

KebNi AB (publ)

Mushrooming opportunities with NLAW redraws the case

Johan Widmark | 2022-05-03 12:00

KebNi's report for Q1 2022 showed revenues largely in line with our estimate (6.2 vs 6.9 MSEK), driven by the postponed deliveries to IAI, with final shipments in April. We continue to expect an acceleration in international activity in Satmission to drive a steep increase in sales in 2022, while we expect the mushrooming opportunities associated with existing and next generation NLAW to drive significant growth from H2 2023 and beyond, implying that we can expect first orders for series production in the coming six months. Until we get a clearer picture of the ramp-up, after the first volume order and KebNi's revised financial targets, we expect the main impact from NLAW volume production to occur beyond our forecast horizon in 2024, meaning that we keep our topline forecast in 2022-2024 unchanged but now see support for a post-money fair value of SEK 1.2-1.8 (1.1-1.3) per share in 12-24 months.

High volume potential drawing closer

Seeing the crucial role NLAW has played in stopping Russian tanks in Ukraine, there is not only need to restore stockpiles of the +10,000 NLAWs already sent to Ukraine. As evidenced by Swedish Armed Forces' Materiel Administration's agreements with the Baltic states, there is also an increasing interest from countries neighbouring Russia to buy the weapon system, in which KebNi's IMU is planned to be included in the next generation, and potentially retrofitted into the current generation. In April, KebNi announced a strategic order to complete the development at an accelerated pace and initiate preparation for series volume production, indicating that the delivery phase could be initiated after series volume production preparations have been finalized in H2 2023. With global component shortage and pressured supply chains, orders would likely have to be placed 12 months in advance of expected deliveries, which means that we could see the first orders for volumes production in the coming six months.

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.

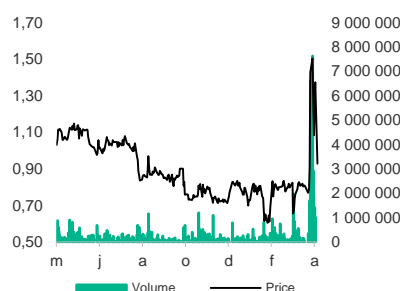
New targets more aligned with long term goals in H2 2022

KebNi is now in the process of bolstering 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. Considering that the subscription price of SEK 0.45 per unit/share equals a steep discount to current share price we expect a full subscription which will give the strength to capitalize on the opportunities at hand.

Furthermore, KebNi's board has announced the intention to prioritize activities related to NLAW ahead of its existing financial targets and will therefore set new financial targets more aligned with the company's long-term goals. These will be communicated in H2 2022 but implies that we're likely to see heavier investments in production in the near term in order to capture higher volumes down the road. Until we get a better picture of the magnitude of the series volume orders, it is hard to estimate the pace of a future volume ramp-up. But we expect the main impact to occur beyond our forecast horizon in 2024. All in all, we maintain our top line estimate for 2022-2024 but calculate for a build-up in capacity in the near term, and higher potential in 2025 and beyond, which support a post-money fair value of SEK 1.2-1.8 (1.1-1.3) per share in 12-24 months.

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Fair Value, SEK (18-24 m)	1,2 - 1,8
Current Price, SEK	0,93
Number of Shares (Millions)	96,7
Market Capitalisation (MSEK)	90
Net Debt (MSEK)	-9
Enterprise Value (MSEK)	81
Market	First North



MSEK	2020	2021	2022E	2023E	2024E
Sales	39	18	46	83	113
EBITDA	-26	-29	-28	-8	5
EBIT	-35	-38	-37	-17	-4
EPS Adjusted	-0,59	-0,39	-0,17	-0,07	-0,02
Sales Growth, %	10,7	-52,6	153,5	79,3	36,2
EBITDA Margin, %	-67,1	-161,2	-60,3	-10,0	4,2
EBIT Margin, %	-91,8	-209,6	-79,3	-20,6	-3,6
EV/Sales	1,91	3,28	5,70	3,97	2,97
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	70,6
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.
P/E	n.a.	n.a.	n.a.	n.a.	n.a.

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 to be replaced

In order to focus resources and capacity to deliver on the opportunities associated with NLAW and SAAB, KebNi's board has decided to drop its existing targets, detailed below. While we await the announcement of the new targets, sometime during H2 2022, we see the abandoned targets as a reference point for our forecast.

Previously, KebNi aimed 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 was expected to grow by 20%, while the Land product area as a whole was considered mature with 4% market growth. At the same time, KebNi wanted 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 was 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 were:

- 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%.

Overall, our calculations show support for a post-money fair value of SEK 1.2-1.8 per share on a horizon of 12-24 months, based on DCF and multiples.

DCF Key Assumptions

WACC	12%
Long-term EBITDA-margin	22%
Long-term CAPEX as share of sales	5%
Terminal Value EBITDA-multiple	15x
Total NPV, MSEK	407
NPV per share, SEK	1,6

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	-74,2	-91,3	-108,4
EBITDA	-11,0	-4,9	-25,9	-29,4	-27,9	-8,3	4,8
Depreciation	-1,1	-7,3	-9,5	-8,9	-8,8	-8,8	-8,8
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	-36,7	-17,1	-4,0
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	-0,9	0,0	0,0
Pre-tax Result	-13,6	-15,5	-37,4	-37,9	-37,6	-17,1	-4,0
Tax	0,0	0,0	-0,1	0,1	0,0	0,0	0,0
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	-37,6	-17,1	-4,0

Capital Expenditure

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

Key Ratios

Share Price: SEK 0,93

	2018	2019	2020	2021	2022E	2023E	2024E
Share Price at 31 Dec	7,80	4,25	1,33	0,77	0,93	0,93	0,93
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	200,6	230,5	230,5
Enterprise Value	68,1	46,3	73,5	59,9	168,0	219,2	225,7
EPS (Reported)	-1,86	-1,21	-0,59	-0,39	-0,17	-0,07	-0,02
EPS (Adjusted)	-1,86	-1,21	-0,59	-0,39	-0,17	-0,07	-0,02
CEPS	-1,15	-1,71	-0,11	-0,38	-0,20	-0,05	0,00
P/CEPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Book Value/Share	2,0	4,0	1,0	0,6	0,1	0,0	0,0
P/BV	3,8	1,1	1,3	1,2	7,7	54,9	1395,2
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	3,6	2,6	2,0
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47,4
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/E (Adjusted)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	-4,1	-53,5	-76,4
EPS Growth (Adjusted), Y/Y (%)	n.a.	-35,1	-51,0	-34,4	-55,0	-60,5	-76,4
EBITDA Margin (%)	-161,8	-14,0	-67,1	-161,2	-60,3	-10,0	4,2
EBIT Margin (%)	-177,9	-35,0	-91,8	-209,6	-79,3	-20,6	-3,6
Return on Equity (%)	n.a.	-47,2	-64,6	-59,5	-90,6	-134,1	-184,9
Tax Rate (%)	0,0	0,0	-0,2	0,1	0,0	0,0	0,0

Financial Position

	2018	2019	2020	2021	2022E	2023E	2024E
Interest-Bearing Net Debt	11	-8	-11	-15	-33	-11	-5
Net Debt/Equity	75,0	-15,9	-16,2	-24,5	-152,8	-270,1	-2902,9
Equity Ratio	35,7	83,0	78,0	67,0	20,0	5,0	0,2
Net Debt/EBITDA	-1,0	1,7	0,4	0,5	1,2	1,4	-1,0

Source: Emergers, Company reports

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