

Cyber Security 1

Mangold Insight - Update - 17 June 2022

Cyber security at a discount

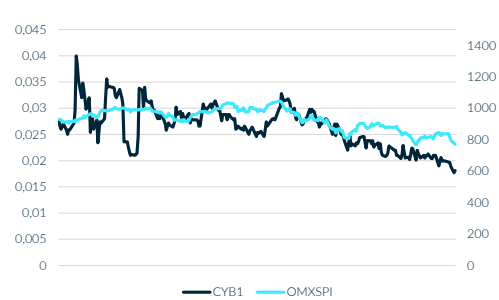
Mangold is updating the cyber security company Cyber Security 1 "CYBER1" after the quarterly report. CYBER1's income increased by 21.5 percent during the first quarter of 2022 compared to the same period last year, and as such is well on its way to achieving the sales estimate for 2022. The EBIT margin was -6.6 percent for the quarter, which can be attributed to the set up of the Special Operations Centre (SOC) in the new Managed Services business area. CYBER1 has been profitable during the previous four quarters, and Mangold estimates that they will return to profitability on a full-year basis in 2023.

New business area is gaining momentum

CYBER1 has acquired a number customers in the new Managed Services business area. The development of the business area has entailed higher operating costs, but is expected to generate increased sales and improved margins in the future.

The model shows upside

The company carried out a cyber security tour in Africa and the Middle East during the spring, which is expected to contribute to increased sales moving forward. CYBER1 has also signed a new distributor agreement with Picus Security, active in simulated cyber attacks, which expands the company's offer. Mangold chooses to lower the estimate for the gross margin in 2022 and 2023, given the lower margin in the first quarter. The change does not significantly affect the valuation, which means that we reiterate the price target of EUR 0.045 per share.



Performance %	1m	3m	12m
CYB1	-11.7	-20.6	-60.7
OMXSPI	-5.0	-10.8	-17.0

Key Data

Rec. price/Price target (EUR)	Buy 0.045
Risk	Medium
Price (EUR)	0.018
Market value (MEUR)	12.8
No. of shares (million)*	1 073
Free float	99.0%
Ticker	CYB1
Next report	9 August 2022
Website	cyber1.com
Analyst	Pontus Ericsson

*Incl. TO1

Ownership structure	Shares (M)	Capital
Abn Amro Sweden	151.7	21.4%
Saxo Bank Client A.	117.1	16.5%
SIX SIS AG	63.0	8.9%
UBS Switzerland	62.0	8.7%
Cs (ch) Client	44.4	6.2%
Morgan Stanley	38.7	5.5%
Bridge Finance S.	30.2	4.3%
Bank of New York M.	17.9	2.5%
Total	710.8	100%

Key ratios	2021	2022E	2023E	2024E	2025E
Net revenue (MEUR)	37.2	48.4	60.0	71.4	80.3
EBIT (MEUR)	0.5	-1.2	0.3	2.5	3.5
Profit before tax (MEUR)	4.3*	-1.3	0.3	2.5	3.5
EPS (EUR)	0.006	-0.002	0.000	0.003	0.004
EV/S	0.4	0.3	0.2	0.2	0.2
EV/EBITDA	17.4	neg	15.3	4.6	3.5
EV/EBIT	28.0	neg	55.2	5.9	4.2
P/E	3.5	neg	74.2	7.5	5.4

* Extraordinary item due to reconstruction included

Investment case

Cyber security at a discount

Mangold updates CYBER1 and reiterates the Buy Recommendation and a price target of EUR 0.045 per share over a 12-month period, corresponding to an upside of approximately 150 percent. Mangold believes that CYBER1 has good opportunities to continue to grow at a high rate, based on their wide range of products and services, history of growth, and the strongly underlying market demand in cyber security.

