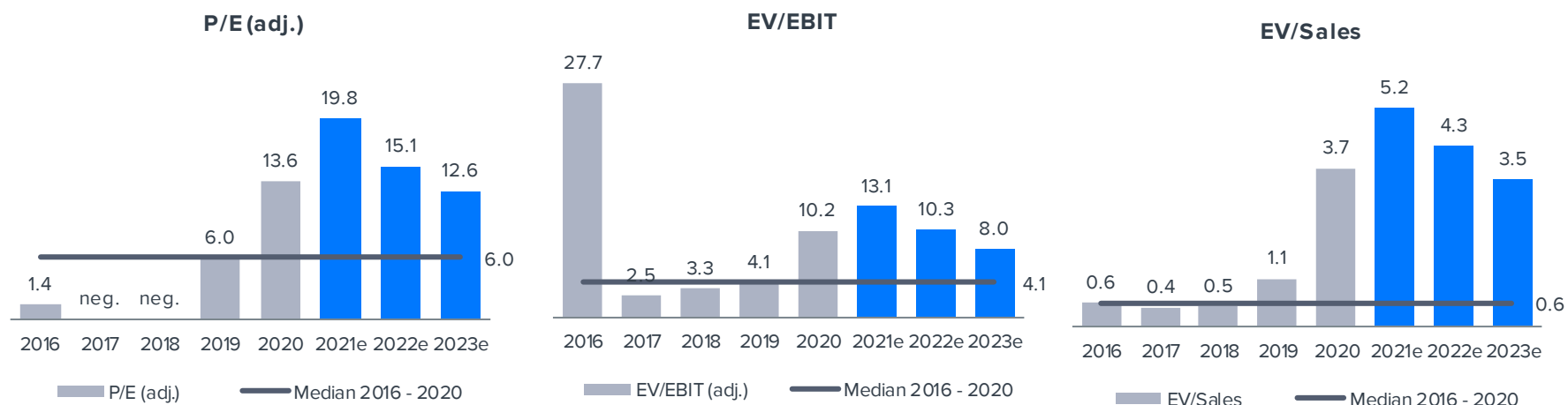
Estimate revisions	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	62.6	62.6	0%	71.8	71.8	0%	82.0	82.0	0%
EBITDA	26.5	26.5	0%	33.9	33.7	-1%	40.1	39.6	-1%
EBIT (exc. NRIs)	24.8	24.8	0%	30.1	29.8	-1%	36.1	35.6	-1%
EBIT	24.8	24.8	0%	30.1	29.8	-1%	36.1	35.6	-1%
PTP	22.9	22.9	0%	29.8	29.5	-1%	35.8	35.3	-1%
EPS (excl. NRIs)	0.06	0.06	0%	0.08	0.08	-1%	0.09	0.09	-1%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	0.10	0.07	0.05	0.17	0.70	1.14	1.14	1.14	1.14
Number of shares, millions	122.6	122.6	136.6	235.3	274.6	313.2	313.2	313.2	313.2
Market cap	12	8.6	6.8	40	192	357	357	357	357
EV	33	24	19	53	198	325	307	285	258
P/E (adj.)	1.4	neg.	neg.	6.0	13.6	19.8	15.1	12.6	11.4
P/E	neg.	neg.	neg.	5.2	14.2	19.8	15.1	12.6	11.4
P/FCF	neg.	1.8	3.9	16.5	33.3	21.3	19.6	15.8	13.1
P/B	1.2	neg.	neg.	11.7	9.7	5.9	4.3	3.2	2.5
P/S	0.2	0.2	0.2	0.9	3.6	5.7	5.0	4.4	4.0
EV/Sales	0.6	0.4	0.5	1.1	3.7	5.2	4.3	3.5	2.9
EV/EBITDA	neg.	2.6	3.3	3.4	9.7	12.3	9.1	7.2	5.8
EV/EBIT (adj.)	27.7	2.5	3.3	4.1	10.2	13.1	10.3	8.0	6.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2021e
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Amdocs Ltd	77.83	8822	8511	12.5	11.5	9.9	8.8	2.2	2.0	16.1	14.9	1.8	1.9	2.7
CSG Systems International Inc	51.05	1445	1562							15.5	15.2			
Comarch SA	237.00	417	355	10.9	9.4	7.5	6.3	1.2	1.0	17.1	16.5	1.5	2.1	1.6
Sterlite Technologies Ltd	278.60	1274	1575	18.9	17.5	11.9	12.6	2.0	2.2	41.0	21.9	0.7	1.4	5.6
Tecnotree (Inderes)	1.14	357	325	13.1	10.3	12.3	9.1	5.2	4.3	19.8	15.1	0.0	0.0	5.9
Average				14.1	12.8	9.7	9.3	1.8	1.7	19.1	16.2	1.4	1.8	3.3
Median				12.5	11.5	9.9	8.8	2.0	2.0	16.1	15.2	1.5	1.9	2.7
Diff-% to median				5%	-11%	24%	3%	154%	110%	23%	0%	-100%	-100%	120%

