

Safetech Innovations

IT's getting better

We maintain **BUY** and raise Safetech's fair value to **RON 3.6** from **RON 3.4**, **16% upside**, in light of expected improvement in margins, sustained revenue growth going forward, although a slight setback in 1Q23 vs our initial forecasts. The company reported strong bottom line results y/y which we expect to continue going forward, as we forecast demand for cybersecurity products and solutions to grow in the short, medium, and long-term. As this is the first quarterly reporting after we **initiated on Safetech**, we fine-tuned our understanding of the company.

Solid revenue growth. In 1Q23, the company reported total revenues from contracts with customers of RON 6.0m (-57.3% q/q, +76.2% y/y), below our initial forecasts. Nevertheless, we expect Safetech to be able to capitalize on the high demand for cybersecurity products and solutions and report higher revenues going forward. Recently, the company announced it had signed a contract with a value of EUR 790,000 for the provision of incident response services.

Strong bottom line results. In 1Q23, Safetech reported a net profit of RON 1.2m (-76.8% q/q, +191.4% y/y), which missed our expectations, due to stronger than expected seasonality, with contracts concerning the implementation of solutions, which, in our view, represents a temporary setback. As such, we lower our 2023E outlook to RON 14.4m from RON 16.4m. In subsequent years, we see the company improving its bottom line as a result of consistent revenue growth, as well as controlled costs growth.

Dividends could become more important. Currently, the company is focused on growing and expanding in international markets, suggesting a lower dividend payout in the short-term. For 2022, the company's shareholders approved the distribution of a gross dividend per share of RON 0.03. We see payouts increasing starting with 2024, with RON 0.18ps/0.32ps payments, implying 5.9%/10.5% dividend yields.

Industry demand is expected to be sustained. We do not currently anticipate a slowdown in demand for cybersecurity products and solutions, with the exception of government entities in Romania, for which we expect lower budgets as a result of excessive budget deficits.

Figure 1. Safetech key financial summary

	2020	2021	2022	2023E	2024E	2025E
Revenues (RON m)	14.7	23.0	34.9	41.7	66.8	87.0
EBITDA (RON m)	5.1	10.3	14.9	20.5	32.3	42.3
EBIT (RON m)	4.0	7.0	11.7	16.7	27.8	36.9
Net profit (RON m)	3.1	6.0	10.2	14.4	24.2	32.2
Dividends (RON m)	1.0	0.4	4.2	1.9	12.2	21.8
EPS (RON)	N/A	0.09	0.15	0.22	0.36	0.48
DPS (RON)	N/A	0.01	0.06	0.03	0.18	0.33
EV/EBITDA (x)	N/A	19.7	12.3	9.6	5.9	4.5
P/E (x)	N/A	34.5	18.1	14.5	8.6	6.5
Dividend yield (%)	N/A	0.2%	2.0%	0.9%	5.9%	10.5%

Source: Company, IPOPEMA Research

IT, Romania

Safetech Innovations BUY FV RON 3.6

16% upside

Price as of 22 May 2023 RON 3.1

Company update



Share data

Number of shares (m)	66.5
Market cap (EUR m)	41.9
12M avg daily volume (k)	20.3
12M avg daily turnover (EUR m)	0.03
12M high/low (RON)	3.29/2.32
Reuters	ROSAFE.BX
Bloomberg	SAFE RC

Total performance

1M	+2.3%
3M	-1.4%
12M	-0.3%

Shareholders

Victor Gansac	36.8%
Paul Rusu	36.7%
Others	26.5%

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Safetech Innovations

FV 3.6 RON

Mkt Cap RON 208.1m

Upside/downside +13.7%

Valuation multiples	2021	2022	2023E	2024E	2025E
P/E (x)	34.5	18.1	14.5	8.6	6.5
EV/EBITDA adj (x)	19.7	12.3	9.6	5.9	4.5
EV/Sales (x)	8.8	5.2	4.7	2.9	2.2
P/BV (x)	14.4	6.8	5.2	4.0	3.3
FCF yield (%)	-7.7	-10.0	0.8	8.5	14.1
DY (%)	0.2	2.2	0.9	5.9	10.5
Payout ratio	0.1	0.4	0.1	0.5	0.7

Per share	2021	2022	2023E	2024E	2025E
No. of shares (m units)	66.5	66.5	66.5	66.5	66.5
EPS (RON)	0.1	0.2	0.2	0.4	0.5
BVPS (RON)	0.2	0.4	0.6	0.8	0.9
FCFPS (RON)	-0.2	-0.3	0.0	0.2	0.4
DPS (RON)	0.0	0.1	0.0	0.2	0.3

