

Corporate

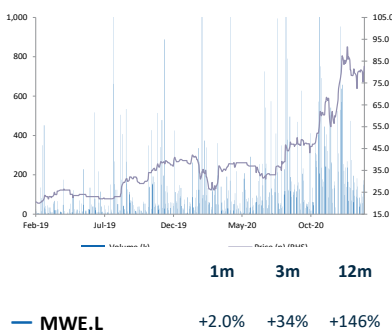
 Current price **83p**

 Sector **TMT**

 Code **MWE.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **73.5**

 Shares in issue (m) **88.5**

52 weeks High Low

91.5p **26p**

 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

David Johnson

0203 394 2977

d.johnson@allenbycapital.com

www.allenbycapital.com

MTI Wireless Edge Ltd (MWE.L)

Strength of diversified model

Finals from MTI Wireless Edge Ltd, the technology group specialising in comprehensive radio frequency communication solutions across multiple sectors, were in line with forecast and demonstrate the advantages of geographic and sector diversification given the challenges posed by COVID-19. Each division can point to structural growth drivers (5G roll out, water scarcity and growth in the international defence market) but were impacted by the pandemic to varying degrees in FY20 although each remained profitable. Group revenue grew 2% to \$40.9m (ACLe: \$40.7m) and PBT by 19% to \$4.1m (ACLe: \$4.3m) reflecting operating gearing and travel and marketing cost savings. Cash collection remained strong and net cash comfortably beat forecasts up 23% to \$9.4m (ACLe: \$7.6m) and the final dividend increases 25% to 2.5 cents. P&L forecasts for FY21 and FY22 remain unchanged but we increase our cash forecasts and fair value per share to 95p from 63p, equivalent to an FY21 EV/EBITDA of 19.0x falling to 16.8x in FY22.

- FY20 performance** – Group revenue increased 2% to \$40.9m – a five year CAGR of 33%. Within this, Distribution and Professional Consulting (MTI Summit Electronics) was the standout performer (+18% to \$13.6m) and follows the 33% growth in FY19. This reflects strong demand from existing customers as well as new customers out of the Russia satellite office. Antennas revenue fell 6.9% to \$11.2m with the pandemic impacting the RFID antenna business and slowing some military projects. Mottech revenue fell 2.4% to \$16.1m as COVID-19 interrupted the commissioning of some new projects. Gross margins were stable at 32% and operating expenses fell 3.6% to \$9.0m, with reduced marketing and travel expenses as industry events were cancelled. These savings, plus operational gearing, resulted in PBT increasing 19% to \$4.1m. Net cash +\$1.8m to \$9.4m.
- Operational performance** – In Antennas, there was encouraging growth in demand for MTI's 5G backhaul antennas as operators increase investment in their networks to offer 5G services to their customers and handset manufacturers start to offer devices with 5G connectivity. Although still at a fairly early stage, order patterns have shifted from smaller quantities for field testing to larger orders that indicate the start of network roll outs. Mottech successfully launched Tethys, a new wireless irrigation solution for the French wine market, and initial uptake has been encouraging. At MTI Summit, a number of design wins solutions are now converting into production orders and these provide revenue visibility going forward.
- Valuation** – MTI benefits from a diversified business model albeit focused on radio frequency communications and investors gain exposure to the global growth in 5G networks, environmental spend and defence budgets. Our revised fair value of 95p/share is equivalent to an FY22 EV/EBITDA of 16.8x and a cash adjusted PER of 24.2x.

Year End: 31 December

(\$000s)	2018	2019	2020	2021E	2022E
REVENUE	35,471	40,043	40,893	43,443	45,975
ADJ. EBITDA	3,513	4,432	5,085	5,705	6,351
ADJ. PBT	2,650	3,409	4,056	4,905	5,451
ADJ. EPS (p)	1.91	2.32	2.72	3.16	3.52
NET CASH	4,393	7,687	9,435	10,436	12,152
EV/EBITDA (x)	28.2	21.6	18.5	16.3	14.4
PER (x)	43.3	35.8	30.6	26.2	23.6

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

FY20 finals from MTI Wireless Edge Ltd, the technology group specialising in comprehensive radio frequency communication solutions, were in line with forecasts with a 2% growth in group revenue to \$40.9m (ACLe: \$40.7m) and a 19% increase in adj. PBT to \$4.1m (ACLe: \$4.3m). EBIT margin increased 140bps to 10.0% reflecting both operational gearing and savings in travel and marketing given the cancellation of industry events and general COVID-19 travel restrictions. Cash collection remained strong and net cash comfortably beat forecasts up 23% to \$9.4m (ACLe: \$7.6m) and we upgrade our cash forecasts by \$1.9m and \$2.7m to \$10.4m in FY21 and \$12.2m in FY22 respectively. P&L forecasts remain unchanged. The final dividend increases 25% to 2.5 cents and represents a 2.1% yield on the current price.

