

Cyber Security 1

Mangold Insight - Update - 2023-05-29

Profitable growth bodes for a bright future

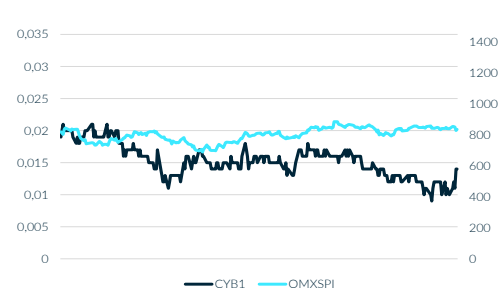
Mangold updates Cyber Security 1 ("CYBER1") after the first quarter of 2023. CYBER1's revenue increased to EUR 13.4 (9.5) million compared to the same period last year, representing a growth rate of 41 percent. Gross profit grew by 65 percent to EUR 3.1 (1.9) million compared to the same quarter of the previous year. The gross margin increased to 23.3 percent compared with 19.9 percent last year. All subsidiaries reported a positive EBITDA during the quarter, which is seen as a sign that the company has turned its course. EBITDA amounted to EUR 392 thousand during the quarter compared to EUR -564 thousand the previous year, corresponding to an EBITDA margin of 2.9 percent. Mangold chooses to raise the revenue estimate for 2023 to around EUR 60,0 (55,8) million given the favorable trend. We are adjusting up the EBITDA estimate as it was significantly better than expected.

Costs kept in check

CYBER1's operational costs grew by far less than its revenue, with an increase of 9 percent. This shows the company's ability to keep costs in check and achieve high growth. The cash amounted to EUR 0.79 million at the end of the quarter, corresponding to approximately SEK 9 million. Mangold traces that the company's capital needs are covered given that the company is expected to continue to deliver a positive result.

Model shows upside

Mangold increases the target price to EUR 0,055 (0,040) per share. Mangold still sees that the company is undervalued given higher profitability as well as high growth. The company trades at an EV/S multiple of 0.3 on the 2023 expected sales, which we believe is low.



Price performance %	1m	3m	12m
CYB1	27,3	-9,7	-33,3
OMXSPI	-1,4	-1,8	1,8

Information

Rec/Price target (EUR)	Buy 0,055
Risk	Medium
Price (EUR)	0,014
Market cap (MEUR)	14,4
Number of shares (M)	1025,9
Free float	93%
Ticker	CYB1
Next Report	2023-08-25
Website	cyber1.com
Analyst	Pontus Ericsson

Ownership structure	Shares	Capital
Saxo Bank Client A.	238,7	23,3%
Abn Amro Sweden	210,5	20,5%
SIX SIS AG	99,6	9,7%
Morgan Stanley	69,7	6,8%
Robert Brown	68,4	6,7%
Cs (Ch) Client	59,3	5,8%
Ibkr Financial Services	35,0	3,4%
UBS Switzerland	29,5	2,9%
Total	1025,9	100%

Nyckeltal	2022	2023E	2024E	2025E	2026E
Revenue (MEUR)	46,7	60,0	71,3	80,3	90,3
EBIT (MEUR)	-3,5	0,9	2,5	4,3	6,6
Profit before tax (MEUR)	-3,7	0,4	2,0	3,9	6,5
EPS (SEK)	-0,004	0,000	0,002	0,003	0,005
EV/Sales	0,4	0,3	0,3	0,2	0,2
EV/EBITDA	neg	10,6	5,6	3,7	2,5
EV/EBIT	neg	19,9	7,5	4,3	2,8
P/E	neg	41,8	9,1	4,6	2,8

Investment case

An undervalued defense

Mangold updates CYBER1 and repeats Buy at an increased target price of EUR 0.055 (0.040) per share over 12 months. That represents an upside of over 200 percent. This is due to an increase in sales and cost estimates. Mangold believes that CYBER1 has good opportunities to continue to grow at a high pace, driven by completed acquisitions, as well as the strong underlying market demand in cybersecurity.

