Tecnotree

Company report

12/15/2022

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✓ **Inderes corporate customer**

This report is a summary translation of the report "Tuoteportfolio ja asiakaskunta laajenevat" published on 12/15/2022 at 7:45 am.

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Expanding product portfolio and customer base

We have included Tecnotree's CognitiveScale acquisition last weekend in our estimates. We see the acquisition of CognitiveScale's AI platform as a sensible addition to Tecnotree's product portfolio, which will strengthen the company's position in its customer base. Due to the moderate price of the acquired businesses (2023e EV/S 1.2x) and the transaction being relatively small for a company of Tecnotree's size, the risks associated with the transaction are also moderate. At this stage, there is still uncertainty about the impact of the acquisition on earnings, and in the big picture our earnings estimates are unchanged. However, we see the acquisition as contributing to Tecnotree's long-term growth prospects, against which the valuation of the stock remains moderate. We reiterate our Accumulate recommendation and raise our target price to EUR 0.70 (was EUR 0.65).

New product portfolio expansion strengthens the company's position in its customer base

CognitiveScale is a US-based AI and machine learning platform that provides solutions for the development and deployment of AI. The platform provides information to over 100 million customers in the healthcare, real estate, banking, insurance and retail sectors. The deal covering limited assets will transfer to Tecnotree all of CS's intellectual property rights (including its Truststar, Cortex and Certfai platforms) and its patents. Tecnotree intends to integrate the platform into its own product portfolio, thereby expanding its offering and strengthening its position in its customer base. The company cited the platform as creating opportunities with companies such as MTN Nigeria, with whom Tecnotree has signed several deals this year. Tecnotree plans its product development strongly in cooperation with its customers, and we believe that customer needs played an important role in the organization. CS has strong customer relationships in the healthcare and fintech verticals, which also create opportunities for Tecnotree's B2B2X platform solutions. We see the deal as a good move for Tecnotree to strengthen its position in key customer accounts, supporting the company's long-term growth prospects. The total unencumbered purchase price of the assets is USD 6 million, of which Tecnotree will pay USD 0.6 million in cash. The remaining 5,4 MUSD are liabilities that will be transferred to Tecnotree.

Transaction will boost growth next year, yet there is still uncertainty about the impact on earnings

Tecnotree expects the transaction to increase its annual recurring revenue (ARR) by EUR 5 million in 2023. We now expect revenue growth to accelerate to 15% next year, of which just under half will be inorganic growth from the arrangement. Our absolute earnings estimates for the coming years are virtually unchanged. At this stage, however, there is still considerable uncertainty about the impact of the transaction on earnings, as the profitability of the assets to be acquired wasn't disclosed in connection with the transaction, nor did the company comment on the matter as the integration is still ongoing. However, the transaction had a modest positive impact on our long-term earnings estimates.

Valuation still argues for staying on board

Tecnotree's 2023 P/E and EV/EBIT multiples are 15x and 10x, respectively. In 2024, the corresponding multiples fall to 11x and 7x. We believe Tecnotree's longer-term growth prospects are good, further boosted by the new acquisition. In this context, we believe that the valuation multiples for the stock are quite moderate. At the same time, there are still uncertainties surrounding the assessment of Tecnotree's sustainable profitability and cash flow repatriation, which keep the company's risk profile elevated. Nevertheless, we see the stock's risk/return ratio at current valuation as sufficient to retain a positive view on the stock.
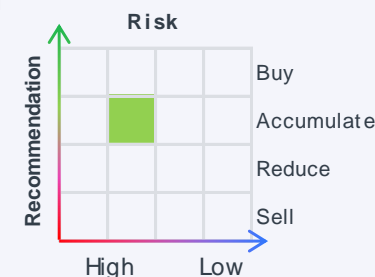
Recommendation

Accumulate
(previous Accumulate)

EUR 0.70
(previous EUR 0.65)

