

CORPORATE

Current price 1.3p

Sector TMT

Code STAR.L

Listing AIM

Share Performance



	1m	3m	12m
—STAR.L	-14%	-19%	-47%

Source: Thomson Reuters, Allenby Capital

Share Data

Market cap (£) 3.8m

Shares in issue (m) 293.4

52 weeks	High	Low
	3.25p	1.25p

Financial year end 31 December

Source: Company Data, Allenby Capital

Key Shareholders

Uri Hartmann (CTO)	8.04%
Doron Kedem	8.04%
Avi Hartmann (CEO)	7.56%
Myles McNulty	4.51%

Source: Argus Vickers

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STARCOM PLC (STAR.L)*

Finals – Positive newsflow for 2019

Starcom, the developer of wireless solutions for the remote tracking, monitoring and protection of assets and people, has announced FY results in line with January’s trading update. A combination of increased revenue and higher gross margin resulted in a \$0.2m reduction in adj. EBITDA loss to \$8k and the company was breakeven in H2. 2018 saw progress commercially and in the product set and newsflow post period end has been encouraging with contracts for the existing products (Helios, Kylos and Tetis) and the forthcoming Watchlock Lokie has generated considerable levels of interest. As a result, further higher margin revenue growth should result in Starcom moving into sustainable adj. EBITDA profit in FY19. The balance sheet remains tight, however, although the situation has improved somewhat with the receipt part of the funds from the North Africa contract announced last November.

— **FY18 performance** – Revenue increased 10.2% to \$6.0m with gross profit +16.2% to \$2.4m reflecting increased SaaS revenue (+17.5% to c. \$2.0m) and increased sales from the higher margin products (Tetis, Kylos and Watchlock). These products represented more than 50% of hardware revenue for the first time. As a result, gross margin increased 210bps to 40.3%. Operating costs expanded at a slower rate (+9.3%) and adj. EBITDA loss reduced \$193k to \$8k. Reported loss before tax reduced \$519k to \$831k. Losses plus an expansion in inventory resulted in a cash outflow of \$1.0m that was balanced by a cash inflow from financing activities (including \$1.4m from three placings) and cash was unchanged at \$0.1m. Net debt reduced \$0.2m to \$0.4m. Post period end, Starcom received a down payment for a significant portion of the initial \$1.1m order for its Helios Advanced units in North Africa that was initially announced last November. This has helped to strengthen the balance sheet.

— **Outlook** – FY19 newsflow suggests further revenue growth. In February, Starcom provided an update on its relationship with Xplosive Solutions Pty for supply of Kylos units in the monitoring of cattle. A new three-year agreement is worth an initial \$500k. Second, Zero Motorcycles is integrating Helios into its new motorbike, the SR/F, although this is unlikely to result in substantial revenue in the short term. Third, it has entered into a framework agreement (initially worth \$0.6m) with ICL (Israel Chemicals) for the use of Kylos Forever units to track and monitor sensitive cargo. Finally, Starcom is due to launch Lokies, a Bluetooth enabled version of its keyless Watchlock, Management reports considerable interest and a number of pending orders and is confident of meaningful revenue in 2019. Assuming revenue growth from new and existing customers for the higher margin products plus ongoing cost control should see Starcom move into sustainable EBITDA profit in FY19.

SUMMARY OF FINANCIALS

Year End: December (\$000)	2017A	2018A	2019E	2020E
REVENUE	5,440	5,994	6,671	7,452
ADJUSTED EBITDA*	(193)	(8)	271	469
ADJUSTED PBT*	(756)	(145)	91	319
ADJUSTED EPS (p)*	(0.40)	(0.09)	0.03	0.11
NET CASH/(DEBT)	(644)	(435)	(471)	(561)
EV/EBITDA	NEG	NEG	15.8	9.3

Source: Company; Allenby Capital. E:\$: 1.31.

*Adjusted PBT and EPS exclude one-off charges and share based charges

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RESEARCH RECOMMENDATION DISCLOSURE

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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.

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