

# Safetech Innovations

## A temporary setback

We upgrade our fair value of Safetech to RON 2.62 ps from RON 2.60, implying an 8.4% upside from the current share price, but downgrade our recommendation to HOLD from BUY. Safetech has shown it is capable of coming back on track in terms of growth. However, the lack of international results affected the company's ability to distribute dividends, which, in our view, translates into a temporary setback, as the cash is likely to be used in supporting those subsidiaries for now. Nevertheless, we expect the company to show improving results y/y, mainly fueled by the NIS2 directive and a substantial increase in the sales team. In the long-term, the company should be able to see significant growth and improving margins, due to a higher weight of solutions in the sales mix anticipated by us.

**Revenue could grow substantially over the next five years.** In 2024E, we expect total revenues to reach RON 43.1m (+38.4% y/y), of which sales of goods of RON 27.2m (+27.4% y/y) and sales of services of RON 15.9m (+62.4% y/y). One of the most significant revenue drivers is the adoption of NIS2 directive, expanding the targeted sectors in terms of strengthening cybersecurity. Going forward, the total expense on cybersecurity could top EUR 71.0bn EU-wide, suggesting a 10.9% CAGR. We believe Romania will follow this trend, but at a faster pace, as it trails behind in terms of implementations of cybersecurity solutions. Thus, we forecast Safetech's revenue to grow at 19.2% CAGR over the next five years.

**Operating margin should improve to 39.1% by 2028E.** We expect an operating margin decline in 2024E to 33.1% (vs 35.4% y/y) and to 32.5% in 2025E, primarily driven by growth OPEX. However, the company should see a significant improvement by the end of 2028E, influenced by easily scalable solutions, which will carry a higher weight in the sales mix post 2025E. We expect the EBITDA margin to reach 43.0% in 2024E (vs 43.5% y/y), and stabilize for three years. Subsequently, we expect an improvement in the margin to 46.4% by 2028E. As sales of solutions should be increasingly important, a better improvement in margins could be caused by higher sales than the baseline.

**Net profit could see significant growth in 2024E.** We expect the company to show a 27.7% improvement in net profit y/y, to RON 12.4m. However, we anticipate a decrease in the net margin this year, influenced by higher OPEX. Going forward, the company's bottom line could see a 20.4% CAGR, mainly attributed to scalability from sales of solutions, which we anticipate to be the main intrinsic driver for Safetech.

**Dividends should become more important.** We do not anticipate any dividend distribution in 2024E. In 2025E we expect dividend payments to resume at RON 0.07 ps, while in 2026E we see them reaching RON 0.10 ps.

Figure 1. Safetech key financial summary

	2021	2022	2023	2024E	2025E	2026E
Revenues (RON m)	23.0	34.9	31.1	43.1	51.4	60.2
EBITDA (RON m)	10.3	14.9	13.5	18.5	22.2	25.5
EBIT (RON m)	7.0	11.7	11.1	14.4	16.9	20.3
Net profit (RON m)	6.0	10.2	9.7	12.4	14.7	17.0
Dividends (RON m)	0.4	4.2	2.0	0.0	5.0	7.4
EPS (RON)	0.09	0.15	0.14	0.18	0.22	0.25
DPS (RON)	0.01	0.06	0.03	0.00	0.07	0.11
EV/EBITDA (x)	20.1	12.6	11.9	8.1	6.5	5.3
P/E (x)	35.3	18.6	16.9	13.2	11.2	9.7
Dividend yield (%)	0.3%	2.5%	1.2%	0.0%	3.0%	4.5%

Source: Company, IPOPEMA Research

Telecoms, Media & IT, Romania

## Safetech Innovations

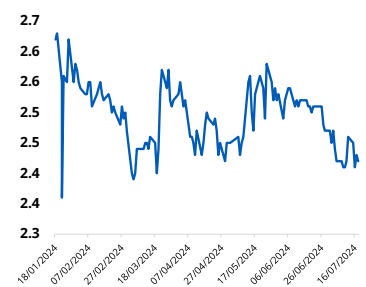
**HOLD**

**FV RON 2.62**

8.4% upside

Price as of 18 July 2024 RON 2.42

Company update



### Share data

Number of shares (m)	68.1
Market cap (EUR m)	33.2
12M avg daily volume (k)	87.0
12M avg daily turnover (EUR m)	0.04
12M high/low (RON)	3.3.15/2.29
Reuters	ROSAFE.BX
Bloomberg	SAFE RO

### Total performance

1M	-3.6%
3M	-0.2%
12M	-22.3%

### Shareholders

Victor Gansac	28.84%
Paul Rusu	28.82%
Others	42.34%

**Important disclosure:** This report has been prepared by IPOPEMA Securities S.A pursuant to the Research Coverage Programme administered by Bursa de Valori Bucuresti (BVB). This report has been produced independent of any influence from BVB or the subject company. See important disclaimers and disclosures at the end of this report.