Price target EUR 0.045 per share

Widened range of services

CYBER1 offers a wide range of software solutions and services related to cyber security. The company has licence rights to sell software solutions from a large number of suppliers in cyber security, which gives them the possibility to offer strong protection. The company also uses professional services to identify deficiencies, acts as an advisor with regard to solutions, and ensures that the right processes are in place in the event of a data intrusion. The new Managed Services business area gives customers a chance to defend themselves against cyber attacks by CYBER1 monitoring security in real time, remotely. Mangold believes that the wide range of different products and services gives CYBER1 the opportunity to increase its sales and maintain good margins going forward.

Comprehensive protection against cyber attacks

Upward for the cyber security market

The global cyber security market is expected to grow from USD 177 billion to USD 403 billion between 2020 and 2027, corresponding to a growth of 12.5 percent annually (CAGR), according to market research company Brand Essence Research. Digitisation is taking place on a global scale, and costs related to cybercrime are expected to reach USD 10.5 trillion by 2025, according to cybersecurity magazine Cybersecurity Ventures. Mangold believes that CYBER1 benefits from the market trend, and can increase its sales based on the underlying demand.

The cyber security market is growing by 12.5 percent CAGR

Successful reconstruction

Mangold believes that CYBER1 is an undiscovered company and undervalued. The company generated an operating profit of TEUR 530 in 2021, despite undergoing a restructure during the year, and having written off debts. They have also managed to attain a growth of 36 percent, at the same time as costs have been significantly reduced in relation to sales. In 2021, they also acquired the companies CSSA and CSAD, which strengthens their position in Africa. The acquisitions are reported as 50 percent of the profits from associated companies, and, once they are fully integrated, 100 percent of their finances will be credited. Overall, Mangold believes that there is a large upside to be found in the CYBER1 share.

Upside to be found in CYBER1's share

Cyber Security 1 – Update

CYBER1 increases income

During the first quarter of 2022, CYBER1's income increased by 21.5 percent compared with the same quarter last year. The company was burdened by costs related to the new Managed Services business area. The set up of a Security Operations Centre (SOC) has been the main reason why operating costs increased by 27 percent compared with the previous year. The increase includes investments in software, personnel and materials, which Mangold believes will lead to increased income going forward.

21.5 percent higher income than the same period last year

CYBER1 - OUTCOME Q1

(TEUR)	Q1 20	Q1 21	Q1 22
Income	9 124	7 929	9 633
Growth		-13.1%	21.5%
Gross margin	23.0%	28.7%	20.8%
EBIT margin	-15.0%	2.5%	-6.6%

Source: Mangold Insight

Margin development

The gross margin was lower than estimate, driven by costs related to customer acquisition. However, Mangold estimates that the gross margin will return to previous levels in 2024. This is assumed as the Managed Services business area is expected to account for a larger share of income, and is characterised by higher margins than Software Distribution. The gross margin is expected to be 23 percent in 2022 and 25 percent in 2023, to return to 27 percent in 2024.

Poorer margins are expected to recover in 2024

Growth estimates

Mangold assesses that CYBER1 will achieve a progressive increased quarterly growth, primarily driven by increased income from the Managed Services business area. We thereby choose to retain the income estimate for 2022, and even for future years.

Retained income estimate

CYBER1 - GROWTH ESTIMATES

(TEUR)	Q1	Q2P	Q3P	Q4P	FY22P
Sales	9 633	10 596	12 515	15 643	48 387
Quarterly growth		10%	18%	25%	

Source: Mangold Insight

Financing

CYBER1 has 362 million outstanding subscription warrants with a subscription period from 25 July to 8 August 2022. The subscription price is EUR 0.01 per share, and Mangold assumes that all warrants will be exercised. Accordingly, the company is expected to receive approximately MEUR 3.6, before issue costs.

Financing secured

Cyber Security 1 – Update cont.

SOC development

The new business area Managed Services has gained several new customers within SOC. Agreements have been signed with a B2B e-commerce company in Kenya, a company operating in financial services in South Africa, an African mining company, and a customer in the gaming, entertainment and hospitality industry. Mangold believes that signed agreements indicate demand for the service, and is expected to drive growth in the future.

