EDISON **Scale research report - Update**

Cyan

Technology

13 May 2020

Risks to consensus but solid fundamentals

Cyan's share price has fallen c 30% since the beginning of 2020. Financials fell short of guidance in FY19 and COVID-19 is delaying some sales and technical integration in FY20. The near-term picture is uncertain, and we see further risks to consensus, but the long-term fundamentals remain healthy in our view. Demand for mobile cybersecurity is being fuelled by the rising use of phones for e-commerce and banking. The company is still targeting both 'significant' revenue growth and margins above 50% in the medium term. Applying a peer group multiple (11x FY21e EV/EBITDA) to updated consensus implies 17% upside to the share price.

H2 shortfall and COVID-19 impact

In Focused on delivery, we highlighted that Cyan had left itself a lot to do in H219 to meet operational and financial targets. Technical integration of its solution for Orange was completed successfully and I-New fully integrated. Bolstered by a €9.2m licence deal from ACN, it did see a significant uptick in reported revenues in Q4, but ultimately FY19 financials (revenue of €26.8m and EBITDA of €11.7m) fell short of guidance (revenue of €35m and EBITDA of €14m). The company has stated that COVID-19 is affecting FY20, but it is too early to assess the full effect. Technical integration at some sites has been delayed and the cancellation of Mobile World Congress impacted its ability to close existing deals and market its solution.

Fundamentals remain healthy

Cyan's previous FY21 revenue target was €75m+. It now expects FY20e revenues to be at least at the level of FY19, with "significant" growth rates possible in FY21. We believe the fundamentals remain healthy. COVID-19 may have delayed progress, but the telecoms sector remains one of the least affected financially and demand for mobile cybersecurity is set to rise sharply. It has now launched its solution with AON and recently highlighted analysis forecasting its addressable market quadrupling from €1.4bn in 2018 to €5.7bn by 2023 (a 32% CAGR).

Valuation: Delivery should see upside

At €15, Cyan's share price has fallen c 30% since the beginning of 2020. At current levels it implies an enterprise valuation of 16x FY20e consensus EBITDA, a multiple that falls to 9.6x by FY21e. Its nearest cybersecurity peers, which are neither growing as rapidly nor as profitable, trade at an average FY21e EV/EBITDA multiple of 11x. There is near-term forecast uncertainty but applying this peer group average multiple to Cyan suggests a value of €18 per share, 17% upside.

Consensus estimates and implied valuation multiples*

Year end	Revenue (€m)	Adj. EBITDA** (€m)	Adj. EBIT** (€m)	Adj. EPS** (€)	EV/Revenue (x)	EV/EBITDA (x)
12/19	26.8	11.7	5.5	0.5	5.4	12.3
12/20e	N/A	9.0	4.0	N/A	N/A	16.0
12/21e	38.0	15.0	10.0	0.7	3.8	9.6
12/22e	49.0	19.0	10.0	1.2	2.9	7.6

Source: Refinitiv. Note: *Consensus based on one estimate updated in May-20 (others have yet to be updated). FY20e revenue and adj. EPS not available. *Adjusted for exceptionals.

Price	**€15**
Market cap	**€149m**

Share price graph

Share details

Code	CYR
Listing	Deutsche Börse Scale
Shares in issue	9.8m
Net cash (€m) at end FY19	5.1

Business description

Cyan supplies cybersecurity systems for mobile data networks. Following the recent acquisition of I-New, its two major products are content management software sold as a white-label product to mobile network operators and a traffic management solution for MVNOs that enables them to reduce network traffic and corresponding costs.

Bull

- Rapid growth in high-margin revenue expected.
- Good visibility in general with a blue-chip customer base and healthy pipeline.
- Opportunities to accelerate rapid growth through mobile banking initiatives.

Bear

- Execution risk and capacity constraints.
- FY20 consensus may not yet reflect current market uncertainty.
- Additional revenues may be driven by one-off licence sales, offering less visibility.

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Edison profile page

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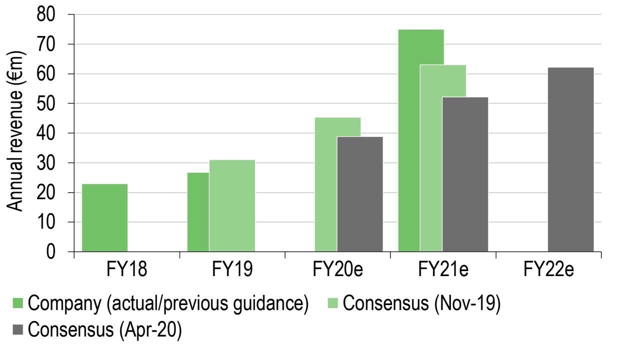
H2 shortfall and COVID-19 impact

The second half of 2019 saw Cyan complete a capital raising (€25m gross), finalise the integration of I-New and complete the first phase of technical integration at Orange France. In Q4 it signed a US$10.2m (€9.2m) new licence agreement with existing customer ACN, to provide embedded security features to Flash Mobile, its MVNO (Mobile Virtual Network Operator) brand in South America. It also received its first order from Wirecard (c €5m), a provider of financial commerce platforms, bringing total revenue in the quarter to €16.1m (60% of total revenue in FY19). Despite this strong Q4, revenues fell short of FY19 guidance (€26.8m vs €35m) and adjusted EBITDA reached €11.7m vs guidance of €14m. Cash flow from operating activities was -€5.8m as payments from ACN and Wirecard will be staged over several years.