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## Safetech Innovations

FV 2.62 RON

Mkt Cap RON 164.8m

Upside/downside +8.4%

Valuation multiples	2022	2023	2024E	2025E	2026E
P/E (x)	18.6	16.9	13.2	11.2	9.7
EV/EBITDA adj (x)	12.6	11.9	8.1	6.5	5.3
EV/Sales (x)	5.3	5.2	3.5	2.8	2.2
P/BV (x)	7.0	4.7	3.5	2.9	2.5
FCF yield (%)	-9.8	-11.5	0.3	5.1	8.1
DY (%)	2.2	1.2	0.0	3.0	4.5
Payout ratio	0.4	0.2	0.0	0.3	0.4

Per share	2022	2023	2024E	2025E	2026E
No. of shares (m units)	68.0	68.0	68.0	68.0	68.0
EPS (RON)	0.2	0.1	0.2	0.2	0.2
BVPS (RON)	0.4	0.5	0.7	0.8	1.0
FCFPS (RON)	-0.3	-0.3	0.0	0.1	0.2
DPS (RON)	0.1	0.0	0.0	0.1	0.1

Change yoy (%)	2022	2023	2024E	2025E	2026E
Revenues	52.0%	-10.9%	38.4%	19.4%	17.1%
EBITDA	45.4%	-3.9%	21.7%	12.6%	15.5%
EBIT	65.9%	-4.7%	29.6%	17.2%	20.3%
Net profit	70.6%	-4.9%	27.7%	18.4%	15.4%
Tax rate	-12.0%	-11.6%	-12.6%	-12.0%	-16.0%

Leverage and return	2022	2023	2024E	2025E	2026E
Operating margin	33.4%	35.8%	33.5%	32.9%	33.8%
EBITDA margin	42.5%	43.5%	43.0%	43.1%	42.3%
EBIT margin	33.4%	35.8%	33.5%	32.9%	33.8%
Net debt/EBITDA (x)	-23.9%	-25.7%	-54.0%	-77.3%	-103.7%
Net debt/Equity	-13.0%	-10.0%	-21.1%	-30.0%	-39.6%
Net debt/Assets	-6.7%	-6.0%	-13.0%	-19.5%	-26.1%
ROE	37.5%	27.9%	26.2%	25.8%	25.5%
ROA	19.4%	16.9%	16.2%	16.7%	16.8%

Assumptions	2022	2023	2024E	2025E	2026E
<b>Operating revenues</b>	<b>34.9</b>	<b>31.1</b>	<b>43.1</b>	<b>51.4</b>	<b>60.2</b>
Sales of goods	20.1	21.3	27.2	31.9	37.3
Rendering of services	14.9	9.8	15.9	19.5	22.9
Others	0.0	0.0	0.0	0.0	0.0

Margins (% of rev)	2022	2023	2024E	2025E	2026E
Staff costs	28.6%	37.1%	29.8%	27.6%	27.1%
Depreciation	9.1%	7.8%	9.5%	10.3%	8.6%
Total operating exp.	67.6%	69.5%	69.9%	69.7%	68.5%

KPIs	2022	2023	2024E	2025E	2026E
Number of clients	204.0	208.0	256.0	288.0	322.0
Client growth	0.1	0.0	0.2	0.1	0.1
Rev / employee (RON m)	0.7	0.5	0.7	0.7	0.8
Sales of goods % total	0.6	0.7	0.6	0.6	0.6
Sales of services % total	0.4	0.3	0.4	0.4	0.4

P&L (RON m)	2021	2022	2023	2024E	2025E	2026E
<b>Total revenue</b>	<b>23.4</b>	<b>35.3</b>	<b>32.7</b>	<b>44.5</b>	<b>52.7</b>	<b>61.6</b>
Operating revenues	23.0	34.9	31.1	43.1	51.4	60.2
Other income	0.4	0.4	1.6	1.5	1.3	1.4
OPEX	-16.3	-23.6	-21.6	-30.1	-35.8	-41.2
<b>EBITDA</b>	<b>10.3</b>	<b>14.9</b>	<b>13.5</b>	<b>18.5</b>	<b>22.2</b>	<b>25.5</b>
Depreciation	-3.2	-3.2	-2.4	-4.1	-5.3	-5.2
<b>EBIT</b>	<b>7.0</b>	<b>11.7</b>	<b>11.1</b>	<b>14.4</b>	<b>16.9</b>	<b>20.3</b>
Net interest expense	-0.2	0.0	-0.1	-0.2	-0.2	-0.1
Pre-tax profit	6.8	11.6	11.0	14.2	16.7	20.2
Income tax	-0.8	-1.4	-1.3	-1.8	-2.0	-3.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>6.0</b>	<b>10.2</b>	<b>9.7</b>	<b>12.4</b>	<b>14.7</b>	<b>17.0</b>

BALANCE SHEET (RON m)	2021	2022	2023	2024E	2025E	2026E
<b>Non-current assets</b>	<b>18.3</b>	<b>33.2</b>	<b>46.7</b>	<b>52.2</b>	<b>53.7</b>	<b>54.5</b>
Net fixed assets	1.5	0.6	0.6	1.0	1.3	1.6
Right of use assets	1.1	1.2	1.3	1.4	1.6	1.6
Intangibles and goodwill	15.3	26.9	40.6	45.5	46.6	47.1
Others	0.4	4.5	4.2	4.2	4.2	4.2
<b>Current assets</b>	<b>13.7</b>	<b>19.7</b>	<b>11.1</b>	<b>24.4</b>	<b>34.4</b>	<b>46.6</b>
Cash and equivalents	6.2	3.5	3.5	10.0	17.1	26.4
Receivables	7.4	16.0	7.2	14.2	16.9	19.8
Inventories	0.1	0.1	0.4	0.3	0.4	0.4
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>32.0</b>	<b>52.8</b>	<b>57.7</b>	<b>76.7</b>	<b>88.2</b>	<b>101.1</b>
<b>Equity</b>	<b>14.4</b>	<b>27.3</b>	<b>34.9</b>	<b>47.4</b>	<b>57.1</b>	<b>66.8</b>
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>9.7</b>	<b>14.2</b>	<b>14.4</b>	<b>14.7</b>	<b>14.7</b>	<b>14.8</b>
Interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0
Lease liabilities	1.1	1.1	1.1	1.3	1.3	1.4
Others	8.6	13.1	13.4	13.4	13.4	13.4
<b>Current liabilities</b>	<b>7.9</b>	<b>11.3</b>	<b>8.4</b>	<b>14.6</b>	<b>16.4</b>	<b>19.6</b>
Interest bearing debt	1.0	0.0	0.0	0.0	0.0	0.0
Payables	4.7	8.7	6.1	11.5	13.0	16.3
Lease liabilities	0.2	0.3	0.3	0.4	0.4	0.4
Others	1.9	2.3	1.9	2.8	3.0	3.0
<b>Equity and liabilities</b>	<b>32.0</b>	<b>52.8</b>	<b>57.7</b>	<b>76.7</b>	<b>88.2</b>	<b>101.1</b>
<b>Gross debt</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net debt</b>	<b>-5.2</b>	<b>-3.5</b>	<b>-3.5</b>	<b>-10.0</b>	<b>-17.1</b>	<b>-26.4</b>