Each division remained profitable

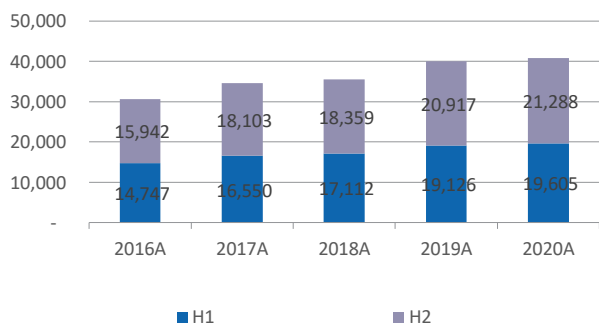
Each division (Antennas, Water Control & Management (Mottech), and Distribution & Professional Consulting Services (MTI Summit)) remained profitable but were impacted by the pandemic to varying degrees in FY20. This diversification model (geography and industry) albeit based on core radio frequency communications technology and expertise represents a key differentiator to the MTI Wireless investment case.

There are global structural growth drivers in each division (Antennas: 5G roll out and the need for increased backhaul speeds; Mottech: increased environmental spend around water scarcity; and MTI Summit Electronics: increased defence budgets and wireless spend) but the pace and pattern of growth can fluctuate over the economic cycle and the geographic and sector diversification helps to smooth the revenue growth profile.

Fair value per share of 95p (from 63p)

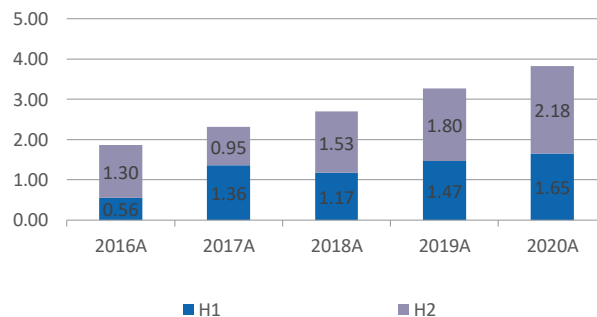
Our revised fair value per share of 95p (from 63p) reflects the growth potential of the different divisions. The diversification and the company's track record provide confidence in our forecasts. Now in its 51st year, MTI Wireless Edge has achieved a revenue CAGR of 33% over the past five years and 106% growth in EPS over the same period. The company has been a consistent payer of dividends out of operating cash flow and has a strong balance sheet that has been used for expansion and selective acquisitions as well as the purchase of treasury shares that have been resold to institutional investors. The new fair value is equivalent to an FY22 EV/EBITDA of 16.8x and a cash adjusted PER of 24.2x.

Exhibit 1: Five year revenue performance (\$000s)



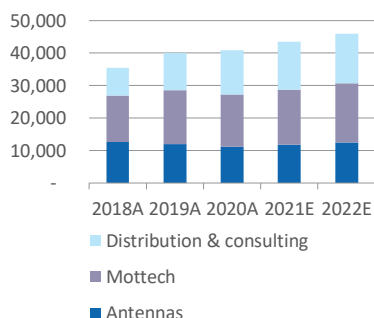
Source: Company; Allenby Capital

Exhibit 2: Five year EPS performance (\$ cents)



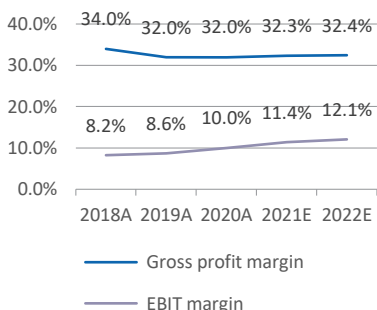
Source: Company; Allenby Capital

Exhibit 3: Revenue breakdown



Source: Company; Allenby Capital

Exhibit 4: Gross & EBIT margin progression



Source: Company; Allenby Capital

FY20 financial performance

Group revenue increased 2% to \$40.9m. On a divisional basis, Distribution and Professional Consulting (MTI Summit Electronics) was the standout performer (+18% to \$13.6m) and follows the 33% growth in FY19. This reflects strong demand from existing customers as well as new customers out of the Russia satellite office. Revenue at the Antennas division fell 6.9% to \$11.2m with the pandemic impacting the RFID antenna business and slowing some military projects. Mottech revenue also fell 2.4% to \$16.1m as COVID-19 interrupted the commissioning of some new projects.

