

CY4GATE

Sector: Industrials

BUY

Price: Eu9.15 - Target: Eu15.20

Opportunity Remains Despite Pressure on Italian Interception Rules

Francois Robillard +39-02-77115.470
 francois.robillard@intermonte.it
Andrea Randone: +39-02-77115.364
 andrea.randone@intermonte.it

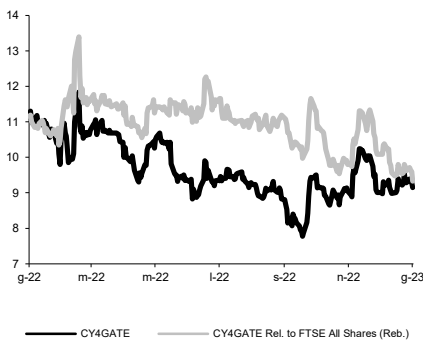
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 16.00 to 15.20		
	2022E	2023E	2024E
Chg in Adj EPS	-5.3%	-4.5%	-4.8%

Next Event

Results Out: NA

CY4GATE - 12M Performance



Stock Data

Reuters code:	CY4.MI		
Bloomberg code:	CY4 IM		
Performance	1M	3M	12M
Absolute	1.6%	-3.7%	-18.0%
Relative	-8.2%	-20.4%	-16.0%
12M (H/L)	11.84/7.78		
3M Average Volume (th):	11.62		

Shareholder Data

No. of Ord shares (mn):	24
Total no. of shares (mn):	24
Mkt Cap Ord (Eu mn):	216
Total Mkt Cap (Eu mn):	216
Mkt Float - Ord (Eu mn):	98
Mkt Float (in %):	45.5%
Main Shareholder:	
Elettronica S.p.A.	38.4%

Balance Sheet Data

Book Value (Eu mn):	146
BVPS (Eu):	6.17
P/BV:	1.5
Net Financial Position (Eu mn):	9
Enterprise Value (Eu mn):	207

Italian lawful interception market to face pressure amid reform proposals: Italy's Justice Minister Carlo Nordio has been pushing to pass a law restricting the instances in which authorities are allowed to lawfully intercept communications, described as a "cornerstone of [the government's] programme". The stated objectives are: i) reduce spending on interceptions (€177mn/€203mn in 2020/2021, with €213mn earmarked in the 2022 Budget or c.2% of the Justice Ministry's budget); and ii) avoid judicial interference in political life. We believe the reform could increase scrutiny on c.60% of Italy's interception market, as it was repeatedly stressed that there would be no changes to anti-Mafia/terrorism operations (c.40% of current interception targets).

CY4's top line could be partly exposed... we estimate the activities affected would represent c.30% of CY4's top line (c.80% Italy x c.65% Forensic Intelligence x c.60% covered by the reform). We highlight that i) the law in question still has to be refined and passed; and ii) only a minor part of the affected sales would be at risk for CY4.

... but multiple opportunities remain for 2023/2024: CY4 remains ideally exposed to the administration's digitalisation efforts, with NRRP-funded projects expected to materialise more clearly later in 2023 and 2024. A new Italian law for a standardised national price list for lawful interception (already aimed at reducing spend by c.€10mn p.a.), enacted in December, could represent an opportunity for CY4 to market its product offering covering the whole lawful interception value chain to the public prosecutors' offices that were previously out of its reach. Cost synergies (estimated at c.€2mn at run-rate, 2/3pp margin) could also be expected to emerge by 2025. Finally, the pending acquisition of Diateam (€2.2mn revenues) could further expand CY4's presence abroad and continue to enrich its product offering.

Change in estimates: We are mainly cautiously reflecting the potential reduction in lawful interception spending in our FY23-24 sales estimates (which we are cutting by 6%), although we expect margins to hold up better than previously expected thanks to cost synergies gradually materialising. We are also slightly adjusting our D&A and capex estimates for FY22, rising them to a more realistic level for the year, leading to the slightly lower EPS and NFP compared to our previous forecast.

BUY rating confirmed; target €15.2 (from €16): we are reducing our multiples-based TP to reflect our cautiously lowered forecasts for FY23. We nevertheless reiterate our positive view on the stock, reflected in the 66% upside implied by our new TP, as we believe the stock price still does not factor in the transformational acquisition of Aurora. Italian politics is still adding some short-term complexity, but CY4 remains a European leader in Forensic Intelligence, as demonstrated by its innovation capabilities, while the potential for growth in foreign markets remains.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	13	18	62	82	91
EBITDA Adj (Eu mn)	4	5	18	24	27
Net Profit Adj (Eu mn)	4	3	9	14	16
EPS New Adj (Eu)	0.306	0.221	0.396	0.586	0.662
EPS Old Adj (Eu)	0.306	0.221	0.419	0.613	0.695
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	14.3	29.9	12.3	8.6	7.3
EV/EBIT Adj	11.9	33.3	17.6	10.3	8.8
P/E Adj	29.9	41.4	23.1	15.6	13.8
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-1.9	0.3	-0.4	-0.4	-0.7

DISCLAIMER (for more details go to [DISCLAIMER](#))

IMPORTANT DISCLOSURES

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-Institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website www.intermonte.it under LEGAL INFORMATION. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the [PERFORMANCE](#) web page.