Source: Thomson Reuters / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	47.0	9.8	14.2	14.6	14.2	52.8	11.2	16.7	17.3	17.5	62.6	71.8	82.0	89.7
Group	47.0	9.8	14.2	14.6	14.2	52.8	11.2	16.7	17.3	17.5	62.6	71.8	82.0	89.7
EBITDA	15.4	1.5	6.8	7.4	4.6	20.3	3.4	7.9	7.5	7.7	26.5	33.7	39.6	44.1
Depreciation	-1.0	-0.4	-0.5	-0.5	-0.3	-1.7	-0.3	-0.3	-0.5	-0.5	-1.7	-3.9	-4.0	-4.6
EBIT (excl. NRI)	13.0	2.3	5.8	6.9	4.3	19.3	3.1	7.6	7.0	7.2	24.8	29.8	35.6	39.6
EBIT	14.4	1.1	6.3	6.9	4.3	18.6	3.1	7.6	7.0	7.2	24.8	29.8	35.6	39.6
Group	14.4	1.1	6.3	6.9	4.3	18.6	3.1	7.6	7.0	7.2	24.8	29.8	35.6	39.6
Net financial items	-2.6	-0.2	-0.9	-1.6	-0.2	-2.7	-0.2	-1.3	-0.2	-0.2	-1.9	-0.3	-0.3	-0.3
PTP	11.8	1.0	5.5	5.3	4.2	15.9	2.9	6.2	6.8	7.0	22.9	29.5	35.3	39.3
Taxes	-4.1	-0.4	-1.2	-0.9	0.1	-2.3	-0.5	-0.9	-1.7	-1.7	-4.8	-5.9	-7.1	-7.9
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	7.7	0.6	4.3	4.5	4.3	13.6	2.4	5.3	5.1	5.2	18.1	23.6	28.2	31.4
EPS (adj.)	0.03	0.01	0.01	0.02	0.02	0.05	0.01	0.02	0.02	0.02	0.06	0.08	0.09	0.10
EPS (rep.)	0.03	0.00	0.02	0.02	0.02	0.05	0.01	0.02	0.02	0.02	0.06	0.08	0.09	0.10
Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	12.2 %	3.2 %	29.1 %	17.7 %	0.7 %	12.3 %	14.3 %	17.6 %	18.2 %	23.1 %	18.6 %	14.6 %	14.2 %	9.4 %
Adjusted EBIT growth-%	120.3 %	130.0 %	61.1 %	60.5 %	4.9 %	48.5 %	34.8 %	30.2 %	1.7 %	66.4 %	28.6 %	20.2 %	19.3 %	11.2 %
EBITDA-%	32.8 %	15.3 %	47.9 %	50.7 %	32.4 %	38.4 %	30.5 %	47.2 %	43.7 %	43.9 %	42.3 %	47.0 %	48.4 %	49.2 %
Adjusted EBIT-%	27.7 %	23.5 %	40.8 %	47.3 %	30.3 %	36.6 %	27.7 %	45.2 %	40.7 %	40.9 %	39.6 %	41.6 %	43.5 %	44.1 %
Net earnings-%	16.5 %	5.6 %	29.9 %	30.8 %	30.1 %	25.7 %	21.4 %	31.9 %	29.6 %	29.9 %	28.8 %	32.9 %	34.5 %	35.0 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	6.8	7.3	11.3	13.6	15.8
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	3.0	5.3	9.7	11.8	13.8
Tangible assets	2.4	0.5	0.6	0.8	1.0
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	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.6	0.5	0.0	0.0	0.0
Current assets	30.1	43.3	69.6	93.1	121
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	26.7	35.3	37.6	43.1	49.2
Cash and equivalents	3.4	8.0	32.1	50.0	72.3
Balance sheet total	36.8	50.6	81.0	107	137

