

KebNi AB

Mixed bag in Q3 - steep growth ahead

Johan Widmark | 2023-11-01 08:00

Despite 29% top-line growth in Q3'23, sales were a bit soft due to a slower-than-anticipated ramp-up of deliveries to Saab. This has led us to lower our FY forecast, while we still expect a significant rise in sales in Q4 and beyond. Now at a stable delivery pace of IMUs, KebNi also reports of other sales-oriented activities within SatCom and Inertial Sensing likely to boost sales in 2024. While the company remains committed to its strategic five-year plan, we have made a slight revision to our gross margin estimate, meaning that we now find support for a fair value of SEK 1.5-2.5 (1.7-2.7) per share, where the reported progress in the scaffolding joint venture, with potential commercialization in 2024, adds an extra option on top.

29% sales growth in Q3

Sales increased 29% to SEK 9.9m in Q3'23. While the deliveries of IMUs to Saab did in fact start in Q3, driving the growth in the quarter, the pace of the ramp-up was slower than we had estimated.

Interestingly, as the Saab IMUs accounted for the bulk of growth in the quarter, we noted that adjusted gross margin at 35% was lower than we had expected. Personnel expenses and other OPEX on the other hand, were lower than expected, leading to an EBIT-loss of SEK 10.5m in Q3. While we do expect gross margin to improve, driven by scale and mix effects in 2024 and beyond, we have lowered our gross margin estimate for 2024 and 2025 by 5ppt, while also trimming our OPEX forecast.

Revising forecast, continue to expect steep growth in 2024

The lower-than-expected sales and gross margin, and better than expected OPEX in Q3 have led us to revise our forecast for FY'2023 to SEK 70m (85), as we still expect a significant rise in sales in Q4. We also expect the company to reach positive CF on a quarterly basis by the end of 2024, but a positive result and cash flow on an annual basis not until 2025. Current SEK 30m in cash should be sufficient for the company to reach positive cash flow.

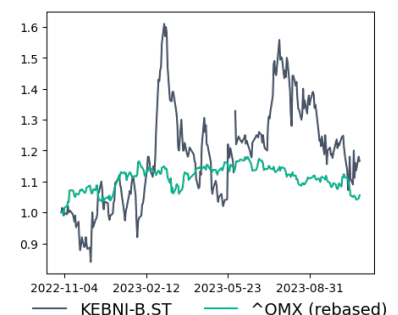
We now look forward to confirmation of the volumes series ramp-up in the reported numbers in Q4, more activities within SatCom and with SensAltion, and progress with the JV ScaffSense. In our combined DCF and earnings multiple approach we now find support for a fair value of SEK 1.5-2.5 (1.7-2.7) per share, with Saab volume orders feeding through to a significant increase in sales, enhanced earnings, and positive cash flow from 2024 to 2026, as the primary catalyst.

MSEK	2021	2022	2023E	2024E	2025E
Sales	18	26	70	180	216
EBITDA	-29	-39	-20	8	32
EBIT	-38	-64	-29	-5	14
EPS Adjusted	-0,39	-0,30	-0,11	-0,02	0,04
Sales Growth, %	-52,6	43,9	165,7	157,8	20,0
EBITDA Margin, %	-161,2	-149,6	-28,6	4,6	15,0
EBIT Margin, %	-209,6	-242,6	-42,2	-2,8	6,4
EV/Sales	3,28	7,74	4,04	1,62	1,29
EV/EBITDA	n.a.	n.a.	n.a.	35,6	8,6
EV/EBIT	n.a.	n.a.	n.a.	n.a.	19,9
P/E	n.a.	n.a.	n.a.	n.a.	28,7

Source: Emergers

KebNi AB (publ)

Fair Value, SEK (12-24 m)	1,5 - 2,5
Current Price, SEK	1,17
Number of Shares (Millions)	271,2
Market Capitalisation (MSEK)	317
Net Debt (MSEK)	-30
Enterprise Value (MSEK)	287
Market	First North



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.

With a faster pace in the development of the IMU to Saab's NLAW, KebNi has full focus to follow the shortened schedule as well as preparing the production. In addition, the proprietary off-the-shelf IMU product family SensAItion is being completed with full planned functionality, i.e. both IMU and INS (an IMU-based navigation system) functionality.

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 one such application, scaffolding monitoring. Please refer to our report entitled **Scaffolding focus in new vertical with great potential**. (https://www.emergers.se/kebni_c/).

Strategic plan and targets for 2023-2027

Against the background of the changed geopolitical situation in Europe and the received order from SAAB, KebNi has now updated its strategic plan and financial targets. The targets presented on 21st November, 2022 are the following:

- To reach a net revenue of 150-200 MSEK in 2024 and 20-25% annual growth the following years
- EBITDA-margin of 5-10% and positive cashflow in financial year 2024
- Grow Satcom more than the market during the 5-year period
- Inertial Sensing will outgrow SatCom in 2023

For more on our view on the strategic plan, see our report [KEBNI: New targets reflect high conviction in strong growth across the board in 2023-2027](#).

NLAW

While Saab only discloses the order value for its NLAW orders, it is fair to assume that the 2.9 BN SEK order from the UK is to replace all the 10,000 NLAWs that the UK has sent to Ukraine. This would equal an NLAW unit price of SEK 290 kSEK. With an estimate of 30,000 SEK per IMU to each unit this would mean 300 MSEK in revenues for KebNi. Deliveries to the UK are expected in 2023-2026.

Applying the same unit estimates for the 900 MSEK order from Sweden, with deliveries from Saab to Sweden in 2024-2026, we estimate a total of 3,000 units at SEK 300k each, corresponding to SEK 90m in revenues to KebNi.