Share price:
0.63

Key figures

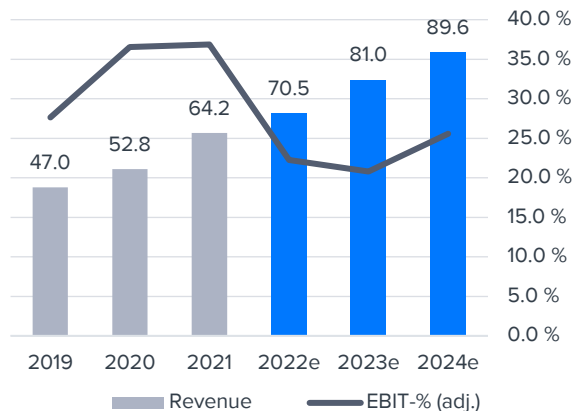|	2021	2022e	2023e	2024e
Revenue	64.2	70.5	81.0	89.6
growth-%	22%	10%	15%	11%
EBIT adj.	23.7	15.7	16.9	22.9
EBIT-% adj.	36.9 %	22.3 %	20.8 %	25.6 %
Net Income	18.4	11.0	12.7	17.6
EPS (adj.)	0.06	0.04	0.04	0.06
P/E (adj.)	25.0	17.8	15.5	11.1
P/B	6.8	2.5	2.1	1.8
P/FCF	neg.	neg.	19.4	14.0
EV/EBIT (adj.)	18.7	11.8	10.4	7.1
EV/EBITDA	17.5	10.5	8.0	5.7
EV/S	6.9	2.6	2.2	1.8

Source: Inderes

Guidance   (Unchanged)

The full year revenue in 2022 is expected to be 5-10% higher and the full year EBIT in 2022 is expected to be lower compared to 2021.
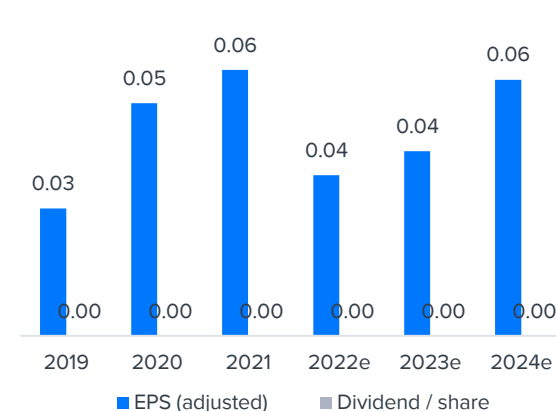
Share price

Revenue and EBIT %

Revenue: 2019: 47.0, 2020: 52.8, 2021: 64.2, 2022e: 70.5, 2023e: 81.0, 2024e: 89.6

EPS and dividend

EPS (adjusted): 2019: 0.03, 2020: 0.05, 2021: 0.06, 2022e: 0.04, 2023e: 0.04, 2024e: 0.06
Dividend / share: 0.00 across all years

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
- Technologically competent product portfolio

Risk factors

- Risks related to receivables and cash flow repatriation
- Customer portfolio structure 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

Valuation	2022e	2023e	2024e
Share price	0.63	0.63	0.63
Number of shares, millions	311.0	311.0	311.0
Market cap	196	196	196
EV	185	175	162
P/E (adj.)	17.8	15.5	11.1
P/E	17.8	15.5	11.1
P/FCF	neg.	19.4	14.0
P/B	2.5	2.1	1.8
P/S	2.8	2.4	2.2
EV/Sales	2.6	2.2	1.8
EV/EBITDA	10.5	8.0	5.7
EV/EBIT (adj.)	11.8	10.4	7.1
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Estimate revisions

Estimate revisions 2022e-2024e

- Our revenue estimates for the coming years increased by 6-7% after adding the company's estimated EUR 5 million to our ARR estimates.
- Our absolute earnings forecasts for the coming years are virtually unchanged. We expect relative profitability to deteriorate in the coming years as a result of the acquisition. However, there is still uncertainty about the impact of the arrangement on the company's profit level
- We now expect revenue to grow by around 15% to EUR 81.0 million in 2023. We estimate that slightly less than half of this is inorganic growth
- We made marginal positive changes to our Q4'22 earnings estimate reflecting the recent strengthening of the euro against the Indian rupee and the dollar