Gross margins were stable at 32% and operating expenses fell 3.6% to \$9.0m, with reduced marketing and travel expenses as industry events were cancelled. Some of this reduced level of spending is likely to be maintained as COVID-19 has revealed some working efficiencies that will be carried forward. These cost savings, plus operational gearing, resulted in EBIT margin increasing 140bps to 10.0% and PBT by 19% to \$4.1m.

Net cash increased \$1.7m to \$9.4m (ACLe: \$7.6m) with cash generated from operating activities at \$4.5m equivalent to 111% of EBIT. This was used to pay the FY19 final dividend (\$1.8m) and pay down debt (\$0.3m). The company continues to be asset light – capex was \$0.5m in FY20 (FY19: \$0.7m). Given the outperformance in cash, we upgrade our cash forecasts for FY21 and FY22.

MTI's share buy-back programme remains in place. This is used to assist with trading activity – the company holds purchased shares in treasury and then sells as blocks to institutional investors. Shares worth \$0.2m (FY19: 0.4m) were bought/sold during the year and no shares were held in treasury as at 1 March 2021.

The final dividend increases 25% to 2.5 cents and this is covered 1.5x by EPS of 3.8 cents (FY19: 3.3 cents).

Exhibit 5: Forecast changes

\$000s		New	Old	New	Old
Year end December	FY 2020A	FY 2021E	FY 2021E	FY 2022E	FY 2022E
Revenue	40,893	43,443	43,444	45,975	45,978
Adj. EBITDA	5,085	5,705	5,732	6,351	6,357
Adj. Profit before tax	4,056	4,905	4,882	5,451	5,457
EPS (diluted) (p)	2.7	3.2	3.1	3.5	3.5
Net cash	9,435	10,436	8,524	12,152	9,467

Source: Allenby Capital

Operational review

Antennas

This division sells flat and parabolic 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, basestations 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.

The 6.9% reduction in revenue in FY20 reflected the impact of the pandemic on MTI's RFID business – mainly toll roads and airports – as well as the slowdown in some military projects although the division did win defence contracts for conformal antennas. The pandemic has also underlined the importance of internet connectivity to support new patterns of working and schooling.

5G backhaul antenna solutions represent a major medium-term growth opportunity as network operators roll out their 5G networks and need to increase backhaul connectivity between cell towers in order to deliver faster services. MTI supplies four of the largest providers in the backhaul market and is unique in offering both Dual Band (or Multi Band) and Flat antennas.

FY20 saw customer demand picking up in line with management expectations. In September, it announced a framework order of c. \$0.5m for dual band 5G antennas. MTI's previous 5G backhaul sales had been for smaller quantities, indicating field testing and small scale deployments. Hence this contract suggests that the adoption of 5G by operators is moving forward to wider commercial deployments. At the same time, manufacturers are now launching handsets that support 5G connectivity.

In military applications, MTI announced an order in November 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 to the customer deciding to order the antennas to be manufactured, is expected to be worth up to \$0.35m. Management believes that this client has the potential to become a much larger customer over time. Military represents a reliable income stream for MTI but the technologies developed for use in the military can also be repurposed for the commercial market.

MTI's offset manufacturing facility in India started the year well but suffered as the pandemic took hold given its exposure to the airline industry and the global travel restrictions.

Water Control & Management: Mottech Water Solutions

Mottech provides wireless control systems to manage irrigation and water distribution for agriculture, municipal authorities and commercial organisations. Its water and irrigation applications are based on Motorola's IRRInet, the leading control, monitoring and communications hardware and Mottech is Motorola's global prime distributor for IRRInet. Mottech's software solutions reduce water and power usage and result in higher quality crops and plants through accurate irrigation.

Water scarcity is a global challenge with an estimated two-thirds of the global population living with severe water shortages for at least one month each year. Climate change is further exacerbating the situation and The World Bank estimates that 25-30% of freshwater is wasted and agriculture accounts for 70% of all freshwater usage. Mottech's water management system has been demonstrated to result in a 30% increase in crop

Exhibit 6: Dual band antenna



Source: Company

Adoption of 5G by operators is moving forward to wider commercial deployments

Water scarcity is a global challenge

yields while reducing costs by c. 30% from the efficient use of water, fertiliser, energy and labour.

Revenue was down 2.4% during 2020 - a function of the pandemic and associated travel restrictions delaying new project commissioning. But there was a flow of contract wins and renewals in the public and private sectors during the year.

