

Cirrus Networks Holdings Limited

Well positioned

Cirrus reported underlying EBITDA of \$2.5m in 2H22, 10% above our prior estimate, at its trading update on 7 July 2022. The momentum looks to be continuing into FY23 with \$7.5m total contract value (TCV) of Government contracts won so far in FY23. We are upgrading our near term EBITDA forecasts by 2-3% and our fair value rises by 7% to 7.5c per share (>100% upside).

- **2H22 results ahead of our estimates:** Cirrus reported \$2.5m EBITDA in 2H22 (+10% versus \$2.3m Veritas estimate) and a \$2.9m improvement on the slight loss in 1H22 due to higher revenue and the October restructure.
- **Momentum continuing:** Cirrus has won \$7.5m TCV from the Australian Government since 1 July 2022 according to our analysis of the AusTender website. Geosciences Australia, in particular, is delivering more ad-hoc work than expected. For reference the Government awarded DXC, the previous IT provider to Geosciences, \$14m of work in excess of its managed service contract.
- **Leveraged to NetApp momentum:** In May 2022 Cirrus was awarded “star” NetApp partner status, making it one of the top three integrators of the solution in ANZ. NetApp has 10% share of the fast growing worldwide external OEM data storage market and is one of the foremost providers of cloud storage globally according to IDC ([link](#)). This validation should help Cirrus win more contracts.
- **Inflation protection:** Cirrus’ high skew toward product and professional services revenue (86% of the total in FY22E) means profits are largely protected from higher inflation due to a ‘cost plus margin’ pricing model in these segments.
- **Upgrading our fair value by 7% to 7.5c per share:** Our DCF derived fair value rises by 7% due to the upgrades to our forecasts (Figure 1) and higher than expected cash balance in FY22. Our new 7.5c per share fair value puts the stock on an EV/EBITDA multiple of 10x in FY24 versus 4x currently, which is consistent with the takeout multiples of Empired (9.6x) and ASG (10.6x).

Figure 1. Changes to Veritas forecasts for Cirrus Networks (\$m)

Year ended June 30 (\$m)	FY22E			FY23E			FY24E		
	Old	New	Chg(%)	Old	New	Chg(%)	Old	New	Chg(%)
Revenue	100.6	103.9	3.3	103.6	106.7	3.1	108.0	111.0	2.8
Growth (% YoY)	-3.8	-2.3	0.0	12.3	2.7	0.0	9.7	4.0	0.0
EBITDA	1.9	2.1	12.8	5.0	5.1	2.8	6.2	6.3	1.8
Margin (%)	1.9	2.0	0.2	4.8	4.8	0.0	5.8	5.7	-0.1
Profit before tax	0.3	0.5	77.3	3.4	3.5	3.7	4.4	4.5	2.6
Normalised dil. EPS (cps)	0.0	0.1	77.3	0.3	0.4	3.7	0.4	0.5	2.6
Capex	-0.6	-0.3	-44.4	-0.7	-0.7	0.0	-1.0	-1.0	0.0
Free Cash Flow	2.3	2.7	16.9	3.8	4.1	9.1	5.3	5.4	1.4

Source: FactSet, companies, Veritas estimates.

CNW.ASX

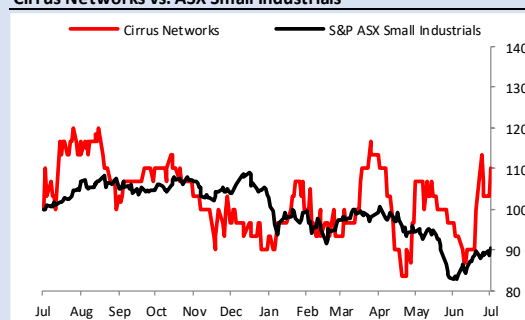
BUY

Friday 22 July 2022

Share Price	\$0.032
Price Target	\$0.075
Valuation Method	DCF
Market capitalisation	\$30m
Enterprise value	\$22m
GICS sector	Information Technology
12 month price range	\$0.025 - \$0.036
Average monthly t/o	10.9m
Shares in issue	930.0m
Top 20 holders	539.0m
Previous rating	Buy

Year ended July 31		FY21	FY22E	FY23E	FY24E
Revenue	\$m	106.3	103.9	106.7	111.0
Growth	%	11.7	(2.3)	2.7	4.0
EBITDA	\$m	2.0	2.1	5.1	6.3
Margin	%	1.9	2.0	4.8	5.7
NPAT	\$m	0.4	(0.6)	3.5	4.5
EPS	cps	(0.0)	0.1	0.4	0.5
CFPS	cps	0.3	0.3	0.5	0.7
DPS	cps	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0
Dividend Yield	%	0.0	0.0	0.0	0.0
PER	x	N/A	61.0	8.8	7.0
EV/Revenue	x	0.2	0.2	0.2	0.2
EV/Gross profit	x	1.5	1.5	1.4	1.3
EV/EBITDA	x	10.9	10.5	4.3	3.5
EV/EBIT	x	37.5	36.0	6.1	4.8
Fixed charge cover	x	0.9	5.9	35.1	44.3
Return on capital	%	10.9	7.6	44.5	55.9

