

# Safetech Innovations

## The future looks good

We upgrade our recommendation of Safetech Innovations to **BUY** (from **HOLD**), with a fair value per share of RON 1.17, implying an upside of 26.4% from the current share price. Going forward, we anticipate significant growth in the top line, mainly influenced by the implementation of the NIS2 directive in Romania, which became mandatory in the fourth quarter of 2024. The directive expands the sectors for which cybersecurity solutions must be implemented. We expect Safetech to be able to capitalize on this opportunity on a standalone basis. Moreover, the company will be able to use the intellectual property gain from various research projects through grants, by selling machine learning cyber security technologies. The company will expand on sectors served, mainly retail, telecommunications, food & beverages, and the government.

**NIS2 directive.** The European directive expands the economic sectors for which cybersecurity solution implementation is mandatory. As Safetech is one of the most capable cybersecurity companies in Romania and has an already established reputation, we believe the company will see significant top line growth while capturing a fast growing market.

**Romania is trails behind in terms of cybersecurity.** The country is currently developing as an emerging market. So far, Romania has trailed behind on both corporate and government levels with respect to the implementation of solutions compared to EU peers. Considering the current progress on EU funds absorption at government level, and legal incentives to do so on a corporate level, we do not see any reasonable scenario in which the company would not see tangible growth going forward.

**International turnaround.** In 2025E, we believe the UK subsidiary will acquire clients and be self-sustaining, implying less cash burning on expansion for 2025E.

**Changes in forecasts.** We cut our forecasts as our most recent assumptions do not incorporate any potential one-offs over the next three years. Another contribution to our forecast cuts comes from the fact that we were expecting the influx of new customers as a direct result of NIS2 to happen sooner than 2025E. Additionally, the 2025E net profit decline is explained by the completion of a few government contracts that supported the bottom line in 2024E. At the same time, the substantial change in the expense with raw materials & consumables comes from our assumptions on the sales mix. We now expect that the implementation of cybersecurity solutions to carry a larger weight in total revenues.

**Dividends:** We expect a 40% payout ratio in 2025E and 50% in 2026E, implying RON 0.08 ps in 2025E and RON 0.05 ps in 2026E, implying a DY 1.7% and 5.1%.

Figure 1. Summary of financial data

	2022	2023	2024E	2025E	2026E	2027E
Revenues (RON m)	34.9	31.1	41.1	40.9	54.3	66.1
EBITDA (RON m)	14.9	13.5	17.7	13.7	20.0	27.6
EBIT (RON m)	11.7	11.1	13.9	6.1	15.2	22.7
Net profit (RON m)	10.2	9.7	11.8	5.2	12.7	19.0
Dividends (RON m)	4.2	2.0	0.0	4.7	2.6	7.6
EPS (RON)	0.06	0.06	0.07	0.03	0.08	0.12
DPS (RON)	0.03	0.01	0.00	0.03	0.02	0.05
EV/EBITDA (x)	30.4	10.9	8.0	9.9	6.3	4.2
P/E (x)	44.4	15.5	12.8	28.8	11.8	7.9
Dividend yield (%)	2.8%	1.3%	0.0%	3.1%	1.7%	5.1%

Source: Company, BVB, IPOPEMA Research \*out of previous year's earnings

Telecom, Media & IT

## Safetech Innovations

### BUY

**FV RON 1.17** from RON 1.32

26.4% upside

Price as of 6 December 2024 RON 0.93



#### Share data

Number of shares (m)	162.7
Market cap (EUR m)	30.1
12M avg daily volume (k)	45.8
12M avg daily turnover (EUR m)	0.2
12M high/low (RON)	1.10/0.92
BET weight	0.00%
Reuters	ROSAFE.BX
Bloomberg	SAFE RO