Target price EUR 0,055 per share

Broader range of services

CYBER1 offers a wide range of software solutions and services related to cybersecurity. The company has license rights to sell software solutions from a large number of cybersecurity vendors, allowing them to offer a strong protection. The company also uses professional services to identify deficiencies, acts as advisers on solutions and ensures that the right processes are in place in case of a data breach. The new Managed services business gives customers a chance to defend themselves against cyber attacks by CYBER1 monitoring real-time security remotely. Mangold believes that the wide range of different products and services gives CYBER1 the opportunity to increase its sales and maintain good margins in the future.

Comprehensive cyber-attack protection

Forward for the cybersecurity market

The global cybersecurity market is expected to grow from \$177 billion to \$403 billion between 2020 and 2027, representing a 12.5 percent annual growth rate (CAGR), according to Brand Essence Research. Digitalization is taking place on a global scale and costs related to cyber crime are expected to reach \$10.5 trillion by 2025, according to cybersecurity magazine Cybersecurity Ventures. Mangold estimates that CYBER1 benefits from the market trend and can increase its sales based on the underlying demand.

Cybersecurity market grows with 12.5% CAGR

Successful reconstruction

Mangold estimates that CYBER1 is an undiscovered company and undervalued. The company has generated an operating profit of EUR 530 thousand in 2021, while they have undergone a reconstruction during the year and written off debts. They have also managed to achieve growth of 36 percent, while costs have been significantly reduced in relation to sales. In 2022, the company completed acquisitions of the companies CSSA and CSAD which strengthened their position in Africa. Overall, Mangold estimates that there is an upside available in the CYBER1 share.

Upside to collect in CYBER1's stock

Cyber Security 1 – Update

Revenue greater than estimate

CYBER1's revenue amounted to EUR 13.4 (9.5) million in the first quarter of 2023, compared to the same period last year. That represents a growth rate of 41 percent. The growth rate is significantly higher than our estimate for the full year 2023 of 24 percent. Mangold chooses to adjust it up to 28.4 percent. Gross profit was 65 percent higher than in the corresponding period of the previous year, which is seen as a positive development. The gross margin of 23.3 (19.9) percent was significantly better than in the previous year, but did not reach our full year estimate of 25.1 percent. The acquisitions of CSSA and CSAD have led to more improvements than expected in the first quarter of 2023 due to EBITDA. EBITDA has turned from negative to positive, resulting in a margin of 2.9 percent for the quarter. That is significantly better than our estimate for the full year of 1.4 percent.

Revenue increased by 41 percent

CYBER1 - OUTCOME 2022

(Teur)	Q1 22	Q1 23	Diff
Revenues	9 487	13 370	41%
Gross profit	1 892	3 113	65%
Gross margin	19,9%	23,3%	
EBITDA	-564	392	
EBITDA margin	-5,9%	2,9%	
Results	-689	206	
Profit margin	-7,3%	1,5%	

Source: Mangold Insight

Cost development

Personnel costs increased to EUR 2.1 (1.8) million in the first quarter of 2023 compared to last year. This represents an increase of 13 percent. The other costs increased to EUR 0,7 (0,6) million, corresponding to an increase of 6 percent. Total operational costs have thus increased by 9 percent, which is significantly lower than the growth rate of 41 percent. The company has succeeded in streamlining the cost structure and Mangold is looking favorably on the coming quarters.

Total operational costs increase by only 9 percent

Cyber Security 1 – Estimates

Growth estimate increased

Mangold estimates that CYBER1 will show a growth rate of 28.4 percent for the full year 2023. We assume that given the company's performance during the first quarter of 2023, expansion in Europe and further sales within SOC (Security operation center). The inclusion of TRINEXIA Africa (CSAD) and TRINEXIA Southern Africa (CSSA) is also expected to contribute to growth.