Cirrus Networks vs. ASX Small Industrials



Source: Factset, Veritas

Cirrus Networks is an Australian IT solutions provider focused on designing, building and managing IT infrastructure for enterprise and Government clients with offices in Perth, Canberra and Melbourne.

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Cirrus Networks Holdings Limited

Share Price: \$0.032 ps

Valuation: \$0.075 ps

Financial Performance (\$m)

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	88.0	95.2	106.3	103.9	106.7	111.0
Cost of sales	(72.2)	(78.2)	(91.5)	(91.5)	(91.5)	(91.5)
Gross profit	15.9	16.9	14.8	14.6	16.1	17.7
Operating costs	(13.7)	(13.3)	(12.8)	(12.5)	(11.0)	(11.3)
Normalised EBITDA	2.2	3.7	2.0	2.1	5.1	6.3
Depreciation and amortisation	(0.7)	(1.5)	(1.4)	(1.5)	(1.5)	(1.7)
Normalised EBIT	1.5	2.2	0.6	0.6	3.6	4.6
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.2)	(0.6)	(0.6)	(0.1)	(0.1)	(0.1)
Normalised Pre-tax Profit	1.3	1.6	(0.0)	0.5	3.5	4.5
Normalised tax	0.0	0.0	0.0	0.0	0.0	0.0
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	1.3	1.6	(0.0)	0.5	3.5	4.5
One off items (post-tax)	(0.6)	1.3	0.5	(1.1)	0.0	0.0
Reported profit to holders	0.8	2.9	0.4	(0.6)	3.5	4.5

Cash Flow Statement (\$m)

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
Normalised EBITDA	2.2	3.7	2.0	2.1	5.1	6.3
Cash net interest	(0.2)	(0.6)	(0.6)	(0.1)	(0.1)	(0.1)
Cash tax (paid)/received	0.0	0.0	0.0	0.0	0.0	0.0
Working capital/other	0.2	(0.1)	1.4	1.0	(0.2)	0.2
Operating Cash Flow	2.2	2.9	2.8	3.0	4.8	6.4
Capex	(0.4)	(0.3)	(0.4)	(0.3)	(0.7)	(1.0)
Free Cash Flow	1.8	2.7	2.4	2.7	4.1	5.4
Net acquisitions	(2.6)	0.0	(0.3)	(0.0)	0.0	0.0
Net Borrowings	0.6	(0.8)	(0.6)	0.0	0.0	0.0
Payments on Finance Leases	0.0	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)
Equity raised/buybacks	0.0	0.0	0.8	0.0	0.0	0.0
Other	0.0	(0.0)	0.0	0.0	0.0	0.0
Net increase/(decrease) cash	(0.2)	1.2	1.6	1.8	3.3	4.6
Cash at beginning	5.3	5.0	6.2	7.7	9.6	12.9
Cash at end	5.0	6.2	7.7	9.6	12.9	17.5

Balance Sheet (\$m)

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
Current Assets	27.8	24.4	32.0	26.2	27.4	32.5
Property, Plant & Equipment	0.6	0.5	0.6	0.4	0.4	0.4
Intangibles	8.7	8.3	8.1	8.0	8.0	8.0
Deferred tax	2.7	4.5	4.0	4.0	4.0	4.0
Other non current assets	0.0	2.8	2.2	1.9	2.0	2.0
Non Current Assets	12.0	16.1	15.1	14.4	14.4	14.4
Total Assets	39.8	40.5	47.1	40.6	41.7	47.0
Payables	26.1	21.5	27.3	21.6	19.3	20.0
Borrowings	0.8	0.6	0.0	0.0	0.0	0.0
Lease Liabilities	0.0	2.0	2.4	2.0	2.0	2.0
Provisions	1.0	1.0	1.1	1.2	1.2	1.2
Other liabilities	0.6	0.9	0.0	0.0	0.0	0.0
Total Liabilities	28.5	25.9	30.9	24.9	22.5	23.3
Net Assets	11.3	14.6	16.2	15.7	19.2	23.7

Directors and Key Management Personnel

		Shares	Holding
Paul Everingham	Non-Executive Chairman	22.0m	2.4%
Christopher McLaughlin	Managing Director	1.4m	0.2%
Daniel Rohr	Non-Executive Director	7.7m	0.8%
Adam Waterworth	Non-Executive Director	50.2m	5.4%
Matthew Green	CFO	36.6m	3.9%

Major Shareholders (excluding nominees)

		Shares	Holding
WebCentral Group Limited		172.0m	18.5%
Microequities Asset Management		54.9m	5.9%
Adam Waterworth	Non-Executive Director	50.2m	5.4%
Andrew Milner	Former Chairman	37.6m	4.0%
Matthew Green	CFO	36.6m	3.9%
Top 20 shareholders		539.0m	58.0%

Source: Company data, Veritas Research.

