

Corporate

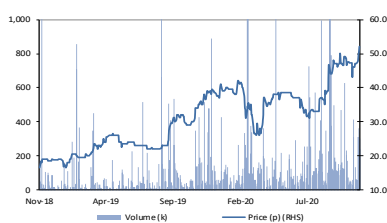
 Current price **52.0p**

 Sector **TMT**

 Code **MWE.L**

 AIM **AIM**

Share Performance



	1m	3m	12m
MWE.L	7.2%	57.6%	48.6%

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **46.0**

 Shares in issue (m) **88.5**

52 weeks High Low

52 26

 Financial year end **31 December**

Source: Company Data, Allenby Capital

Key Shareholders

Borovitz Family 34.3%

Beer Family 11.2%

Directors & PDMR 6.8%

Miton Asset Management 5.6%

Herald Investment Man. Ltd 4.5%

Source: Company Data, Allenby Capital

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MTI Wireless Edge Ltd (MWE.L)

Profit growth on track

Today's update demonstrates 20% operating profit growth at the technology group specialising in comprehensive radio frequency communication solutions across multiple sectors for the first nine months - a function of revenue growth (+2%) coupled with cost savings and operating leverage. A good performance given the global backdrop. EBIT margin increased 150bps to 10.1% and this higher margin means MTI remains on track to meet our FY20 profit forecasts albeit on a lower revenue base and we reduce revenue forecasts by 6%. We anticipate limited cost inflation in FY21 and hence profit forecasts remain unchanged but we trim revenue. We also introduce FY22 forecasts. MTI has a diversified business and each division can point to structural growth drivers. Despite a good share price performance this year (+28%), the current price fails to reflect MTI's track record and growth potential, balance sheet strength and yield. We set a new fair value (63p from 46p), equivalent to an FY21 EV/EBITDA of 11.4x falling to 10.1x in FY22.

- 9M performance** – Group revenue increased 2% to \$29.6m. There was growth in Mottech (+1.6% to \$12.2m) and Distribution (+10.3% to \$8.9m) but Antenna fell (-4.1% to \$8.5m) with COVID-19 impacting MTI's RFID part of the business. Each division remained profitable, however. Gross profit increased 0.8% to \$9.5m and operating costs fell \$0.4m hence EBIT increased 20% to \$1.9m, equivalent to 10.1% EBIT margin (9M FY19: 7.8%). Cash conversion remains good at 103% and net cash was \$8.2m (Q3 FY19: \$6.7m).

- Mottech** – Mottech has increased its presence in Australia, China and the French vineyard sector and new products are scheduled for this quarter at the wireless water control and management division. Contract newsflow in the year to date has been positive across multiple geographies, including Mottech's domestic market, as public and private sector organisations look to address the challenge of water scarcity. The Tethys system for the French vineyard market has been well received and there is scope to expand its market share in France and expand into other wine producing regions.

- Distribution and Antennas** – MTI Summit (**Distribution**) continues to perform well as design wins move into production. In November, it announced a repeat order of c. \$1.5m for the supply of radio frequency components. MTI Summit works with its customers during the design phase and has close relationships with 40 component suppliers. In **Antennas**, MTI supplies four of the largest providers in the backhaul market and is unique in offering both Dual Band and Flat Antenna products. 5G network roll out represents a global growth opportunity over the medium term. In September, it announced a framework order of c. \$0.5m for 5G antennas. MTI's previous 5G backhaul sales have been for field testing and early deployments. In military, it recently announced (10.11.20) an order from a new Northern European customer of up \$0.65m and scope for expansion.

Year End: 31 December

(\$'000)	2018	2019	2020E	2021E	2022E
REVENUE	35,471	40,043	40,726	43,444	45,978
ADJ. EBITDA	3,513	4,432	5,445	5,732	6,357
ADJ. PBT	2,650	3,409	4,270	4,882	5,457
ADJ. EPS (p)	2.05	2.49	2.91	3.39	3.79
NET CASH	4,393	7,687	7,624	8,524	9,467
EV/EBITDA (x)	16.0	12.0	9.8	9.1	8.1
YIELD (%)	2.2	2.9	3.6	4.0	4.4

Allenby Capital acts as Nomad & Joint Broker to MTI Wireless Edge Ltd (MWE.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

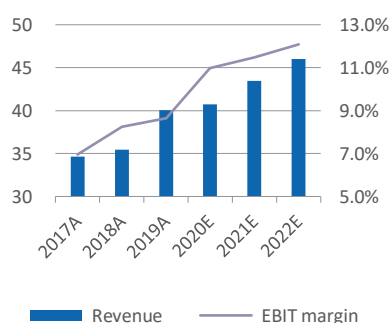
Investment summary

Results for the nine months to end September saw 20% growth in operating profit to \$3.0m and a modest growth in revenue for the technology group specialising in comprehensive radio frequency communication solutions across multiple sectors. Operating cost savings and operating leverage resulted in EBIT margin increasing 150bps to 10.1%. This higher margin means MTI remains on track to meet our FY20 profit forecasts albeit on a slightly reduced revenue forecast. We anticipate limited cost inflation in FY21 and hence profit forecasts remain unchanged but we trim revenue forecasts. We also introduce FY22 forecasts.