Expected growth rate of 28.4 percent in 2023

CYBER1 - GROWTH ESTIMATE

(TEUR)	Q1	Q2E	Q3E	Q4E	2023E	2023E (previous estimate)
Sales	13 370	13 905	15 156	17 521	59 952	55 783
Quarterly growth	-18%	4%	9%	16%	28%	

Source: Mangold Insight

Changes in estimates

Mangold has chosen to adjust up the sales estimate for 2023 given that revenue increased more than expected. In addition, we have chosen to adjust costs downwardly moving forward given the positive developments in the first quarter. Mangold traces that the gross margin will be lower than the previous estimate but that the EBIT margin will be higher. Mangold still maintains that CYBER1 is undervalued as it trades at an EV/S multiple of 0,3 on the expected sales for 2023 and is expected to make a profit during the year.

Increased growth estimate and reduced cost outlook

CYBER1 - ESTIMATES

	2022	2023E	2024E	2025E	2026E	2027E
Sales	23%	24%	19%	12,5%	12,5%	12,5%
Sales (new)	25%	28%	19%	12,5%	12,5%	12,5%
Gross margin	19%	25%	27%	27%	27%	27%
Gross margin (new)	20%	23%	24%	25%	26%	27%
EBIT margin	-8%	0%	3%	4%	5%	6%
EBIT margin (new)	-8%	1%	3%	5%	7%	9%

Source: Mangold Insight

Capital need covered with continued profitability

Given that CYBER1 continues to deliver positive results, Mangold sees no reason why it should have to raise additional capital. It should be noted that CYBER1 received loans where payment is due in 2024 and 2025. One loan of 1.5 million runs until September 2024 can be set off against shares or paid in cash. Given that we calculate without dilution, we assume that the loan is paid in cash. The second loan of EUR 2,5 million can also be set off against shares or cash and matures in June 2025. Mangold assumes that CYBER1 can repay the loans through the expected cash flow. Mangold assume an annual interest rate of 10 percent. The cash at the end of the quarter amounted to EUR 0.79 million, corresponding to approximately SEK 9.0 million.

Is deemed to have sufficient capital

Cyber Security 1 – Update cont.

Development of CYBER1 subsidiaries

CYBER1's various subsidiaries have developed positively during the first quarter where all subsidiaries have turned to a positive EBITDA. Within the subsidiaries the EBITDA margin is between 0,8 and 4,5 percent. The EBITDA margin is positive in all subsidiaries and is seen as a sign that the company is moving in the right direction and can generate positive cash flows moving forward. The gross margin is between 19 and 28 percent. CYBER1 Solutions and TRINEXIA in Southern Africa has a lower gross margin than other subsidiaries. The following is an overview:

Positive EBITDA in all subsidiaries

CYBER1 - SUBSIDIARIES Q1 2023

Dotterbolag	CYBER1 Solutions	CYBER1 Solutions	CYBER1 Solutions	TRINEXIA	TRINEXIA	TRINEXIA
Region	Southern Africa	East & West Africa	EMEA	ME & India	Southern Africa	Africa
Teur	Q1 23	Q1 23	Q1 23	Q1 23	Q1 23	Q1 23
Revenues	6 285	641	532	2 808	1 503	1 840
Gross profit	1 271	180	121	728	281	461
Gross margin	20%	28%	23%	26%	19%	25%
EBITDA	146	29	17	68	29	15
EBITDA margin	2,3%	4,5%	3,2%	2,4%	1,9%	0,8%

