

KebNi AB (publ)

Filling its war chest to meet rising demand

Johan Widmark | 2022-03-30 08:00 | This commissioned research is for information purposes only. It is not an investment recommendation or investment advice. For more information, please see disclaimer..

With over 10,000 units of the NLAW shoulder-fired disposable anti-tank weapon delivered from Britain and Luxembourg to the war in Ukraine, there is now a great need to both restore stockpiles and strengthen defence capabilities in other Russian neighbours. To meet this expected increase in demand for KebNi's IMUs, which are part of the NLAW, the company now plans to strengthen its coffers with a combination of a fully secured rights issue of units initially of 43.5 MSEK and a directed issue of 10 MSEK. With a potential in NLAW of over 200 MSEK in the UK alone, and other activities that support KebNi's strategic plan to 2026, we see support for a fair value of SEK 1.1-1.3 (1.2-1.6) per share on a 18-24 months horizon.

Injection of SEK 53.5m before costs + SEK 32m in Jan 2023

As we have flagged up previously, KebNi has now announced that it plans to bolster its coffers with a combination of a fully secured rights issue of units with a subscription price of SEK 0.45, corresponding to SEK 0.45 per share, for an initial SEK 43.5m, plus a directed issue of SEK 10m. Of the rights issue, SEK 11.2m is covered by subscription commitments, and the remaining SEK 25.8 + 6.5 million is covered by bottom and top guarantees. The total dilution for non-participants amounts to 55%, or 61% if attached warrants with a subscription price of SEK 0.45-1.00 are fully exercised in January 2023.

IMU with a potential over 200 MSEK in the UK alone

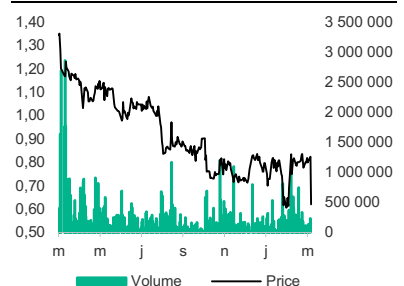
The lion's share of the proceeds, 30%, is expected to be used to strengthen production capacity in the area of IMUs. KebNi already has a project with SAAB for the development of the next generation NLAW. It could also supply of the type of IMUs used in the current generation NLAW. Given the crucial importance of the NLAW in stopping Russian armour (of which there is ample evidence on social media), demand for the NLAW can also be expected to increase markedly from other countries neighbouring Russia. NLAW is also almost unique with the exception of a comparable competitor, the self-guided US Javelin, which is six times as expensive. A simple calculation exercise shows that if the UK were to replenish its stocks after the 10,000 NLAWs sent to Ukraine and we assume a price per IMU at the lower end of the range for the type used in NLAW, it would mean a business potential of 200 MSEK for KebNi, to the UK alone. As the time horizon and scope of such deals are so far highly hypothetical, we choose to consider it a binary option with high potential rather than something we include in our forecast, but at the same time note the supplementary order from SAAB regarding NLAW in mid-March this year which indicates that bigger things are underway.

Set for a sharp rise in business activity in 2022 and 2023

In addition to IMUs for the NLAW, we note that the recent news flow has included a number of activities that support the company's strategic plan for 2022-2026, which is to grow SatCom at a pace above the market and to match Inertial Sensing in size by 2025, to show positive operating profit by H2 2023 and positive cash flow in 2024. For example, Satmission is starting to build momentum with a framework agreement in Turkey that has already resulted in three orders totalling SEK 5m and a recent order in Poland, while the company has increased its international representation from one to 17 countries. Together with a number of ongoing discussions in maritime satellites, the new SensAItion IMU family and the possibility of introducing the company's upcoming position monitoring application in South Korea, this provides support for a sharp boost in business activity in 2022 and 2023. Although the size of the planned issue suggests a more proactive outlook than our previous expectation of an issue of 20 MSEK, we retain our forecast

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Fair Value, SEK (18-24 m)	1,1 - 1,3
Current Price, SEK	0,66
Number of Shares (Millions)	96,7
Market Capitalisation (MSEK)	63
Net Debt (MSEK)	-15
Enterprise Value (MSEK)	48
Market	First North



of a sharp increase in sales this year and next year, to 46 MSEK and 83 MSEK respectively, and positive operating profit in H2 2023. With accelerating momentum in activity and development efforts, and adjusting for the cash injection and new shares, we see support for a fair value based on DCF and comparison multiples of SEK 1.1-1.3 (1.2-1.6) per share on a horizon of 18-24 months.

