

**BUY**  
**COMPANY UPDATE**

Price (11 January 2022)		
		124p
Changes	Previous	Current
Rating	-	BUY
Target Price	-	286p

**Key data**

Bloomberg/Reuters codes:	CNIC LN / CNIC.L
Market cap (£m)	289
FTSE ALL SHARE	4,242
1mth perf (%)	(16.0)
3mth perf (%)	12.8
12mth perf (%)	22.3
12mth high-low (p)	153 - 76
Free float (%)	62

**Key financials**

Year to Dec	2020A	2021E	2022E
Sales (\$m)	241.2	380.4	420.8
Sales growth (%)	120.9	57.7	10.6
EBITDA (adj) (\$m)	30.6	43.1	48.2
PBT (adj) (\$m)	(4.3)	5.6	16.5
EPS adj (c)	10.17	10.19	11.06
EPS adj growth (%)	13.4	0.2	8.5
DPS (c)	0.00	0.00	0.00
FCF per share (c)	6.7	16.2	12.5
EV/EBITDA adj (x)	15.6	10.9	9.3
PE adj (x)	16.6	16.5	15.2
Div yield (%)	0.0	0.0	0.0
FCF yield (%)	4.0	9.6	7.4
Net debt/EBITDA adj (x)	2.8	1.8	1.1

Prices are as of close 11 January 2022

All sources unless otherwise stated: Company data, FactSet, Stifel estimates

**Share price performance (indexed)**



## CentralNic – Emerging Company of the Year 2022

### Summary

In the digital age, CentralNic provides both the picks and shovels (domains) and tools to exploit the domains (Online marketing), with a product portfolio that addresses a US\$30bn market. Despite the strong 2021 TSR (+58.6%), CentralNic shares trade on a pedestrian valuation (on consensus estimates FY1 EV/EBITDA c12x vs operational peers 15x). We are relaxed with our Buy recommendation.

[See our accompanying sector report 2022.](#)

### Key Points

**Why do we favour CentralNic for 2022?** CentralNic offers a unique blend of offerings which have accelerated organic growth at CentralNic and enabled it to break free from the domain-related growth rates (peers: GoDaddy 14% revenue growth Q3/2021A, Verisign 5.1% Q3/2021A, United Internet 4.6% nine months/2021A). We note that: (i) the business of 'managing' the internet is changing as COVID 19 accelerates Digital Transformation, (ii) interest in Digital Inclusion and privacy have risen, (iii) CentralNic's online market acquisitions have propelled the company into a strong growth seam, and (iv) internal reorganisation, new product debuts, new staff and more effective cross-selling have increased ARPU and LTV. Now, more than 45m domains use at least one of CentralNic's platforms (12% of domains worldwide). CentralNic's domain name services and software enable businesses and individuals to acquire, host, manage their websites and email addresses, and to protect their brands (recall the January SageBrands acquisition).

**The strategy is clear, execution has been flawless.** CentralNic's strategy is to build scale both through acquisitions and organic growth to maximise the potential of its high recurring revenue, high cash conversion business. From the acquisitions we are witnessing CentralNic add new revenue streams in core and co-related areas. It still has much potential by exploring co-related services in areas like hosting, cybersecurity, privacy, identity management and brand protection. As CentralNic consolidates, it is taking out costs, deploying technology to automate process and so is increasing adj. EBITDA. However, the pathway of continued consolidation should not be taken as a given – companies like R22, Tucows and Web.com with similar(ish) business models are, like CentralNic, separating their online presence from Online Marketing divisions, but in splitting the divisions are enhancing shareholder value.

**What happens in 2022.** The year is to start with an 'in-line' trading statement. Since its bond CentralNic gives a quarterly report, this helps investors to see (i) the ongoing growth in the business and (ii) the company's ability to generate cash. We expect further M&A (although we are not aware of any specific transaction).

**Why this share is going up, and up.** We can lose sight of the company given the dramatic growth of late. To wit. At 9-months results (22 November), CentralNic posted (i) Revenue +67% Y/Y to US\$282.0m, (ii) Organic revenue grew 29%, (iii) Adj EBITDA increased by 46% to US\$32.3m. These impressive numbers are achieved because CentralNic has a proven business model where revenue (99% of revenue is from subscription products) has multiplied 100-fold since listing. CentralNic is directly integrated with almost every Top-Level Domain registry in the world, as well as with providers of SSL certificates and a growing number of additional value-added services. From the acquisitions we have witnessed, the company adds new revenue streams in core and co-related areas and it has much potential by exploring co-related services such as hosting, cybersecurity and brand protection. The fastest growth has come from the newest segment. At those 9-month results the Online Marketing segment grew 129% Y/Y to US\$94.1m, with organic revenue growth at 47%. CentralNic is also at the forefront of companies offering solutions for a more privacy conscious world as none of CentralNic's marketing platforms make use of third-party cookies or collect personal data on customers and so it provides an alternative to online marketers that respects the privacy of internet users.