New business area is gaining momentum

Exclusive option for further acquisitions

CYBER1 acquired 50 percent of the shares in Cyber Security South Africa (CSSA) and Cyber Security Africa Distribution (CSAD) during the previous year. CYBER1 has the exclusive right to negotiate the acquisition of the remaining 50 percent of the companies until 30 September 2022. The companies developed positively during 2021, where CSAD expects to achieve a growth of at least 20 percent in 2022. Mangold deems the potential acquisitions of remaining shares as a good additional option to further strengthen its position in the cyber security market in Africa and the Middle East. However, Mangold does not take into account non-completed acquisitions.

Exclusive possibility to acquire the remaining part of CSSA and CSAD

Cyber security tour is expected to strengthen growth

During the spring, CYBER1's subsidiary, Credence Security, toured thirteen cities in Africa, the Middle East and India. The tour featured presentations from cyber security experts, resellers, and other speakers to discuss trends, strategies and new innovations in the digital security landscape. Mangold believes that the visibility of the company's services can contribute to increased sales.

Cyber security tour in thirteen cities

New distributor agreement signed

CYBER1's subsidiary, Credence Security, signed a distributor agreement with Picus Security, which allows the sale of the company's security control and validation platform. Picus can simulate over 11 000 different reality-based cyber attacks, such as malware or ransomware. Credence can now offer the platform to its customers in the Middle East and Africa.

Can simulate 11 000 different cyber attacks

Upgraded status at Mimecast

The subsidiary DRS has been upgraded from premium resellers to Elite status for Mimecast's reseller programme. The company helps customers to be protected from malicious activity, the human factor, and technical errors. Above all, they help the company protect the most common vector for cyber attacks - e-mail. Mangold believes that signing the new distributor agreement and upgrading Mimecast strengthens CYBER1's comprehensive offer, and should lead to additional income in the future.

Upgraded status as a reseller

Cyber Security 1 – Valuation

Undervalued share

Mangold uses a DCF model to value CYBER1. Mangold has downwardly adjusted the profitability for 2022 and 2023, which has resulted in a fair value of EUR 0.043 per share. Mangold thereby chooses to keep the price target of EUR 0.045 per share, given the small changes in fair value.

Price target EUR 0.045

CYBER1 - DCF

(TEUR)	2022P	2023P	2024P	2025P	2026P	2027P
EBIT	-1 249	269	2 519	3 521	4 686	6 037
Free cash flow	547	603	1 967	3 453	4 428	5 560
Terminal value						61 774

Assumption	Req. return %	Growth	Tax
	12%	3%	21%

Fair value

Enterprise value	46 117
Equity value	46 227
Fair value per share (EUR)	0.043

Source: Mangold Insight

Sensitivity analysis

Mangold has carried out a sensitivity analysis to test the model's outcome given different sales levels and required returns. If CYBER1 reaches 80 percent of estimate sales, the price target will fall to EUR 0.034 per share. If sales increase by 20 percent, the price target will instead increase to EUR 0.053 per share. Changes in sales level affect the price target more than changes in required returns. In summary, the model shows a range between EUR 0.027 and EUR 0.070 per share. The model shows an upside regardless of the level of sales and required returns, which indicates that the company is undervalued.

