

CY4GATE

Sector: Industrials

BUY

Price: Eu7.95 - Target: Eu12.00

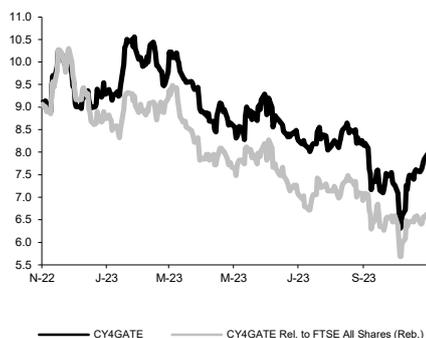
Warm Welcome to an Attractive New Acquisition

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 12.80 to 12.00		
	2023E	2024E	2025E
Chg in Adj EPS	-7.7%	-6.7%	-6.4%

CY4GATE - 12M Performance



Stock Data

Reuters code:	CY4.MI
Bloomberg code:	CY4 IM

Performance	1M	3M	12M
Absolute	9.4%	-1.2%	-10.5%
Relative	1.2%	-7.1%	-28.5%
12M (H/L)	10.56/6.31		
3M Average Volume (th):	15.58		

Shareholder Data

No. of Ord shares (mn):	24
Total no. of shares (mn):	24
Mkt Cap Ord (Eu mn):	187
Total Mkt Cap (Eu mn):	187
Mkt Float - Ord (Eu mn):	85
Mkt Float (in %):	45.5%
Main Shareholder:	
Elettronica S.p.A.	38.4%

Balance Sheet Data

Book Value (Eu mn):	127
BVPS (Eu):	5.40
P/BV:	1.5
Net Financial Position (Eu mn):	-1
Enterprise Value (Eu mn):	189

- 3Q a seasonally low-revenue quarter.** CY4 published its first ever set of quarterly results, relating to 3Q/9M, which showed seasonally low revenues. In 9M: i) revenues came to Eu43.6mn (+67% YoY), vs. a pro-forma 9M22 figure of Eu37.3mn, ii) adj. EBITDA was Eu3.2mn vs. Eu3.3mn pro-forma in 9M22, iii) adj. net debt was Eu15.6mn (Eu10.8mn at 1H23).
- XTN reinforces cybersecurity offer.** CY4 announced that it has reached an agreement for the acquisition of 77.8% of XTN, an Italian developer of software solutions for the identification of risky behaviour typical of digital abuse or fraud, particularly in the banking sector. XTN'S business model is based on multi-year subscriptions, with recurring revenues and strong cash generation. CY4's objective is to acquire new clients both in Italy and abroad, in a rapidly expanding market. In FY22, XTN generated €3mn in revenues with an EBITDA margin of c.30% and an NFP of €3.4mn. The equity value for 77.8% is Eu9.7mn, with closing envisaged in 1Q24.
- Warm welcome to an attractive acquisition.** The acquisition looks positive, as it is in line with the strategy of investing in the cybersecurity arena (including through M&A) to consolidate market share. Quantitatively, if we assume zero synergies from the transaction, we calculate accretion of c.2% in 2023, which could rise into the high single-digit area in the event of OpEx synergies.
- Update on Italian forensic activities.** CY4 reiterated that as yet there have been no budget cuts; the reform involves forensic activities being shifted to 4 Italian cities (Rome, Milan, Palermo, Naples), in which CY4 already operates (so no reduction in activity) and would enable a reduction in peripheral workstations and therefore lower costs in the context of an unchanged budget.
- Positive outlook and robust pipeline,** except for projects linked to NRRP, on which visibility is very poor, management believes consensus estimates remain achievable, albeit more challenging, especially for EBITDA. The tone struck in the conference call was positive, with growth trends expected to continue for the coming years thanks to a robust pipeline. On cashflow, management expects NFP to approach break-even by YE23.
- Fine-tuning estimates.** On the back of 9M results, and the lower contribution from NRRP projects, we are reducing our revenue and adj. EBITDA estimates by 4% and 5%, with a lesser revision in FY24-25. Ahead of closing (by 1Q24), we are still not including the recent acquisition in our estimates.
- BUY confirmed; target €12.0** (from €12.8). 9M figures confirm the heavy preponderance of sales that take place in 4Q, with a strong acceleration expected in the final quarter once again this year. We appreciate the recently-announced acquisition of XTN, considering its fast-growing profile and the quality of the financials, featuring recurring revenue and strong cash capability. Despite the lower-than-expected contribution on FY23 from NRRP-related projects, the order intake flow and the robust pipeline enhance visibility in 2024. We expect M&A to continue to represent an important growth pillar, with a focus on the acquisition of software houses, targeting new and complementary cyber niches.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	18	57	80	90	98
EBITDA Adj (Eu mn)	8	17	24	27	31
Net Profit Adj (Eu mn)	5	7	9	11	13
EPS New Adj (Eu)	0.346	0.339	0.382	0.473	0.554
EPS Old Adj (Eu)	0.346	0.339	0.414	0.507	0.591
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	18.6	13.6	7.8	6.7	5.7
EV/EBIT Adj	33.3	32.9	15.0	12.0	10.3
P/E Adj	23.0	23.4	20.8	16.8	14.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	0.2	-0.2	0.1	-0.1	-0.3