#### Total performance

1M	-6.22%
3M	-8.31%
12M	-10.44%

#### Shareholders

Victor Gansac	28.85%
Paul Rusu	28.82%
Others	42.33%

#### Analyst

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## Safetech Innovations

**BUY**

**FV 1.17 RON**

Mkt Cap RON 150.7m

Upside/downside +26.4%

Valuation multiples	2022	2023	2024E	2025E	2026E
P/E (x)	44.4	15.5	12.8	28.8	11.8
EV/EBITDA adj (x)	30.4	10.9	8.0	9.9	6.3
EV/Sales (x)	12.9	4.7	3.4	3.3	2.3
P/BV (x)	16.6	4.3	3.2	3.2	2.6
FCF yield (%)	-4.0	-12.6	-4.1	5.5	6.7
DY (%)	0.9	1.3	0.0	3.1	1.7
Payout ratio	0.4	0.2	0.0	0.9	0.2

Per share	2022	2023	2024E	2025E	2026E
No. of shares (m units)	162.7	162.7	162.7	162.7	162.7
EPS (RON)	0.1	0.1	0.1	0.0	0.1
BVPS (RON)	0.2	0.2	0.3	0.3	0.4
FCFPS (RON)	-0.1	-0.1	0.0	0.0	0.1
DPS (RON)	0.0	0.0	0.0	0.0	0.0

Change yoy (%)	2022	2023	2024E	2025E	2026E
Revenues	52.0%	-10.9%	32.0%	-0.4%	32.6%
EBITDA	45.4%	-3.9%	18.9%	-36.4%	84.3%
EBIT	65.9%	-4.7%	25.2%	-56.4%	150.9%
Net profit	70.6%	-4.9%	20.8%	-55.6%	143.8%
Tax rate	-12.0%	-11.6%	-14.1%	-12.0%	-16.0%

Leverage and return	2022	2023	2024E	2025E	2026E
Operating margin	33.4%	35.8%	33.9%	14.8%	28.1%
EBITDA margin	42.5%	43.5%	43.0%	33.6%	36.9%
EBIT margin	33.4%	35.8%	33.9%	14.8%	28.1%
Net debt/EBITDA (x)	-23.9%	-25.7%	-31.3%	-79.5%	-104.8%
Net debt/Equity	-13.0%	-10.0%	-11.8%	-23.2%	-36.6%
Net debt/Assets	-6.7%	-6.0%	-7.5%	-14.6%	-23.4%
ROE	37.5%	27.9%	25.2%	11.1%	22.2%
ROA	19.4%	16.9%	15.9%	7.0%	14.2%

Assumptions	2022	2023	2024E	2025E	2026E
<b>Operating revenues</b>	<b>34.9</b>	<b>31.1</b>	<b>41.1</b>	<b>40.9</b>	<b>54.3</b>
Sales of goods	20.1	21.3	28.3	23.4	33.6
Rendering of services	14.9	9.8	12.8	17.5	20.7
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%	33.4%	37.4%	32.4%
Depreciation	9.1%	7.8%	9.1%	18.8%	8.8%
Total operating exp.	67.6%	69.5%	67.7%	87.9%	74.1%