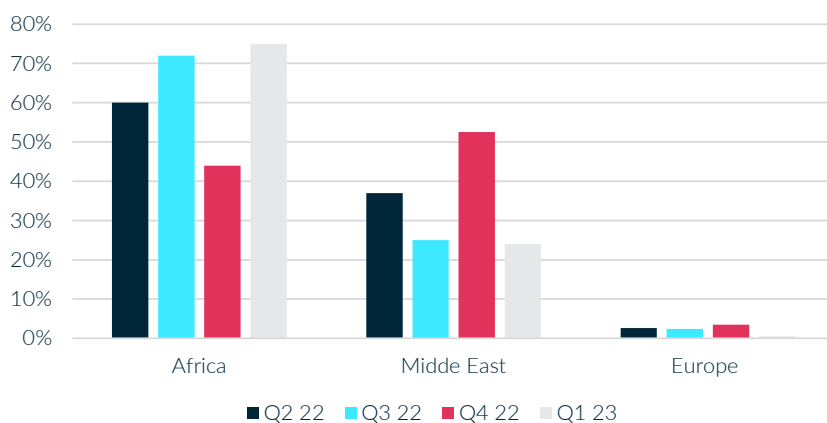
Source: Mangold Insight

Geographical breakdown

CYBER1 has increased the share of revenues from Africa compared to the Middle East and Europe since the previous quarter. During the previous quarterly, revenues were higher in the Middle East than in Africa but now Africa's once again accounted for the largest share of revenues. The company has plans to expand in both the Middle East and Europe, which should be seen in the distribution in the coming quarters.

Largest share of revenues from Africa

Geographical Revenue Distribution



Source: Mangold Insight

Cyber Security 1 – Update cont.

Developments in CYBER1 Solutions Southern Africa

In CYBER1 Solutions Southern Africa, revenue amounted to approximately EUR 6.3 million in the first quarter of 2023. Revenue was 90 percent higher than the same period last year. Margins improved as a result of increased sales of services including SOC with higher margins. The company has done more business with an African government agency, an energy company and a financial institution.

90 percent higher revenue

CYBER1 Solutions Kenya

CYBER1 Solutions Kenya reported revenue of EUR 0.641 million during the quarter, which corresponds to an 88 percent increase. The company's EBITDA amounted to approximately EUR 28.8 thousand during the quarter and has built up a strong pipeline for 2023. 46 percent of the revenue for the quarter consisted of new customers.

88 percent higher revenue

CYBER1 Solutions EMEA

CYBER1 has expanded its operations with an office in London and the employment of Hilbert Long as Director for Europe. Establishment is a further step in increasing its presence in Europe. The business generated revenue of EUR 532 thousand with a positive EBITDA of EUR 16,9 thousand.

Further establishment in Europe

TRINEXIA

Middle East and India

In TRINEXIA Middle East and India, revenues amounted to approximately EUR 2.8 million, of which 75 percent consisted of new customers. EBITDA amounted to 68.3 thousand euros and major contracts were signed with a financial institution, military, police and other government organizations.

Majority of customers in the public sector

Southern Africa

Within TRINEXIA Southern Africa (formerly CSSA), revenue amounted to approximately EUR 1.5 million in the first quarter. It is the highest revenue the company has achieved in any quarter. The company is included in the accounts from the third quarter of 2022 and is expected to contribute to the expected revenue growth in 2023.

Included in the accounts from the third quarter of 2022

Africa

Within TRINEXIA Africa (formerly CSAD), the year ended with revenue of EUR 1.84 million for the quarter. The company was included in the accounts during the fourth quarter. The company has expanded its capacity to deliver professional services.

EUR 1,84 million in revenue

Cyber Security 1 – Valuation

Undervalued share

Mangold uses a DCF model to value CYBER1. We are increasing the target price to EUR 0,055 (0,040) per share as the cost mass is expected to be lower than the previous estimate and higher growth. The target price corresponds to an upside of more than 200 percent. Mangold continues to see that CYBER1 is undervalued according to expected cash flows. It should also be added that CYBER1 is traded on a EV/S multiple of 0.3 on the 2023 sales estimate which is low compared to peers.

Target price EUR 0,055 per share

CYBER1 - DCF					
(Teur)	2023P	2024P	2025P	2026P	2027P
EBIT	940	2 495	4 296	6 571	9 075
Free cash flow	778	3 443	4 220	5 111	7 081
Terminal value					70 813
Assumptions	Req. return	Growth	Tax		
	12%	2%	21%		
Price Target					
Enterprise value	60 338				
Equity value	56 036				
Share target price (eur)	0,055				

Source: Mangold Insight

Sensitivity analysis

Mangold has conducted a sensitivity analysis to test the model's outcome given different sales levels and required rate of returns. If CYBER1 reaches 80 percent of the estimated sales, the motivated value will fall to EUR 0.049 per share. If the sale increases by 20 percent, the value will rise to EUR 0.060 per share. Changes in the required rate of return affect the benchmark more than changes in sales. In conclusion, the model shows a range between EUR 0,040 and EUR 0,078 per share. The model shows an upside regardless of the sales and required rate of returns level which indicates that the company is undervalued.