CASH FLOW (RONm)	2021	2022	2023	2024E	2025E	2026E
<b>Cash flow from operating activities</b>	<b>9.5</b>	<b>17.3</b>	<b>14.8</b>	<b>18.8</b>	<b>22.5</b>	<b>23.5</b>
Profit before taxes	6.9	11.6	11.0	14.2	16.7	20.2
Depreciation and amortization	3.2	3.2	2.4	4.1	5.3	5.2
Changes in WC	-0.8	-4.3	5.8	-1.6	-1.2	0.3
Other, net	0.2	6.8	-4.5	2.0	1.7	-2.2
<b>Cash flow from investment</b>	<b>-12.5</b>	<b>-17.9</b>	<b>-15.2</b>	<b>-8.1</b>	<b>-6.4</b>	<b>-5.7</b>
Additions to PPE	-1.8	-0.4	-0.9	-0.6	-0.8	-0.6
Additions to intangibles	-10.7	-13.4	-14.7	-7.5	-5.6	-5.1
Other, net	0.0	-4.1	0.3	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>8.5</b>	<b>5.7</b>	<b>-2.1</b>	<b>-0.2</b>	<b>-5.2</b>	<b>-7.5</b>
Changes in debt	-0.1	-1.0	0.0	0.0	0.0	0.0
Dividends paid	-0.4	-4.2	-2.0	0.0	-5.0	-7.4
Payment of leases	-0.3	-0.4	-0.4	-0.2	-0.3	-0.1
Other, net	9.3	11.2	0.3	0.0	0.0	0.0
<b>Net change in cash and equivalent</b>	<b>4.5</b>	<b>-2.7</b>	<b>0.0</b>	<b>6.5</b>	<b>7.2</b>	<b>9.3</b>
<b>Beginning cash and equivalents</b>	<b>1.7</b>	<b>6.2</b>	<b>3.5</b>	<b>3.5</b>	<b>10.0</b>	<b>17.1</b>
<b>Ending cash and equivalents</b>	<b>6.2</b>	<b>3.5</b>	<b>3.5</b>	<b>10.0</b>	<b>17.1</b>	<b>26.4</b>

Source: Company data, IPOPEMA Research

## Valuation

We value Safetech Innovations solely via discounted cashflows (DCF), as we believe this valuation method makes most sense currently, as this year, the company could choose to reinvest a significant part of what it could pay as dividends into international expansion, primarily UK and UAE. Even though we do not expect any dividend distribution in the short-term, we believe the company is more than capable of dividend payouts in the medium and long-term. The valuation model assumes a 5-year cashflow forecast period for the company based on our projections regarding the whole market growth, GDP evolution, as well as the potential evolution of Safetech as a business, including the top line and bottom line results. We assumed a variable risk-free rate, based on the current Romanian spreads, a 1.0x unlevered beta in all periods, and a 1.0x levered beta, as the company does not carry interest bearing debt. We assumed a 7.5% equity risk premium in all periods, and thus derived the cost of equity for each year in the valuation model. Given these inputs, we arrived at a cost of equity of 14.1% in 2024E, followed by gradual increases to the terminal year at 14.7%. We used a 3.0% debt premium in all periods and a pre-tax cost of debt derived from Rf. The tax rate used in the valuation model corresponds to the tax rate used in our P&L forecasts. Given the company has no debt, and we do not expect it to incur any such over the next five years, we used a 100% equity share in the calculation of WACC. Therefore, in Safetech's case, WACC is equal to the cost of equity. Moreover, we used a 4.0% terminal growth rate. **Considering these assumptions as the baseline scenario for Safetech, we derived a fair value per share of RON 2.62, which implies an 8.40% upside from the current share price of RON 2.42, and also an upgrade from our previous valuation of RON 2.60.**

Figure 2. Valuation summary

Method	Weight	FV
DCF	100%	2.62
DDM	0%	2.17
<b>Fair value</b>		<b>2.62</b>
<b>Upside</b>		<b>8.40%</b>

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 2024E-2028E period. Subsequently, we assumed the company to reach maturity. We applied a 7.5% equity risk premium, differentiated risk free rates, a 3.0% debt premium, an effective tax rate of 12% to 16% during the forecast period and 16% in perpetuity, based on the company's track record. Moreover, we assumed a 1.0x beta and a 4.0% terminal growth rate. As such, we derive a fair equity value per share of RON 2.62.