MSEK	2020	2021	2022E	2023E	2024E
Sales	39	18	46	83	113
EBITDA	-26	-29	-13	4	17
EBIT	-35	-38	-22	-5	8
EPS Adjusted	-0,59	-0,39	-0,10	-0,02	0,03
Sales Growth, %	10,7	-52,6	153,5	79,3	36,2
EBITDA Margin, %	-67,1	-161,2	-27,3	4,5	14,8
EBIT Margin, %	-91,8	-209,6	-46,4	-6,2	7,0
EV/Sales	1,91	3,28	2,07	1,41	0,93
EV/EBITDA	n.a.	n.a.	n.a.	31,6	6,3
EV/EBIT	n.a.	n.a.	n.a.	n.a.	13,4
P/E	n.a.	n.a.	n.a.	n.a.	25,9

Source: Emergers

Company description

KebNi AB (publ.), formerly ASTG AB until July 2020, is active in technology, products and solutions for security, positioning and stabilization. The company has extensive experience in solutions for maritime satellite antennas and inertial sensor systems for motion detection.

The company currently has operations in two different segments: SatCom and Inertial Sensing (IMUs).

SatCom has two product areas

- **Maritime** – innovative 4-axis stabilized VSAT terminals for primarily maritime installations.
- **KebNi Land** - Satmission by KebNi - drive-away antennas where the vehicle stands still upon satellite contact.

Inertial Sensing (inertial measurement units, or IMUs) – advanced inertial sensor systems for measuring movement in three dimensions. IMUs are a key component in the company's stabilized satellite platforms and are also sold to external customers for other applications.

In Inertial Sensing, KebNi is investing both in offering IMUs as a product (i.e. an input for other companies' applications, such as in defence or automotive) and offering its own applications. So far, the company has presented its plans for the first of five such own applications, scaffolding monitoring. Please refer to our report entitled **Scaffolding focus in new vertical with great potential**. (https://www.emergers.se/kebni_c/).

Strategic plan for 2022-2026

With a focus on the growth trends of Space, Automation and Connectivity, KebNi's new strategic plan for 2022-2026 aims to grow the two product areas within SatCom at a pace above market growth and to match Inertial Sensing in size by 2025. SatCom's Maritime product area is expected to grow by 20%, while the Land product area as a whole is considered mature with 4% market growth. At the same time, KebNi now wants to expand SatCom Land from a focus on broadcasting to also include public authorities and the military, which are expected to show market growth of as much as 40%.

The strategy in Inertial Sensing is also based on high market growth and new investments in both IMUs as a product (with customer-financed development

projects in Tactical and Navigation) and own applications like monitoring of scaffolding (where we see long-term global potential for annual revenues in excess of SEK 100 million) as the first of five applications by 2026.

Overall, KebNi's most important communicated targets in its 2022-2026 strategic plan are:

- Positive operating profit in the second half of 2023
- Positive cash flow in 2024
- Grow Satcom more than the market during the 5-year period
- Inertial Sensing and SatCom will be the same size by 2025

Timetable for rights issue and directed issue

2 May 2022	Last trading day including the right to receive unit rights
2 May 2022	Q1 interim report
3 May 2022	Publication of prospectus
4 May 2022	Record date for participation in the rights issue
5-19 May 2022	Subscription period
24 May 2022	Publication of outcome of the rights issue

Valuation - plenty of upside potential

KebNi has a long period of losses behind it, and this is expected to continue for at least two years. At the same time, the company has made, and continues to make, significant investments in technology development that have not yet been translated into commercial contracts. Any valuation of the company is therefore associated with a particularly high degree of uncertainty. This analysis uses a two-pronged approach employing both target multiples for future expected sales and profit (EV/sales, EV/EBITDA and P/E) and a present value calculation of future cash flows (DCF) discounted to the present with a discount rate (WACC) of 12%.

Since our forecast shows that the company cannot achieve these future gains without an additional injection of capital, we expect further dilution from a new rights issue of SEK 20 million. Overall, our calculations show support for a fair value of SEK 1.1-1.3 per share on a horizon of 18-24 months, based on DCF and multiples.

