Cyan

Reset and regroup

Cyan's share price has fallen 37% in the last two weeks. FY20 results confirmed the impact of COVID-19 continued into Q4 and management has reset expectations for FY21 ('flat sales'). A new CEO is focused on growing (recurring) cybersecurity sales, albeit from a lower base. At a share price of €7.7, Cyan trades at a discount to peers but, after a second year of cutting forecasts, it may take time for it to re-establish its growth trajectory and for investors to regain confidence in the story.

Challenges continued in H220

Stripping out the Wirecard impact (€4.8m in sales and EBITDA), FY20 sales fell 3% y-o-y and adjusted EBITDA margins fell from 44% to 20%. We estimate that 60% of FY20 sales were generated by a single licence sale to Virgin Mobile in H1. H2 sales were €4.4m and reported EBITDA loss was €7.3m. Cyan continued to implement deals and sign new contracts but the pandemic hampered progress.

Resetting expectations for FY21

Recognising it is unlikely to sign a contract as large as Virgin Mobile in FY20 and that COVID-19 is not fully under control in some markets, Cyan nonetheless expects FY21 sales to be flat year-on-year (c €21m). Headline consensus appears not to have fully caught up: the mean sales estimate for FY21 is €30m.

A new focus on recurring revenues

We continue to believe the longer-term growth opportunity Cyan is addressing is attractive. A new CEO is aiming to grow Cyan's recurring cybersecurity revenues to over 70% of total sales in 2021. If delivered, this would imply rapid growth in this revenue stream and enhance visibility on profit growth in future years. Confidence in this growth appears to be fuelled by a healthy pipeline and deals already signed that management expects to become revenue generating shortly. In January Cyan announced it had secured access to additional capital to help it fund this growth.

Valuation: Upside potential if Cyan can deliver growth

At €7.7, Cyan's share price implies an enterprise valuation of 9.1x headline consensus FY21e EBITDA, a 16% discount to its nearest cybersecurity peers. This discount widens to 50% in FY22. Consensus forecasts may have further to fall but most of this is likely to be factored into the share price already, in our view. Delivering recurring revenue growth over the next nine months could restore investor confidence in Cyan's longer-term growth trajectory and see the shares re-rate significantly. Applying the peer group average FY22 EV/EBITDA multiple of 11.2x to current forecasts suggests a valuation of €11.2 per share, 44% upside.

Consensus estimates

Year end	Revenue (€m)	Adj. EBITDA* (€m)	Adj. EBIT* (€m)	Adj. EPS* (€m)	EV/revenue (x)	EV/EBITDA (x)
12/19	26.8	11.7	5.5	0.5	3.1	7.1
12/20	21.3	4.2	(11.0)	(1.0)	3.9	19.7
12/21e	29.9	9.1	3.0	0.3	2.8	9.1
12/22e	41.0	16.1	9.7	0.8	2.0	5.2

Source: Refinitiv. Note: *Adjusted for exceptionals including the Wirecard write down.

Technology

14 May 2021

Price	€7.7
Market cap	€76m

Share price graph

Share details

Code	CYR
Listing	Deutsche Börse Scale
Shares in issue	9.8m
Net debt at 31 Dec 20 (incl. lease liabilities)	€7.3m

Business description

Cyan supplies cybersecurity for end customers of mobile/fixed network operators and insurers. The acquisition of I-New created a second BSS/OSS segment addressing MVNOs (Mobile Virtual Network Operators). This segment includes traffic management solutions that enable MVNOs to reduce network congestion and corresponding costs. Cyan's products are sold as white label solutions.

Bull

- Rapid growth in high-margin revenue expected.
- Blue-chip customer base and healthy pipeline.
- Opportunities to accelerate rapid growth through financial services/insurance partnerships.

Bear

- Execution risk and capacity constraints.
- COVID-19 may affect implementation and sales.
- Additional revenues may be driven by one-off licence sales, offering less visibility.

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Edison profile page

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Challenges continued in H220

In our report Growth potential remains, we highlighted the longer-term potential of the business model in the face of the near-term challenges created by both the COVID-19 pandemic and the declared insolvency of Wirecard. These challenges blighted H1 financial performance and continued in H2. Cyan had expected 'revenues and EBITDA for 2020 to be at least at the level of the previous year' but even adjusting for the Wirecard impact (€4.8m hit to revenue and EBITDA), full year revenue was down 3% y-o-y and adjusted EBTIDA margins fell from 44% to 20%. Cyan reported total exceptional costs, including fx losses, the earn out on the I-New acquisition and the write down of the Wirecard receivable, of €9.3m in FY20; reported EBITDA was -€5.1m. After H1 revenues of €16.9m that had included a 'very large' (we estimate c €13m) BSS/OSS (Business/Operations Support Services) Virgin Mobile contract, Cyan generated revenues of just €4.4m in H2 at a reported EBITDA loss of €7.3m. In total, FY20 saw a free cash outflow (measured as cash from operating activities minus capex) of €9.7m. Net debt, including €6.2m of lease liabilities, stood at €7.3m at the end of FY20.

While financial performance was disappointing, Cyan did make operational progress. It continued to implement its solutions, Orange France and Aon. A contract with SMARTEL was signed in H2. In December 2020 Cyan announced a partnership with Secure64, a provider of DNS (Domain Name System) security with customers including T-Mobile US and Reliance. Secure64 launched its OneGuard solution incorporating Cyan's technology in March 2021.

