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TMT UPDATE - 14.05.18 (MWE.L)

MTI Wireless Edge plc* (MWE.L, 30.3p/£16.2m)

Q1 results: Solid start (14.05.18)

- **Revenue** - Q1 revenue was down less than 1% (\$55k) to \$6.2m with a small increase in Water Solutions (Mottech) more than offset by a 2% decrease in the Antenna division. That said, we would not extrapolate too much from a single quarter given the timing of projects and our growth assumptions for the year (Antenna: 5%; Mottech 6%) look reasonable. Management reports opportunities to grow the Mottech in various geographies, including North America and China. In Antennas, there is good demand across military, RFID and Millimetre Wave.
- **Profits** - Operating profits reduced 44.2% to \$0.2m reflecting increased spend in development and sales effort in order to support the expected revenue growth. Gross profit fell 1.7bps to 37.8% but Q1 FY17 was abnormally high (39.6%) and we expect 38% for FY18. PBT fell 28.8% to \$0.2m as the company benefited from lower interest payments. EPS more than doubled to \$0.91 (Q1 FY17: \$0.43) reflecting a large future tax relief in its Indian operation following a change in the local tax regime.
- **Cashflow** - Operating cashflow more than tripled (\$1.6m versus \$0.5m; FY17: \$1.4m) with a reduction in working capital as inventories reduced, good collection of trade receivables and a receipt from the tax authorities. Long term loans reduced a further \$0.2m in Q1 and net cash increased to \$4.4m (FY17: \$2.9m; Q1 FY17: \$2.4m). Shareholders' equity grew to \$20.6m (FY17: \$20.1m), equivalent to 27.5p/share.
- Separately, the company continues with the proposed merger process with MTI Computers and Software Services (MTIC). As previously noted, two conditions precedent have been satisfied (08.05.18) but there are still a number of steps.

Allenby Capital comment: Solid start to FY18 with Q1 revenue essentially flat and investment made as the company looks to capitalise in the growth opportunities in Antennas and Mottech. The tax credit is a welcome one-off and the balance sheet has been strengthened further. The proposed merger with MTIC, MWE's largest shareholder, offers a number of benefits - increasing MWE's revenue by c. 30%, broaden the product set, align shareholder interests, eliminate one set of stock market listing fees and should increase liquidity as non-controlling shareholders would hold a larger proportion of shares. The two companies also operate in complementary spaces in the military and communications markets. Forecasts remain unchanged.

* Allenby Capital acts as Nomad and Broker to MTI Wireless Edge plc
Allenby Capital's coverage on MTI Wireless Edge plc is available [here](#)

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