**Figure 3. DCF valuation**

RON m	2024E	2025E	2026E	2027E	2028E	Terminal year
Risk free rate	6.7%	6.9%	7.1%	7.3%	7.2%	7.2%
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	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
<b>Cost of equity (CAPM)</b>	<b>14.1%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>14.7%</b>	<b>14.7%</b>	<b>14.6%</b>
Debt premium	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax cost of debt	9.7%	9.9%	10.1%	10.3%	10.2%	10.2%
Tax rate	12.6%	12.0%	16.0%	16.0%	16.0%	16.0%
<b>After tax cost of debt</b>	<b>8.4%</b>	<b>8.7%</b>	<b>8.5%</b>	<b>8.6%</b>	<b>8.6%</b>	<b>8.6%</b>
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%
<b>WACC</b>	<b>14.1%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>14.7%</b>	<b>14.7%</b>	<b>14.6%</b>
Revenues	43.1	51.4	60.2	66.1	74.9	77.9
EBIT	14.4	16.9	20.3	23.9	29.4	30.6
Tax rate	12.6%	12.0%	16.0%	16.0%	16.0%	16.0%
<b>NOPLAT</b>	<b>12.6</b>	<b>14.9</b>	<b>17.1</b>	<b>20.1</b>	<b>24.7</b>	<b>25.7</b>
Depreciation	4.1	5.3	5.2	5.3	5.4	5.3
CAPEX	-8.1	-6.4	-5.7	-5.7	-5.7	-5.2
Change in working capital	-1.6	-1.2	0.3	-1.7	-2.0	-0.8
Leasing payments	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1
<b>FCF</b>	<b>6.8</b>	<b>12.3</b>	<b>16.7</b>	<b>17.8</b>	<b>22.3</b>	<b>24.9</b>
Discount factor	0.9	0.8	0.7	0.6	0.5	0.5
<b>Present Value of Free Cash Flow</b>	<b>6.4</b>	<b>10.0</b>	<b>11.9</b>	<b>11.0</b>	<b>12.0</b>	
Sum of PV FCFs	51.2					
Terminal growth	4.0%					
Terminal value	234.2					
PV of terminal value	126.2					
<b>Enterprise value</b>	<b>177.4</b>					
Net debt	-1.1					
Dividends paid	0.0					
Minorities	0.0					
Equity value	178.4					
NOSH	68.0					
<b>FV (RON)</b>	<b>2.62</b>					
Current price	2.42					
Upside	8.4%					

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		38.5%	39.0%	39.3%	40.0%	40.5%
	3.0%	2.41	2.44	2.45	2.48	2.50
3.5%	2.50	2.52	2.53	2.57	2.59	
4.0%	2.59	2.61	2.62	2.66	2.68	
4.5%	2.68	2.71	2.72	2.76	2.79	
5.0%	2.79	2.82	2.84	2.87	2.90	

Source: Company, IPOPEMA Research

**Dividend discount model.** We did not consider this valuation method in our weighted FV for this update, as the company may not choose to distribute dividends for the time being, as it is focused on international expansion in UK and UAE. However, we show the DDM valuation in this report, as the company was previously valued based on this methodology. For this method, we have kept and used the same valuation inputs as in the DCF valuation, with the same data taken from our forecasts. Going forward, that is, post 2024E, we anticipate the company may start distributing dividends and steadily increase the payout ratio as it reaches maturity. This suggests we still expect Safetech to become a pure dividend player at maturity, based on the company's profile. As such, we forecast a RON 0.0 DPS in 2024E, followed by RON 0.07 ps in 2025E. Given these assumptions, we derive a fair value of RON 2.2 per share, implying a 10.7% downside from the current share price.

**Figure 5. DDM valuation**

<b>RON m</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Dividend per share	0.00	0.07	0.10	0.14	0.20
Cost of equity	14.1%	14.3%	14.6%	14.7%	14.7%
Discount factor	0.9	0.8	0.7	0.6	0.5
<b>Discounted DPS</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Sum of discounted DPS	0.3	0.3			
Terminal DPS	0.4				
Terminal DPS growth	4.0%				
Pn	1.8				
<b>FV (RON)</b>	<b>2.17</b>				
Current price	2.42				
Upside	-10.4%				

Source: Company, IPOPEMA Research

## Market Update

One of the biggest revenue drivers going forward, in our view, is the NIS2 directive. Up to recently, the NIS directive was aimed at seven key sectors across the EU. The NIS2 directive expands these sectors by another nine. While the detailed requirements for companies are yet to be published, it is clear that more companies will be subjected to strengthening their cybersecurity, by implementing incident response measures, as well as measures related to the supply chain, auditing, and penetration testing. These changes should directly impact Safetech's top line results upwards going forward.

**Figure 6. NIS2 directive sector expansion**

Sector	Directive
Energy – electricity, district heating and cooling, oil, gas, hydrogen	NIS
Transport – air, rail, water, road	NIS
Banking	NIS
Financial markets infrastructure	NIS
Health	NIS
Water supply – drinking water, waste water	NIS
Digital infrastructure	NIS
ICT service management (B2B)	NIS2
Public administration	NIS2
Space	NIS2
Postal and courier services	NIS2
Manufacture, production and distribution of chemicals	NIS2
Production, processing and distribution of food	NIS2
Manufacturing – medical devices, computer electronic or optical products, machinery, vehicles	NIS2
Digital providers	NIS2
Research	NIS2

Source: European Commission, IPOPEMA Research

According to a report published by European Union's Agency for Cybersecurity (EINSA), spending on information security and risk management is estimated to have reached EUR 44.0bn in 2023, of which EUR 30.4bn spent on information security alone, the rest being attributed to risk management. By 2027, this spending could increase to EUR 71.0bn, implying a 10.9% CAGR. The largest share in 2023 spending was for security services with EUR 16.4bn or 53.8%, followed by infrastructure protection with EUR 3.5bn or 11.4%.