DCF Key Assumptions

WACC	12%
Long-term EBITDA-margin	22%
Long-term CAPEX as share of sales	3%
Terminal Value EBITDA-multiple	12x
Total NPV, MSEK	246
<u>NPV per share, SEK</u>	<u>1.2</u>

Source: Emergers

A quantitative comparison also shows that KebNi is traded at a high discount compared to its peers, which in almost all cases show losses at the EBITDA level. Overall, we therefore see good support for our valuation and note that there is plenty of upside potential if KebNi succeeds in turning the sentiment towards the share and regaining market confidence.

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Income Statement

MSEK	2018	2019	2020	2021	2022E	2023E	2024E
Sales	6,8	34,8	38,5	18,3	46,3	83,0	113,1
Operating Costs	-17,8	-39,7	-64,4	-47,7	-59,0	-79,3	-96,4
EBITDA	-11,0	-4,9	-25,9	-29,4	-12,7	3,7	16,8
Depreciation	-1,1	-7,3	-9,5	-8,9	-8,9	-8,9	-8,9
Amortisation of Goodwill	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	-12,1	-12,2	-35,4	-38,3	-21,5	-5,1	7,9
Non-recurring Items	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-1,5	-3,3	-2,1	0,4	0,0	0,0	0,0
Pre-tax Result	-13,6	-15,5	-37,4	-37,9	-21,5	-5,1	7,9
Tax	0,0	0,0	-0,1	0,1	0,0	0,0	-1,6
Minority Interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Result	-13,6	-15,5	-37,5	-37,8	-21,5	-5,1	6,3

Capital Expenditure

	2018	2019	2020	2021	2022E	2023E	2024E
Capital Expenditure, Absolute	6,8	5,0	5,0	1,3	1,4	2,5	3,4
As a Pct of Sales	100,0	14,4	13,0	6,9	3,0	3,0	3,0
Depreciation Multiple	6,2	0,7	0,5	0,1	0,2	0,3	0,4

Key Ratios

Share Price: SEK 0,66

	2018	2019	2020	2021	2022E	2023E	2024E
Share Price at 31 Dec	7,80	4,25	1,33	0,77	0,66	0,66	0,66
Number of Shares (Millions)	7,3	12,8	63,4	97,5	215,7	247,9	247,9
Market Cap	57,0	54,4	84,1	75,1	141,5	162,6	162,6
Enterprise Value	68,1	46,3	73,5	59,9	95,9	117,4	105,6
EPS (Reported)	-1,86	-1,21	-0,59	-0,39	-0,10	-0,02	0,03
EPS (Adjusted)	-1,86	-1,21	-0,59	-0,39	-0,10	-0,02	0,03
CEPS	-1,15	-1,71	-0,11	-0,38	-0,07	0,01	0,06
P/CEPS	n.a.	n.a.	n.a.	n.a.	n.a.	43,8	10,7
Book Value/Share	2,0	4,0	1,0	0,6	0,2	0,1	0,2
P/BV	3,8	1,1	1,3	1,2	2,9	4,6	3,9
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividend Yield (%)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EV/Sales	10,0	1,3	1,9	3,3	2,1	1,4	0,9
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	31,6	6,3
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13,4
P/E (Adjusted)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25,9
Sales Growth, Y/Y (%)	n.a.	411,8	10,7	-52,6	153,5	79,3	36,2
EBIT Growth, Y/Y (%)	n.a.	0,6	190,6	8,2	-43,8	-76,1	-253,9
EPS Growth (Adjusted), Y/Y (%)	n.a.	-35,1	-51,0	-34,4	-74,3	-79,2	-222,2
EBITDA Margin (%)	-161,8	-14,0	-67,1	-161,2	-27,3	4,5	14,8
EBIT Margin (%)	-177,9	-35,0	-91,8	-209,6	-46,4	-6,2	7,0
Return on Equity (%)	n.a.	-47,2	-64,6	-59,5	-42,1	-13,6	16,4
Tax Rate (%)	0,0	0,0	-0,2	0,1	0,0	0,0	20,6

Financial Position

	2018	2019	2020	2021	2022E	2023E	2024E
Interest-Bearing Net Debt	11	-8	-11	-15	-46	-45	-57
Net Debt/Equity	75,0	-15,9	-16,2	-24,5	-113,1	-128,6	-137,5
Equity Ratio	35,7	83,0	78,0	67,0	35,0	32,4	36,1
Net Debt/EBITDA	-1,0	1,7	0,4	0,5	3,6	-12,2	-3,4

Source: Emergers, Company reports

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