

# CY4GATE

Sector: Industrials

**BUY**

Price: Eu5.03 - Target: Eu8.70

## Promising Outlook, Focus on Execution

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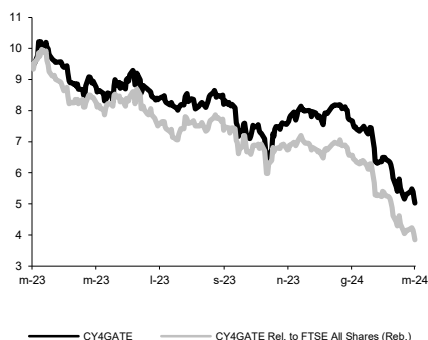
### Stock Rating

|                           |                    |              |              |
|---------------------------|--------------------|--------------|--------------|
| <b>Rating:</b>            | Unchanged          |              |              |
| <b>Target Price (Eu):</b> | from 10.50 to 8.70 |              |              |
|                           | <b>2024E</b>       | <b>2025E</b> | <b>2026E</b> |
| <b>Chg in Adj EPS</b>     | -14.7%             | -15.1%       |              |

### Next Event

1Q Results Out on May14th

### CY4GATE - 12M Performance



### Stock Data

|                         |            |           |            |
|-------------------------|------------|-----------|------------|
| Reuters code:           | CY4.MI     |           |            |
| Bloomberg code:         | CY4 IM     |           |            |
| <b>Performance</b>      | <b>1M</b>  | <b>3M</b> | <b>12M</b> |
| Absolute                | -22.6%     | -35.7%    | -47.1%     |
| Relative                | -29.4%     | -46.9%    | -77.4%     |
| 12M (H/L)               | 10.22/5.03 |           |            |
| 3M Average Volume (th): | 74.65      |           |            |

### Shareholder Data

|                           |       |
|---------------------------|-------|
| No. of Ord shares (mn):   | 24    |
| Total no. of shares (mn): | 24    |
| Mkt Cap Ord (Eu mn):      | 119   |
| Total Mkt Cap (Eu mn):    | 119   |
| Mkt Float - Ord (Eu mn):  | 54    |
| Mkt Float (in %):         | 45.5% |
| Main Shareholder:         |       |
| Elettronica S.p.A.        | 38.4% |

### Balance Sheet Data

|                                 |      |
|---------------------------------|------|
| Book Value (Eu mn):             | 117  |
| BVPS (Eu):                      | 4.95 |
| P/BV:                           | 1.0  |
| Net Financial Position (Eu mn): | -19  |
| Enterprise Value (Eu mn):       | 138  |

- 4Q/FY23 results substantially in line at P&L.** Revenues in 4Q were Eu23.4mn, better than our estimate of Eu20.1mn. Overall, FY23 revenues at Eu68.3mn, substantially stable YoY on a LfL basis due to lower traction of cybersecurity software sales and no contribution from PNRR-projects. The postponement of an important foreign order in Forensic Intelligence affected 4Q/FY results as well. The business mix remained broadly unchanged YoY, with Forensic Intelligence at 45%, Decision Intelligence at 40%, and Cyber Security accounting for the remaining 15%. By geographical area, international sales were at ~37% down vs. ~47% in FY22. Adj. EBITDA came in at Eu8.9mn in 4Q, in line with est., hit hard by the lower-than-expected revenue from licenses linked to the missed contract, albeit benefitting from higher capitalized R&D expenditure at Eu4mn vs. Eu1.1mn in 4Q22. Below the line, adj. EBIT was Eu5.3mn while adj. net profit was at breakeven.
- Better cash generation despite higher CapEx.** Adj. net debt at Eu7.9mn was better than our Eu13.8mn estimate, down QoQ (Eu15.6mn in 3Q), despite Eu22.1mn CapEx, more than offset by the improved NWC (+Eu16mn in 4Q), which also benefitted from Eu3.5mn recourse to factoring.
- Encouraging outlook, 2024 revenues seen in the Eu84-90mn range.** CY4gate provided revenue guidance for 2024 in a range between Eu84-90mn, coming from: i) conversion of the commercial pipeline (at Eu210mn) in a range between Eu32-35mn (assuming a ~16% win rate based on the historical average); ii) backlog expiring in 2024 worth ~21mn; and iii) recurring contracts in a range between Eu31-Eu34mn. Guidance mid-point (Eu87mn) implies ~27% YoY growth (~20% organic) according to our model, which assumes a ~€5mn contribution from the consolidation of XTN acquired in January. Adj. EBITDA margin seen increasing and returning to 2022 level (30%). Regarding cash flow, CapEx at ~Eu22mn is seen flat YoY, with R&D CapEx expected to remain stable YoY as a % of revenue, while WC to remain substantially in line with 23YE figure.
- Change to estimates.** In light of FY23 results, we are leaving our 2024-25 revenue estimates unchanged, while slightly increasing adj. EBITDA to factor in higher capitalization, entirely offset at operating level by higher D&A. At the bottom line, we are also including higher minority interests and financial expenses, leading to an adj. EPS revision of 15% on average. We have increased our net debt estimate, resulting from higher CapEx and more conservative assumptions on WC evolution.
- Valuation.** The recent order postponement along with continuous news flow on potential regulation of the Italian lawful interception market have excessively penalised stock performance YTD. In 2024, CY4 aims to serve more corporate clients, trying to exploit new opportunities in defence and cyber security to reduce business seasonality; M&A remains a key growth driver, albeit not in the very short term. At the current share price, the stock is trading sharply below historical multiples. We believe that delivery on financial targets (with no more shifts) and the notification of new contracts (YTD order collection is considerably lower YoY) are necessary to support a stock rerating over the next quarters. We confirm our BUY rating, reducing our TP to Eu8.70 (from 10.50) in light of the new estimates.

| Key Figures & Ratios   | 2022A | 2023A  | 2024E | 2025E | 2026E |
|------------------------|-------|--------|-------|-------|-------|
| Sales (Eu mn)          | 57    | 68     | 85    | 93    | 99    |
| EBITDA Adj (Eu mn)     | 17    | 12     | 26    | 30    | 33    |
| Net Profit Adj (Eu mn) | 7     | -4     | 7     | 9     | 11    |
| EPS New Adj (Eu)       | 0.339 | -0.148 | 0.278 | 0.378 | 0.461 |
| EPS Old Adj (Eu)       | 0.339 | -0.125 | 0.326 | 0.445 |       |
| DPS (Eu)               | 0.000 | 0.000  | 0.000 | 0.000 | 0.000 |
| EV/EBITDA Adj          | 13.6  | 18.1   | 5.4   | 4.5   | 4.0   |
| EV/EBIT Adj            | 32.9  | nm     | 11.9  | 9.6   | 8.1   |
| P/E Adj                | 14.8  | nm     | 18.1  | 13.3  | 10.9  |
| Div. Yield             | 0.0%  | 0.0%   | 0.0%  | 0.0%  | 0.0%  |
| Net Debt/EBITDA Adj    | -0.2  | 1.1    | 0.8   | 0.6   | 0.4   |

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- 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)

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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;

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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|              |         |
|--------------|---------|
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| NEUTRAL:     | 26.02 % |
| UNDERPERFORM | 00.81 % |
| SELL:        | 00.00 % |

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|              |         |
|--------------|---------|
| BUY:         | 38.78 % |
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| NEUTRAL:     | 10.20 % |
| UNDERPERFORM | 00.00 % |
| SELL:        | 00.00 % |

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|-----------|---|------------|
|           |   |            |

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