Note: We show the FY22 year as estimated because full accounts are yet to be published. The company has disclosed unaudited revenue, cash and certain income statement items.

Valuation Metrics

		Valuation
Price Target (ps)		\$0.075 133%
Share Price (ps)		\$0.032
FY23E EV/EBITDA (x)		4.3
Implied FY23 EV/EBITDA (x)		12.0 179%
Implied FY24 EV/EBITDA (x)		9.8 126%
Market Capitalisation (A\$m)		30
Enterprise Value (A\$m)		22
Shares on Issue (m)		930

Valuation Multiples

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E (x)	22.9	21.0	N/A	61.0	8.8	7.0
Price/Cash flow (x)	14.3	11.4	11.4	10.4	6.5	4.9
EV/Revenue (x)	0.3	0.2	0.2	0.2	0.2	0.2
EV/Gross profit (x)	1.4	1.3	1.5	1.5	1.4	1.3
EV/EBITDA (x)	10.2	6.0	10.9	10.5	4.3	3.5
EV/EBIT (x)	14.6	10.2	37.5	36.0	6.1	4.8
Equity FCF yield (%)	5.9	9.0	8.0	9.0	13.9	18.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	1.5	1.2	1.0	1.0	0.7	0.6
Price to book value (x)	2.7	2.3	1.9	2.0	1.6	1.3

Per Share Data

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS diluted - adjusted (cps)	0.14	0.15	(0.00)	0.05	0.36	0.46
EPS diluted (cps)	0.08	0.27	0.04	(0.06)	0.36	0.46
Cash flow per share (cps)	0.22	0.28	0.28	0.31	0.50	0.66
Free cash flow per share (cps)	0.18	0.25	0.24	0.27	0.42	0.55
Cash (cps)	0.52	0.59	0.78	0.98	1.32	1.79
Net assets (cps)	1.17	1.39	1.64	1.60	1.96	2.42
DPS (cps)	0.00	0.00	0.00	0.00	0.00	0.00
Franking (%)	N/A	N/A	N/A	N/A	N/A	N/A
Shares on issue - avg. basic (m)	878	883	896	929	930	930
Shares on issue - avg. diluted (m)	963	1,046	987	978	979	979

Segmental (\$m)

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	88.0	95.2	106.3	103.9	106.7	111.0
Product gross profit	8.5	8.5	7.7	6.0	6.4	6.5
Professional services gross profit	3.6	3.9	3.2	3.6	3.8	3.8
Managed services gross profit	3.7	4.6	3.9	5.0	6.0	7.5
Services gross profit	7.3	8.4	7.1	8.5	9.7	11.2
Gross profit	15.9	16.9	14.8	14.6	16.1	17.7
Product margin	13.6	12.8	9.7	8.3	8.8	8.9
Professional services margin	23.5	22.5	20.6	21.4	22.5	22.5
Managed services margin	37.9	38.7	35.5	35.0	35.0	35.0
Services gross profit	29.1	29.1	26.8	27.6	28.8	29.5
Gross profit margin (%)	18.0	17.8	13.9	14.0	15.1	15.9

Performance Ratios (%)

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
Other costs (% of sales)	15.5	13.9	12.0	12.0	10.3	10.2
EBITDA (% of sales)	2.5	3.9	1.9	2.0	4.8	5.7
Revenue growth	15.7	8.2	11.7	-2.3	2.7	4.0
Gross profit growth	36	7	-13	-2	11	9
EBITDA growth	114	68	-44	4	143	23
Normalised EPS growth	129	9	-103	N/A	589	27
Tax rate	0.0	0.0	0.0	0.0	0.0	0.0
Return on capital	22.9	23.3	10.9	7.6	44.5	55.9

Balance Sheet Ratios

Year ended July 31	FY19	FY20	FY21	FY22E	FY23E	FY24E
Gross debt (\$ m)	1.4	2.6	2.4	2.0	2.0	2.0
Net debt/(cash) (\$ m)	(3.6)	(3.6)	(5.4)	(7.6)	(10.9)	(15.5)
Fixed charge cover (x)	8.7	3.7	0.9	5.9	35.1	44.3

RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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