Contract newsflow included an order worth more than \$300k for a landscape project in East China (April) and a renewal service agreement worth c. \$0.9m over two years with one of the largest municipalities in Israel (March). This customer has been with Mottech for more than twenty years and reports a saving of more than 50% in operational and maintenance costs as well as avoiding water wastage.

Exhibit 7: Mottech



Source: Company

This January, Mottech announced the renewal of an existing service agreement with one of the five largest municipalities in Israel and one of Mottech’s largest and longest standing customers. Worth an initial \$0.65m over two years, management expects it to expand to four years and could be worth c. \$2.5m in total given additional work. The customer has substantially increased its deployment of Mottech over the years, having tripled the area covered to more than 2,000 acres of city landscapes. It has also increased the wireless monitored area from 30% to more than 95% of the landscape, and reduced water consumption per cubic meter by two thirds.

In July, Mottech announced Tethys, a new wireless irrigation system developed for the French wine market that enables winemakers to control irrigation from their mobile phones. The system has been well received with several hundred winemakers buying the system. There is scope to increase the deployment of sensors with these initial customers as well as expanding the customer base. Historically irrigation of vineyards in France was forbidden or strictly control but given the impact of climate change the restrictions have been lifted in Southern France.

Mottech also recently announced a new wired decoder system that is required in several key markets. This enables multiple commands and functions in parallel as well as the receipt of data from sensors in the field.

New office in Alberta, Canada,

During the year Mottech has increased its presence in Australia and in China where it acquired its JV partner’s 40% in Mottech China. Post year end, it launched a new office in Alberta, Canada, following the retirement of Mottech’s long-term reseller.

Distribution and Professional Services: MTI Summit Electronics

MTI Summit Electronics offers consulting, representation and marketing services to c. 40 international suppliers of radio frequency and microwave components into Israel and Russia, mostly on an exclusive basis. Its customers are primarily defence entities operating from Israel as well as high tech companies.

Actively involved in the design process

Given its considerable technical experience and expertise, MTI Summit is actively involved in the design process and acts as a consultant to both suppliers and customers (e.g. electronic warfare, surveillance or other electronic systems). By being engaged at the design stage, MTI Summit is able to identify the most appropriate communications components and then will typically see repeat orders over the lifetime of the end product. This results in a long term order book. For example, in October 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 2020 worth \$1.5m. It announced further contracts with an existing strategic customer this January worth a total of \$1.7m for delivery mainly in Q1.

The division benefits from Israel’s role as a hub for development of new global defence and wireless technologies. The division established a satellite office in Russia in 2015 and is now seeing good order flow there. Growth over the past two years is a result of

increasing defence budgets and demand for more bandwidth and network security from its customers. This included October's contract referenced above.

Large tethered balloon project

MTI Summit also has particular expertise in the tethered balloon/aerostat sector and the division is currently participating in a large tethered balloon project that contributed to revenue in H2 and this should continue in FY21.

Positive start to FY21

Outlook

Management reports a positive start to FY21, as evidenced by the contract newsflow. Expected growth drivers include the continued pick up in 5G backhaul solution sales and a general return to normal trading as the impact of the pandemic reduces. This should result in some catch up on sales and deployments. The opening of the Canadian office provides direct access to a large addressable market for Mottech and there is scope for its Australian subsidiary to pick up additional service contracts. Finally, the large tethered balloon contract should continue to contribute to revenue at MTI Summit and management is confident of additional design wins that should feed through to the order book over time. Management is also alert to the possibilities of acquisitions and has the necessary balance sheet strength. This will become practicable once travel restrictions are lifted.

