

Corero Network Security



New partnership supporting growth

21 February 2024

Corero has announced a new partnership agreement with TechEnabler, a Brazilian network solutions provider. Latin America is a relatively untapped market for Corero and this agreement should yield considerable upside as it develops. We continue to see fair value at 14p and upside risk to our current forecasts.

Kentik channel partner. TechEnabler is a Kentik channel partner and integrator headquartered in Sao Paulo, Brazil. Kentik is a US based network observability platform which visualises cloud and network traffic. Kentik enables the resolution of any troubleshooting problems many times faster than normal and helps mitigate cyber-attacks.

Broad service offering. TechEnabler identifies new technologies and value-added solutions for its networking and telecoms customer base. This enables it to mitigate network attacks as part of its service provision, integrating both Kentik and now Corero's solutions. TechEnabler services Brazil and also the Southern Cone of Latin America.

LatAm focus. Corero is expanding its presence in Latin America and this partnership will enable it to further broaden its footprint in the region and to provide DDoS and ransom threat protection across a wide enterprise customer base.

\$1m+ booked. The partnership agreement has already generated bookings for Corero's products and services in excess of \$1m as part of its Scrubbing-as-a-Service offering.

Strong trading in FY24E. Corero recently highlighted that revenues for FY24E are to be in the region of approximately \$22.3m, indicating YoY revenue growth of +11%. Corero closed last year with annualised recurring revenue (ARR) showing even stronger growth of +17% YoY to \$16.9m.

Debt free. Corero is now debt free and, with a very experienced CEO Carl Herberger now onboard, it can focus on executing a growing pipeline of new business. We see plenty of capacity for upside risk to our FY24E forecasts. The business is self-sustaining and, in our view, undervalued on an EV/sales ratio of 1.8x this year.

Company Data

| | |
|-----------------------|-------------|
| EPIC | CNS |
| Price (last close) | 8.0p |
| 52 weeks Hi/Lo | 11.5p/5.75p |
| Market cap | £40m |
| ED Fair Value / share | 14.0p |

Share Price, p



Source: ADVFN

Description

Corero Network Security provides DDoS protection solutions, specialising in automatic detection and protection with network visibility, analytics and reporting tools. .

Forecasts & Ratios

| Y/E Dec, \$'m | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
|------------------|-------|-------|-------|-------|-------|-------|
| Group revenue | 9.7 | 16.9 | 20.9 | 20.1 | 22.3 | 24.3 |
| EBITDA | -3.2 | -1.4 | 3.3 | 2.6 | 2.0 | 1.5 |
| PBT | -6.6 | -4.0 | 1.4 | 0.4 | 0.0 | -0.5 |
| Adjusted EPS (p) | -1.6 | -0.8 | 0.3 | 0.1 | 0.0 | -0.1 |
| EV/Sales (x) | 4.1 | 2.4 | 1.9 | 2.0 | 2.0 | 1.8 |
| EV/EBITDA(x) | nm | nm | 11.9 | 15.2 | 22.1 | 30.1 |

Source: Company Accounts, Equity Development forecasts

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Revenue analysis

| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
|--|--------------|---------------|---------------|---------------|---------------|---------------|
| SmartWall software and appliances | 3,738 | 8,446 | 10,337 | 8,107 | 9,080 | 9,988 |
| % sales | 38.5 | 50.0 | 49.5 | 40.3 | 40.7 | 40.7 |
| SmartWall maintenance, services & 'as-a-service' | 5,926 | 8,431 | 10,558 | 12,014 | 13,215 | 14,537 |
| % sales | 61.0 | 50.0 | 50.5 | 59.7 | 59.3 | 59.3 |
| Legacy maintenance and support services | 50 | 0 | 0 | 0 | 0 | 0 |
| % sales | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total revenue | 9,714 | 16,877 | 20,895 | 20,121 | 22,295 | 24,525 |

Source: Company Accounts, Equity Development estimates

Income statement

| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Consolidated Revenue | 9,714 | 16,877 | 20,895 | 20,121 | 22,295 | 24,525 |
| Growth yoy | - | 73.7% | 23.8% | -3.7% | 10.8% | 10.0% |
| Cost of sales | -1,842 | -3,832 | -3,112 | -2,576 | -2,675 | -2,698 |
| Gross profit | 7,872 | 13,045 | 17,783 | 17,545 | 19,620 | 21,827 |
| Gross margin (%) | 81.0 | 77.3 | 85.1 | 87.2 | 88.0 | 89.0 |
| R&D | -1,423 | -1,562 | -1,546 | -1,743 | -2,000 | -2,000 |
| Operating expenses | -9,609 | -12,911 | -12,904 | -13,183 | -15,613 | -18,356 |
| EBITDA | -3,160 | -1,428 | 3,333 | 2,619 | 2,007 | 1,471 |
| EBITDA margin (%) | -32.5 | -8.5 | 16.0 | 13.0 | 9.0 | 6.0 |
| Depreciation (ex.DPaaS) | -515 | -633 | -697 | -579 | -575 | -575 |
| Amortisation of intangibles | -2,526 | -1,684 | -1,495 | -1,364 | -1,400 | -1,400 |
| EBIT | -6,201 | -3,745 | 1,141 | 676 | 32 | -504 |
| Other income | 0 | 0 | 637 | 0 | 0 | 0 |
| Net interest | -360 | -285 | -405 | -272 | -54 | 0 |
| Profit before tax | -6,561 | -4,030 | 1,373 | 404 | -23 | -504 |
| Tax charge | 0 | 246 | 149 | 150 | 0 | 0 |
| Profit after tax | -6,561 | -3,784 | 1,522 | 554 | -23 | -504 |
| Basic EPS (p) | -1.6 | -0.8 | 0.3 | 0.1 | 0.0 | -0.1 |
| Average shares (m) | 406.57 | 494.85 | 494.85 | 495.90 | 495.90 | 495.90 |

