

CY4GATE

Sector: Industrials

BUY

Price: Eu5.28 - Target: Eu7.00

Slower Forensic Market, FY24 Targets Affirmed, Focus on Pipeline

Pietro Nargi +39-02-77115.401
 pietro.nargi@intermonte.it
Andrea Randone: +39-02-77115.364
 andrea.randone@intermonte.it

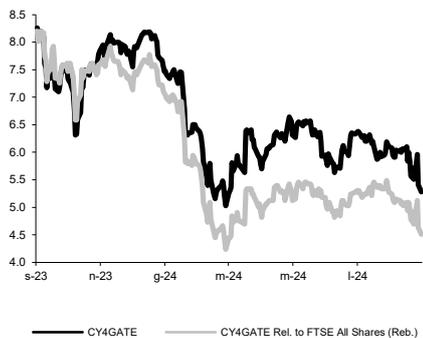
Stock Rating

| | | | |
|---------------------------|-------------------|--------------|--------------|
| Rating: | Unchanged | | |
| Target Price (Eu): | from 8.70 to 7.00 | | |
| | 2024E | 2025E | 2026E |
| Chg in Adj EPS | -88.3% | -55.2% | -46.9% |

Next Event

 3Q Results Out on Nov 13th

CY4GATE - 12M Performance



Stock Data

| | | | |
|-------------------------|-----------|-----------|------------|
| Reuters code: | CY4.MI | | |
| Bloomberg code: | CY4 IM | | |
| Performance | 1M | 3M | 12M |
| Absolute | -13.4% | -11.0% | -36.5% |
| Relative | -14.9% | -13.4% | -52.3% |
| 12M (H/L) | 8.26/5.03 | | |
| 3M Average Volume (th): | 20.05 | | |

Shareholder Data

| | |
|---------------------------|-------|
| No. of Ord shares (mn): | 24 |
| Total no. of shares (mn): | 24 |
| Mkt Cap Ord (Eu mn): | 124 |
| Total Mkt Cap (Eu mn): | 124 |
| Mkt Float - Ord (Eu mn): | 57 |
| Mkt Float (in %): | 45.5% |
| Main Shareholder: | |
| Elettronica S.p.A. | 38.4% |

Balance Sheet Data

| | |
|---------------------------------|------|
| Book Value (Eu mn): | 107 |
| BVPS (Eu): | 4.55 |
| P/BV: | 1.2 |
| Net Financial Position (Eu mn): | -19 |
| Enterprise Value (Eu mn): | 149 |

- Revenue down YoY amid slower forensic market.** CY4 reported 2Q results with revenues of €31.1mn, down 9% YoY (to €34.1mn in 1H23). The decline, especially in 2Q (€16.5mn, -16% YoY), was due to a slowdown on the foreign forensics market; the domestic market and the cybersecurity segment were more resilient. EBITDA reached €2.4mn in 1H (break-even in 1Q), with a stable cost structure. The NFP was slightly worse at -€19mn, down from -€17mn in 1Q.
- Feedback from the conference call.** As foreign forensic is a high-margin business, it resulted in lower-than-expected profitability, with clients temporarily delaying purchases. Greater resilience was experienced in the domestic security & law enforcement market, where demand for electronic devices used for data acquisition has increased significantly. As a matter of fact, considering the same budget allocated by prosecutor offices, CY4's market share has increased YoY. Looking at cashflow dynamics, the trade receivables trend improved in 1H, mainly due to the consolidation of XTN (which operates on negative NWC) and the better payment terms in the defence sector, although exposure to the Italian public administration remained high (at €30mn, up from €26mn as at the end of 23YE). There was a positive release from XTN, which closed 1H with revenue up +20% and a more-than-proportional rise in EBITDA, driven by the highly scalable business model.
- FY24 revenues guidance confirmed.** According to management, CY4's commercial pipeline remains promising and diversified but still subject to high seasonality, with a stronger impact as usual expected in 4Q. However, despite the negative trend in 1H, the company confirmed its FY24 revenue guidance at €84-90mn, with €64-67mn secured from backlog and recurring revenues, while the remainder (€20-23mn) is expected to materialize from the conversion of its €122mn pipeline; while visibility was better on the defence sector and on corporate clients, 60-70% of the pipeline involves activities on the international forensic market, where market conditions are still tough. Adj. EBITDA margin now seen at c.25%, at the low end of guidance, with optimization efforts like cost-cutting and centralization seen continuing in 2H. Net debt expected stable at around €19mn.
- Our estimates at the low-end of the guidance.** Based on the qualitative messages from the conference call, we have moved our 2024 revenue estimates to the low-end of the guidance, assuming a margin at 25%, which clearly incorporates a different revenue mix more skewed to low-margin business (lower contribution from forensic activities). This would result in a -18% revision to adj. EBITDA, while below the line, higher financial charges led to a remarkable EPS cut.
- BUY unchanged, new TP at €7.0.** We move our TP to €7.0 (from €8.70), following the change in estimates, now calculated applying a fair 9x Ev/EBITDA multiple for our 24E, reflecting the limited visibility on short-term pipeline conversion, and the implied 2H, which remains challenging. We expect the stock to rerate as soon as the execution on consensus estimates becomes more predictable. Moreover, the announcement of new, large-scale contracts may trigger more constructive interest on the stock.

| 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 | 0.033 | 0.169 | 0.245 |
| EPS Old Adj (Eu) | 0.339 | -0.148 | 0.278 | 0.378 | 0.461 |
| DPS (Eu) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| EV/EBITDA Adj | 13.6 | 18.5 | 7.1 | 5.6 | 5.0 |
| EV/EBIT Adj | 32.9 | nm | 29.5 | 15.4 | 12.4 |
| P/E Adj | 16.8 | nm | nm | 31.2 | 21.6 |
| Div. Yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Net Debt/EBITDA Adj | -0.2 | 1.1 | 0.9 | 0.6 | 0.4 |

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- 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)

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Frequency of research: quarterly.

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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;

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

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| | |
|--------------|---------|
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| NEUTRAL: | 25.61 % |
| UNDERPERFORM | 00.83 % |
| SELL: | 00.00 % |

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| | |
|--------------|---------|
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| NEUTRAL: | 10.20 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|-----------|---|------------|
| | | |

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