CIVITANAVI SYSTEMS

BUY

Sector: Industrials

Price: Eu4.00 - **Target: Eu4.80**

Supportive 9M23 Turnover, FY23 Guidance Confirmed

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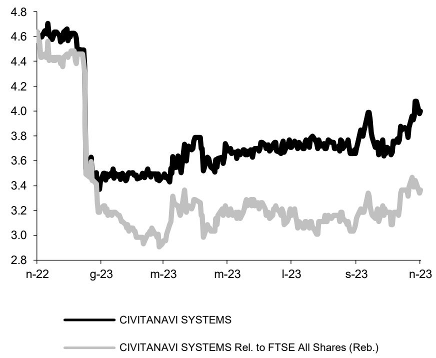
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event FY23 results
Results Out March 2024

CIVITANAVI SYSTEMS - 12M Performance



Stock Data			
Reuters code:			CNS.MI
Bloomberg code:			CNS IM
Performance	**1M**	**3M**	**12M**
Absolute	7.8%	7.0%	-13.8%
Relative	5.7%	7.9%	-32.7%
12M (H/L)			4.71/3.37
3M Average Volume (th):			12.35

Shareholder Data	
No. of Ord shares (mn):	31
Total no. of shares (mn):	31
Mkt Cap Ord (Eu mn):	123
Total Mkt Cap (Eu mn):	123
Mkt Float - Ord (Eu mn):	34
Mkt Float (in %):	27.4%
Main Shareholder:	
Civitanavi Systems Ltd	72.6%

Balance Sheet Data	
Book Value (Eu mn):	46
BVPS (Eu):	1.49
P/BV:	2.7
Net Financial Position (Eu mn):	19
Enterprise Value (Eu mn):	104

- **3Q23 revenues rose 78% YoY to Eu11.4mn, 30% better than expected**. As was the case in 2Q23, the main contribution to revenue growth came from the “other” category of the Aerospace and Defence segment (Eu5.0mn, up 266% YoY) and from EMEA (Eu8.1mn, up 154% YoY). These two factors suggest that, as in 2Q22, a major driver of this positive trend was the resale of a significant number of kits for navigation systems to a major aerospace and defence sector client. These revenues are relatively low-margin, but should facilitate future commercial relations with an international player with very high growth potential and, above all, should lead to significant deferred profitability in subsequent years, deriving from the royalties that the group will receive from that client following the sale of products containing the kit. At the same time, the press release clarifies that revenues from engineering services, a high-margin business that amounted to just 8% of total revenues in 1H23, reached 12% of 9M23 revenues; this implies that in 3Q23 engineering services were about 19.4% of quarterly revenues, in line with our forecast (20%).
- **2023 guidance confirmed in light of strong order intake.** In light of results and the fast-growing order intake (Eu32.1mn, +11% YoY as at 30 September 2023, Eu34.5mn as at 7 November 2023, +13.5% YoY), management confirmed FY revenue guidance in the Eu42-46mn range and an adjusted EBITDA margin of approximately 29%. The sharp expected margin increase (EBITDA margin from 20.4% in 1H23 to >35% in 2H23) should come from a rebalancing of the revenue mix: engineering services are expected to normalise at about 20% of the total in FY23 (this implies that in 4Q23 engineering services should come to about 45% of the total). Positively, in September the company announced the launch of a new inertial measurement unit for the industrial and defence sectors in conjunction with Honeywell. Also in September, CNS announced the opening of a new facility in the aerospace and defence district close to Bristol in the United Kingdom for the design and manufacture of inertial systems that are 100% made in the UK. CNS continues to support BAE Systems’s Tempest programme.
- **Estimates confirmed**. Our 2023 revenue forecast is aligned to the low end of management guidance, a level that now seems quite cautious even considering a much tougher comparison vs. 4Q22, while we are in line with guidance for the adjusted EBITDA margin (29%), which is likely to be more challenging. We are leaving our estimates unchanged as we are encouraged by the indication on newly-acquired orders.
- **BUY, target Eu4.8 confirmed.** 3Q23 revenues were better than expected and confirmed the improving trend in engineering services (19% of quarterly sales vs. just 8% in 1H23), an important driver for margins. We particularly welcome the update on new orders and confirmation of guidance. We remain positive on the stock as we consider Civitanavi to be well placed to capture growth, especially in the global defence market, driven by rising military spending and growing demand for ITAR-free procurement.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	24	34	43	55	69
EBITDA Adj (Eu mn)	8	10	12	16	21
Net Profit Adj (Eu mn)	4	8	7	10	13
EPS New Adj (Eu)	0.127	0.247	0.242	0.310	0.429
EPS Old Adj (Eu)	0.127	0.247	0.242	0.310	0.429
DPS (Eu)	0.000	0.130	0.100	0.110	0.120
EV/EBITDA Adj		10.4	8.4	6.4	5.1
EV/EBIT Adj		11.7	10.0	8.0	6.3
P/E Adj	31.6	16.2	16.5	12.9	9.3
Div. Yield	0.0%	3.3%	2.5%	2.8%	3.0%
Net Debt/EBITDA Adj	0.4	-2.5	-1.6	-1.1	-0.9