

Tuesday, 5 September 2023 | research report

## cyber\_Folks: buy (new)

CBF PW; CBF.WA | TMT, Poland

### Undervalued cyber\_Folks Division

cyber\_Folks is a holding of companies operating in the field of business digitalization, offering services to support companies' online presence and automate business processes. Since its IPO in December 2017, the Company has broadened its service portfolio, becoming one of the most important players in the Polish tech industry, and generating a return on investment of ca. 420%, materially ahead of the Polish WIG index.

What we like the most about cyber\_Folks is (1) its well-diversified client base, (2) broad international presence, (3) very good customer feedback with NPS at >70%, (4) extensive experience in conducting M&A activities, and (5) great cash generation potential.

CBF shares are currently trading at 9.2x EV/EBITDA'23. If we assume that the listed subsidiary, Vercom, is fairly priced at the moment (see our recommendation on VRC) the implied EV/EBITDA value of the cyber\_Folks division comes in at ca. 5.3x. This is well below the peer group median of 10.5x and seems low looking at 2022-25E sales CAGR of 14%, far above the median peer CAGR. Therefore, we reckon that cyber\_Folks is undervalued.

We initiate coverage of cyber\_Folks with a buy recommendation and a target price of PLN 95.00, implying upside potential of nearly 30%. Our EBITDA forecast is 8%/12% above market consensus for 2023/2024.

### cyber\_Folks division vs peers

We view the investment profile of the cyber\_Folks business segment (hosting and domains) as very attractive compared to global peers. The segment's sales will grow at an estimated CAGR 2022-25 of 14%, far outpacing the peer group's projected median growth rate of 8%. The cyber\_Folks division is also expected to outperform its peers in terms of EBITDA growth over the next three years with a CAGR of around 17% compared to the peer group's 9%. The EBITDA margin of the segment is also above average – we project the margin at ca. 42% vs. a peer group average of 28%.

### Cash generation potential and dividends

cyber\_Folks has great cash generation potential resulting from high profit margins. At the same time, its working capital needs are low, owing to the fact that much of the hosting business operates on a prepayment basis.

Further, cyber\_Folks reports very high EBITDA-to-CFO conversion rates – in 2018-2022, approx. 90% of EBITDA was converted into operating cash flow. We expect the Company will generate high FCFEs (ca. PLN 300m) in 2023-25 and offer a portion as dividends to shareholders (ca. PLN 50m in 2023-25).

### Net debt and what next?

The net debt of cyber\_Folks (incl. leases) stood at PLN 292m at the end of 2022, making for a net debt/adj. EBITDA ratio of 2.7x (proforma incl. MailerLite). We expect the Company to reduce leverage in the coming quarters thanks to high cash generation. In 2H 2024, we predict cyber\_Folks will register net debt/adj. EBITDA lower than 1.0x.

With such strong cash generation, cyber\_Folks can be expected to pursue M&A opportunities in the future. We also believe cyber\_Folks could buy out shares in Profitroom, and start fully consolidating its revenues, soon.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	296.6	392.2	479.0	573.2	666.7
EBITDA (adj.)	72.2	100.9	137.5	172.5	205.4
margin	24.3%	25.7%	28.7%	30.1%	30.8%
EBIT	48.6	74.3	107.1	140.2	171.9
net profit	25.4	24.0	43.3	62.9	79.7
P/E	40.8	43.2	24.0	16.5	13.0
P/S	3.5	2.6	2.2	1.8	1.6
P/B	5.7	4.7	4.2	3.5	2.9
EV/EBITDA (adj.)	15.4	13.2	9.2	6.9	5.3
DPS	0.57	0.71	0.93	1.07	1.55
Dividend Yield	0.8%	1.0%	1.3%	1.5%	2.1%

current price*	PLN 73.20
target price	PLN 95.00
mCap	PLN 1.11bn
free float	PLN 0.50bn
ADTV (3M)	PLN 0.5 m

\*Price as of September 4, 2023, 5:00 PM

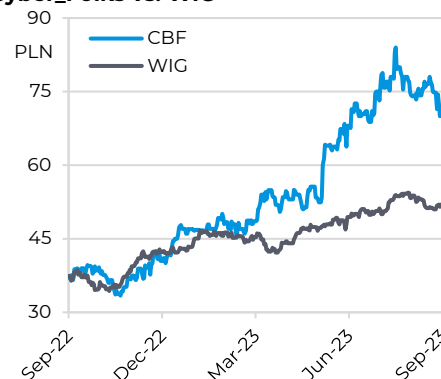
### Ownership

Jacek Duch	29.5%
Jakub Dwernicki	18.5%
Rober Dwernicki	7.1%
AEGON OFE	7.2%
Allianz Polska OFE	5.7%
Others	32.0%

### About cyber\_Folks

cyber\_Folks (formerly R22) was founded in 1999 as one of the first hosting companies in Poland. Currently, the Company serves >340,000 customers and generating >PLN 420 million in annual revenues. cyber\_Folks brings together technological entities in the field of business digitization, supporting enterprises in their online presence, business process automation, communication, marketing and sales, including Vercom, MailerLite, FreshMail, EmailLabs, PushPushGo, RedLink, SellIntegro or Profitroom.

### Cyber\_Folks vs. WIG



name	target price		recommendation	
	new	old	new	old
cyber_Folks	95.00	-	buy	-

name	current price	target price	upside
	cyber_Folks	73.20	95.00

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**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%  
**SELL** – we expect that an investment will bear a loss  
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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank did not issue any recommendations for cyber\_Folks in the 12 months prior to this publication

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