Change yoy (%)	2021	2022	2023E	2024E	2025E
Revenues	56.0%	52.0%	19.5%	60.2%	30.2%
EBITDA	42.9%	45.4%	32.7%	52.1%	27.3%
EBIT	78.1%	65.9%	43.2%	66.3%	32.6%
Net profit	91.9%	70.6%	40.6%	68.0%	33.2%
Tax rate	-12.2%	-12.0%	-12.3%	-12.0%	-12.0%

Leverage and return	2021	2022	2023E	2024E	2025E
Operating margin	30.6%	33.4%	40.1%	41.6%	42.4%
EBITDA margin	44.7%	42.5%	49.0%	48.4%	48.7%
EBIT margin	30.6%	33.4%	40.1%	41.6%	42.4%
Net debt/EBITDA (x)	-50.8%	-23.9%	-53.2%	-42.6%	-37.4%
Net debt/Equity	-36.3%	-13.0%	-27.4%	-26.6%	-25.5%
Net debt/Assets	-16.3%	-6.7%	-16.4%	-16.8%	-17.1%
ROE	41.7%	37.5%	36.2%	46.8%	51.8%
ROA	18.7%	19.4%	21.7%	29.6%	34.8%

Assumptions	2021	2022	2023E	2024E	2025E
Operating revenues	23.0	34.9	41.7	66.8	87.0
Sales of goods	13.3	20.1	15.3	27.6	35.0
Rendering of services	9.7	14.9	26.4	39.3	52.0
Others	0.0	0.0	0.0	0.0	0.0

Margins (% of rev)	2021	2022	2023E	2024E	2025E
Staff costs	34.0%	28.6%	27.6%	20.6%	20.5%
Depreciation	14.1%	9.1%	9.0%	6.8%	6.3%
Total operating exp.	71.0%	67.6%	62.7%	60.8%	59.8%

KPIs	2021	2022	2023E	2024E	2025E
Number of clients	190.0	204.0	222.0	251.0	283.0
Client growth	0.1	0.1	0.1	0.1	0.1
Rev / employee (RON m)	0.5	0.7	0.8	1.2	1.4
Sales of goods % total	0.6	0.6	0.4	0.4	0.4
Sales of services % total	0.4	0.4	0.6	0.6	0.6

P&L (RON m)	2020	2021	2022	2023E	2024E	2025E
Total revenue	15.1	23.4	35.3	42.9	68.4	88.9
Operating revenues	14.7	23.0	34.9	41.7	66.8	87.0
Other income	0.4	0.4	0.4	1.1	1.6	1.9
OPEX	-11.2	-16.3	-23.6	-26.1	-40.6	-52.0
EBITDA	5.1	10.3	14.9	20.5	32.3	42.3
Depreciation	-1.1	-3.2	-3.2	-3.7	-4.5	-5.5
EBIT	4.0	7.0	11.7	16.7	27.8	36.9
Net interest expense	-0.3	-0.2	0.0	-0.3	-0.3	-0.3
Pre-tax profit	3.6	6.8	11.6	16.4	27.5	36.6
Income tax	-0.5	-0.8	-1.4	-2.0	-3.3	-4.4
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	3.1	6.0	10.2	14.4	24.2	32.2

BALANCE SHEET (RON m)	2020	2021	2022	2023E	2024E	2025E
Non-current assets	9.7	18.3	33.2	38.1	40.4	40.8
Net fixed assets	1.0	1.5	0.6	1.1	1.3	1.6
Right of use assets	1.3	1.1	1.2	1.3	1.5	1.5
Intangibles and goodwill	7.2	15.3	26.9	31.2	33.0	33.2
Others	0.2	0.4	4.5	4.5	4.5	4.5
Current assets	5.4	13.7	19.7	28.1	41.4	51.8
Cash and equivalents	1.7	6.2	3.5	10.9	13.8	15.8
Receivables	3.6	7.4	16.0	17.1	27.5	35.7
Inventories	0.1	0.1	0.1	0.1	0.2	0.2
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	15.1	32.0	52.8	66.3	81.8	92.7
Equity	6.0	14.4	27.3	39.8	51.7	62.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	4.2	9.7	14.2	14.3	14.5	14.5
Interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0
Lease liabilities	1.3	1.1	1.1	1.2	1.4	1.5
Others	2.9	8.6	13.1	13.1	13.1	13.1
Current liabilities	4.9	7.9	11.3	12.2	15.6	16.0
Interest bearing debt	1.1	1.0	0.0	0.0	0.0	0.0
Payables	1.5	4.7	8.7	9.6	13.0	13.3
Lease liabilities	0.2	0.2	0.3	0.3	0.3	0.4
Others	2.1	1.9	2.3	2.3	2.3	2.3
Equity and liabilities	15.1	32.0	52.8	66.3	81.8	92.7
Gross debt	1.1	1.0	0.0	0.0	0.0	0.0
Net debt	-0.6	-5.2	-3.5	-10.9	-13.8	-15.8

