

KebNi AB (publ)

Saab order the portal to next level for KebNi

Johan Widmark | 2022-10-17 10:00

With the SEK 76m volume order for IMUs from Saab, KebNi now enters the next level of monetising its IMU technology. The order however only scratches the surface of the potential with NLAW, as replacing the units the UK has sent to Ukraine represent a potential of over SEK 300m alone. KebNi now enjoys a strong business momentum and strengthened organisation which in short time led to Satcom-portfolio boosting initiatives. With our forecast of a pick-up in H2'22 and sharp revenue increase in 2023, we find support for a fair value of SEK 1.4-2.1 (1.2-1.8) in 12-24m, and see the announcement of revised financial targets before year end and follow-on orders from Saab as primary catalysts.

Long term NLAW potential SEK 0,7 per share

As we had expected, Saab has now submitted the first volume order for tailor-made Inertial Sensing units to be used in Saab's single-use antitank weapon system NLAW, made famous for its role in fending off Russian tanks in the war in Ukraine. Deliveries are planned to start in mid 2023 and last into 2024, after series volume production preparations have been finalized. The weapon has been in use since 2009, with a total of over 24,000 units produced, of which 10,000 has been gifted to Ukraine.

A simple calculation shows that if the UK were to replenish its stocks after the units sent to Ukraine, this would mean a business potential of SEK 300-400m for KebNi, to the UK alone. But considering the impact NLAW has had in Ukraine, the demand for NLAW can be expected to increase significantly from many other countries. This means that the SEK 76m order is most likely only the first of many to come for a long time ahead. Provided that KebNi receives follow-on orders we estimate that production at full capacity would correspond to revenues of around SEK 180m annually, which means we expect the bulk of the NLAW volume production to occur beyond our forecast horizon in 2024.

A rough assumption of a total of 25,000 new NLAW units over the coming 8 years, 50% gross margin and a discount factor of 20% would correspond to a NPV for just the 'IMUs for NLAW'-business of SEK 0,7 per share. The volume component is however somewhat binary and not something we include fully in our forecast and valuation just yet.

Lower risk but higher general risk premium

In addition to the Saab order, we continue to expect a pick-up in international orders in Satmission as well as other Inertial Sensing deals. Also, the bankruptcy of local peer Datapath in May this year gave KebNi the opportunity to add personnel with relevant experience. All in all, we continue to expect a pick-up in revenues in H2'22 and maintain our full year forecast at SEK 46m for 2022. We also raise our revenue forecast for 2023, from SEK 83m to SEK 93m, which implies a 20% growth for the non-Saab related business in 2023.

With the series production order we now look forward to the announcement of KebNi's revised financial targets later in Q4'22, which hopefully offers some welcome substance to our forecast for 2023 and beyond. Following the Saab order, our forecast adjustments and a general expansion of the risk premium in the market (WACC 20%), we now find support for a fair value of 1.4-2.1 (1.2-1.8) per share in 12-24m and see the upcoming announcement of new financial targets and follow-on orders from Saab as primary triggers.

76

MSEK order from Saab

50%

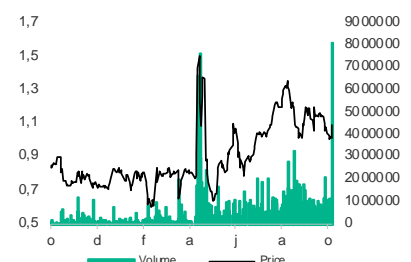
long-term gross margin estimate

+300

MSEK potential in UK alone

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Fair Value, SEK (12-24 m)	1,4 - 2,1
Current Price, SEK	1,09
Number of Shares (Millions)	215,7
Market Capitalisation (MSEK)	235
Net Debt (MSEK)	-31
Enterprise Value (MSEK)	204
Market	First North



MSEK	2020	2021	2022E	2023E	2024E
Sales	39	18	46	93	113
EBITDA	-26	-29	-21	-3	5
EBIT	-35	-38	-30	-12	-4
EPS Adjusted	-0,59	-0,39	-0,14	-0,05	-0,02
Sales Growth, %	10,7	-52,6	151,9	102,2	21,6
EBITDA Margin, %	-67,1	-161,2	-46,4	-3,5	4,2
EBIT Margin, %	-91,8	-209,6	-66,1	-13,2	-3,8
EV/Sales	1,91	3,28	4,71	2,89	2,43
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	57,8
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 and now also venturing into the Communications On The Move segment.