Valuation range between EUR 0,040 and EUR 0,078 per share

CYBER1 - SENSITIVITY ANALYSIS			
Req. return %		Base Sales(x)	
10	0,063	0,070	0,078
12	0,049	0,055	0,060
14	0,040	0,044	0,049

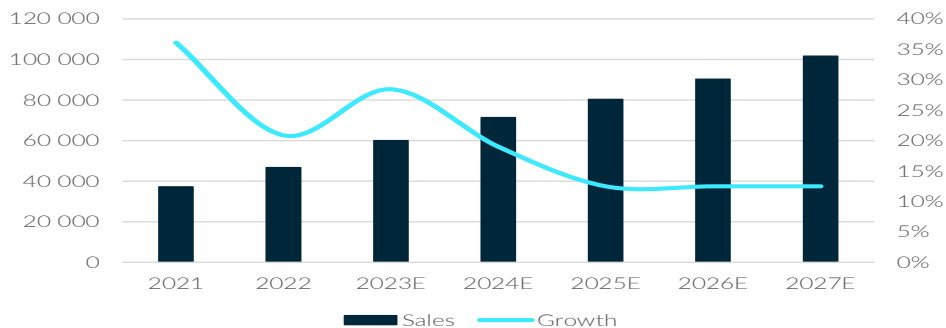
Source: Mangold Insight

Cyber Security 1 – SWOT

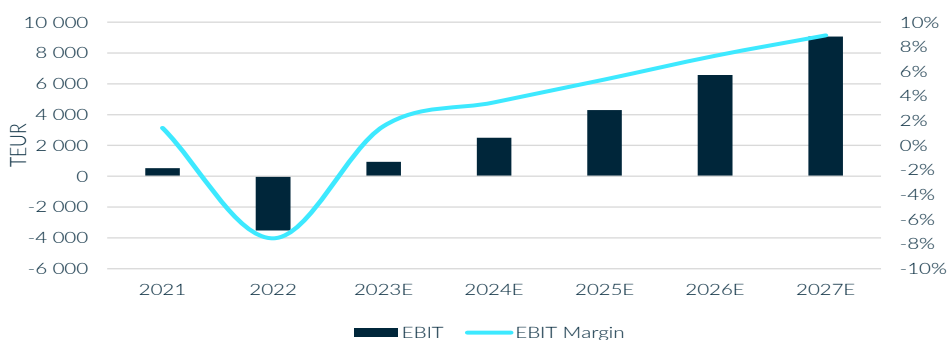


Cyber Security 1 – Appendix

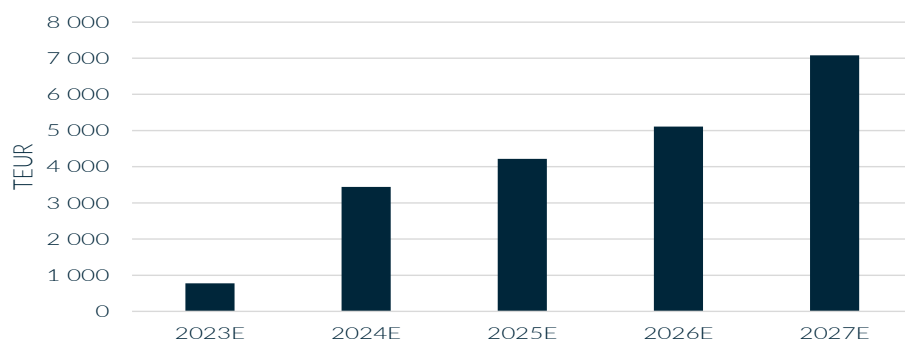
CYBER1 - Sales & Growth



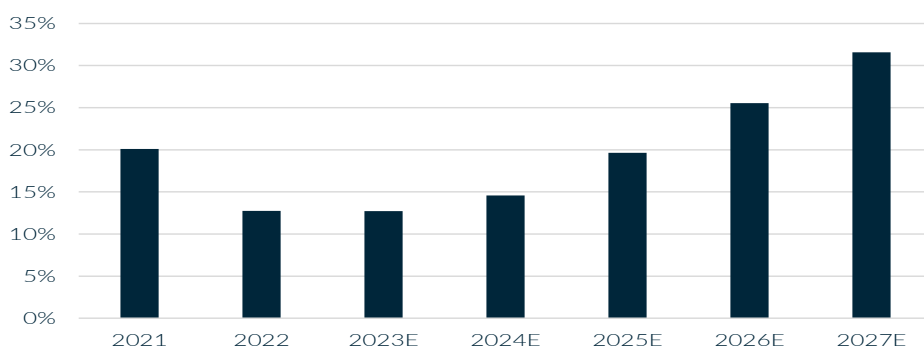
CYBER1 - EBIT & EBIT Margin



CYBER1 - Free cashflow



CYBER1 - Solvency



Cyber Security 1 – Resultat & balansräkning

Income Statement (TEUR)	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	37 221	46 683	59 952	71 343	80 260	90 293	101 580
Cost of sales	-27 127	-37 553	-45 983	-54 006	-59 955	-66 546	-74 052
Gross profit	10 094	9 131	13 969	17 336	20 306	23 747	27 528
Gross margin	27%	20%	23%	24%	25%	26%	27%
Personnel costs	-6 346	-8 848	-8 666	-9 797	-10 470	-11 072	-11 709
Other expenses	-2 895	-3 251	-3 537	-4 209	-4 735	-5 327	-5 993
Depreciation	-323	-549	-825	-835	-804	-776	-751
Operating result	530	-3 517	940	2 495	4 296	6 571	9 075
Operating margin	1%	-8%	2%	3%	5%	7%	9%
Net interest income	3 785	-224	-508	-508	-358	-108	-108
Result before tax	4 315	-3 741	433	1 987	3 938	6 463	8 967
Taxes	0	0	-89	-409	-811	-1 331	-1 847
Net profit	4 315	-3 756	343	1 578	3 127	5 132	7 120
Profit margin	12%	-8%	1%	2%	4%	6%	7%

Source: Mangold Insight

Balance Sheet (TEUR)	2021	2022	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and bank	620	775	1 045	2 481	3 844	8 847	15 820
Trade receivables	16 143	24 039	26 280	31 273	35 183	39 580	44 528