CASH FLOW (RONm)	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	8.5	9.5	17.8	21.7	29.6	39.7
Profit before taxes	3.6	6.9	11.6	16.4	27.5	36.6
Depreciation and amortization	1.1	3.2	3.2	3.7	4.5	5.5
Changes in WC	-0.3	-0.8	-4.3	-0.2	-7.0	-8.1
Other, net	4.2	0.2	7.3	1.8	4.6	5.7
Cash flow from investment	-4.6	-12.5	-17.9	-8.4	-6.4	-5.7
Additions to PPE	-0.7	-1.8	-0.4	-0.9	-0.8	-0.6
Additions to intangibles	-3.9	-10.7	-13.4	-7.5	-5.6	-5.1
Other, net	0.0	0.0	-4.1	0.0	0.0	0.0
Cash flow from financing	1.9	8.5	5.7	-2.1	-12.4	-21.9
Changes in debt	-0.6	-0.1	-1.0	0.0	0.0	0.0
Dividends paid	-1.0	-0.4	-4.2	-1.9	-12.2	-21.8
Payment of leases	-0.5	-0.3	-0.4	-0.2	-0.2	-0.1
Other, net	3.9	9.3	11.2	0.0	0.0	0.0
Net change in cash and equivalent	1.4	4.5	-2.7	7.3	2.9	2.1
Beginning cash and equivalents	0.3	1.7	6.2	3.5	10.9	13.8
Ending cash and equivalents	1.7	6.2	3.5	10.9	13.8	15.8

Source: Company data, IPOPEMA Research

Valuation

We updated both our valuations, in which we incorporated the latest forecasts based also on the company's 1Q23 results, keeping the same weights and inputs as in the initiation report. We maintain our opinion that dividend distribution may be lower in the short-term, as the company is focused on growth and that subsequently it could become an attractive dividend player, given solid fundamentals and a high development potential. **Therefore, we increase our weighted fair value to RON 3.6 per share from RON 3.4 per share, which implies a 16% upside from the current price.**

Figure 2. Valuation summary

Method	Weight	FV
DCF	50%	3.6
DDM	50%	3.5
Fair value		3.6
Upside		16%

Source: Company, IPOPEMA Research

Discounted cash flows. We used a DCF model based on our underlying free cash flow forecasts on consolidated figures for the 2023E-2027E period. Subsequently, we assumed the company to reach maturity. We applied a 9.0% equity risk premium, differentiated risk free rates, a 3.0% debt premium, an effective tax rate of 12% during the forecast period and 16% in perpetuity, based on the company's track record. Moreover, we assumed a 1.0x beta and a 2.0% terminal growth rate. As such, we derive a fair equity value per share of RON 3.6.

Figure 3. DCF valuation

RON m	2023E	2024E	2025E	2026E	2027E	TY
Risk free rate	7.4%	7.5%	7.6%	7.7%	8.0%	8.0%
Unlevered beta	1.0	1.0	1.0	1.0	1.0	1.0
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Rm-Rf	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Cost of equity (CAPM)	16.4%	16.5%	16.6%	16.7%	17.0%	17.0%
Debt premium	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax cost of debt	10.4%	10.5%	10.6%	10.7%	11.0%	11.0%
Tax rate	12.3%	12.0%	12.0%	12.0%	12.0%	12.0%
After tax cost of debt	9.1%	9.2%	9.3%	9.4%	9.7%	9.7%
Debt share	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity share	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
WACC	16.4%	16.5%	16.6%	16.7%	17.0%	17.0%
Revenues	41.7	66.8	87.0	110.2	132.3	135.0
EBIT	16.7	27.8	36.9	46.9	57.8	58.9
Tax rate	12.3%	12.0%	12.0%	12.0%	12.0%	16.0%
NOPLAT	14.7	24.5	32.4	41.3	50.8	49.5
Depreciation	3.7	4.5	5.5	5.5	5.6	5.5
CAPEX	-8.4	-6.4	-5.7	-5.7	-5.7	-5.6
Change in working capital	-0.2	-7.0	-8.1	-6.8	-6.8	0.0
Leasing payments	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
FCF	9.6	15.4	24.0	34.1	43.8	49.3
Discount factor	0.9	0.8	0.7	0.6	0.5	0.5
PV of Free Cash Flow	8.8	12.0	16.1	19.6	21.5	
Sum of PV FCFs	77.9					
Terminal growth	2.0%					
Terminal value	328.6					
PV of terminal value	161.2					
Enterprise value	239.1					
Net debt	-3.5					
Dividends paid	0.0					
Minorities	0.0					
Equity value	242.7					
NOSH	66.5					
FV (RON)	3.6					
Current price	3.1					
Upside	16%					

Source: Company, IPOPEMA Research

Sensitivity Analysis. We show a sensitivity analysis of our DCF valuation, to better capture different assumptions of the valuation inputs.

