

POSITIVE FY18, POSITIONED WELL FOR GROWTH IN FY19

Investment Highlights

- XTEK Limited (XTE) reported its full year FY18 results delivering revenue at the upper end of guidance, a cash flow positive financial period and a reiteration of FY19 guidance. This result should instil confidence in the market that XTE can reach its stated goals. We also believe XTE has significant upside from in-house products. Thus we maintain our Spec Buy rating but have reduced our base case target price to \$0.95/sh (from \$1.14/sh) as we have reset our gross margin assumptions lower (from 30% to 27%).**
- FY18 Results:** XTE reported FY18 revenue of \$17.3m (towards the upper end of the \$11m to \$18m guidance range given), a gross profit which was in line with our estimates of \$4.7m, and NPAT of \$0.14m. The latter is a 125% increase on the prior year. While the P&L was mostly positive, gross margins were below our expectations, coming in at 27% versus our assumption of 30% and well under FY17 of 39%.
- FY19 Guidance:** XTE has also reiterated its FY19 revenue guidance of \$17m to \$26m. Contracted revenue at end of FY18 was c.\$38m. In our base case, we have forecast FY19 revenue at the mid-point of this range at \$22m, which derives an EBITDA of \$0.9m and NPAT of \$0.7m. We note the revenue guidance and contracted pipeline is mostly made up of mostly third-party Small Unmanned Aerial Systems (SUAS) to the Australian Defense Force, and does not include potential upside which may eventuate from the promising in-house product suite (ballistic plating from XTclave™ and real-time mapping from XTatlas™).
- Balance Sheet:** As at 30 June 2018, XTE had cash of \$5.9m, up from \$2.8m 12 months prior. The cash increase was driven by positive operating cashflow of \$1.8m in the year.
- Scenario Analysis:** The FY18 revenue was thus closer to our bull case scenario, which we have valued at \$1.34/sh. We note the share price is currently trading below our base case valuation and bear case scenario of \$0.95/sh and \$0.66/sh respectively.
- In-house Product Suite:** There were no XTatlas™ sales during the reporting period but a first purchase order for two licences was received in August 2018. Additionally, construction of a new commercial scale XTclave™ plant commenced in the second half of FY18 with a contract being signed for the production and delivery of the pressure vessels prior to the end of November 2018. Traction of these products are a near-term catalyst for XTE.

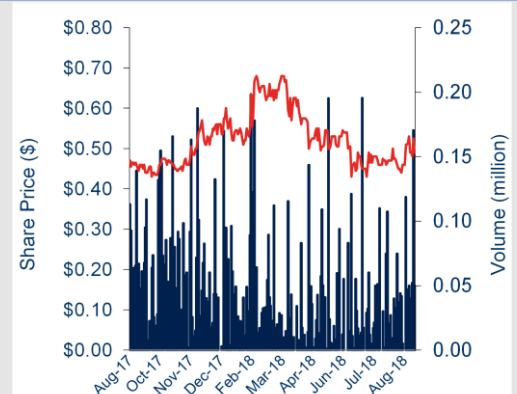
Year End June 30	2017A	2018A	2019F	2020F	2021F
Reported NPAT (\$m)	0.1	0.1	0.7	5.3	5.3
Recurrent NPAT (\$m)	0.1	0.1	0.7	5.3	5.3
Recurrent EPS (cents)	0.2	0.3	1.7	13.1	13.2
EPS Growth (%)	na	101.9	396.8	662.2	1.0
PER (x)	285.7	141.5	28.5	3.7	3.7
PEG	na	1.4	0.1	0.0	3.9
EBITDA (\$m)	0.2	0.2	0.9	5.5	5.6
EV/EBITDA (x)	75.5	59.3	17.8	2.5	1.6
Free Cashflow	(1.5)	1.5	(1.6)	1.8	4.7
FCFPS (cents)	(4.3)	3.8	(3.9)	4.5	11.7
PFCF (x)	(11.4)	12.9	(12.5)	10.9	4.2
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

31 August 2018

12mth Rating		Spec Buy
Price	A\$	0.49
Target Price	A\$	0.95
12mth Total Return	%	93.2
RIC: XTE.AX		BBG: XTE AU
Shares o/s	m	40.3
Free Float	%	100.0
Market Cap.	A\$m	19.8
Net Debt (Cash)	A\$m	-5.9
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.016
52wk High/Low	A\$	0.68/0.43
2yr adj. beta		0.70
Valuation:		
Methodology		DCF
Value per share	A\$	0.95