Intermonte distributes research and engages in other approved activities with respect to Major U.S. Institutional Investors ("Majors") and other Qualified Institutional Buyers ("QIBs"), in the United States, via Brasil Plural Securities LLC under SEC 15a-6 guidelines. Intermonte is not registered as a broker dealer in the United States under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC.

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certifies that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Brasil Plural Securities LLC, 545 Madison Avenue, New York 10022.

GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- 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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P/MIB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

- BUY: stock expected to outperform the market by over 25% over a 12 month period;
- OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
- 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

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 December 2022 Intermonte's Research Department covered 121 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	20.66 %
OUTPERFORM:	48.76 %
NEUTRAL:	28.10 %
UNDERPERFORM:	02.48 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

BUY:	39.22 %
OUTPERFORM:	49.02 %
NEUTRAL:	11.76 %
UNDERPERFORM:	00.00 %
SELL:	00.00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Intermonte SIM SpA is acting as ECM Advisor in GPI's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as ECM Advisor.

Intermonte SIM is acting as Global Coordinator in the proposed Unidata's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte is also acting as Listing Agent in the proposed Unidata's Translisting. Intermonte will receive fees from the company for its activity as Global Coordinator and Listing Agent.

Within the last year, Intermonte SIM managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: Civitanavi Systems.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Amalfi Holding (on La Doria shares), ASGM-AIM, Be, Cellularline, Cy4Gate, Esprinet, GPI, Greenthesis (formerly Ambientthesis), Growens, Gruppo Calligione (in connection with roadshow activities ahead of 2022 Generali AGM), Illimity Bank, Link Mobility Group (on AMM shares), Maire Tecnimont, OVS, Tinexta, Unidata and WIIT.

Intermonte SIM is acting as counterparty to WIIT Fin S.r.l. in connection with call and put options having WIIT S.p.A. shares and dividends as reference underlying.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Anima Holding, Aquafil, Avio, Azimut Holding, Banca Ifis, Banca Sistema, Cellularline, Civitanavi Systems, Cyberoo, Cy4gate, DeA Capital, Datrix, El.En, Eles, Elica, Emak, Esprinet, Expert AI, Fimit - Fondo Alpha, Fine Foods, Gefran, Go Internet, GPI, Greenthesis (formerly Ambientthesis), Gruppo Fos, GVS, IEG, Iervolino & Lady Bacardi Entertainment, IndelB, Luve, Matica Fintec, Notorious Pictures, Next Re SIIQ, Omer, Pharamantra, Reevo, Relatech, Reply, Sababa Security, Saes Getters, Salcef, Sciuiker Frames, Seco, Servizi Italia, Sesa, Seri Industrial, Somec, Tamburi, Tinexta, Tesmec, The Italian Sea Group, TXT, Unidata, Webuild and WIIT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performs as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMIB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM, through Websim and TIE, which constitute the digital division of Intermonte, acts as a Retail Investor Research Provider on the following companies: Abitare In, Aedes, Aleph Finance, Alkemy, Banca Sistema, Borgosesia 1873, B&C Speakers, Casta Diva Group, Cattolica Assicurazioni, Cellularline, Circle, Cleanbnb, Comer Industries, Convergence Spa, Crowdfundme, Cy4Gate, Cyberoo, Dh, Digital Bros, Digital Magics, Doxee, Ediliziacrobatica Spa, Eles, Elica, Emak, Esi, Esprinet, Fabilia, Fenix Entertainment, Fiera Milano, Finlogic, First Capital, Fope, Fos, Franche Umberto Marmi, Generali Assicurazioni, Giglio, Gismondi 1754, Go Internet, Gpi, H-Farm, ID-Entity, Iervolino & Lady Bacardi Entertainment, Indel B, International Care Company, Intred, Kolinpharma, Lindbergh, LVenture, Maps, Masi Agricola, Matica Fintec, Neodecortech, Nice Footwear Spa, Notorious Pictures, Nusco SPA, Nvp, Omer Spa, Orsero Group, Osai Automation System, Piaggio, Pierrel, Promotica, Reevo Spa, Relatech, Reti, Salcef Group, Sciuiker Frames, Sebino, Sit Group, Sos Travel, Sourcecense, Spindox Digital Soul, Supplynecapital, Take Off, Tamburi, Tenax International, Tesmec, The Italian Sea Group, Tinexta, Tps, Trenddevice, Triboo, Ulisse Biomed, Unidata, Vantea Smart, Websoloute, WIIT.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short

© Copyright 2023 by Intermonte SIM - All rights reserved

It is a violation of national and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright laws impose heavy liability for such infringement. The Reports of Intermonte SIM are provided to its clients only. If you are not a client of Intermonte SIM and receive emailed, faxed or copied versions of the reports from a source other than Intermonte SIM you are violating the Copyright Laws. This document is not for attribution in any publication, and you should not disseminate, distribute or copy this e-mail without the explicit written consent of Intermonte SIM.

INTERMONTE will take legal action against anybody transmitting/publishing its Research products without its express authorization.

INTERMONTE Sim strongly believes its research product on Italian equities is a value added product and deserves to be adequately paid. Intermonte Sim sales representatives can be contacted to discuss terms and conditions to be supplied the INTERMONTE research product.

INTERMONTE SIM is MiFID compliant - for our Best Execution Policy please check our Website [MiFID](#)
Further information is available