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	70.5	70.5	0%	76.0	81.0	7%	84.4	89.6	6%
EBITDA	17.4	17.6	1%	21.9	21.8	-1%	28.2	28.2	0%
EBIT (exc. NRIs)	15.5	15.7	1%	17.0	16.9	-1%	22.8	22.9	0%
EBIT	15.5	15.7	1%	17.0	16.9	-1%	22.8	22.9	0%
PTP	15.6	15.8	1%	16.2	15.9	-2%	22.0	22.0	0%
EPS (excl. NRIs)	0.04	0.04	1%	0.04	0.04	-2%	0.06	0.06	0%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	0.07	0.05	0.17	0.70	1.47	0.63	0.63	0.63	0.63
Number of shares, millions	122.6	136.6	235.3	274.6	313.2	311.0	311.0	311.0	311.0
Market cap	8.6	6.8	40	192	460	196	196	196	196
EV	24	19	53	198	443	185	175	162	146
P/E (adj.)	neg.	neg.	6.0	13.6	25.0	17.8	15.5	11.1	9.5
P/E	neg.	neg.	5.2	14.2	25.0	17.8	15.5	11.1	9.5
P/FCF	1.7	3.8	14.3	33.3	neg.	neg.	19.4	14.0	11.7
P/B	neg.	neg.	11.7	9.7	6.8	2.5	2.1	1.8	1.5
P/S	0.2	0.2	0.9	3.6	7.2	2.8	2.4	2.2	2.0
EV/Sales	0.4	0.5	1.1	3.7	6.9	2.6	2.2	1.8	1.5
EV/EBITDA	2.6	3.3	3.4	9.7	17.5	10.5	8.0	5.7	4.5
EV/EBIT (adj.)	2.5	3.3	4.1	10.2	18.7	11.8	10.4	7.1	5.5
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

P/E (adj.)

neg. (2017), neg. (2018), 6.0 (2019), 13.6 (2020), 25.0 (2021), 17.8 (2022e), 15.5 (2023e), 11.1 (2024e)

Median 2017 - 2021: 13.6

EV/EBIT

2.5 (2017), 3.3 (2018), 4.1 (2019), 10.2 (2020), 18.7 (2021), 11.8 (2022e), 10.4 (2023e), 7.1 (2024e)

Median 2017 - 2021: 4.1

EV/Sales

0.4 (2017), 0.5 (2018), 1.1 (2019), 3.7 (2020), 6.9 (2021), 2.6 (2022e), 2.2 (2023e), 1.8 (2024e)

Median 2017 - 2021: 1.1
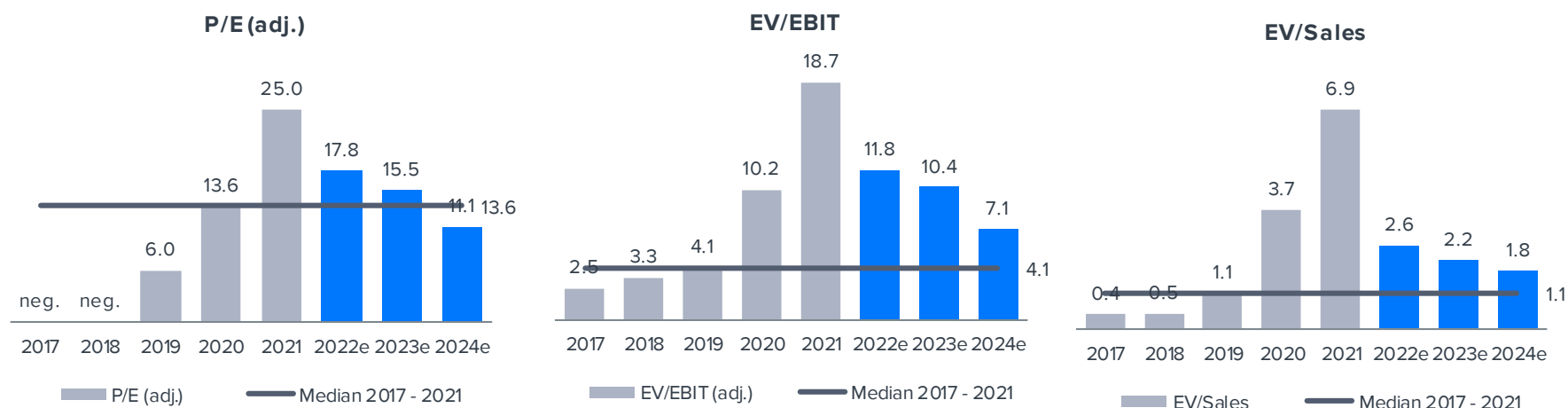
Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Amdocs Ltd	10128	10008	13.3	12.3	10.4	10.1	2.3	2.2	16.8	15.3	1.7	1.8	3.1
CSG Systems International Inc	1717	1985	12.6	11.7	9.3	8.7	2.1	2.0	15.7	15.3	1.8	1.9	
Comarch SA	372	330	9.1	10.2	5.8	6.2	0.8	0.8	14.6	14.0	2.3	2.6	1.2
Sterlite Technologies Ltd	757	1137	23.3	18.3	13.5	11.6	1.7	1.4	37.6	29.0	1.5	1.1	3.0
Cerillion PLC	421	402	32.7	26.0	26.2	22.1	10.8	9.1	38.1	32.5	0.7	0.8	13.6
Tecnotree (Inderes)	**196**	**185**	**11.8**	**10.4**	**10.5**	**8.0**	**2.6**	**2.2**	**17.8**	**15.5**	**0.0**	**0.0**	**2.5**
Average			**18.2**	**15.7**	**13.1**	**11.7**	**3.5**	**3.1**	**24.6**	**21.2**	**1.6**	**1.6**	**5.2**
Median			**13.3**	**12.3**	**10.4**	**10.1**	**2.1**	**2.0**	**16.8**	**15.3**	**1.7**	**1.8**	**3.0**
Diff-% to median			*-11%*	*-16%*	*1%*	*-20%*	*26%*	*11%*	*6%*	*1%*	*-100%*	*-100%*	*-18%*

