

CY4GATE

Sector: Industrials

BUY

Price: Eu8.20 - Target: Eu12.80

Good Execution in 1H, Positive Outlook Confirmed

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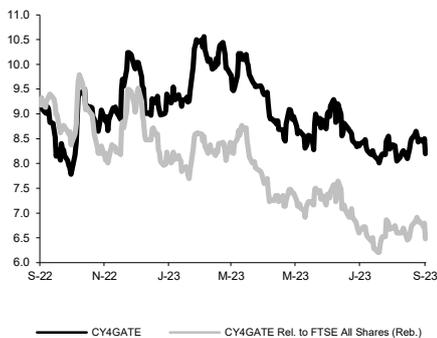
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 13.20 to 12.80		
	2023E	2024E	2025E
Chg in Adj EPS	-7.3%	-7.2%	-10.9%

Next Event

 Results 3Q Results Out on Nov 14th

CY4GATE - 12M Performance



Stock Data

Reuters code:	CY4.MI
Bloomberg code:	CY4 IM

Performance	1M	3M	12M
Absolute	-2.1%	-9.3%	-10.7%
Relative	-3.4%	-12.1%	-37.1%
12M (H/L)	10.56/7.78		
3M Average Volume (th):	13.60		

Shareholder Data

No. of Ord shares (mn):	24
Total no. of shares (mn):	24
Mkt Cap Ord (Eu mn):	193
Total Mkt Cap (Eu mn):	193
Mkt Float - Ord (Eu mn):	88
Mkt Float (in %):	45.5%
Main Shareholder:	
Elettronica S.p.A.	38.4%

Balance Sheet Data

Book Value (Eu mn):	129
BVPS (Eu):	5.45
P/BV:	1.5
Net Financial Position (Eu mn):	-1
Enterprise Value (Eu mn):	194

- Good 1H23 results.** Total revenues were €34.1mn (€16.7mn in 1H22), +104% YoY, vs. our estimate of €31.1mn, largely driven by business abroad (46% of the total), and the full consolidation of RCS. Growth vs. the pro-forma 1H22 base was over +20% YoY. Adj. EBITDA €5.5mn (€2.3mn in 1H22), +137% YoY, vs. our estimate of €3.3mn, a 16.1% margin (13.9% in 1H22), despite a significant increase in costs due to the recruitment of highly qualified technical/ engineering personnel. The better revenues (+€3mn vs. expectations) and adj. EBITDA (+€2.2mn) may be due to the invoicing of a contract that we had included in 2H. At the bottom line, adj. net loss was €-2.8mn (€-4.3mn in 1H22).
- Higher-than-expected investments drove net debt up.** CapEx was higher than expected (c.€10mn), aimed at the ongoing development of new products and technology, meaning net debt (€10.8mn), was worse than our €7.2mn estimate and the €6.5mn figure as at the end of 1Q23. Overall, 1H results reflect business seasonality, as both turnover and cash flows are mainly focused in 4Q, while operating costs are distributed more evenly across the two halves of the year.
- Positive outlook confirmed.** CY4 has not released any official guidance, but the qualitative outlook highlights strong development in the cyber intelligence segment, offsetting the expected boost from European and NRRP funds that is yet to materialise. In 1H the company won €22.5mn of orders, more than doubling YoY, and YtD the order intake has now reached €28.3mn. Management envisages strong opportunities from the adoption of AI technologies in the lawful interception business, and aims to unlock upselling opportunities and mitigate potential budget restrictions for individual prosecutors, still subject to approval. In terms of products, by the end of the year CY4 will launch a new RTA solution, the latest generation of proprietary SIEM, also to be offered on cloud via a SaaS business model with the aim of increasing recurring revenue, albeit with lower initial volumes compared to on-premises systems, as it is less appreciated by customers.
- Change to estimates:** we are leaving our revenue and adj. EBITDA estimates unchanged, while raising our CapEx /D&A forecasts to factor in higher investments in 1H. Our 2H23 estimates imply c.23% YoY revenue growth (c.19% organic), and a 40.3% EBITDA margin (36.3% in 1H22) with OpEx+COGS almost flattish HoH.
- BUY confirmed; target €12.8 (from €13.2):** we reiterate our positive view on the stock, slightly lowering our TP to €12.8. We believe CY4 is well positioned to exploit growth opportunities and benefit from the synergistic integration of the acquired companies. The cyber security business will be driven by structural trends and will benefit from NRRP as soon as any related projects start. M&A represents another important growth pillar the group can build up, focusing on the acquisition of software houses, targeting new and complementary cyber niches. On the negative side, potential regulatory restrictions affecting the Italian lawful interception market remain the main downside risk, which in our view is excessively penalising stock performance, as the budget allocated by individual prosecutors' offices has remained unchanged so far.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	18	57	83	92	100
EBITDA Adj (Eu mn)	8	17	25	28	32
Net Profit Adj (Eu mn)	5	7	10	12	14
EPS New Adj (Eu)	0.346	0.339	0.414	0.507	0.591
EPS Old Adj (Eu)	0.346	0.339	0.446	0.547	0.664
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	18.6	13.6	7.7	6.7	5.7
EV/EBIT Adj	33.3	32.9	13.6	11.6	10.3
P/E Adj	23.7	24.2	19.8	16.2	13.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	0.2	-0.2	0.0	-0.1	-0.3