**Figure 7. Projected spending on cybersecurity by type in the EU**

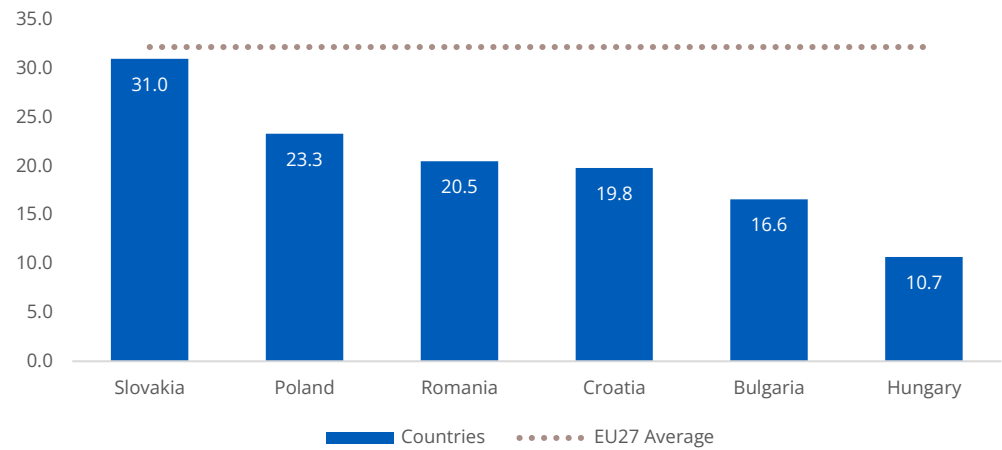
EUR m	2023	2024E	2025E	2026E
Security Services	16,378	18,929	21,409	23,792
Infrastructure Protection	3,479	4,048	4,605	5,112
Network Security Equipment	2,914	3,330	3,723	4,129
Identity Access Management	2,070	2,392	2,683	2,944
Other Security Software	1,407	1,811	2,106	2,256
Cloud Security	834	1,043	1,277	1,540
Consumer Security Software	1,142	1,253	1,348	1,439
Application Security	626	732	842	958
Integrated Risk Management	689	771	829	873
Data Security	491	563	631	701
Data Privacy	379	481	577	680
<b>Total</b>	<b>30,409</b>	<b>35,353</b>	<b>40,030</b>	<b>44,424</b>

Source: EINSA, IPOPEMA Research

As this directive is intended for all EU countries, we believe Romanian companies will implement additional cybersecurity measures going forward, as enterprises within the country lag behind in this regard. For instance, only 86.5% of all companies with 10 or more employees have implemented at least one cybersecurity measure, compared to the 91.8% the EU27 average, but slightly ahead of the 85.3% the regional average, according to data from Eurostat. Moreover, Romania is significantly behind the EU27 averages when it comes to the implementation of security measures that allow the detection of suspicious activity other than anti-virus software, suggesting that as a result of NIS2, Safetech could be in a favorable position to capture the upcoming increasing market demand. Based on the latest available data, only 22.6% of companies in Romania had implemented or contracted cybersecurity

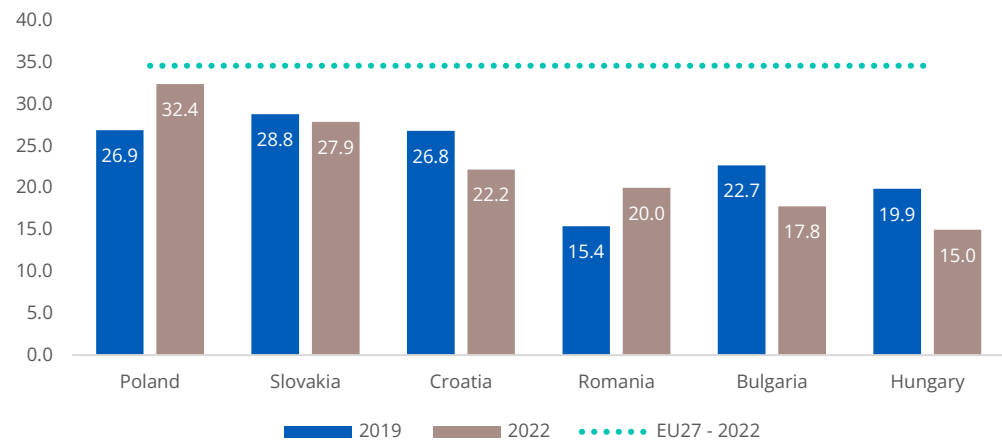
monitoring activities, far behind the 40.8% EU27 average, which again suggests there is ample room for domestic growth for Safetech.