Source: Refinitiv / Inderes

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	52.8	11.2	16.7	18.2	18.1	64.2	13.3	18.3	19.9	19.0	70.5	81.0	89.6	98.0
EBITDA	20.3	3.4	7.9	7.6	6.4	25.3	3.0	6.0	4.2	4.5	17.6	21.8	28.2	32.2
Depreciation	-1.7	-0.3	-0.3	-0.5	-0.5	-1.6	-1.0	-0.9	0.9	-0.9	-1.9	-4.9	-5.3	-5.6
EBIT (excl. NRI)	19.3	3.1	7.6	7.1	5.9	23.7	2.0	5.1	5.0	3.5	15.7	16.9	22.9	26.6
EBIT	18.6	3.1	7.6	7.1	5.9	23.7	2.0	5.1	5.0	3.5	15.7	16.9	22.9	26.6
Group	18.6	3.1	7.6	7.1	5.9	23.7	2.0	5.1	5.0	3.5	15.7	16.9	22.9	26.6
Net financial items	-2.7	-0.2	-1.3	-0.7	0.0	-2.2	-0.4	0.7	0.0	-0.2	0.1	-1.0	-0.9	-0.8
PTP	15.9	2.9	6.2	6.4	5.9	21.5	1.6	5.9	5.1	3.3	15.8	15.9	22.0	25.8
Taxes	-2.3	-0.5	-0.9	-1.1	-0.7	-3.1	-0.6	-1.9	-1.7	-0.7	-4.8	-3.2	-4.4	-5.2
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	13.6	2.4	5.3	5.4	5.3	18.4	1.0	4.0	3.4	2.6	11.0	12.7	17.6	20.6
EPS (adj.)	0.05	0.01	0.02	0.02	0.02	0.06	0.00	0.01	0.01	0.01	0.04	0.04	0.06	0.07
EPS (rep.)	0.05	0.01	0.02	0.02	0.02	0.06	0.00	0.01	0.01	0.01	0.04	0.04	0.06	0.07