Valuation range between EUR 0.027 and 0.070 per share

CYBER1 - SENSITIVITY ANALYSIS

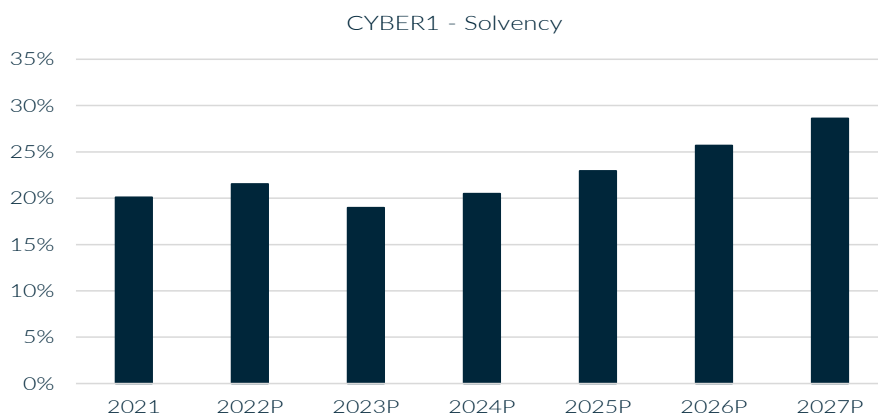
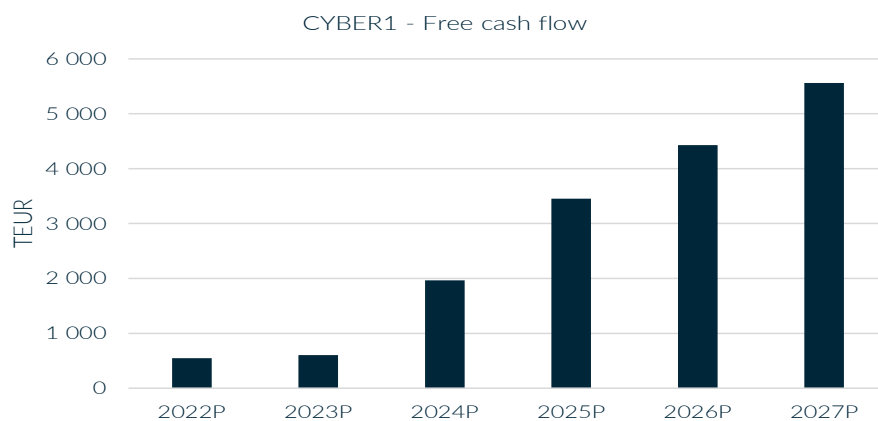
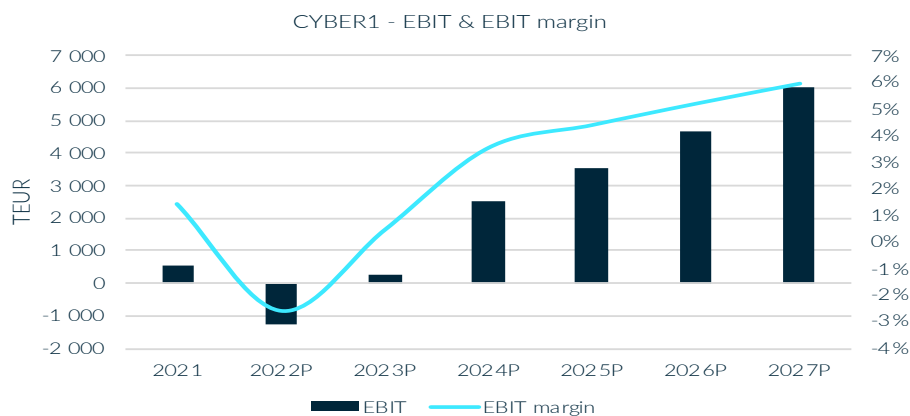
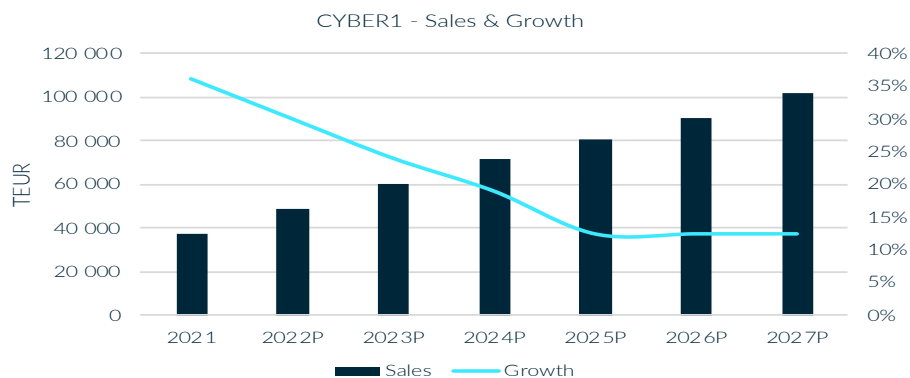
Req. return %	0.8x	Base sales (x)	1.2x
10	0,046	0,057	0,070
12	0,034	0,043	0,053
14	0,027	0,034	0,042