**Figure 8. % of companies that implemented or contracted periodic risk assessment services**



Source: Eurostat, IPOPEMA Research

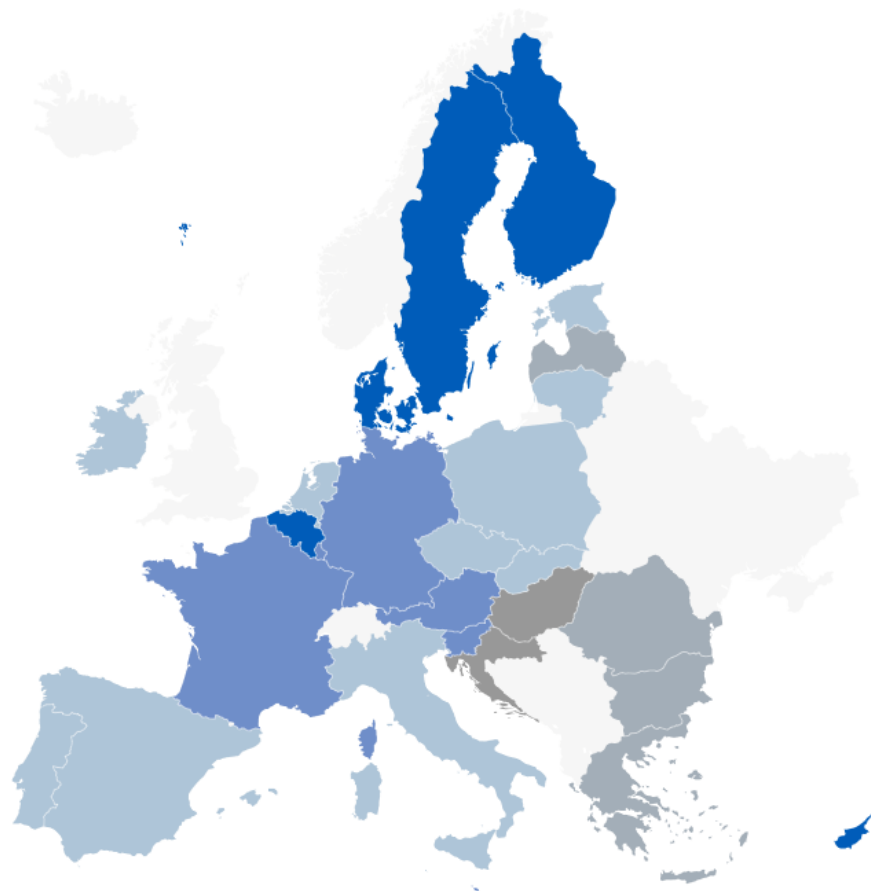
**Figure 9. % of companies that contracted periodic cybersecurity tests or penetration testing**



Source: Eurostat, IPOPEMA Research

Figure 10. % of companies that contracted cybersecurity monitoring services in EU

■ < 15.3 ■ 15.3-28.2 ■ 28.2-41.1 ■ 41.1-54 ■ ≥ 54



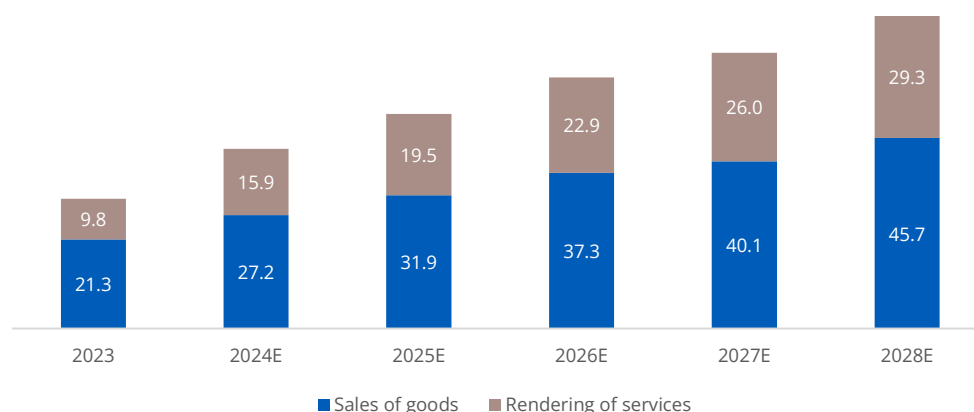
Source: Eurostat, IPOPEMA Research



## Financial Statements

We updated our forecasts so as to reflect the most recent changes in the Romanian cybersecurity market. Currently, our forecasts are built on standalone results and financials. On this basis, we expect total operating revenue to reach RON 43.1m in 2024E, up by 38.4% compared to the previous year. Over the next five years, operating revenues could see a 19.2% CAGR (2023-2027E), implying RON 74.9m by 2027E, primarily driven by the already existing demand for cybersecurity solutions, as well as services, and demand created by the NIS2 directive. Over the forecast period we expect Romanian companies to increase the implementation pace of cybersecurity measures and Safetech may capture the respective market. This year, we see revenues from sales of goods reaching RON 27.2m (+27.4% y/y) and revenues from services reaching RON 15.9m (+62.4% y/y). Our forecasted CAGRs over the next five years is 16.4% for sales of goods and 24.6% for services.

**Figure 11. Safetech revenue forecast – RON m**



Source: Company, IPOPEMA Research

**Figure 12. Safetech sales split forecast (2023 – left / 2028 – right)**



Source: Company, IPOPEMA Research

Based on the company's track record, we believe Safetech will be able to scale over the next five years without affecting its margins significantly. In our baseline scenario we assume the company to come with a 33.5% operating margin in 2024E, down from 35.8% a year ago. Nevertheless, as sales of services could become increasingly important in the sales mix, we forecast a margin improvement by 2028E to 39.3%. Our baseline forecast also shows a deteriorating EBITDA margin in 2024E to 43.0% in 2024E from 43.5% in 2023, followed by gradual improvements to 46.4% by 2028E.

**Figure 13. Safetech expenses forecast**

	2023	2024E	2025E	2026E	2027E	2028E
Raw materials and consumables	-11.5	-12.9	-14.2	-16.3	-18.3	-20.4
Employee benefits	-11.5	-12.9	-14.2	-16.3	-18.3	-20.4
D&A	-2.4	-4.1	-5.3	-5.2	-5.3	-5.4
Other expenses	-14.7	-7.2	-8.2	-9.0	-9.9	-11.2

Source: Company, IPOPEMA Research

Given that the company does not have debt, and only bears an interest expense on leases, we expect the net financial expenses to be relatively low in 2024E and going forward, approximately RON 0.2m this year and RON 0.2m per year until 2028E. In combination with our assumption of a 16.0% standard tax rate (in 2024E and up to 2028E), the company could report a net profit of RON 12.4m in 2024E, up by 27.7% compared to last year. We expect a 20.4% net profit CAGR until 2028E, which could translate into a bottom line result of RON 24.6m by the end of the forecast period. In our baseline, we expect a net margin of 28.9% in 2024E, down from 31.3% in 2023. By 2028E, we expect an improvement to 32.9%.