Exhibit 8: Summary forecasts

Profit & Loss					
Year end December (\$000s)	FY 2018A	FY 2019A	FY 2020A	FY 2021E	FY 2022E
Revenue	35,471	40,043	40,893	43,443	45,975
Growth	2.4%	12.9%	2.1%	6.2%	5.8%
Gross Profit	12,051	12,796	13,077	14,032	14,896
Margin	34.0%	32.0%	32.0%	32.3%	32.4%
Total administrative and operating expenses	-9,127	-9,337	-9,001	-9,077	-9,345
Growth	3.6%	2.3%	-3.6%	0.8%	3.0%
Adj. EBITDA	3,513	4,432	5,085	5,705	6,351
Adj. EBITDA margin	9.9%	11.1%	12.4%	13.1%	13.8%
Adj. Profit before tax	2,650	3,409	4,056	4,905	5,451
Shares in issue (diluted)	87.0	87.2	88.1	88.5	88.5
EPS (diluted) (p)	1.9	2.3	2.7	3.2	3.5
DPS (cents)	1.5	2.0	2.5	2.8	3.0
Cash Flow					
Year End December (\$000s)	FY 2018A	FY 2019A	FY 2020A	FY 2021E	FY 2022E
Operating profit before movements in working capital	3,206	4,414	5,149	5,505	6,151
Cash generated from operating activities	2,462	6,395	4,507	5,081	5,656
Net cash flow from investing activities	1,564	-699	-447	-500	-500
Net cash flow from financing activities	-1,875	-2,211	-2,327	-2,434	-2,235
Net increase/(decrease) in cash and cash equivalents	1,950	2,688	1,224	880	1,694
Cash and cash equivalents at end of period	5,401	8,140	9,577	10,457	12,151
Net cash	4,393	7,687	9,435	10,436	12,152
BALANCE SHEET					
Year End December (\$000s)	FY 2018A	FY 2019A	FY 2020A	FY 2021E	FY 2022E
Non current assets	5,845	7,023	6,623	6,373	6,074
Other current assets (excluding cash)	15,749	16,219	17,614	17,878	19,142
Cash and cash equivalents	5,401	8,140	9,577	10,457	12,151
Total current assets	23,421	27,225	29,509	30,835	33,793
TOTAL ASSETS	29,266	34,248	36,132	37,208	39,867
Non-Current Liabilities	-1,128	-1,277	-1,069	-897	-874
Current Liabilities	-7,123	-9,681	-9,510	-9,814	-10,356
TOTAL LIABILITIES	-8,251	-10,958	-10,579	-10,711	-11,230
NET ASSETS	21,015	23,290	25,553	26,498	28,637

Source: Company; Allenby Capital

Disclaimer

Allenby Capital Limited (“Allenby”) is incorporated in England no. 6706681; is authorised and regulated by the Financial Conduct Authority (“FCA”) (FRN: 489795) and is a member of the London Stock Exchange. This communication is for information only it should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It is a marketing communication and non-independent research and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The cost of Allenby research product on independent companies is paid for by research clients.

This communication is for the use of intended recipients only and only for distribution to investment professionals as that term is defined in article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Its contents are not directed at, may not be suitable for and should not be relied upon by anyone who is not an investment professional including retail clients. Any such persons should seek professional advice before investing. For the purposes of this communication Allenby is not acting for you, will not treat you as a client, will not be responsible for providing you with the protections afforded to clients, and is not advising you on the relevant transaction or stock. This communication or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby uses reasonable efforts to obtain information from sources which it believes to be reliable. The communication has been prepared without any substantive analysis undertaken into the companies concerned or their securities, and it has not been independently verified. No representation or warranty, express or implied is made, or responsibility of any kind accepted by Allenby its directors or employees as to the accuracy or completeness of any information in this communication. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice. There is no regular update series for research issued by Allenby.

No recommendation is being made to you; the securities referred to may not be suitable for you and this communication should not be relied upon in substitution for the exercise of independent judgement. Neither past performance or forecasts are a reliable indication of future performance and investors may realise losses on any investment. Allenby shall not be liable for any direct or indirect damages including lost profits arising from the information contained in this communication.

Allenby and any company or persons connected with it, including its officers, directors and employees may have a position or holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such security or instrument. Allenby may have been a manager in the underwriting or placement of securities in this communication within the last 12 months, have received compensation for investment services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment services from such companies within the next 3 months. Accordingly, recipients should not rely on this communication as being impartial and information may be known to Allenby or persons connected with it which is not reflected in this communication. Allenby has a policy in relation to management of conflicts of interest which is available upon request.

This communication is supplied to you solely for your information and may not be reproduced or redistributed to any other person or published in whole or part for any purpose. It is not intended for distribution or use outside the European Economic Area except in circumstances mentioned below in relation to the United States. This communication is not directed to you if Allenby is prohibited or restricted by any legislation or registration in any jurisdiction from making it available to you and persons into whose possession this communication comes should inform themselves and observe any such restrictions.

Allenby may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country’s laws for which Allenby does not accept liability. By accepting this communication, you agree that you have read the above disclaimer and to be bound by the foregoing limitations and restrictions.

Research Recommendation Disclosure

David Johnson is the author of this research recommendation and is employed by Allenby Capital Limited as an Equity Analyst. Unless otherwise stated, the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com. Allenby Capital acts as Nomad and Joint broker to MTI Wireless Edge Ltd.

Allenby Capital, 5 St Helen’s Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com