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 revised

Against the background of the changed geopolitical situation in Europe and the received order from SAAB, KebNi sees a need to be able to act flexibly and adapt the business' direction and resources in the near term in order to be ready for delivery in 2023. As a consequence, the board of Kebni has chosen to prioritize these activities over the company's current financial goals and intends to define financial targets that are better suited to guide the long-term direction of the business. The financial targets that will be revised are the following:

- 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

While we await the announcement of the new targets, sometime during H2 2022, we see these previous targets as a reference point for our forecast.

Valuation

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. 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 20%.

Overall, our calculations show support for a post-money fair value of SEK 1.4-2.1 per share on a horizon of 12-24 months, based on DCF and multiples.

DCF Key Assumptions

WACC	20%
Long-term EBITDA-margin	22%
Long-term CAPEX as share of sales	5%
Terminal Value EBITDA-multiple	15x
Total NPV, MSEK	307
NPV per share, SEK	1,4

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 and monetise its technology.

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Income Statement

MSEK	2018	2019	2020	2021	2022E	2023E	2024E
Sales	6,8	34,8	38,5	18,3	46,0	93,0	113,1
Operating Costs	-17,8	-39,7	-64,4	-47,7	-67,4	-96,3	-108,4
EBITDA	-11,0	-4,9	-25,9	-29,4	-21,4	-3,3	4,8
Depreciation	-1,1	-7,3	-9,5	-8,9	-9,0	-9,0	-9,0
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	-30,4	-12,3	-4,3
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	-0,6	0,0	0,0
Pre-tax Result	-13,6	-15,5	-37,4	-37,9	-31,0	-12,3	-4,3
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	-31,0	-12,3	-4,3

Capital Expenditure

	2018	2019	2020	2021	2022E	2023E	2024E
Capital Expenditure, Absolute	6,8	5,0	5,0	1,3	0,0	4,7	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 1,09

	2018	2019	2020	2021	2022E	2023E	2024E
Share Price at 31 Dec	7,80	4,25	1,33	0,77	1,09	1,09	1,09
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	235,1	270,2	270,2
Enterprise Value	68,1	46,3	73,5	59,9	216,5	268,8	275,4
EPS (Reported)	-1,86	-1,21	-0,59	-0,39	-0,14	-0,05	-0,02
EPS (Adjusted)	-1,86	-1,21	-0,59	-0,39	-0,14	-0,05	-0,02
CEPS	-1,15	-1,71	-0,11	-0,38	-0,21	-0,03	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	0,4	0,3	0,2
P/BV	3,8	1,1	1,3	1,2	2,5	4,2	4,5
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	4,7	2,9	2,4
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	57,8
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	151,9	102,2	21,6
EBIT Growth, Y/Y (%)	n.a.	0,6	190,6	8,2	-20,6	-59,5	-65,3
EPS Growth (Adjusted), Y/Y (%)	n.a.	-35,1	-51,0	-34,4	-62,9	-65,5	-65,3
EBITDA Margin (%)	-161,8	-14,0	-67,1	-161,2	-46,4	-3,5	4,2
EBIT Margin (%)	-177,9	-35,0	-91,8	-209,6	-66,1	-13,2	-3,8
Return on Equity (%)	n.a.	-47,2	-64,6	-59,5	-44,9	-17,6	-6,9
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	-19	-1	5
Net Debt/Equity	75,0	-15,9	-16,2	-24,5	-24,4	-2,2	8,6
Equity Ratio	35,7	83,0	78,0	67,0	83,3	85,6	84,7
Net Debt/EBITDA	-1,0	1,7	0,4	0,5	0,9	0,4	1,1

Source: Emergers, Company reports

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Johan Widmark | Tel: 0739196641 | Mail: johan@emergers.se