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	12.3 %	14.3 %	17.6 %	24.7 %	27.5 %	21.6 %	18.8 %	9.6 %	9.3 %	4.9 %	9.8 %	14.9 %	10.6 %	9.4 %
Adjusted EBIT growth-%	48.5 %	34.8 %	30.2 %	2.9 %	37.8 %	22.7 %	-34.2 %	-32.4 %	-28.9 %	-40.8 %	-33.7 %	7.4 %	35.8 %	16.1 %
EBITDA-%	38.5 %	30.4 %	47.1 %	41.8 %	35.5 %	39.4 %	22.5 %	32.9 %	20.9 %	23.5 %	25.0 %	26.9 %	31.5 %	32.9 %
Adjusted EBIT-%	36.6 %	27.7 %	45.2 %	39.0 %	32.7 %	36.9 %	15.3 %	27.9 %	25.4 %	18.5 %	22.3 %	20.8 %	25.6 %	27.1 %
Net earnings-%	25.7 %	21.4 %	31.9 %	29.6 %	29.1 %	28.7 %	7.8 %	21.9 %	16.8 %	13.9 %	15.7 %	15.7 %	19.6 %	21.1 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**7.3**	**13.1**	**23.9**	**25.6**	**27.1**
Goodwill	0.0	0.0	5.7	5.7	5.7
Intangible assets	5.3	9.9	15.1	16.8	18.2
Tangible assets	0.5	0.4	0.5	0.6	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	1.0	2.2	2.0	2.0	2.0
Deferred tax assets	0.5	0.6	0.6	0.6	0.6
Current assets	**43.3**	**66.2**	**77.2**	**86.5**	**99.5**
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	35.3	48.6	60.6	63.2	65.4
Cash and equivalents	8.0	17.6	16.5	23.3	34.1
Balance sheet total	**50.6**	**79.3**	**101**	**112**	**127**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**19.9**	**67.7**	**78.8**	**91.5**	**109**
Share capital	1.3	1.3	1.3	1.3	1.3
Retained earnings	18.7	37.1	48.1	60.8	78.4
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	-0.2	29.3	29.3	29.3	29.3
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**18.8**	**2.7**	**5.3**	**2.7**	**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
Long term debt	12.4	0.0	2.6	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	6.4	2.7	2.7	2.7	2.7
Current liabilities	**12.0**	**8.9**	**17.0**	**17.9**	**14.8**
Short term debt	1.0	0.1	2.6	2.6	0.0
Payables	11.0	8.9	14.5	15.4	14.8
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**50.6**	**79.3**	**101**	**112**	**127**

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	21.6 %	9.8 %	14.9 %	10.6 %	9.4 %	5.0 %	4.5 %	4.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	36.9 %	22.3 %	20.8 %	25.6 %	27.1 %	29.5 %	30.0 %	29.5 %	29.0 %	28.0 %	28.0 %	28.0 %
EBIT (operating profit)	**23.7**	**15.7**	**16.9**	**22.9**	**26.6**	**30.4**	**32.3**	**33.0**	**33.4**	**33.2**	**33.9**	
+ Depreciation	1.6	1.9	4.9	5.3	5.6	5.9	6.1	6.3	6.4	6.7	6.8	
- Paid taxes	-3.2	-4.8	-3.2	-4.4	-5.2	-5.9	-6.3	-6.4	-6.5	-6.5	-6.8	
- Tax, financial expenses	-0.3	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	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	-15.5	-6.4	-1.6	-2.8	-3.3	-1.7	-2.5	-1.2	-0.6	-1.8	-1.2	
Operating cash flow	**6.3**	**6.5**	**16.8**	**20.8**	**23.6**	**28.5**	**29.4**	**31.5**	**32.5**	**31.4**	**32.7**	
+ Change in other long-term liabilities	-3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-7.3	-12.7	-6.7	-6.8	-6.9	-7.0	-7.1	-7.2	-7.2	-7.2	-7.2	
Free operating cash flow	**-4.7**	**-6.2**	**10.1**	**14.0**	**16.7**	**21.5**	**22.3**	**24.3**	**25.3**	**24.2**	**25.5**	
+/- Other	0.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-4.7	-1.1	10.1	14.0	16.7	21.5	22.3	24.3	25.3	24.2	25.5	316
Discounted FCFF		**-1.1**	**9.1**	**11.5**	**12.4**	**14.5**	**13.7**	**13.5**	**12.8**	**11.1**	**10.6**	**131**
Sum of FCFF present value		239	240	231	219	207	193	179	165	153	142	131
Enterprise value DCF		**239**										
- Interesting bearing debt		-0.1										
+ Cash and cash equivalents		17.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**257**										
Equity value DCF per share		**0.82**										
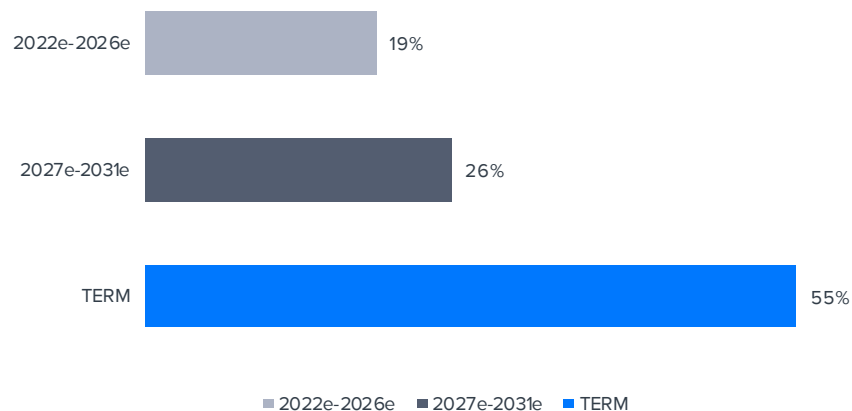
Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	0.0 %
Cost of debt	3.0 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	2.50%
Risk free interest rate	2.5 %
Cost of equity	**10.2 %**
Weighted average cost of capital (WACC)	**10.2 %**