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## Key data<sup>1</sup>

Key profit and loss data (\$)				
	2020A	2021E	2022E	2023E
Sales	241.2	380.4	420.8	451.3
EBITDA margin (%)	0.0	0.0	0.0	0.0
EBITDA adj	30.6	43.1	48.2	53.2
Operating profit	0.4	11.5	21.9	26.7
Gross profit	76.3	118.5	120.6	129.2
PBT rep	(9.4)	1.8	12.6	18.4
PBT adj (\$)	(4.3)	5.6	16.5	22.4
Net income	(5.2)	(2.5)	6.3	10.9
Depreciation & amortisation	(14.6)	(18.9)	(20.4)	(21.5)
EPS adj (c)	10.2	10.2	11.1	12.8
DPS (c)	0.0	0.0	0.0	0.0
Sales growth (%)	120.9	57.7	10.6	7.3
EPS adj growth (%)	13.4	0.2	8.5	15.9
FCF per share (c)	6.7	16.2	12.5	11.1

Key cash flow data (\$)				
	2020A	2021E	2022E	2023E
Operating cash flow	10.2	40.5	34.8	33.7
Capex	(4.3)	(5.1)	(5.4)	(5.6)
Net debt	84.9	77.6	54.9	34.2
Taxes paid	(2.0)	(4.3)	(6.3)	(7.5)
Cash flow from investing	2.5	7.4	22.7	20.7
FCF	13.8	40.8	32.5	29.0
Dividends	0.0	0.0	0.0	0.0
Cash at end of year	28.7	36.1	58.7	79.4
Net debt/EBITDA adj (x)	2.8	1.8	1.1	0.6

Key balance sheet (\$)				
	2020A	2021E	2022E	2023E
Cash and cash equivalents	28.7	36.1	58.7	79.4
Total assets	352.3	379.9	397.6	403.6

Key valuation ratios (x)				
	2020A	2021E	2022E	2023E
Div yield (%)	0.0	0.0	0.0	0.0
PE adj (x)	16.6	16.5	15.2	13.1
FCF yield (%)	4.0	9.6	7.4	6.6
EV/sales	2.0	1.2	1.1	0.9
EV/EBITDA adj (x)	15.6	10.9	9.3	8.0

## Key information

### Target price methodology/risks

We use a blended model to arrive at our 12-month price target: discounted cash flow, earnings, sum-of-the-parts and free cash flow yield. To further de-risk our price target, we reduce our DCF by 30%.

In addition to general and macroeconomic risks, the downside risks include any continued deceleration in the capital markets and emergence of new 'point' competitors. Upside risks include better-than-expected revenue growth and margin improvement due to the integration gains.

### Business description

CentralNic (AIM: CNIC) is a London-based AIM-listed company which drives the growth of the global digital economy by developing and managing software platforms allowing businesses globally to buy the subscriptions to domain names and web services and to better monetise these assets. Its core growth strategy is identifying and acquiring cash-generative businesses in its industry with annuity revenue streams and exposure to growth markets and integrating the acquired software and operating platforms. CentralNic operates globally with customers in almost every country in the world, and is committed to building a better global digital economy.

### Senior management

Iain McDonald - Non-Exec Chairman

Ben Crawford - CEO

Michael Riedl - CFO

Don Baladasan - Group MD

### Key dates

January 2022 - FY Update

### Major shareholders

Kestrel Partners 22.52%

Alex Siffrin (inter.services) 14.77%

Jtc PLC 7.71%

Erin Invest & Finance 6.29%

Canaccord Genuity Wealth Management 6.10%

Chelverton Asset Management 5.81%

Schroder Investment Management 5.43%

Herald Investment Management 3.81%

BlackRock Investment Management 3.2%

### Website

<https://investor.centralnic.com/>

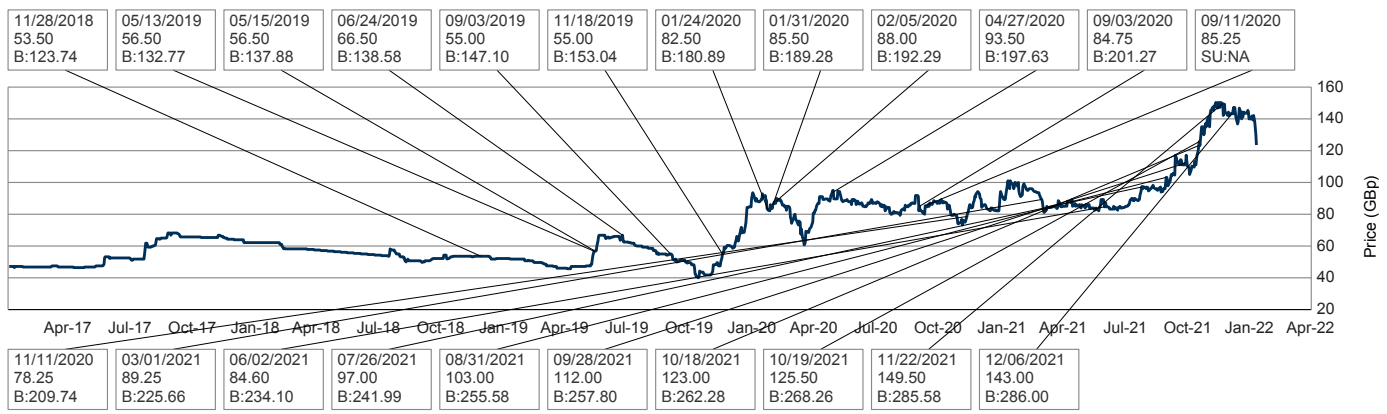
<sup>1</sup> Year end December  
Data in millions, except per share and percentages  
Source: Company data, FactSet, Stifel estimates

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CentralNic Group plc (CNIC.LN) as of January 11, 2022 (in GBp)



\*Represents the value(s) that changed.  
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for CNIC.LN go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=CNIC.LN>

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Our investment rating system is defined as follows:

**Buy** - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Speculative Buy**<sup>1</sup> - We expect a total return of greater than 30% over the next 12 months, with total return equal to the percentage price change plus dividend yield, accompanied by substantially higher than normal risk including the possibility of a binary outcome.

**Hold** - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Sell** - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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<sup>1</sup> This rating is only utilised by Stifel Canada.

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