Source: Company Accounts, Equity Development estimates

| Cash flow | | | | | | |
|--|--------------|--------------|---------------|---------------|--------------|--------------|
| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
| EBIT | -6,201 | -3,745 | 1,141 | 676 | 32 | -504 |
| Depreciation | 515 | 633 | 697 | 579 | 575 | 575 |
| Amortisation of acquired intangibles | 13 | 6 | 5 | 2 | 2 | 0 |
| Amortisation of capitalised development | 2,638 | 1,933 | 1,872 | 1,732 | 1,732 | 1,732 |
| Working capital | 2,219 | 5,710 | -1,601 | -5,254 | 274 | 704 |
| Share based payments | 265 | 359 | 522 | 386 | 400 | 425 |
| Other including exceptional costs | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Cash Flow | -551 | 4,896 | 2,636 | -1,879 | 3,015 | 2,933 |
| Net Interest | -281 | -190 | -237 | -151 | -54 | 0 |
| Tax | 0 | 246 | 149 | 150 | 0 | 0 |
| Cash flow pre-capex and investment | -832 | 4,952 | 2,548 | -1,880 | 2,960 | 2,933 |
| Investment in intangible assets | -6 | -8 | 0 | 0 | 0 | 0 |
| Capitalised development expenditure | -1,360 | -1,410 | -1,754 | -1,704 | -1,700 | -1,700 |
| Net capex | -579 | -1,015 | -421 | -420 | -450 | -500 |
| Acquisitions/disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing/other | 3,028 | -686 | 842 | -1,240 | -1,208 | -237 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 |
| FX & other | 44 | -14 | -154 | -311 | 0 | 0 |
| Net Cash Flow | 295 | 1,819 | 1,061 | -5,555 | -398 | 496 |
| Closing Net Cash/(Debt) pre-IFRS 16 | 5,384 | 7,662 | 8,424 | 4,438 | 5,248 | 5,744 |

Source: Company Accounts, Equity Development estimates

| Balance sheet | | | | | | |
|-------------------------------------|---------------|----------------|----------------|---------------|---------------|----------------|
| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
| Fixed Assets | | | | | | |
| Goodwill | 8,991 | 8,991 | 8,991 | 8,991 | 8,991 | 8,991 |
| Acquired intangible assets | 7 | 9 | 4 | 2 | 0 | 0 |
| Capitalised development expenditure | 5,169 | 4,646 | 4,528 | 4,500 | 4,800 | 5,100 |
| Tangible assets | 652 | 1,099 | 796 | 604 | 479 | 404 |
| Leased right of use assets | 357 | 237 | 145 | 62 | 50 | 50 |
| Trade & other receivables | 307 | 694 | 859 | 1,571 | 1,571 | 1,571 |
| Total Fixed Assets | 15,483 | 15,676 | 15,323 | 15,730 | 15,891 | 16,116 |
| Current assets | | | | | | |
| Inventories | 63 | 98 | 57 | 164 | 214 | 264 |
| Trade and other receivables | 2,572 | 3,714 | 3,206 | 5,294 | 6,494 | 7,494 |
| Cash | 8,321 | 10,140 | 11,201 | 5,646 | 5,248 | 5,744 |
| Total Current Assets | 10,956 | 13,952 | 14,464 | 11,104 | 11,956 | 13,502 |
| Current liabilities | | | | | | |
| Trade payables | -2,008 | -6,461 | -4,068 | -3,956 | -5,480 | -7,234 |
| Lease liabilities | -112 | -86 | -94 | -78 | -78 | -78 |
| Deferred income | -2,800 | -3,444 | -4,677 | -3,323 | -4,000 | -4,500 |
| Borrowings | -1,149 | -2,073 | -1,421 | -971 | 0 | 0 |
| Total Current Liabilities | -6,069 | -12,064 | -10,260 | -8,328 | -9,558 | -11,812 |
| Net Current assets | 4,887 | 1,888 | 4,204 | 2,776 | 2,398 | 1,690 |
| Long term liabilities | | | | | | |
| Trade & other payables | -139 | -402 | -143 | -100 | -100 | -100 |
| Lease liabilities | -257 | -171 | -78 | 0 | 0 | 0 |
| Deferred income | -1,096 | -2,705 | -2,147 | -2,285 | -2,500 | -2,750 |
| Borrowing facility | -1,788 | -405 | -1,356 | -237 | 0 | 0 |
| Total Long-Term Liabilities | -3,280 | -3,683 | -3,724 | -2,622 | -2,600 | -2,850 |
| Net Assets | 17,090 | 13,881 | 15,803 | 15,884 | 15,689 | 14,956 |

Source: Company Accounts, Equity Development estimates

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