**Figure 14. Safetech income statement forecast**

RON m	2023	2024E	2025E	2026E	2027E	2028E
Sales of goods	21.3	27.2	31.9	37.3	40.1	45.7
Rendering of services	9.8	15.9	19.5	22.9	26.0	29.3
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total operating revenues</b>	<b>31.1</b>	<b>43.1</b>	<b>51.4</b>	<b>60.2</b>	<b>66.1</b>	<b>74.9</b>
Other operating income	1.6	1.5	1.3	1.4	1.4	1.5
Changes in inventories	14.2	8.0	7.7	9.0	9.9	11.2
Raw materials and consumables	-7.1	-13.9	-15.8	-19.8	-20.1	-21.3
Employee benefits	-11.5	-12.9	-14.2	-16.3	-18.3	-20.4
Depreciation and amortization	-2.4	-4.1	-5.3	-5.2	-5.3	-5.4
Marketing expenses	-0.2	-0.4	-0.5	-0.3	-0.3	-0.4
Rental income	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	-0.1	0.1	-0.2	-0.2	-0.2	-0.2
Other operating expenses	-14.3	-7.0	-7.6	-8.5	-9.4	-10.6
<b>Operating profit</b>	<b>11.1</b>	<b>14.4</b>	<b>16.9</b>	<b>20.3</b>	<b>23.9</b>	<b>29.4</b>
Financial income	0.1	0.0	0.0	0.0	0.0	0.0
Financial expenses	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
<b>Net financial income</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>
<b>Profit before taxes</b>	<b>11.0</b>	<b>14.2</b>	<b>16.7</b>	<b>20.2</b>	<b>23.8</b>	<b>29.3</b>
Income tax	-1.3	-1.8	-2.0	-3.2	-3.8	-4.7
<b>Net profit for the period</b>	<b>9.7</b>	<b>12.4</b>	<b>14.7</b>	<b>17.0</b>	<b>20.0</b>	<b>24.6</b>

Source: Company, IPOPEMA Research

**Figure 15. Changes in forecasts**

	New	Old	Ch.%	New	Old	Ch.%	New	Old	Ch.%
P&L Summary (RON m)	2024E	2024E		2025E	2025E		2026E	2026E	
	New	Old		New	Old		New	Old	
Total revenue	43.6	45.1	-3.2%	52.4	58.3	-10.1%	64.4	73.1	-11.9%
Raw materials and consumables	-5.0	-3.5	40.7%	-4.1	-4.6	-10.1%	-5.1	-5.7	-11.9%
Employee benefits	-14.4	-15.1	-4.7%	-17.5	-18.4	-4.7%	-20.1	-21.0	-4.7%
Other	-0.4	-5.9	-93.2%	-4.3	-10.0	-57.5%	-6.6	-13.7	-52.1%
Operating profit	23.9	20.6	15.9%	26.5	25.4	4.6%	32.8	32.6	0.3%
Net financial income	-0.3	-0.3	-7.7%	-0.2	-0.3	-7.2%	-0.3	-0.3	-6.8%
Profit before taxes	23.6	20.3	16.3%	26.3	25.1	4.7%	32.5	32.4	0.4%
<b>Net Income</b>	<b>20.8</b>	<b>17.9</b>	<b>16.3%</b>	<b>23.1</b>	<b>22.1</b>	<b>4.7%</b>	<b>28.6</b>	<b>28.5</b>	<b>0.4%</b>

Source: Company, IPOPEMA Research

**Figure 16. Safetech balance sheet forecast**

	2023	2024E	2025E	2026E	2027E	2028E
Cash and equivalents	3.5	10.0	17.1	26.4	34.0	43.2
Receivables	7.2	14.2	16.9	19.8	21.7	24.6
Inventories	0.4	0.3	0.4	0.4	0.5	0.5
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>11.1</b>	<b>24.4</b>	<b>34.4</b>	<b>46.6</b>	<b>56.1</b>	<b>68.3</b>
Property, plant and equipment	0.6	1.0	1.3	1.6	1.9	2.1
Right of use assets	1.3	1.4	1.6	1.6	1.5	1.5
Investments in affiliates	3.9	3.9	3.9	3.9	3.9	3.9
Intangible assets	40.6	45.5	46.6	47.1	47.5	48.8
Deferred taxes	0.1	0.1	0.1	0.1	0.1	0.1
Other non-current assets	0.3	0.3	0.3	0.3	0.3	0.3
<b>Total non-current assets</b>	<b>46.7</b>	<b>52.2</b>	<b>53.7</b>	<b>54.5</b>	<b>55.1</b>	<b>56.7</b>
<b>Total assets</b>	<b>57.7</b>	<b>76.7</b>	<b>88.2</b>	<b>101.1</b>	<b>111.3</b>	<b>125.0</b>
Payables	6.1	11.5	13.0	16.3	16.5	17.5
Interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0
Current part of lt debt	0.0	0.0	0.0	0.0	0.0	0.0
Current part of lease liabilities	0.3	0.4	0.4	0.4	0.4	0.4
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.2	0.0	0.1	0.1	0.1	0.1
Other current liabilities	1.7	2.8	2.9	2.9	2.9	3.9
<b>Total current liabilities</b>	<b>8.4</b>	<b>14.6</b>	<b>16.4</b>	<b>19.6</b>	<b>19.8</b>	<b>21.9</b>
Interest bearing debt	0.0	0.0	0.0	0.0	0.0	1.0
Subsidies	13.4	13.4	13.4	13.4	13.4	13.4
Lease liabilities	1.1	1.3	1.3	1.4	1.5	1.6
<b>Total non-current liabilities</b>	<b>14.4</b>	<b>14.7</b>	<b>14.7</b>	<b>14.8</b>	<b>14.9</b>	<b>15.9</b>
<b>Total liabilities</b>	<b>22.8</b>	<b>29.3</b>	<b>31.0</b>	<b>34.4</b>	<b>34.7</b>	<b>37.8</b>
Share capital	13.3	13.6	13.3	13.3	13.3	13.3
Share premiums	2.9	2.9	2.9	2.9	2.9	2.9
Treasury shares	0.0	0.0	0.0	0.0	0.0	0.0
Legal reserves	1.7	1.4	1.7	1.7	1.7	1.7
Other elements of equity	0.0	0.0	0.0	0.0	0.0	0.0
Retained earnings	17.1	48.9	39.3	48.9	58.7	69.4
<b>Total equity</b>	<b>34.9</b>	<b>47.4</b>	<b>57.1</b>	<b>66.8</b>	<b>76.6</b>	<b>87.2</b>
<b>Total liabilities and equity</b>	<b>57.7</b>	<b>76.7</b>	<b>88.2</b>	<b>101.1</b>	<b>111.3</b>	<b>125.0</b>