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12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	4.3	(9.3)	4.3
Rel. S&P/ASX 300	3.0	(14.7)	(6.9)

Figure 1: Earnings Summary

	FY17A	FY18A	yoy % chg	PSL FY18F	PSL % diff
Revenue (\$m)	9.02	17.27	91.4%	15.50	11.4%
Gross Profit (\$m)	3.50	4.73	35.2%	4.70	0.6%
Gross Margin	38.8%	27.4%		30.0%	
EBITDA (\$m)	0.19	0.23	17.3%	0.30	-24.0%
EBITDA Margin	2.2%	1.32%		1.9%	
NPAT (\$m)	0.06	0.14	127.4%	0.20	-30.4%
EPS (cents)	0.20	0.40	100.6%	0.46	-13.0%
Net Cash (\$m)	2.82	5.94	110.5%	2.90	104.8%

Source: Patersons Securities Limited

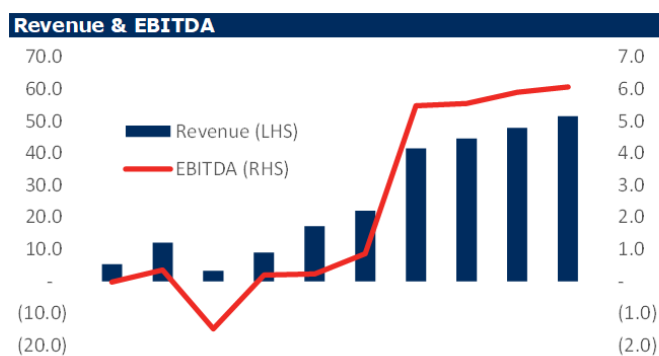
Figure 2: Valuation (base case)

DCF		
Beta		1.6x
WACC Post Tax		13.5%
DCF per share		\$0.95
Capitalisation of future earnings	2019F	2020F
EBITDA	0.9	5.5
EV/ EBITDA multiple	15.0x	10.0x
Enterprise value	13	55
Net cash/ (debt)	5.2	7.8
Equity value	9	49
Equity value per share	\$0.21	\$1.21

Source: Patersons Securities Limited

Xtek Limited (XTE)	\$0.490			
Cash Flow (\$m)	2018A	2019F	2020F	2021F
Operating Cashflow	1.8	(1.3)	2.1	5.0
Capex	(0.3)	(0.3)	(0.3)	(0.3)
Disposals & Acquisitions	-	-	-	-
Other	-	-	-	-
Investing Cashflow	(0.3)	(0.3)	(0.3)	(0.3)
Equity Raised	1.6	-	-	-
Increase (Repay) Debt	-	-	-	-
Distributions Paid	-	-	-	-
Other	-	-	-	-
Financing Cashflow	1.6	-	-	-
Change in Cash Held	3.1	(1.6)	1.8	4.7
Closing Cash Balance	5.9	4.4	6.2	10.9

	Year End June 30			
Profit & Loss (\$m)	2018A	2019F	2020F	2021F
Sales Revenue	17.3	22.0	41.5	44.6
Cost of Sales	(12.5)	(16.1)	(30.3)	(32.6)
Gross Profit	4.7	5.9	11.2	12.0
Other Income (expense)	0.6	0.6	0.6	0.6
Employee Benefits	(3.1)	(3.5)	(4.0)	(4.5)
Operational Expenditure	(2.0)	(2.2)	(2.4)	(2.6)
Reported EBITDA	0.2	0.9	5.5	5.6
Depn & Amort	(0.1)	(0.2)	(0.2)	(0.2)
EBIT	0.1	0.7	5.3	5.3
Net Interest	(0.0)	(0.0)	(0.0)	(0.0)
PBT	0.1	0.7	5.3	5.3
Tax expense	-	-	-	-
Abnormals	-	-	-	-
NPAT (Reported)	0.1	0.7	5.3	5.3



