

Corporate

 Current price **31p**

 Sector **TMT**

 Code **MWE.L**

 AIM **AIM**

Share Performance



	1m	3m	12m
MWE.L	-21%	-17%	+51%

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **27.2**

 Shares in issue (m) **87.9**

52 weeks	High	Low
	42p	20p

 Financial year end **31 December**

Source: Company Data, Allenby Capital

Key Shareholders

Borovitz Family	34.6%
Beer Family	11.3%
Directors & PDMRs	6.9%
Miton Asset Management	6.2%
Herald Investment Man. Ltd	4.5%

Source: Company Data, Allenby Capital

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MTI Wireless Edge Ltd (MWE.L)

Diversified portfolio offers multiple growth areas

MTI Wireless Edge, the provider of communications and radio frequency solutions, is seeing demand for its products and services across multiple geographies and sectors. FY19 performance was in line with forecast with revenue up 13% to \$40.0m (ACLe: \$39.8m) and PBT +29% to \$3.4m (ACLe: \$3.6m). Operating cash flow was very strong up 148% to \$5.6m (ACLe: \$4.2m) and net cash increased \$3.3m to \$7.7m (ACLe: \$5.7m). Distribution and Professional Consulting Services performed well (+35% to \$11.5m) and Mottech continues to grow (+15.5% to \$16.5m). MTI is positioned to capitalise on three global trends: the adoption of 5G networks; climate change concerns driving water management; and increased defence spending. Forecasts and 46p/share fair value, equivalent to a 13x FY21 PER, remain unchanged and we view the recent share price retracement as an attractive opportunity for a company with a profitable track record cash on the balance sheet and yielding 6.3% in FY20.

- Revenue growth** – FY19 revenue increased 13.0% to \$40.0m with the Distribution & Professional Consulting Services division +35% (on a restated basis) with customers deploying technical design solutions that have been introduced by MTI over a number of years. Mottech increased 16% and Parkland Australia, where MTI acquired a 50% stake in July, contributed to profits in H2. Revenue in Antennas declined 5.2% to \$12.0m with record sales in military offset by a slowdown in commercial as the telecoms industry transitions to 5G. We expect MTI will benefit from the deployment of 5G networks where it has developed a series of innovative dual band flat and parabolic backhaul antennas.
- Profit progression** – The change in revenue mix resulted in a 200bps reduction in gross margin to 32.0% and gross profit increased 6% to \$12.8m. Good cost control resulted in EBIT margin increasing 40bps to 8.6%, however, and EBIT increased +18% to \$3.5m. Coupled with positive movements in working capital, net cash from operations was \$5.6m and FY19 net cash was \$7.7m (FY18: \$4.4m). The final dividend was increased 33% to 2.00 cents and is comfortably covered by EPS of 3.27 cents (FY18: 2.70 cents).
- Outlook** – FY20 has started well with contract wins announced in Distribution and Antennas. Macro trends that will support further growth include climate change and water shortages driving demand for Mottech's water management system; increase in defence spending and MTI's Indian offset manufacturing for military antennas; and the move by mobile operators towards 5G that is generating interest in MTI's 5G backhaul antennas from large OEM suppliers. MTI will also continue to look at acquisition opportunities.

Year End: 31 December

(\$'000)	2017A	2018A	2019A	2020E	2021E
REVENUE	34,653	35,471	40,043	43,458	45,914
ADJ. EBITDA	3,062	3,513	4,432	5,170	5,721
ADJ. PBT	2,448	2,650	3,409	4,270	4,881
ADJ. EPS (p)	1.80	2.09	2.55	3.04	3.47
NET CASH (£m)	3,695	4,393	7,687	7,656	8,514
EV/EBITDA (x)	10.2	8.7	6.2	5.3	4.6
YIELD	5.0%	3.8%	5.0%	6.3%	6.9%

Allenby Capital acts as Nomad & Joint Broker to MTI Wireless Edge Ltd (MWE.L). FX rate £:\$ 1.29

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

Investment summary

MTI Wireless Edge, the provider of communications and radio frequency solutions to multiple sectors, offers investors exposure to three key global growth trends. First, climate change concerns are driving demand for water management systems in both the public and private sector. Second, the deployment of 5G networks requires a large investment in backhaul antennas. Finally, MTI is benefiting from increased global defence spending. The company is geographically diversified and has limited single customer exposure. MTI has a history of profitability and cash generation, is well capitalised and pays a healthy dividend.

FY19 performance was in line with forecast with revenue up 13% to \$40.0m (ACLe: \$39.8m) and PBT +29% to \$3.4m (ACLe: \$3.6m). Operating cash flow was very strong up 148% to \$5.6m (ACLe: \$4.2m) and net cash increased \$3.3m to \$7.7m (ACLe: \$5.7m). The final dividend was increased 33% to 2.00 cents and is comfortably covered by EPS of 3.27 cents (FY18: 2.70 cents). Forecasts and 46p/share fair value, equivalent to a 13x FY21 PER, remain unchanged and we view the recent retracement in the share price as an attractive opportunity.

Divisional performance

Distribution and Professional Consulting Services (MTI Summit Electronics) performed well in FY19 (+35% to \$11.5m), benefiting from customers deploying previous design wins into production. Summit exclusively represents forty international suppliers of radio frequency/microwave components and sells these products in Israel and Russia.

Water Control & Management (Mottech) continues to grow (+15.5% to \$16.5m). Mottech provides wireless control systems to manage agricultural irrigation and water distribution in the public and private sector. It utilises Motorola hardware, integrated with its proprietary management software. Mottech's solution helps to reduce water and power usage and increase irrigation efficiency.