So far, KebNi has received two orders for series production of SEK 76m and SEK 79.8m respectively from Saab.

ScaffSense - possible launch in 2024

Alongside the core business, Kebni's Joint Venture with Solideq (a EUR 30m revenue seller of scaffolding), ScaffSense, is now moving ahead aiming to complete at least one big-scale pilot project before year end 2023, and a potential market launch already in 2024. ScaffSense hopes to provide the world's first smart scaffolding alarm system, designed to make construction sites safer and more profitable. Only in the US, some 50 people die each year as a consequence of unsafe scaffolding, not to mention the billions of dollars in costs for the construction industry every year. ScaffSense provides a sensor-based safety alarm system that combines Kebni's stabilization technology with Solideq's industry and market insights, to monitor scaffolding structures in real-time, identify potential safety risks and alert when it finds issues.

The scaffolding construction market amounts to USD 2.4bn in the EU and USD 7.5bn globally, according to IndexBox and 360 Research Reports. ScaffSense however has yet to verify product-market-fit.

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 16%.

Overall, our calculations show support for a post-money fair value of SEK 1.7-2.7 per share on a horizon of 12-24 months, based on DCF and multiples.

DCF Key Assumptions

WACC	16%
Long-term EBITDA-margin	25%
Long-term CAPEX as share of sales	5%
Terminal Value EBITDA-multiple	15x
Total NPV, MSEK	479
<u>NPV per share, SEK</u>	<u>1.8</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 and monetise its technology.

KebNi AB (publ)

Income Statement

MSEK	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sales	6,8	34,8	38,5	18,3	26,3	69,8	180,0	216,0
Operating Costs	-17,8	-39,7	-64,4	-47,7	-65,6	-89,8	-171,8	-183,6
EBITDA	-11,0	-4,9	-25,9	-29,4	-39,3	-20,0	8,2	32,4
Depreciation	-1,1	-7,3	-9,5	-8,9	-24,4	-9,5	-13,2	-18,5
Amortisation of Goodwill	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	-12,1	-12,2	-35,4	-38,3	-63,7	-29,4	-5,0	13,9
Non-recurring Items	0,0	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	0,0
Net Financial Items	-1,5	-3,3	-2,1	0,4	-0,1	0,0	0,0	0,0
Pre-tax Result	-13,6	-15,5	-37,4	-37,9	-63,9	-29,4	-5,0	13,9
Tax	0,0	0,0	-0,1	0,1	0,0	0,0	0,0	-2,9
Minority Interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Result	-13,6	-15,5	-37,5	-37,8	-63,9	-29,4	-5,0	11,1

Capital Expenditure

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Capital Expenditure, Absolute	6,8	5,0	5,0	1,3	0,0	2,5	9,0	10,8
As a Pct of Sales	100,0	14,4	13,0	6,9	0,0	3,5	5,0	5,0
Depreciation Multiple	6,2	0,7	0,5	0,1	0,0	0,3	0,7	0,6

Key Ratios

Share Price: SEK 1,17

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Share Price at 31 Dec	7,80	4,25	1,33	0,77	1,00	1,17	1,17	1,17
Number of Shares (Millions)	7,3	12,8	63,4	97,5	215,7	271,2	271,2	271,2
Market Cap	57,0	54,4	84,1	75,1	214,8	317,3	317,3	317,3
Enterprise Value	68,1	46,3	73,5	59,9	203,5	282,4	292,2	277,6
EPS (Reported)	-1,86	-1,21	-0,59	-0,39	-0,30	-0,11	-0,02	0,04
EPS (Adjusted)	-1,86	-1,21	-0,59	-0,39	-0,30	-0,11	-0,02	0,04
CEPS	-1,15	-1,71	-0,11	-0,38	-0,17	-0,07	0,00	0,07
P/CEPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16,9
Book Value/Share	2,0	4,0	1,0	0,6	0,2	0,3	0,2	0,3
P/BV	3,8	1,1	1,3	1,2	4,0	4,7	5,0	4,3
Dividend	0,00	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	0,0
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EV/Sales	10,0	1,3	1,9	3,3	7,7	4,0	1,6	1,3
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	35,6	8,6
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19,9
P/E (Adjusted)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28,7
Sales Growth, Y/Y (%)	n.a.	411,8	10,7	-52,6	43,9	165,7	157,8	20,0
EBIT Growth, Y/Y (%)	n.a.	0,6	190,6	8,2	66,5	-53,8	-82,9	-376,5
EPS Growth (Adjusted), Y/Y (%)	n.a.	-35,1	-51,0	-34,4	-23,7	-63,4	-82,9	-319,7
EBITDA Margin (%)	-161,8	-14,0	-67,1	-161,2	-149,6	-28,6	4,6	15,0
EBIT Margin (%)	-177,9	-35,0	-91,8	-209,6	-242,6	-42,2	-2,8	6,4
Return on Equity (%)	n.a.	-47,2	-64,6	-59,5	-121,2	-52,8	-7,7	16,1
Tax Rate (%)	0,0	0,0	-0,2	0,1	0,0	0,0	0,0	20,6

Financial Position

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Interest-Bearing Net Debt	11	-8	-11	-15	-11	-35	-25	-40
Net Debt/Equity	75,0	-15,9	-16,2	-24,5	-25,9	-51,3	-39,8	-53,6
Equity Ratio	35,7	83,0	78,0	67,0	68,9	82,3	81,1	83,5
Net Debt/EBITDA	-1,0	1,7	0,4	0,5	0,3	1,7	-3,1	-1,2

Source: Emergers, Company reports

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