The company has stated that FY20 will be affected by COVID-19 but admitted it is too early to assess the full effect. Overall, the telecoms sector has remained relatively unscathed so far, traffic volumes are up for most operators (c 30% in some cases) with cyber threats (particularly phishing emails) also rising. However, the cancellation of Mobile World Congress, Cyan's main sales event, has affected its ability both to close existing deals and market the solution implemented with Orange to potential new customers. Technical integration at some sites has also been delayed.

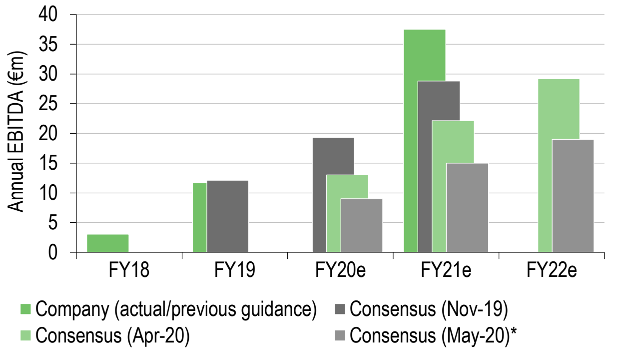
Unsurprisingly in the current circumstances, Cyan did not reiterate its target to generate over €75m in sales in FY21 when the full year results were published on 29 April. Instead, it expects 'revenues and EBITDA for 2020 to be at least at the level of the previous year. Significant growth rates should be possible again in 2021'. FY21 revenue consensus had fallen 17% since November 2019 but has not been updated in the last month (Exhibit 1). FY21 EBITDA consensus, based on the one estimate that has been updated, is now 48% below November's estimate (Exhibit 3).

Exhibit 1: Consensus revenue forecasts for FY21 have fallen 17% since November*



Source: Cyan, Refintiv. Note: *Unlike EBITDA (see Exhibit 2), no revenue estimates have been updated following the publication of the annual report.

Exhibit 2: Consensus EBITDA forecasts for FY21 have fallen 48% since November

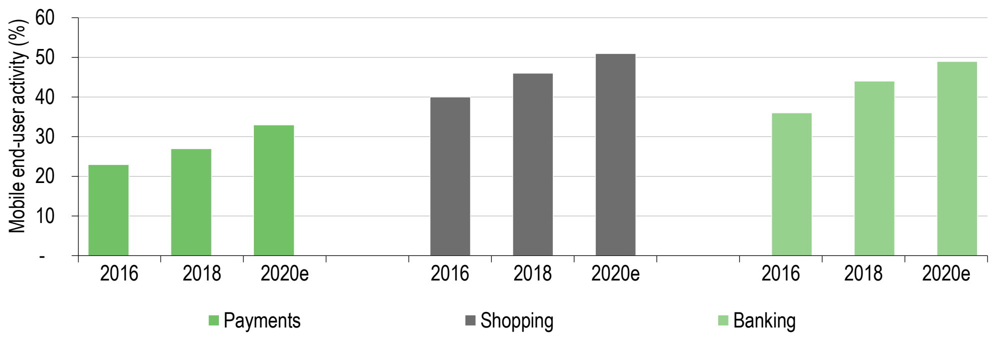


Source: Cyan, Refintiv. Note: *EBTIDA consensus in May based on one estimate. FY20 estimate of €9.0m below company guidance of EBITDA 'at least at the level of last year [€11.7m]'.

Fundamentals remain healthy

The near-term outlook may be cloudy, but Cyan's fundamentals remain healthy in our view. While it is prudent to assume that the telecoms sector will not emerge completely unscathed from the current economic downturn, we expect the impact is likely to be relatively modest and that, as short term operational measures are lifted, Cyan's customers will still have budgets available to spend. More significantly, demand for mobile cybersecurity solutions is set to grow rapidly. The proportion of mobile phone users opting to shop, bank or use mobile payment systems is steadily rising (see Exhibit 3). As the number of customers engaging in these activities rises, so does the risk of cyber threats. The company ultimately sees an addressable market of 2.6 billion customers willing to pay, either indirectly via their subscription or directly to prevent mobile cyber threats. In May, Cyan highlighted third-party analysis suggesting that its addressable market will quadruple from €1.4bn in 2018 to €5.7bn by 2023 (a 32% CAGR).

Exhibit 3: The rising use of applications that require cybersecurity on mobile phones



Source: Cyan

In addition to a healthy market backdrop, Cyan's pipeline (as measured by the number of customers) appears to be still growing. Its contract with Orange could in due course generate annual recurring revenue of over €25m, doubling its FY19 revenue alone (see The future is bright, the future is… and Focused on delivery). Its "end-point" cybersecurity solution with leading global insurer Aon (a downloadable app on the mobile phone) is now being actively marketed in Austria and Switzerland and is available globally. The company believes this could be a significant growth driver in time. Its relationship with Wirecard (c €5m in Q4) is still only in its early stages. In May, the company signed an agreement to protect children on MobiFone's network (30 million customers in Vietnam) from cyber threats and expects to expand this relationship over time.

Valuation

At €15, Cyan's share price implies an enterprise valuation of 16x updated consensus FY20e EBITDA, a 22% premium to its nearest cybersecurity peers. This multiple falls to 9.6x by FY21e and just 7.6x by FY22. There are significant forecast risks – both positive (Orange) and negative (COVID-19). Nevertheless, as we highlighted in our notes, Focused on delivery and The future is bright, the future is…, Cyan does have a significant growth opportunity and, if it can meet lowered consensus forecasts. there should be upside to the current rating. Its nearest cybersecurity peers, which are neither growing as rapidly nor as profitable, trade at an average FY21e EV/EBITDA multiple of 11x. Applying this peer group average multiple to updated consensus for Cyan suggests a value of c €18 per share, 17% upside to the current value.

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