

CY4GATE

Sector: Industrials

BUY

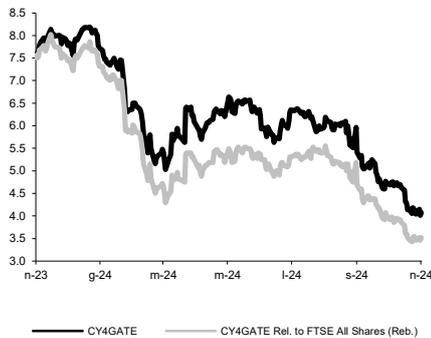
Price: Eu4.07 - Target: Eu7.00

Return to Growth Led by Cybersecurity and Defence; FY24 Guidance Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	n.m.	-1.8%	0.3%

CY4GATE - 12M Performance



Stock Data			
Reuters code:	CY4.MI		
Bloomberg code:	CY4 IM		
Performance	1M	3M	12M
Absolute	-14.1%	-32.1%	-46.2%
Relative	-12.4%	-37.1%	-62.4%
12M (H/L)	8.19/4.01		
3M Average Volume (th):	41.12		

Shareholder Data	
No. of Ord shares (mn):	24
Total no. of shares (mn):	24
Mkt Cap Ord (Eu mn):	96
Total Mkt Cap (Eu mn):	96
Mkt Float - Ord (Eu mn):	44
Mkt Float (in %):	45.5%
Main Shareholder:	
Elettronica S.p.A.	38.4%

Balance Sheet Data	
Book Value (Eu mn):	107
BVPS (Eu):	4.56
P/BV:	0.9
Net Financial Position (Eu mn):	-18
Enterprise Value (Eu mn):	119

■ **Return to double-digit organic growth.** 3Q results marked a return to double-digit organic growth after three consecutive quarters of decline. Revenues in 3Q reached €16.4mn, up 51% YoY (>+40% organic), outperforming our €14.1mn/+34% estimate (by +10%). In what is a seasonally low-revenue quarter, Cybersecurity showed the strongest growth, with revenues of €4.8mn compared to €0.7mn in 3Q23. This increase was bolstered by the consolidation of XTN and positive trends in the defence sector; Decision Intelligence also grew +40% YoY, a QoQ acceleration; Forensic Intelligence remained the weakest segment, hit by the ongoing slowdown in foreign markets, although domestic growth was positive. In 9M24 revenues were predominantly recurring, whereas in 9M23, ~€10mn came from one-off international Forensic Intelligence income. The geographical breakdown shows Italy growing 64%, while exports increased by 15%. Adj. EBITDA was €1.2mn (compared to €-2.3mn in 3Q23), a 7.5% margin, close to the 1H figure, resulting from an almost stable cost base (net of the XTN integration). Adj. net debt came in at €30.8mn (our estimate was €29.2mn), down from €19mn in 2Q, reflecting higher working capital requirements typical of the third quarter, with a trend reversal anticipated in 4Q.

■ **Revenue guidance confirmed at the low end of the range.** The company confirmed its guidance on revenues, expected at the low end of the €84-90mn range thanks to i) backlog and recurring contracts between €69mn and €72mn; ii) commercial pipeline conversion ranging from €13mn to €15mn.

■ **Feedback from the conference call:** i) the defence sector is experiencing a significant boost, with emerging multi-year opportunities, especially in Cybersecurity. Management expects the defence sector to contribute ~€10mn in revenues in FY24, which should enhance recurring revenue streams. With R&D efforts secured in an initial phase, the integration of proprietary products is set to establish a long-term position in the sector; ii) the path to fully reducing seasonality remains long, but initial progress is evident, supported by multi-year contracts and despite 80% of business relying on institutional clients, which results in limited orders during the early months of the year; iii) by year-end, revenue distribution across regions is expected to be more balanced; forensic abroad is still lagging, but there is optimism on securing some orders in 4Q, which would help meet the revenue target; iv) on the NFP, there is a typical seasonal decline due to slower public sector payments during 3Q, as well as the impact of acquisitions and minority share payments. WC is the main driver of cash absorption, but the trend began to reverse in October, with management expecting an improvement of around €15mn in 4Q.

■ **BUY. €7.0 TP confirmed.** We are slightly adjusting our estimates to factor in lower financial charges, which are more than offset at bottom line by higher interest from minorities. On the cash side, we anticipate a more favourable working capital trend. Our FY estimates, which are in line with guidance and market consensus, factor in a +55% YoY revenue growth rate in 4Q, benefiting from an easier comparison base. We believe that meeting guidance and announcing new contracts in 4Q could generate increased investor interest and trigger a stock re-rating. We reaffirm our positive view on the stock and our €7.0 p/s target price, applying a fair 9x EV/EBITDA multiple to 2024 estimates.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	57	68	84	93	99
EBITDA Adj (Eu mn)	17	12	21	26	29
Net Profit Adj (Eu mn)	7	-5	1	4	6
EPS New Adj (Eu)	0.314	-0.228	0.025	0.166	0.246
EPS Old Adj (Eu)	0.314	-0.228	0.033	0.169	0.245
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	13.6	18.5	5.6	4.5	4.0
EV/EBIT Adj	32.9	nm	23.3	12.3	10.0
P/E Adj	13.0	nm	nm	24.5	16.6
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-0.2	1.1	0.8	0.6	0.5

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 30 September 2024 Intermonte's Research Department covered 125 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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