

CY4GATE

Sector: Industrials

BUY

Price: Eu10.10 - Target: Eu14.20

Slight increase in TP to reflect missed earnout for Aurora acquisition

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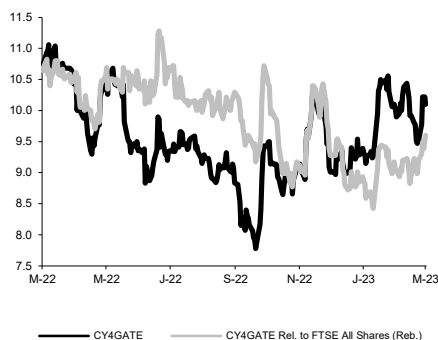
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 14.00 to 14.20		
	2023E	2024E	2025E
Chg in Adj EPS	-13.3%	-6.2%	

Next Event

 1H23 Results Out on September 21st

CY4GATE - 12M Performance



Stock Data

Reuters code:	CY4.MI		
Bloomberg code:	CY4 IM		
Performance	1M	3M	12M
Absolute	2.0%	12.1%	-5.1%
Relative	6.1%	3.8%	-10.3%
12M (H/L)	11.06/7.78		
3M Average Volume (th):	18.28		

Shareholder Data

No. of Ord shares (mn):	24
Total no. of shares (mn):	24
Mkt Cap Ord (Eu mn):	238
Total Mkt Cap (Eu mn):	238
Mkt Float - Ord (Eu mn):	108
Mkt Float (in %):	45.5%
Main Shareholder:	
Elettronica S.p.A.	38.4%

Balance Sheet Data

Book Value (Eu mn):	130
BVPS (Eu):	5.50
P/BV:	1.8
Net Financial Position (Eu mn):	5
Enterprise Value (Eu mn):	233

- **FY22 Top line in line with estimates.** Revenues came to €56.6mn (+216% YoY) vs. our estimate of €58.4mn, reflecting the 9-month consolidation of RCS Group (ex. Aurora, purchased in March 2022), and +22% YoY organic growth. Revenues from Aurora were almost flat YoY due to the shift of a Eu4mn foreign contract to early 2023. Organic growth confirmed solid business expansion, and an improving geographical mix (foreign revenues at 47% of the total vs. 36% for FY21).
- **Profitability margin at c.30%, and €3mn cash generation in 2H.** Adj. EBITDA was €16.7mn (€8.2mn in 2021), a margin of c.30%, down on the FY21 figure (46%), reflecting the post-M&A mix and higher personnel costs related to the strengthening of the staff and to R&D projects. Below the line, adj. EBIT was €6.8mn (our. est. €10.2mn), affected by higher D&A at c. €10mn (Inte. est. €7mn), and mainly linked to major investments the group is making to expand its offering of proprietary solutions. At €3mn (slightly better than our €2mn est.), the NFP improved on the interim figure (at breakeven). We also note that the FY22 press release gave no indications on the potential €15mn liability linked to the Aurora earnout (clearly reported in the 1H22 balance sheet) and subject to undisclosed financial targets. We believe an official statement on this point will be provided with the final approval of the FY22 financial statement.
- **Outlook for 2023.** Management is confident of achieving high double-digit organic revenue growth, positively benefitting from: i) a strong pipeline and vigorous order intake YtD (€16.6mn); ii) the start of NRRP-related projects likely to contribute €4mn; and iii) increasing opportunities in Europe, but also in South America and Asia. Adj. EBITDA margin to gradually improve and seen increasing by 2/3pp from the c. 30% recorded in FY22 (28% on PF basis), also thanks to the exploitation of synergies arising from the deal with Aurora. Extraordinary costs seen halving from €3.6mn in FY22 and related to consultancy costs for the acquisition of Diateam and the ongoing translisting to the STAR segment. Regarding cash flow, CapEx at c.€13mn is seen flat YoY, including both capitalized R&D and IFRS16. Reassuring messages from potential reforms amid a spending reduction for the Italian lawful interception market: management expects revenue to remain flat in this field, but also expects CY4 to seize market share from competitors.
- **Change to estimates.** In light of FY22 results, we are fine-tuning 2023 estimates, with revenues and adj. EBITDA cut by 2% and 4% respectively. More importantly, we have improved our NFP estimate, as we have removed the earnout payment for the acquisition of Aurora from our model, partially offset by higher CapEx and WC requirements and lower cash earnings.
- **BUY confirmed, new TP at €14.2 (from €14.0).** We slightly increase our multiple-based TP on FY23 financials to reflect an improving cash position. We reiterate our positive view on the stock, reflected in the >40% upside implied by our new TP, as we believe the current valuation does not incorporate the organic business expansion and the expanding footprint on the European market. The main downside risk reflects short-term complexity in the Italian lawful interception market, which in our view is partly mitigated by the material medium/long term opportunities from the NRRP.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	18	57	83	92	100
EBITDA Adj (Eu mn)	8	17	26	30	33
Net Profit Adj (Eu mn)	5	7	12	14	17
EPS New Adj (Eu)	0.346	0.335	0.499	0.608	0.723
EPS Old Adj (Eu)	0.218	0.312	0.576	0.649	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	18.6	13.7	8.8	7.5	6.5
EV/EBIT Adj	33.3	33.6	14.4	11.7	9.7
P/E Adj	29.2	30.2	20.2	16.6	14.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	0.2	-0.2	-0.2	-0.4	-0.7