Source: Inderes

Cash flow distribution

2022e-2026e	19%
2027e-2031e	26%
TERM	55%

■ 2022e-2026e ■ 2027e-2031e ■ TERM

Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	47.0	52.8	64.2	70.5	81.0
EBITDA	15.4	20.3	25.3	17.6	21.8
EBIT	14.4	18.6	23.7	15.7	16.9
PTP	11.8	15.9	21.5	15.8	15.9
Net Income	7.7	13.6	18.4	11.0	12.7
Extraordinary items	1.4	-0.7	0.0	0.0	0.0

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	36.8	50.6	79.3	101.0	112.1
Equity capital	3.6	19.9	67.7	78.8	91.5
Goodwill	0.0	0.0	0.0	5.7	5.7
Net debt	10.6	5.4	-17.6	-11.4	-20.8

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	15.4	20.3	25.3	17.6	21.8
Change in working capital	-6.6	-8.1	-15.5	-6.4	-1.6
Operating cash flow	4.2	12.9	6.3	6.5	16.8
CAPEX	-4.8	-3.6	-7.3	-12.7	-6.7
Free cash flow	2.8	5.8	-4.7	-1.1	10.1

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	0.03	0.05	0.06	0.04	0.04
EPS (adj.)	0.03	0.05	0.06	0.04	0.04
OCF / share	0.02	0.05	0.02	0.02	0.05
FCF / share	0.01	0.02	-0.01	0.00	0.03
Book value / share	0.01	0.07	0.22	0.25	0.29
Dividend / share	0.00	0.00	0.00	0.00	0.00

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	12%	12%	22%	10%	15%
EBITDA growth-%	161%	32%	24%	-30%	24%
EBIT (adj.) growth-%	120%	48%	23%	-34%	7%
EPS (adj.) growth-%	-3598%	82%	14%	-40%	15%
EBITDA-%	32.8 %	38.5 %	39.4 %	25.0 %	26.9 %
EBIT (adj.)-%	27.7 %	36.6 %	36.9 %	22.3 %	20.8 %
EBIT-%	30.6 %	35.2 %	36.9 %	22.3 %	20.8 %
ROE-%	-472.4 %	116.2 %	42.0 %	15.1 %	14.9 %
ROI-%	102.3 %	73.1 %	46.8 %	20.7 %	19.0 %
Equity ratio	9.9 %	39.3 %	85.4 %	78.0 %	81.6 %
Gearing	292.2 %	27.1 %	-25.9 %	-14.5 %	-22.7 %

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	1.1	3.7	6.9	2.6	2.2
EV/EBITDA (adj.)	3.4	9.7	17.5	10.5	8.0
EV/EBIT (adj.)	4.1	10.2	18.7	11.8	10.4
P/E (adj.)	6.0	13.6	25.0	17.8	15.5
P/B	11.7	9.7	6.8	2.5	2.1
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes

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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 €
11/1/2021	Accumulate	1.70 €	1.52 €
12/3/2021	Buy	1.70 €	1.29 €
2/28/2022	Buy	1.50 €	1.21 €
5/2/2022	Buy	1.10 €	0.92 €
Analyst changed			
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 €

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