Source: Mangold Insight

Cyber Security 1 – SWOT



Cyber Security 1 – Appendix



Cyber Security 1 – Income statement & balance sheet

Income statement (TEUR)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	37 221	48 387	60 000	71 400	80 325	90 366	101 662
Costs of sales	-27 127	-37 210	-45 000	-52 051	-58 557	-65 877	-74 111
Gross profit	10 094	11 177	15 000	19 349	21 768	24 489	27 550
Gross margin	27%	23%	25%	27%	27%	27%	27%
Personnel costs	-6 346	-7 837	-9 232	-10 437	-11 155	-11 922	-12 741
Other expenses	-2 895	-3 871	-4 800	-5 712	-6 426	-7 229	-8 133
Depreciation	-323	-718	-699	-682	-666	-652	-639
EBIT	530	-1 249	269	2 519	3 521	4 686	6 037
EBIT-margin	1%	-3%	0%	4%	4%	5%	6%
Net interest income	3 785	-15	-15	-15	-15	-15	-15
Result after net financial items	4 315	-1 265	253	2 503	3 506	4 671	6 022
Taxes	0	0	-52	-516	-722	-962	-1 240
Net profit	4 315	-1 265	201	1 988	2 784	3 709	4 781
Profit margin	12%	-3%	0%	3%	3%	4%	5%

Source: Mangold Insight

Balance sheet (TEUR)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and bank balances	620	4 773	5 361	7 312	10 750	15 163	20 707
Accounts receivable	16 143	20 946	25 973	30 908	34 771	39 117	44 007
Inventory	6	561	678	784	882	993	1 117
Fixed assets	7 184	6 990	6 816	6 660	6 519	6 392	6 278
Total assets	23 954	33 270	38 828	45 664	52 922	61 665	72 108
Liabilities							
Accounts payable	18 628	25 588	30 945	35 794	40 268	45 302	50 964
Liabilities	510	510	510	510	510	510	510
Total liabilities	19 138	26 098	31 455	36 304	40 778	45 812	51 474
Equity							
Restricted equity	599	4 219	4 219	4 219	4 219	4 219	4 219
Unrestricted equity	4 217	2 952	3 154	5 141	7 925	11 634	16 415
Total equity	4 816	7 171	7 373	9 360	12 144	15 853	20 634
Liabilities and equity	23 954	33 270	38 828	45 664	52 922	61 665	72 108

Source: Mangold Insight

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Mangold last analysed Cyber Security 1 on 14 February 2022.

Mangold's analyst does not own shares in Cyber Security 1.

Mangold does not own shares in Cyber Security 1, such as for own stock.

Mangold does not own shares in Cyber Security 1 through assignments, such as a liquidity guarantor.

Mangold has performed services for the company and has received remuneration from the company for these services.

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Recommendation structure:

Mangold Insight grades its share recommendations over a 12-month period, according to the following structure:

Buy – An upside in the share of at least 20%

Increase – An upside in the share of 10–20%

Neutral – An upside and downside in the share of 0–10%

Decrease – A downside in the share of 10–20%

Sell – A downside in the share of at least 20%