In Antennas, revenue fell 5% to \$12.0m in spite of record sales of military antennas (+13%) boosted by MTI's offset facility in India whereby MTI's customers can conform to India's Defence Offset Guidelines. Sales in commercial were held back as the telecoms industry transitions to 5G networks and has reduced spend elsewhere. 5G represented 10% of antenna revenue (FY18: 5%) and 5G represents a significant growth opportunity for MTI as it has developed a series of innovative 5G backhaul antennas (flat and dual band) that are currently undergoing customer testing and early deployment.

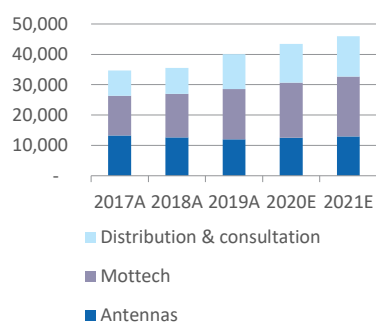
Margin progression

The change in revenue mix with increased revenue from the lower margin Distribution plus the strengthening of the New Israeli Shekel resulted in a 200bps reduction in gross margin to 32.0% but gross profit increased 6% overall to \$12.8m. For FY20, we anticipate Antennas returning to growth, Mottech maintaining growth and a somewhat lower growth in Distribution. As a result, group gross margin should recover to 33.5%. Good cost control resulted in EBIT margin +40bps to 8.6% and EBIT increased +18% to \$3.5m.

Cash generation

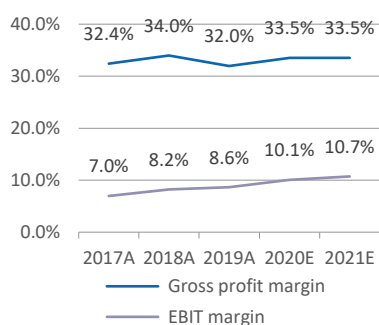
Cash performance was particularly strong given positive movements in working capital, and net cash from operations increased 148% to \$5.6m and FY19 net cash was \$7.7m (FY18: \$4.4m). The final dividend was increased 33% to 2.00 cents and is comfortably covered by EPS of 3.27 cents (FY18: 2.70 cents). In FY20, we anticipate some reversal in working capital and coupled with the dividend payment (to be paid on 3 April), net cash should remain stable before increasing in FY21. MTI continues with its share repurchase programme that aims to assist with trading liquidity by holding purchased shares (up to a value of £150k) in treasury and selling blocks to institutional investors. As at 1 March, no shares were held in treasury.

Exhibit 1: Revenue breakdown (\$000)



Source: Company; Allenby Capital

Exhibit 2: Margin progression



Source: Company; Allenby Capital

Exhibit 3: Summary financials**Profit & Loss**

Year-end December (\$000s)	FY 2017A	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Revenue	34,653	35,471	40,043	43,458	45,914
Growth	48.9%	2.4%	12.9%	8.5%	5.7%
Gross Profit	11,223	12,051	12,796	14,558	15,381
<i>Margin</i>	<i>32.4%</i>	<i>34.0%</i>	<i>32.0%</i>	<i>33.5%</i>	<i>33.5%</i>
Total administrative and operating expenses	-8,813	-4,800	-5,947	-7,065	-8,813
<i>Growth</i>	<i>24.7%</i>	<i>3.6%</i>	<i>2.3%</i>	<i>9.1%</i>	<i>2.7%</i>
EBITDA	3,062	3,513	4,432	5,170	5,721
<i>Adj. EBITDA margin</i>	<i>8.8%</i>	<i>9.9%</i>	<i>11.1%</i>	<i>11.9%</i>	<i>12.5%</i>
Profit before tax	2,448	2,650	3,409	4,270	4,881
Shares in issue (diluted)	84.9	87.0	86.6	87.9	87.9
EPS (diluted) (p)	1.8	2.1	2.6	3.0	3.5
DPS (cents)	2.0	1.5	2.0	2.5	2.8

Cash Flow

Year-end December (\$000s)	FY 2017A	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Operating profit before movements in working capital	3,287	3,206	4,414	5,120	5,661
Cash generated from operating activities	2,713	2,462	6,990	3,052	4,122
Net cash flow from investing activities	-2,304	1,564	-699	-569	-500
Net cash flow from financing activities	-1,386	-1,198	-2,211	-2,005	-2,314
Net increase/(decrease) in cash and cash equivalents	-1,413	2,627	2,688	-281	738
Cash and cash equivalents at end of period	3,508	6,078	8,766	8,485	9,222
Net cash	3,695	4,393	7,687	7,656	8,514

BALANCE SHEET

Year End December (\$000s)	FY 2017A	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Non-current assets	5,851	5,845	7,023	6,723	6,423
Other current assets (excluding cash)	18,355	15,749	16,219	17,536	19,116
Cash and cash equivalents	3,508	5,401	8,140	7,859	8,596
Total current assets	23,625	23,421	27,225	28,195	30,212
TOTAL ASSETS	29,476	29,266	34,248	34,918	36,635
Non-Current Liabilities	-1,689	-1,128	-1,277	-945	-874
Current Liabilities	-7,812	-7,123	-9,681	-9,096	-9,187
TOTAL LIABILITIES	-9,501	-8,251	-10,958	-10,041	-10,061
NET ASSETS	19,975	21,015	23,290	24,876	26,574

Source: Company; Allenby Capital

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