Deferred tax	75	135	135	135	135	135	135
Inventory	6	151	315	370	411	456	507
Fixed assets	7 184	8 254	8 351	8 041	7 761	7 510	7 284
Total assets	23 954	33 354	36 126	42 300	47 333	56 528	68 275
Liabilities							
Current liabilities	18 628	24 027	26 456	32 552	36 958	41 021	45 648
Non-current liabilities	510	5 077	5 077	3 577	1 077	1 077	1 077
Total Liabilities	19 138	29 104	31 533	36 129	38 035	42 098	46 725
Equity							
Restricted equity	599	267	267	267	267	267	267
Unrestricted equity	4 217	3 983	4 326	5 904	9 031	14 163	21 283
Total equity	4 816	4 250	4 593	6 171	9 298	14 430	21 550
Liabilities and equity	23 954	33 354	36 126	42 300	47 333	56 528	68 275

Source: Mangold Insight

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Mangold analyzed Cyber Security 1 on November 30, 2022.

Mangold's analysts don't own shares in Cyber Security 1.

Mangold does not own shares in Cyber Security 1 such as own inventory.

Mangold owns shares in Cyber Security 1 through an assignment as a liquidity provider.

Mangold has performed services for the Company and has received compensation from the Company based on this.

Mangold is under the supervision of the Swedish Financial Supervisory Authority.

Recommendation structure:

Mangold Insight grades stock recommendations over a 12-month term using the following structure:

Buy - An upside in the share of at least 20 percent

Increase - An upside in the stock of 10-20 percent

Neutral - An upside and downside in the stock of 0 to 10 percent

Decrease - A downside of the stock of 10-20 percent

Sell - A minimum of 20 percent downside of the stock