KPIs	2022	2023	2024E	2025E	2026E
Number of clients	204.0	208.0	259.0	287.0	322.0
Client growth	0.1	0.0	0.2	0.1	0.1
Rev / employee (RON rr)	0.7	0.5	0.6	0.6	0.7
Sales of goods % total	0.6	0.7	0.7	0.6	0.6
Sales of services % tota	0.4	0.3	0.3	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>41.8</b>	<b>42.1</b>	<b>55.5</b>
Operating revenues	23.0	34.9	31.1	41.1	40.9	54.3
Other income	0.4	0.4	1.6	0.7	1.1	1.2
OPEX	-16.3	-23.6	-21.6	-27.8	-36.0	-40.2
<b>EBITDA</b>	<b>10.3</b>	<b>14.9</b>	<b>13.5</b>	<b>17.7</b>	<b>13.7</b>	<b>20.0</b>
Depreciation	-3.2	-3.2	-2.4	-3.7	-7.7	-4.8
<b>EBIT</b>	<b>7.0</b>	<b>11.7</b>	<b>11.1</b>	<b>13.9</b>	<b>6.1</b>	<b>15.2</b>
Net interest expense	-0.2	0.0	-0.1	-0.2	-0.1	-0.1
Pre-tax profit	6.8	11.6	11.0	13.7	5.9	15.2
Income tax	-0.8	-1.4	-1.3	-1.9	-0.7	-2.4
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>11.8</b>	<b>5.2</b>	<b>12.7</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>54.8</b>	<b>50.3</b>	<b>50.3</b>
Net fixed assets	1.5	0.6	0.6	0.7	1.1	1.5
Right of use assets	1.1	1.2	1.3	1.2	1.5	1.4
Intangibles and goodwill	15.3	26.9	40.6	48.6	43.6	43.2
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>19.3</b>	<b>24.7</b>	<b>39.2</b>
Cash and equivalents	6.2	3.5	3.5	5.5	10.9	21.0
Receivables	7.4	16.0	7.2	13.5	13.5	17.8
Inventories	0.1	0.1	0.4	0.3	0.3	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>74.1</b>	<b>75.0</b>	<b>89.5</b>
<b>Equity</b>	<b>14.4</b>	<b>27.3</b>	<b>34.9</b>	<b>46.7</b>	<b>47.2</b>	<b>57.3</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>14.4</b>	<b>14.4</b>	<b>14.6</b>
Interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0
Lease liabilities	1.1	1.1	1.1	1.1	1.1	1.2
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>13.0</b>	<b>13.3</b>	<b>17.6</b>
Interest bearing debt	1.0	0.0	0.0	0.0	0.0	0.0
Payables	4.7	8.7	6.1	10.1	10.3	14.7
Lease liabilities	0.2	0.3	0.3	0.3	0.3	0.3
Others	1.9	2.3	1.9	2.6	2.7	2.7
<b>Equity and liabilities</b>	<b>32.0</b>	<b>52.8</b>	<b>57.7</b>	<b>74.1</b>	<b>75.0</b>	<b>89.5</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>-5.5</b>	<b>-10.9</b>	<b>-21.0</b>

CASH FLOW (RONm)	2021	2022	2023	2024E	2025E	2026E
<b>Cash flow from operating activi</b>	<b>9.5</b>	<b>17.3</b>	<b>13.0</b>	<b>13.2</b>	<b>17.4</b>	<b>21.7</b>
Profit before taxes	6.9	11.6	11.0	13.7	5.9	15.2
Depreciation and amortization	3.2	3.2	2.4	3.7	7.7	4.8
Changes in WC	-0.8	-4.3	5.8	-2.3	0.3	-0.2
Other, net	0.2	6.8	-6.2	-1.9	3.5	1.9
<b>Cash flow from investment</b>	<b>-12.5</b>	<b>-17.9</b>	<b>-15.2</b>	<b>-10.8</b>	<b>-2.8</b>	<b>-4.6</b>
Additions to PPE	-1.8	-0.4	-0.9	-0.3	-0.8	-0.6
Additions to intangibles	-10.7	-13.4	-14.7	-10.5	-2.0	-4.0
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>-5.0</b>	<b>-2.7</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	-4.7	-2.6
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>2.0</b>	<b>5.4</b>	<b>10.1</b>
<b>Beginning cash and equivalents</b>	<b>1.7</b>	<b>6.2</b>	<b>3.5</b>	<b>3.5</b>	<b>5.5</b>	<b>10.9</b>
<b>Ending cash and equivalents</b>	<b>6.2</b>	<b>3.5</b>	<b>3.5</b>	<b>5.5</b>	<b>10.9</b>	<b>21.0</b>

