

Safetech Innovations

3Q23 Results Review

Safetech reported a net profit of RON 2.0m (-26.6% q/q, -24.0% y/y) in 3Q23, 72.6% below our expectations of RON 7.3m, primarily due to lower-than-expected revenue growth in combination with higher-than-expected expenses with employee benefits. These results were mainly driven by:

- **Revenues:** Total revenues reached RON 6.6m (-12.3% q/q, -35.1% y/y), 54% below our expectations of RON 14.3m. In terms of revenue mix, sales of goods amounted to RON 1.9m (-69.0% q/q and -64.2% y/y), while revenue from services amounted to RON 4.7m (+217.9% q/q and -4.3% y/y).
- **OPEX:** Operating expenses reached RON 4.2m (-4.3% q/q, -41.2% y/y), being driven by higher expenses with raw materials and consumables and higher staff costs.
 - **Raw materials and consumables** costs amounted to RON 0.8m (+23.5% q/q, -72.0% y/y), 82.1% below our expectations of RON 4.3m.
 - **Employee benefits** reached RON 2.9m (+20.8% q/q, +17.5% y/y), 19.4% above our expectations of RON 2.4m.
 - **D&A** reached RON 0.5m (-28.8% q/q, -35.0% y/y), below our expectations.
 - **Other OPEX** were of RON 0.5m (-60.7% q/q, -68.1% y/y) against our expectation of a RON 0.8m gain.
- **Operating profit:** Reached RON 2.4m in 3Q23 (-23.5% q/q, -21.0% y/y), 71.3% below our expectations of RON 8.4m. The company's operating margin was of 36.6% against 42.0% in the previous quarter and 30.1% in 3Q22.
- **Net financial income:** Came in at negative RON 30k (-52.1% q/q), 74.0% 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 (+3.9% q/q, -11.6% y/y), 61.7% lower than our expectations of RON 1.0m. The effective income tax rate was 16.0%.
- **Net profit:** Was reported at RON 2.0m (-26.6% q/q, -24.0% y/y), 72.6% below our expectations. The company's net margin for the quarter stood at 30.4%.

Opinion: Negative. Bottom line results came in significantly below our estimates, primarily driven by a substantial decline in revenue from sales of goods against our expectation of growth, and higher-than expected expenses with employee benefits, partly offset by higher revenue from services. We anticipated growth in sales of goods, believing the company would successfully convert the respective clients to recurring ones. When considering the most recent results, the company has failed to capture the underlying demand into higher sales figures. We expect dividend distribution to be negatively affected by these results.

Results conference call: Safetech will not organize a results conference call for this quarter. The next call will be for the 2023 annual results.

Telecom, Media & IT

Safetech Innovations

BUY

FV RON 3.7

40.2% upside

Price as of November 11 2023 RON 2.64

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Figure 1. Safetech 3Q23 results summary

P&L (RON m)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	q/q	y/y	IPOP vs IPOP	
Operating revenues	4.4	5.5	3.2	9.9	3.4	7.3	10.1	14.1	6.0	7.5	6.6	-12.3%	-35.1%	14.3	-54.0%
Raw materials	-2.7	-2.0	-1.0	-5.2	-0.4	-2.3	-2.7	-6.8	-3.0	-0.6	-0.8	23.5%	-72.0%	-4.3	-82.1%
Employee benefits	-1.8	-1.8	-1.9	-2.2	-2.3	-2.1	-2.4	-3.2	-2.8	-2.4	-2.9	20.8%	17.5%	-2.4	19.4%
Other	0.5	-3.7	4.1	1.8	-0.3	-0.4	-1.9	1.4	1.2	-1.4	-0.5	-60.6%	-68.1%	0.8	-166.7%
Operating profit	0.4	-2.0	4.5	4.3	0.5	2.6	3.1	5.6	1.3	3.1	2.4	-23.5%	-21.0%	8.4	-71.3%
Net financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	-52.1%	N/A	-0.1	-74.0%
Profit before tax	0.4	-2.0	4.4	4.2	0.5	2.6	3.1	5.5	1.4	3.1	2.4	-23.0%	-22.3%	8.3	-71.3%
Income tax	-0.1	-0.2	-0.2	-0.3	-0.1	-0.4	-0.4	-0.5	-0.2	-0.4	-0.4	3.9%	-11.6%	-1.0	-61.7%
Net profit bm	0.3	-2.3	4.2	3.9	0.4	2.2	2.6	5.0	1.2	2.7	2.0	-26.6%	-24.0%	7.3	-72.6%
Minorities	0.0	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
Net profit am	0.3	-2.3	4.2	3.9	0.4	2.2	2.6	5.0	1.2	2.7	2.0	-26.6%	-24.0%	7.3	-72.6%

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%

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	Number	%
Buy	7	87.5%
Hold	1	12.5%
Sell	0	0%
Total	8	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