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TMT Update 18.02.19 (MWE.L)

MTI Wireless Edge plc* (MWE.L, 20.5p/£11.0m)

Contract wins: First significant contracts for Indian offset manufacturing business (13.02.19)

- Ginat Wave India Private Limited, MWE's Indian offset manufacturing company, has secured two orders from two different customers totalling \$900k for the supply of antennae and cable harnesses. 50% of the orders will be supplied in 2019, with the balance in 2020 and 2021. These represent the first significant orders for Ginat.
- MTI opened Ginat, 49% owned by MTI, in 2017 to meet the offset requirements that the Indian government has in place for military spending. India is the largest buyer of Israeli military equipment and Israel has historically been the second largest defence supplier to India.
- The offset regulations were introduced in an attempt to increase local industrial production and thereby reduce imports and increase exports. India first introduced Defence Procurement Procedures (DPP) in 2006 with the requirement that any transaction exceeding 3bn rupees (c. \$50m) required an offset procurement of 30% of its value with a local manufacturer, an Indian Offset Partner (IOP). These regulations have been subsequently amended with the permitted percentage of foreign ownership of a DPP-approved company increasing to 49% from 26%.
- Separately, the company announced the third share repurchase of 50k at 19.5p/share. As a result, MWE currently has 510k shares held as Treasury Shares. MWE plans to resell these shares in larger blocks and will recycle the cash for further repurchases.
- No change to forecasts or 38p/share fair value, equivalent to an FY18 PER of 17.4x and falling to 14.1x in FY19.

Allenby Capital comment: Encouraging progress for MTI's offset manufacturing company, Ginat Wave. MTI was already well established in India with good local knowledge but decided to establish Ginat in 2017 in order to comply with the offset requirements around military spending. Although these regulations were introduced in 2006, foreign suppliers have struggled to comply although the regulations have been gradually relaxed. This has been partly attributed to a lack of technology possessed by local manufacturers. Registering a local company and gaining the necessary approvals in India is also not a simple process for an overseas company. As a result, Ginat Wave offers a much easier route to market for foreign manufacturers and there is good scope for incremental growth for this business.

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

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David Johnson is the author of this research recommendation. David Johnson is employed by Allenby Capital Limited as an Equity Analyst.

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Allenby Capital

5 St Helen's Place London EC3A 6AB

+44 (0)20 3328 5656

www.allenbycapital.com