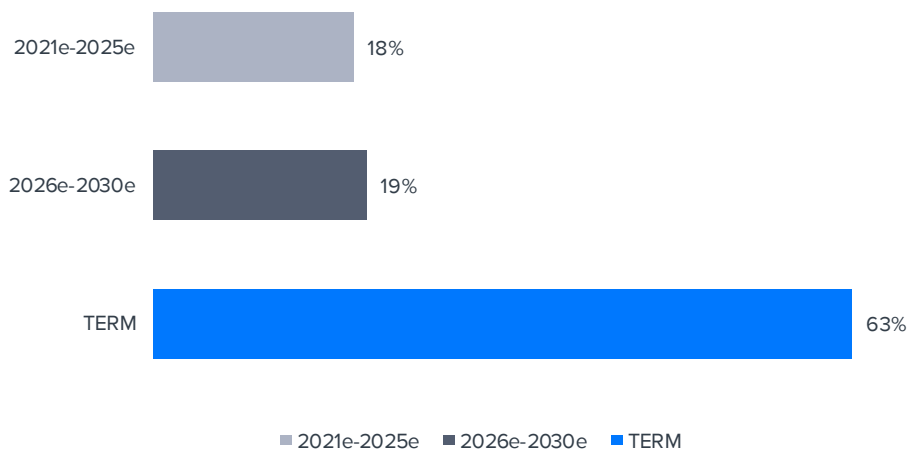
Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	3.6	19.9	60.2	83.8	112
Share capital	1.3	1.3	1.3	1.3	1.3
Retained earnings	5.2	18.7	36.8	60.4	88.7
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	-3.1	-0.2	22.0	22.0	22.0
Minorities	0.2	0.0	0.0	0.0	0.0
Non-current liabilities	21.8	18.8	6.4	6.4	6.4
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	13.5	12.4	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	8.3	6.4	6.4	6.4	6.4
Current liabilities	11.5	12.0	14.4	16.5	18.8
Short term debt	0.5	1.0	0.0	0.0	0.0
Payables	9.4	11.0	14.4	16.5	18.8
Other current liabilities	1.5	0.0	0.0	0.0	0.0
Balance sheet total	36.8	50.6	81.0	107	137

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	18.6	24.8	29.8	35.6	39.6	40.9	43.3	45.5	47.8	48.9	50.3	
+ Depreciation	1.7	1.7	3.9	4.0	4.6	5.3	5.6	5.7	5.0	5.3	5.3	
- Paid taxes	-3.2	-4.3	-5.9	-7.1	-7.9	-8.1	-8.6	-9.0	-9.5	-9.7	-10.1	
- Tax, financial expenses	-0.4	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	
+ 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	-8.1	1.1	-3.4	-3.8	-2.9	-0.1	0.0	-0.6	-0.6	-0.1	-1.0	
Operating cash flow	12.9	22.9	24.4	28.7	33.4	38.0	40.3	41.5	42.6	44.3	44.5	
+ Change in other long-term liabilities	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-3.6	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2	-5.4	-5.2	
Free operating cash flow	7.4	16.7	18.2	22.5	27.2	31.8	34.1	35.3	36.4	38.9	39.3	
+/- Other	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.8	16.7	18.2	22.5	27.2	31.8	34.1	35.3	36.4	38.9	39.3	712
Discounted FCFF		16.4	16.4	18.7	20.8	22.3	22.1	21.0	20.0	19.6	18.2	330
Sum of FCFF present value		526	510	493	474	454	431	409	388	368	349	330
Enterprise value DCF		526										
- Interesting bearing debt		-13.4										
+ Cash and cash equivalents		8.0										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		521										
Equity value DCF per share		1.66										