The benefits of MTI's diversified model (by sector and geography) has provided some protection against the COVID-19 disruption and there are encouraging signs of growth for each division (Antennas, Wireless Water Control and Management, and Distribution and Professional Services) as well as long term structural growth drivers. MTI offers investors exposure to three key global growth trends. First, climate change concerns are driving demand for water management systems. Second, the investment in communications, including the deployment of 5G networks. Finally, MTI is benefiting from increased global defence spending.

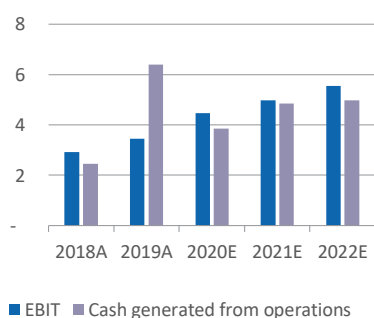
In spite of a good share price performance this year (+28%), the current price fails to reflect MTI's track record and growth potential, balance sheet strength and yield. We set a new fair value of 63p/share (from 46p), equivalent to an FY21 EV/EBITDA of 11.4x falling to 10.1x in FY22.

Exhibit 1: Revenue and EBIT margin progression



Source: Allenby Capital

Exhibit 2: Cash conversion (\$m)



Source: Allenby Capital

Financial performance

Group revenue increased 2% to \$29.6m. There was growth in Mottech (+1.6% to \$12.2m) and Distribution (+10.3% to \$8.9m) but Antenna fell (-4.1% to \$8.5m) with COVID-19 impacting MTI's RFID part of the business. Each division remained profitable, however. Gross profit increased 0.8% to \$9.5m and operating costs fell \$0.4m. Distribution expenses fell \$0.4m given the absence of international travel costs and trade shows etc while a \$0.2m increase in G&A was matched by a \$0.2m reduction in R&D. EBIT increased 20% to \$1.9m, equivalent to 10.1% EBIT margin (9M FY19: 7.8%). Cash conversion remains good at 103% and net cash was \$8.2m (Q3 FY19: \$6.7m).

Operational performance

Antennas: This division sells antennas and custom developed antenna solutions into both military and civilian markets. MTI supplies directional and omnidirectional antennas from 100KHz to 90GHz for outdoor and indoor deployments, including smart antennas for WiMAX, Broadband access, public safety, RFID, base stations and terminals for the utility market. Military applications include a wide range of broadband, tactical and specialized communication antennas, antenna systems and DF arrays installed on numerous airborne, ground and naval, including submarine, platforms worldwide.

5G backhaul antenna solutions represent a major medium-term growth opportunity as network operators roll out their 5G networks. MTI supplies four of the largest providers in the backhaul market and is unique in offering both Dual Band (or Multi Band) and Flat antenna. In September, it announced a framework order of c. \$0.5m for dual band 5G antennas that is expected to be completed in the next nine months. MTI's previous 5G backhaul sales have been for field testing and early deployments and hence this agreement indicates that the upgrade cycle of the network infrastructure to 5G is starting.

In military applications, MTI recently announced (10.11.20) an order with a new Northern European customer worth up to \$0.65m for the development and manufacturing of military antennas. The first stage, to provide the customer with prototype units, is underway and is worth \$0.3m. The second stage, subject on the customer deciding to order the antennas to be manufactured, is expected to be worth up to \$0.35m. This client

has the potential to become a much larger customer over time. Military represents a reliable income stream but also the technologies developed for use in the military can be repurposed for the commercial market.

COVID-19 has had a mixed impact on the division. On the one hand, demand for greater wireless connectivity has increased demand for broadband access products and the general move towards 5G deployments. On the other, RFID has been weaker and this was the cause of the fall in divisional revenue and leads us to reduce our revenue forecasts.

Mottech: Water scarcity represents a growing global issue and this is reflected in the performance of the water control and management system. During the first nine months, Mottech has increased its presence in Australia, China and the French vineyard sector and new products are scheduled for this quarter.

Positive contract newsflow

Contract newsflow in the year to date has been positive with both new contracts and renewals in the public and private sectors. This includes an order total more than \$300k for a landscape project in East China (April) and a renewal service agreement worth c. \$0.9m with one of the largest municipalities in Israel (March). The Tethys system for the French vineyard market, announced in July, has been well received and there is scope to expand its market share in France and expand into other wine producing regions.

