

# Safetech Innovations

## 2Q23 Results Review

Safetech reported a net profit of RON 2.7m (+135.4% q/q, +22.9% y/y) in 2Q23, 34.0% below our expectations of RON 4.1m, mainly due to lower-than-expected revenue growth. These results were mainly driven by:

- **Revenues:** Total revenues reached RON 7.5m (+24.8% q/q, +2.8% y/y), 27% below our expectations of RON 10.3m. Revenue growth could have been lower than expected as a result of tighter overall investment from corporates, as a result of lower aggregate demand for goods and services in Romania and the currently elevated level of interest rates.
- **OPEX:** Operating expenses reached RON 4.4m (-6.8% q/q, -7.8% y/y), and were 21.1% below our expectations, driven by higher expenses with raw materials and consumables and lower staff costs.
  - **Raw materials and consumables** costs amounted to RON 3.4m (+13.5% q/q, +51.1% y/y), 9.4% above our expectations of RON 3.1m.
  - **Employee benefits** reached RON 2.4m (-16.6% q/q, +12.3% y/y), 16.6 below our expectations of RON 2.8m.
  - **D&A** reached RON 0.7m (+0.8% q/q, -8.8% y/y), 33.4% below the expectations of RON 1.0m.
  - **Other OPEX** were of RON 1.0m (-8.0% q/q, -57.6% y/y), 44.9% below our expectations of RON 1.9m.
- **Operating profit:** Reached RON 3.1m in 2Q23 (+135.0% q/q, +22.4% y/y), 33.9% below our expectations of RON 4.8m. The company's operating margin was of 42.0%.
- **Net financial income:** Came in at negative RON 0.1m, 20.3% below our expectations. The financial expense reported by the company is driven by expenses with leases as well as FX differences, as it does not have debt on its balance sheet.
- **Income tax:** Was of RON 0.4m (+73.0% q/q, -5.2% y/y), 34.0% lower than our expectations of RON 0.6m. The effective income tax rate was 4.9%.
- **Net profit:** Was reported at RON 2.7m (+135.4% q/q, +22.9% y/y), but 34.0% below our expectations. The company's net margin for the quarter stood at 36.4%.

*Opinion: Negative. Bottom line results came in significantly lower than our expectations, driven by lower-than-expected revenue growth, even though a comparison to historical numbers shows resilience. We believe the company still is in a sweet spot when it comes to long-term demand, as cybersecurity products and solutions may become fundamental as a result of widespread technology adoption, as well as iterative breakthroughs in technologies that companies use in their daily activities. However, it seems Safetech is currently affected by lower aggregate investment in the business sector, in combination with tighter spending at a government level. Going forward, we expect demand to pick up again, particularly starting with 4Q23 in Romania. Safetech's subsidiaries that operate internationally have yet to see tangible positive developments, which implies they are currently a cost centre. In our view, these subsidiaries may be able to catch up, suggesting no risk when considering the full year forecasts for this year.*

**Results conference call:** The conference will be held on August 23 2023 at 11:00 local time.

Telecom, Media & IT

## Safetech Innovations

### BUY

### FV RON 3.7

22.1% upside

Price as of 21 August 2023 RON 3.03

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Figure 1. Safetech 2Q23 results summary

P&L (RON m)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	q/q	y/y	IPOP vs IPOP	
<b>Operating revenues</b>	<b>4.4</b>	<b>5.5</b>	<b>3.2</b>	<b>9.9</b>	<b>3.4</b>	<b>7.3</b>	<b>10.1</b>	<b>14.1</b>	<b>6.0</b>	<b>7.5</b>	<b>24.8%</b>	<b>2.8%</b>	<b>10.3</b>	-27.0%
Raw materials	-2.7	-2.0	-1.0	-5.2	-0.4	-2.3	-2.7	-6.8	-3.0	-3.4	13.5%	51.1%	-3.1	9.4%
Employee benefits	-1.8	-1.8	-1.9	-2.2	-2.3	-2.1	-2.4	-3.2	-2.8	-2.4	-16.6%	12.3%	-2.8	-16.6%
Other	0.5	-3.7	4.1	1.8	-0.3	-0.4	-1.9	1.4	1.2	1.4	21.2%	N/A	0.4	578.7%
<b>Operating profit</b>	<b>0.4</b>	<b>-2.0</b>	<b>4.5</b>	<b>4.3</b>	<b>0.5</b>	<b>2.6</b>	<b>3.1</b>	<b>5.6</b>	<b>1.3</b>	<b>3.1</b>	<b>135.0%</b>	<b>22.4%</b>	<b>4.8</b>	0.0%
Net financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	N/A	N/A	-0.1	-20.3%
<b>Profit before tax</b>	<b>0.4</b>	<b>-2.0</b>	<b>4.4</b>	<b>4.2</b>	<b>0.5</b>	<b>2.6</b>	<b>3.1</b>	<b>5.5</b>	<b>1.4</b>	<b>3.1</b>	<b>125.7%</b>	<b>18.7%</b>	<b>4.7</b>	-34.1%
Income tax	-0.1	-0.2	-0.2	-0.3	-0.1	-0.4	-0.4	-0.5	-0.2	-0.4	73.0%	-5.2%	-0.6	-34.6%
<b>Net profit bm</b>	<b>0.3</b>	<b>-2.3</b>	<b>4.2</b>	<b>3.9</b>	<b>0.4</b>	<b>2.2</b>	<b>2.6</b>	<b>5.0</b>	<b>1.2</b>	<b>2.7</b>	<b>135.4%</b>	<b>22.9%</b>	<b>4.1</b>	-34.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	0.0	N/A
<b>Net profit am</b>	<b>0.3</b>	<b>-2.3</b>	<b>4.2</b>	<b>3.9</b>	<b>0.4</b>	<b>2.2</b>	<b>2.6</b>	<b>5.0</b>	<b>1.2</b>	<b>2.7</b>	<b>135.4%</b>	<b>22.9%</b>	<b>4.1</b>	-34.0%

Source: Company, IPOPEMA Research

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

### IPOPEMA Research - Distribution by rating category (1 April – 30 June 2023)

	Number	%
Buy	73	72%
Hold	21	21%
Sell	7	7%
Total	101	100%

### Rating History – Safetech Innovations

Date	Recommendation	Fair Value	Price at recommendation	Author
27/04/2023	BUY	RON 3.40	RON 3.1	Ionut Gavris
22/05/2023	BUY	RON 3.60	RON 3.1	Ionut Gavris
26/06/2023	BUY	RON 3.70	RON 3.1	Ionut Gavris