Source: Company data, IPOPEMA Research

Figure 2. Valuation summary

RON m	2024E	2025E	2026E	2027E	2028E	Terminal year
Risk free rate	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
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>14.1%</b>	<b>14.1%</b>	<b>14.1%</b>	<b>14.1%</b>	<b>14.1%</b>
Debt premium	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pre-tax cost of debt	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Tax rate	14.1%	12.0%	16.0%	16.0%	16.0%	16.0%
<b>After tax cost of debt</b>	<b>5.6%</b>	<b>5.8%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</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>14.1%</b>	<b>14.1%</b>	<b>14.1%</b>	<b>14.1%</b>	<b>14.1%</b>
Revenues	41.1	40.9	54.3	66.1	77.3	79.7
EBIT	13.9	6.1	15.2	22.7	28.8	33.1
Tax rate	14.1%	12.0%	16.0%	16.0%	16.0%	16.0%
<b>NOPLAT</b>	<b>12.0</b>	<b>5.3</b>	<b>12.8</b>	<b>19.1</b>	<b>24.2</b>	<b>27.8</b>
Depreciation	3.7	7.7	4.8	4.8	4.9	4.8
CAPEX	-10.8	-2.8	-4.6	-4.6	-4.6	-4.7
Change in working capital	-2.3	0.3	-0.2	-2.1	-1.0	-0.8
Leasing payments	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1
<b>FCF</b>	<b>2.4</b>	<b>10.2</b>	<b>12.7</b>	<b>17.1</b>	<b>23.4</b>	<b>27.0</b>
Discount factor	1.0	0.9	0.8	0.7	0.6	
<b>PV of Free Cash Flow</b>	<b>2.4</b>	<b>8.9</b>	<b>9.7</b>	<b>11.4</b>	<b>13.7</b>	
Sum of PV FCFs	46.0					
Terminal growth	3.0%					
Terminal value	243.4					
PV of terminal value	142.3					
<b>Enterprise value</b>	<b>188.3</b>					
Net debt	-2.1					
Dividends paid	0.0					
Minorities	0.0					
Equity value	190.4					
NOSH	162.7					
<b>FV (RON)</b>	<b>1.17</b>					
Current price	0.93					
Upside	26.4%					

Source: Company, IPOPEMA Research

Figure 3. Sensitivity analysis

		EBIT margin				
		40.5%	41.0%	41.5%	42.0%	42.5%
g rate	2.0%	1.07	1.08	1.09	1.10	1.11
	2.5%	1.11	1.12	1.13	1.14	1.15
	3.0%	1.15	1.16	1.17	1.18	1.19
	3.5%	1.19	1.20	1.22	1.23	1.24
	4.0%	1.24	1.25	1.27	1.28	1.29

Source: IPOPEMA Research

Figure 4. Safetech Innovations changes in forecasts

P&L Summary (RON m)	New	Old	Ch.%	New	Old	Ch.%	New	Old	Ch.%
	2024E	2024E		2025E	2025E		2026E	2026E	
Total revenue	41.1	43.6	-5.8%	40.9	52.4	-21.9%	54.3	64.4	-15.7%
Raw materials and consumables	-12.3	-5.0	145.5%	-12.6	-4.1	207.1%	-17.8	-5.1	249.7%
Employee benefits	-13.7	-14.4	-4.7%	-15.3	-17.5	-12.6%	-17.6	-20.1	-12.4%
Other	-0.3	-0.4	-13.8%	-4.1	-4.3	-4.0%	-4.0	-6.6	-39.7%
Operating profit	14.7	20.6	-28.6%	8.9	26.5	-66.4%	14.9	32.8	-54.7%
Net financial income	-0.2	-0.3	-20.2%	-0.1	-0.2	-29.6%	-0.1	-0.3	-71.8%
Profit before taxes	14.5	23.6	-38.7%	8.8	26.3	-66.6%	14.8	32.5	-54.6%
<b>Net Income</b>	<b>12.5</b>	<b>20.8</b>	<b>-40.1%</b>	<b>7.7</b>	<b>22.1</b>	<b>-65.1%</b>	<b>12.4</b>	<b>28.6</b>	<b>-56.6%</b>

Source: IPOPEMA Research

## Romanian Equities

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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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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 July – 30 September 2024)

	Number	%
Buy	18	56%
Hold	8	25%
Sell	6	19%
Total	32	100%

#### Rating History – Safetech Innovations - split adjusted

Date	Recommendation	Fair Value	Price at recommendation	Author
24/04/2023	BUY	RON 1.70	RON 1.55	Ionut Gavris
22/05/2023	BUY	RON 1.80	RON 1.55	Ionut Gavris
26/06/2023	BUY	RON 1.85	RON 1.55	Ionut Gavris
13/11/2023	HOLD	RON 1.30	RON 1.30	Ionut Gavris
19/07/2024	HOLD	RON 1.31	RON 1.30	Ionut Gavris
06/12/2024	BUY	RON 1.17	RON 0.93	Ionut Gavris