Resetting expectations for FY21

Cyan's outlook for FY21 continues to reference the risks posed by COVID-19, which is not fully under control in some of the markets in which it operates. Nevertheless, it describes itself as 'cautiously optimistic' and, recognising it is unlikely to sign a contract as large as the one it reached with Virgin Mobile, expects FY21 revenue to be at the level of FY20 (€21m).

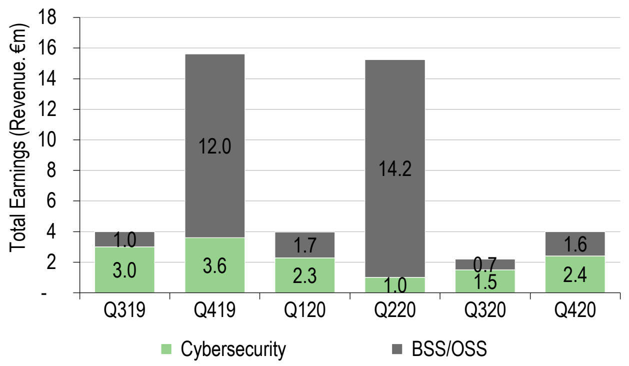
While the share price has reacted to this guidance (down 37% since the FY20 report was released at the end of April), consensus appears not to have fully adjusted. Headline (mean) sales consensus for FY21 is €29.9m, well above the c €21.3m implied by the 'sales in line with FY20' guidance and suggesting further downward revisions are possible. Given the reaction of the share price, we believe much of these further near-term downgrades should now be factored in.

A new focus on recurring revenues

One of the main areas of focus for Cyan's new CEO, Frank von Seth, is increasing recurring revenues. The additional disclosure over the last year (quarterly and segmental breakdowns) highlight the lack of visibility in the revenue base (Exhibit 1). The company aims to generate over 70% of FY21 revenues from recurring sales, implying significant growth in its cybersecurity revenue during the year. If delivered, this would imply rapid growth in this revenue stream and enhance visibility on profit growth in future years.

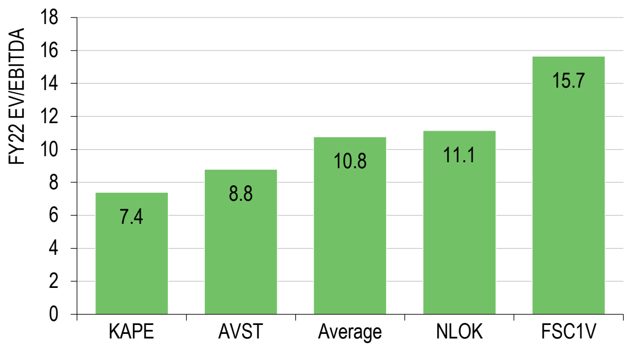
EDISON

Exhibit 1: Historic sales have been lumpy and the focus in FY21 will be on recurring cybersecurity revenues*



Source: Cyan, Edison Investment Research. Note: *Cyan reports total earnings quarterly, which includes other income and inventory adjustment but correlates with sales. Splits between Q3 and Q4 in FY19 have been estimated from reported revenue numbers and the estimated impact of Wirecard has been removed.

Exhibit 2: FY22 EV/EBITDA multiples for selected cybersecurity peers



Source: Refintiv

Confidence in this growth appears to be fuelled by a healthy pipeline of new prospects and deals already signed that management expects to become revenue generating shortly. Since the start of the year, Cyan has announced an extension of its partnership with Grameenphone in Bangladesh, which is likely to lead to a doubling of the covered customer base by the end of FY21. It also announced a deal with Seguros Equinoccial, a leading insurance company in Ecuador. Management continues to see this sector as a big opportunity to accelerate growth for the group. It also signed a deal with MTEL and a contract for cyber security solutions with Claro Chile, a subsidiary of the América Móvil Group with 6.4 million customers. The pipeline at the end of Q1 had 10 customers in final stages of contract negotiation. Its solutions at Orange France (Cyberfiltre) became commercially available in April and are now being actively sold by Orange. Mobifone Safekids and its additional fixed line solution at Magenta Austria also became available recently. Its solution at Orange Slovakia (amongst others) are expected to roll out in FY21. In January the company announced it had secured the terms for a €8.4m convertible bond to ensure it has sufficient capital to pursue its growth opportunities.

Valuation

At €7.7, Cyan's share price implies an enterprise valuation of 9.1x headline consensus FY21e EBITDA, a 16% discount to its nearest cybersecurity peers (Exhibit 2). This multiple falls to 5.2x in FY22e implying a discount of 50%. Consensus forecasts may have further to fall (suggesting the discount is not as large as it currently appears) but much of these further near-term downgrades should now be factored into the share price.

Analysts expect Cyan's nearest cybersecurity peers to grow revenues (on average) 11% y-o-y in 2022 and report a 36% EBITDA margin. Cyan's headline consensus may need to fall but we believe it is capable of delivering this level of growth and profitability. Delivering recurring revenue growth over the next nine months could restore investor confidence in its longer-term growth trajectory and see the shares re-rate significantly. Applying the peer group average FY22 EV/EBITDA multiple of 11.2x to current forecasts suggests a valuation of €11.2 per share, which is 44% upside.

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