Balance Sheet (\$m)	2018A	2019F	2020F	2021F
Cash	5.9	4.4	6.2	10.9
Receivables	6.0	5.3	9.9	10.7
Inventories	1.5	2.5	4.8	5.2
Intangibles	-	-	-	-
Property, Plant & Equipment	0.6	0.7	0.8	0.9
Other	0.3	0.3	0.3	0.3
Assets	14.3	13.3	22.1	28.0
Payables	5.8	4.0	7.6	8.1
Borrowings	-	-	-	-
Provisions	0.3	0.3	0.3	0.3
Other liabilities	0.6	0.6	0.6	0.6
Liabilities	6.8	5.0	8.6	9.1
Shareholders Funds	7.6	8.3	13.5	18.9

Valuation	
DCF	
Beta	1.6x
WACC Post Tax	13.4%
DCF per share	\$0.95

Capitalisation of future earnings		2019F	2020F
EBITDA		0.9	5.5
EV/ EBITDA multiple		15.0x	10.0x
Enterprise value		13	55
Net cash/ (debt)		4.4	6.2

Equity value		9	49
Equity value per share		\$0.21	\$1.21

Directors & substantial shareholders	
Name	Position
Uwe Boettcher	Chairman
Philippe Odouard	Managing Director
Robert Quodling	Executive Director
Ivan Slavich	Non Executive Director
Chris Fullerton	Non Executive Director

Shareholder	No. shares (m)	%
UBD Pty Limited	5.20	12.9
Wendy Wing Lin Lo	2.53	6.3
Fairlane Management	2.10	5.2
Top 20 shareholders	17.66	43.9

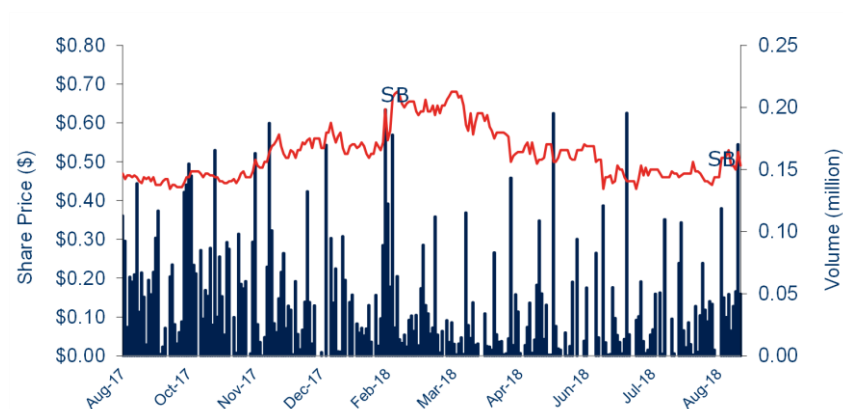
EPS & DPS	2018A	2019F	2020F	2021F
EPS (Cents Reported)	0.4	1.7	13.1	13.2
EPS growth (%)	84.0	369.0	662.2	1.0
DPS (cents)	-	-	-	-
Payout Ratio (%)	-	-	-	-
Dividend Yield (%)	-	-	-	-

Ratios	2018A	2019F	2020F	2021F
Profitability				
NPAT Growth (%)	127.4	396.8	662.2	1.0
Sales Growth (%)	91.4	27.4	88.6	7.5
Gross Margin (%)	27.4	27.0	27.0	27.0
Reported EBITDA Margin (%)	1.3	3.9	13.2	12.4
ROC (%)	8.8	17.9	71.7	66.9
ROE (%)	1.8	8.4	39.0	-
Tax Rate (%)	-	-	-	-

Valuation		2018A	2019F	2020F	2021F
Price/Earnings (x)		133.6	28.5	3.7	3.7
EV/EBITDA (x)		59.3	17.8	2.5	1.6
Price/NTA (x)		2.6	2.4	1.5	1.0

Balance Sheet		2018A	2019F	2020F	2021F
Net Debt/Equity (%)		(78.6)	(52.9)	(45.7)	(57.8)
Net Debt/Assets (%)		(41.4)	(32.9)	(28.0)	(38.9)
Interest Cover (x)		37.3	181.2	1,374.3	1,387.4
NTA (\$/share)		0.2	0.2	0.3	0.5
Shares (m)		40.2	40.2	40.2	40.2

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
08 Feb 18	Research Note	1.15	0.67	SB	
07 Jul 18	Research Note	1.14	0.45	SB	-32.8%
21 Aug 18	Hot off the Press	1.14	0.46	SB	2.2%
	Current Share Price		0.49		6.5%

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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XTE	Patersons Securities have acted for Xtek Ltd (XTE) within the past year and have received fees for these services.

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