Source: Company, IPOPEMA Research

**Figure 17. Safetech cash flow statement forecast**

<b>RON m</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Profit before taxes	11.0	14.2	16.7	20.2	23.8	29.3
Depreciation and amortization	2.2	3.9	5.1	4.9	5.0	5.1
Depreciation of right of use assets	0.2	0.2	0.2	0.2	0.2	0.2
Employee benefits	-0.1	0.0	0.0	0.0	0.0	0.0
Revaluation of tangible assets	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation of receivables	0.0	0.0	0.0	0.0	0.0	0.0
Changes in provisions	0.1	(0.2)	0.0	0.0	0.0	0.0
Gains from sale of fixed assets	-0.3	0.0	0.0	0.0	0.0	0.0
Gains from write offs of receivables and payables	0.0	0.0	0.0	0.0	0.0	0.0
Interest income	0.0	(0.0)	0.0	0.0	0.0	0.0
Interest expense	0.1	0.2	0.2	0.1	0.1	0.1
<b>Operating profit before changes in WC</b>	<b>13.1</b>	<b>18.3</b>	<b>22.2</b>	<b>25.5</b>	<b>29.2</b>	<b>34.8</b>
Changes in inventories	-0.3	0.1	(0.1)	(0.1)	(0.0)	(0.1)
Changes in receivables	8.8	(7.0)	(2.8)	(2.9)	(1.9)	(2.9)
Changes in payables	-2.7	5.3	1.6	3.2	0.2	1.0
Changes in deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flows from operations</b>	<b>18.9</b>	<b>16.8</b>	<b>21.0</b>	<b>25.8</b>	<b>27.4</b>	<b>32.8</b>
Interest paid	-0.1	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Income tax paid	-1.5	(1.8)	(2.0)	(3.2)	(3.8)	(4.7)
<b>Cash flows from operating activities</b>	<b>17.3</b>	<b>14.8</b>	<b>18.8</b>	<b>22.5</b>	<b>23.5</b>	<b>28.0</b>
Proceeds from sale of non-current assets	0.3	0.0	0.0	0.0	0.0	0.0
Acquisition of intangible assets	-14.7	(7.5)	(5.6)	(5.1)	(5.1)	(5.1)
Acquisition of property, plant and equipment	-0.9	(0.6)	(0.8)	(0.6)	(0.6)	(0.6)
Equity investments	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash used in investing activities</b>	<b>-15.2</b>	<b>(8.1)</b>	<b>(6.4)</b>	<b>(5.7)</b>	<b>(5.7)</b>	<b>(5.7)</b>
Increase of share capital	0.0	0.0	0.0	0.0	0.0	0.0
Increase in share premiums	0.0	0.0	0.0	0.0	0.0	0.0
Share buybacks	0.0	0.0	0.0	0.0	0.0	0.0
Increase in subsidies	0.3	0.0	0.0	0.0	0.0	0.0
Changes in debt	0.0	0.0	0.0	0.0	0.0	1.0
Dividends paid	-2.0	0.0	(5.0)	(7.4)	(10.2)	(14.0)
Leasing payments	-0.4	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)
<b>Cash used in financing activities</b>	<b>-2.1</b>	<b>(0.2)</b>	<b>(5.2)</b>	<b>(7.5)</b>	<b>(10.3)</b>	<b>(13.1)</b>
<b>Net increase in cash</b>	<b>0.0</b>	<b>6.5</b>	<b>7.2</b>	<b>9.3</b>	<b>7.5</b>	<b>9.2</b>
Cash at the beginning of the period	3.5	3.5	10.0	17.1	26.4	34.0
<b>Cash at the end of the period</b>	<b>3.5</b>	<b>10.0</b>	<b>17.1</b>	<b>26.4</b>	<b>34.0</b>	<b>43.2</b>

Source: Company, IPOPEMA Research

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The definitions of terms used in the document include:

## Safetech Innovations

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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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

### IPOPEMA Research - Distribution by rating category (1 January - 31 March 2024)

	Number	%
Buy	25	76%
Hold	6	18%
Sell	2	6%
Total	33	100%

### Rating History - Safetech Innovations

Date	Recommendation	Fair Value	Price at recommendation	Author
27/04/2023	BUY	RON 3.40	RON 3.10	Ionut Gavris
22/05/2023	BUY	RON 3.60	RON 3.10	Ionut Gavris
13/11/2023	HOLD	RON 2.60	RON 2.61	Ionut Gavris
19/07/2024	HOLD	RON 2.62	RON 2.42	Ionut Gavris