Cash flow distribution



Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	3.0 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	2.65%
Risk free interest rate	2.0 %
Cost of equity	9.4 %
Weighted average cost of capital (WACC)	8.7 %

Source: Inderes

Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	41.9	47.0	52.8	62.6	71.8	EPS (reported)	0.00	0.03	0.05	0.06	0.08
EBITDA	5.9	15.4	20.3	26.5	33.7	EPS (adj.)	0.00	0.03	0.05	0.06	0.08
EBIT	5.3	14.4	18.6	24.8	29.8	OCF / share	0.04	0.02	0.05	0.07	0.08
PTP	4.4	11.8	15.9	22.9	29.5	FCF / share	0.01	0.01	0.02	0.05	0.06
Net Income	-0.5	7.7	13.6	18.1	23.6	Book value / share	-0.05	0.01	0.07	0.19	0.27
Extraordinary items	-0.6	1.4	-0.7	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	28.6	36.8	50.6	81.0	106.7	Revenue growth-%	-24%	12%	12%	19%	15%
Equity capital	-6.5	3.6	19.9	60.2	83.8	EBITDA growth-%	-37%	161%	32%	31%	27%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-40%	120%	48%	29%	20%
Net debt	12.9	10.6	5.4	-32.1	-50.0	EPS (adj.) growth-%	-97%	-3598%	82%	12%	31%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	14.1 %	32.8 %	38.4 %	42.3 %	47.0 %
EBITDA	5.9	15.4	20.3	26.5	33.7	EBIT (adj.)-%	14.1 %	27.7 %	36.6 %	39.6 %	41.6 %
Change in working capital	4.3	-6.6	-8.1	1.1	-3.4	EBIT-%	12.6 %	30.6 %	35.2 %	39.6 %	41.6 %
Operating cash flow	5.1	3.9	12.9	22.9	24.4	ROE-%	7.7 %	-472.4 %	116.2 %	45.1 %	32.8 %
CAPEX	0.0	-4.8	-3.6	-6.2	-6.2	ROI-%	46.9 %	102.3 %	73.1 %	53.1 %	41.5 %
Free cash flow	1.7	2.4	5.8	16.7	18.2	Equity ratio	-22.8 %	9.9 %	39.3 %	74.3 %	78.5 %
						Gearing	-197.8 %	292.2 %	27.1 %	-53.3 %	-59.7 %
Valuation multiples	2018	2019	2020	2021e	2022e						
EV/S	0.5	1.1	3.7	5.2	4.3						
EV/EBITDA (adj.)	3.3	3.4	9.7	12.3	9.1						
EV/EBIT (adj.)	3.3	4.1	10.2	13.1	10.3						
P/E (adj.)	neg.	6.0	13.6	19.8	15.1						
P/B	neg.	11.7	9.7	5.9	4.3						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Buy The 12-month risk-adjusted expected shareholder

return of the share is very attractive

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 price	Share price
3/30/2021	Buy	0.68 €	0.56 €
4/30/2021	Buy	0.92 €	0.77 €
5/31/2021	Buy	1.00 €	0.86 €
8/13/2021	Accumulate	1.54 €	1.39 €
10/12/2021	Buy	1.54 €	1.14 €



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