

# NEWSFLASH

## TMC Group 1H08 results

TMC Group	1H07A	1H08A	2007A	2008E	2009E
€0.22					
Revenue	10.4m	20.5m	27.4m	42.5m	47.6m
EBIT	2.0m	3.1m	4.9m	6.7m	8.3m
EBIT margin	18.8%	15.2%	17.8%	15.7%	17.5%
Net result	1.5m	2.3m	3.6m	4.9m	6.2m
EPS	0.41	0.58	0.96	1.24	1.57

Source: Company figures, AEK Research

### TMC GROUP 1H08 FIGURES

- TMC's first half 2008 figures were largely in line with our estimates
- Revenue came in a notch higher, while margins fell just short of expectations
- TMC is well on its way outperforming its organic revenue growth target of 25%
- Margins will rise again as the ratio of direct to indirect staff improves
- Acquisitions stay high on the agenda, although judged carefully
- We adjusted our estimates and remain of the opinion that the market does not price in the growth potential of TMC
- We reiterate our rating: **Outperformer**.

### FIRST HALF RESULTS IN LINE

TMC's first half figures in 2008 included construction and civil engineering consulting firm Adapté, acquired last year and consolidated as of the second half of 2007. Revenue in the first six months grew 96% to €20.5m from €10.4m in the year ago period. Excluding Adapté, revenue of the existing technology and ICT activities rose 48% to €15.5m. As the pro forma figure for the first half of 2007 including Adapté was €15.9m, we conclude turnover of the Adapté activities declined to €5.0m from €5.5m a year earlier.

The company over the period reported a gross margin of €7.3m versus €3.6m (pro forma €6.1m including Adapté), or 35.8% versus 35.0% a year earlier (38.8% including Adapté). The EBIT result rose to €3.1m from €2.0m in the first half of 2007. As a percentage of revenue, this implied a decline to 15.2% from 18.8% (or from pro forma 22.3% including Adapté). Net profit amounted to €2.3m versus €1.5m, net margin 11.0% versus 14.2%.

The results were more or less in line with our estimates. We had foreseen slightly lower than actual total revenue of €20.3m, but higher EBIT and net result of €3.7m (18.2% of revenue) and €2.7m (13.1%) respectively. The somewhat lower than foreseen margins were explained by two factors: business mix and investment expenditure. The traditionally lower yielding technology and ICT activities grew faster than we expected. Turnover of the construction and civil engineering activities was lower, where we anticipated zero

growth. Excluding the start-ups TMC Engineering & Construction (located in Rotterdam, focusing on the oil and gas industries), Adapté West (Hoofddorp) and Adapté Zuid (Eindhoven), TMC reported the EBIT result would have been 19% of revenue.

#### **STAYING ON TOP**

CEO Thijs Manders commented that 'despite rationalisation processes at clients', TMC was able to 'stay on top'. He added 'the continuation of investment in account management and cell management is crucial to create the right foundation for our business philosophy and future growth.' According to Manders, this is the secret to TMC's success in the 'current economy and labour markets'.

The company expanded its number of office locations to four, from two at the end of 2007 and only one in the first half of last year. The number of direct employees (employeneurs) rose to 444 from 209 a year earlier. At the same time, the number of indirect staff (account and cell managers) rose to 74 from 26. The ratio of direct to indirect staff herewith worsened to 6 from 8.

Management stresses, the increase in sales force is the indicator to watch concerning the company's future growth potential. It foresees the ratio to improve before the end of the year. CFO Pieter van den Tillaard joked the number should rise to 'more Olympic levels'. Holland scored 7 gold medals at the Olympic Games in Beijing. For the ratio to come down to 7, the number of employeneurs should rise to over 500. The biggest challenge at the moment, according to management, remains finding the right employeneurs and getting them aboard. TMC does not plan to open new locations in the second half.

With the four business cells started in 2007 (three of which in cooperation with research centre TNO), TMC says it now covers the entire R&D chain in generic ICT organisations, bringing more multidisciplinary projects at multinationals within reach. Services to technology related businesses focus more on operational improvements at the client. In the overlapping field of ICT infrastructure, TMC says it would like to expand, even by means of an acquisition. Meanwhile, it sees opportunities in the energy sector. On one hand in more efficient refinery and green alternatives, on the other hand these are seen in new exploration techniques. Here also TMC looks at possible acquisition candidates. As we stated before, a takeover could be an opportunity to further optimise the company's capital structure.

TMC invested in the countrywide roll out of Adapté. CEO Manders expects to counter 'challenges in the (construction) market', especially because of increasing demand for 'total solutions' and accompanying consultancy projects. Although the number of new housing permits is no longer rising, a crash landing of the housing market is not expected. The need for and investment in transport infrastructure is foreseen to remain high (in part paid for by the national natural gas revenues). Clients of Adapté are local governments, construction companies and engineering firms in particular.

The order book is well filled. TMC is establishing itself as a preferred supplier to an increasing number of (high-tech) clients. A total of 60 new clients have been added so far this year. An example is a new contact involving multidisciplinary engineering services for the city of Amstelveen (southern neighbour of the city of Amsterdam). Meanwhile TMC said it is witnessing more cross selling between business cells.

#### **RATING REAFFIRMED**

We conclude its interim report showed TMC is able to keep up its high growth profile. Management reconfirmed the targeted 25% organic growth in revenue for the entire year. By investing under the current circumstances, management displayed its confidence in the designated core markets. Moreover, this is demonstrated by the fact that acquisitions stay high on the agenda, although carefully considered in the current market turmoil and in only in areas with synergies between them and the existing business cells.

Therefore we raise our estimates for annual turnover growth in the period 2008-2010 to 55%, 12% and 10%, respectively, bringing revenue to €42.5m (previous estimate: €41.0m) in 2008, €47.6m (47.0m) in 2009 and €52.4m (€51.7m). As the company raises the pace of investment, we incorporate somewhat lower margins, e.g. EBIT margins of 15.7%, 17.5% and 18.0%. This leads us to net EPS estimates for 2008-20010 of €1.21 (€1.39), €1.57 (unchanged) and €1.79 (€1.74).

We see these estimates as quite conservative, as the average compounded annual growth rate in sales is much higher than what we project. However, even without acknowledging the growth potential the stock trades at eight times current year's earnings, and around six times estimated earnings for the years thereafter (when we assume the company approaches a more steady state, with less growth and lower investment). In a quick discounted cash flow assessment, where we take the growth rate down to 5% in four years time and 2% beyond year five, we arrive at a fair value north of €12.9 per share. We reiterate our rating on TMC: **Outperformer**.

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### History recommendation

Date	Previous Recommendation	New Recommendation
22-05-2008	Not Rated	Outperformer
26-08-2008	Outperformer	Outperformer

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Rating	Expected absolute share price performance	Time horizon
Outperformer	better absolute returns	12 months
Market performer	same absolute returns	12 months
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