Distribution and Professional Services: MTI offers consulting, representation and marketing services to c. 40 foreign suppliers of radio frequency and microwave components into Israel and Russia under the MTI Summit Electronics brand. The experienced team is able to provide expertise to both suppliers and customers and assist with devising radio frequency and microwave solutions.

By being engaged at the design stage, MTI Summit is able to identify the most appropriate communications components and will then typically see repeat orders for the lifetime of the end product. There is also a synergistic relationship between MTI Summit and the other parts of the business (Antenna and Mottech). In November, it announced a c. \$1.5m order for the supply of radio frequency components in 2021. This is a repeat order of the one announced in February.

PBT forecasts unchanged; introduce FY22

Forecast changes

Exhibit 3 reflects the lower revenue expectations for the Antenna division in FY20 and we anticipate lower revenue in FY21 as well although each division has returned to growth. This is offset by the operating cost savings in FY20 and limited cost inflation in FY21. As a result, PBT forecasts remain unchanged. The variance in adj. EBITDA is a function of a higher depreciation and amortisation charge. The FY22 forecast assumes further revenue growth in each division, gross margins remaining consistent and some operating cost inflation. As a result, EBIT margin increases a further 60bps to 12.1%.

Fair value of 63p/share

Our new fair value of 63p per share (previously 46p/share) is equivalent to FY21 EV/EBITDA of 11.4x falling to 10.1x in FY22 and a yield of 3.3% and 3.6% respectively at the fair value price. On an EV/Revenue basis, it is 1.5x FY21 and 1.4x FY22.

Exhibit 3: Forecast changes

		New		Old		
Year ended December	FY 2019A	FY 2020E	FY 2020E	FY 2021E	FY 2021E	FY 2022E
Revenue	40,043	40,726	43,458	43,444	45,914	45,978
Adj. EBITDA	4,432	5,445	5,170	5,732	5,721	6,357
Adj. Profit before tax	3,409	4,270	4,270	4,882	4,881	5,457
EPS (diluted) (p)	2.5	2.9	3.0	3.4	3.4	3.8
Net cash	7,687	7,624	7,653	8,524	8,508	9,467

Source: Allenby Capital

Exhibit 4: Summary forecasts**Profit & Loss**

Year ended December (\$000s)	FY 2018A	FY 2019A	FY 2020E	FY 2021E	FY 2022E
Revenue	35,471	40,043	40,726	43,444	45,978
<i>Growth</i>	2.4%	12.9%	1.7%	6.7%	5.8%
Gross Profit	12,051	12,796	13,195	14,032	14,897
<i>Margin</i>	34.0%	32.0%	32.4%	32.3%	32.4%
Total administrative and operating expenses	-9,127	-9,337	-8,720	-9,050	-9,340
<i>Growth</i>	3.6%	2.3%	-6.6%	3.8%	3.2%
Adj. EBITDA	3,513	4,432	5,445	5,732	6,357
<i>Adj. EBITDA margin</i>	9.9%	11.1%	13.4%	13.2%	13.8%
Adj. Profit before tax	2,650	3,409	4,270	4,882	5,457
Shares in issue (diluted)	87.0	86.6	88.5	88.5	88.5
EPS (diluted) (p)	2.0	2.5	2.9	3.4	3.8
DPS (cents)	1.5	2.0	2.5	2.8	3.0

Cash Flow

Year ended December (\$000s)	FY 2018A	FY 2019A	FY 2020E	FY 2021E	FY 2022E
Operating profit before movements in working capital	3,206	4,414	5,140	5,532	6,157
Cash generated from operating activities	2,462	6,395	3,843	4,843	4,983
Net cash flow from investing activities	1,564	-699	-544	-500	-499
Net cash flow from financing activities	-1,875	-2,211	-2,449	-2,934	-2,935
Net increase/(decrease) in cash and cash equivalents	1,950	2,688	-236	779	821
Cash and cash equivalents at end of period	5,401	8,140	7,855	8,634	9,455
Net cash	4,393	7,687	7,624	8,524	9,467

Balance sheet

Year ended December (\$000s)	FY 2018A	FY 2019A	FY 2020E	FY 2021E	FY 2022E
Non-current assets	5,845	7,023	6,553	6,303	6,004
Other current assets (excluding cash)	15,749	16,219	17,177	17,878	19,143
Cash and cash equivalents	5,401	8,140	7,904	8,683	9,504
Total current assets	23,421	27,225	28,081	29,061	30,647
Total Assets	29,266	34,248	34,634	35,364	36,651
Non-Current Liabilities	-1,128	-1,277	-495	126	749
Current Liabilities	-7,123	-9,681	-9,552	-9,614	-9,602
Total liabilities	-8,251	-10,958	-10,047	-9,488	-8,853
Net assets	21,015	23,290	24,587	25,876	27,797

Source: Company; Allenby Capital

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