Figure 4. Sensitivity analysis

RON per share		EBIT margin				
Terminal growth		41.5%	42.5%	43.6%	44.5%	45.5%
	1.0%	3.36	3.42	3.48	3.52	3.57
	1.5%	3.44	3.50	3.56	3.61	3.66
	2.0%	3.53	3.59	3.65	3.70	3.75
	2.5%	3.62	3.68	3.75	3.79	3.85
	3.0%	3.72	3.78	3.85	3.90	3.96

Source: Company, IPOPEMA Research

Dividend discount model. We used the same assumptions regarding the cost of equity as in the DCF model (9.0% equity risk-premium, differentiated risk-free rates and 1.0x beta).

Going forward, we anticipate the company may increase dividend distribution once it approaches maturity. This implies Safetech could become a pure dividend player, based on the company's profile. As such, we forecast DPS to increase significantly over the next five years and to reach RON 0.8 per share by maturity. Thus, it translates into a fair value per share of RON 3.5.

Figure 5. DDM valuation

RON m	2023E	2024E	2025E	2026E	2027E
Dividend per share	0.02	0.18	0.32	0.46	0.61
Cost of equity	16.4%	16.5%	16.6%	16.7%	17.0%
Discount factor	0.9	0.8	0.7	0.6	0.5
Discounted DPS	0.0	0.1	0.2	0.3	0.3
Sum of discounted DPS	0.9				
Terminal DPS	0.8				
Terminal DPS growth	2.0%				
Pn	2.5				
FV (RON)	3.5				
Current price	3.1				
Upside	10.8%				

Source: Company, IPOPEMA Research

Income statement

We updated our forecasts so as to reflect the company's latest reported financials. Although 1Q23 bottom line results came in below our expectations, the company reported strong year on year but lower quarter on quarter growth, which we believe to be a temporary setback. Nevertheless, we still expect significant growth in both revenues and bottom line results going forward, as cybersecurity threats and potential attacks are not bound by macroeconomic factors.

Thus, we revise our revenue forecast for this year to RON 41.7m, down from RON 44.6m. Additionally, we expect a slight deterioration of margins compared to our previous forecasts, as a result of lower revenue growth, as well as toned down costs growth, followed by improvements in the following years, implying the company may seek to keep expenses under control.

Figure 6. Safetech income statement forecast

RON m	2022	2023E	2024E	2025E	2026E	2027E
Sales of goods	20.1	15.3	27.6	35.0	43.0	48.4
Rendering of services	14.9	26.4	39.3	52.0	67.2	83.9
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0
Total operating revenues	34.9	41.7	66.8	87.0	110.2	132.3
Other operating income	0.4	1.1	1.6	1.9	2.2	2.5
Changes in inventories – WIP	12.9	10.8	6.7	4.3	2.8	2.6
Raw materials and consumables	-12.2	-13.8	-18.6	-19.0	-23.0	-26.3
Employee benefits	-10.0	-11.5	-13.8	-17.8	-21.9	-26.4
Depreciation and amortization	-3.2	-3.7	-4.5	-5.5	-5.5	-5.6
Marketing expenses	-0.2	-0.4	-0.7	-0.4	-0.6	-0.7
Rental income	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	-0.1	0.0	-0.2	-0.2	-0.3	-0.3
Other operating expenses	-10.9	-7.5	-9.5	-13.4	-17.0	-20.4
Operating profit	11.7	16.7	27.8	36.9	46.9	57.8
Financial income	0.2	0.0	0.0	0.0	0.0	0.0
Financial expenses	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Net financial income	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Profit before taxes	11.6	16.4	27.5	36.6	46.6	57.5
Income tax	-1.4	-2.0	-3.3	-4.4	-5.6	-6.9
Net profit for the period	10.2	14.4	24.2	32.2	41.0	50.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net profit after minorities	10.2	14.4	24.2	32.2	41.0	50.6

Source: Company, IPOPEMA Research

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The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (1 January - 31 March 2023)

	Number	%
Buy	9	90%
Hold	1	10%
Sell	0	0%
Total	10	100%

Rating History - Safetech Innovations

Date	Recommendation	Fair Value	Price at recommendation	Author
27/04/2023	BUY	RON 3.4	RON 3.1	Ionut Gavris
22/05/2023	BUY	RON 3.6	RON 3.1	Ionut Gavris