

Rakon Limited

MercuryX™ and the AI Hardware Revolution

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Rakon (RAK) has unveiled its new MercuryX™ product range, targeted at AI computing, data centres (DCs), 5G and 6G, and satellite applications. While RAK expects it could generate its first revenues from MercuryX™ in 12–15 months, we leave our forecasts unchanged as we don't explicitly model new products. However, new product launches are implicitly factored into our +15.5% revenue CAGR growth assumption from FY24 to FY27. The AI equipment space is currently a focal point for investor interest, which may have been a factor in the recent NZ\$1.70 per share bid made for RAK. Our blended spot valuation lifts +17c to NZ\$1.00, driven by comparables, but remains suppressed by earnings at the cycle's low.

NZX Code	RAK	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$1.28	Rev (NZ\$m)	180.7	141.8	162.1	193.5	PE	12.6	66.1	25.5	14.2
Spot Valuation	NZ\$1.00 (from 0.83)	NPAT* (NZ\$m)	23.2	4.5	11.6	20.9	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	10.1	1.9	5.0	9.0	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	229.9m	DPS (NZc)	1.5	1.5	1.5	1.5	Price / NTA	2.0	2.0	1.9	1.7
Market cap	NZ\$294m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.2	1.2	1.2	1.2
Avg daily turnover	87.1k (NZ\$83k)	*Based on normalised profits					Gross div yld (%)	1.6	1.6	1.6	1.6

A footprint in the AI computing hardware market

The MercuryX™ series, integrating RAK's proprietary Mercury+™ semiconductor chip and its XMEMS® quartz crystal resonators, reinforces RAK's presence in its core telecommunications market and strengthens its emerging position in AI. RAK's expectations for the product range are high, with the potential for first revenues in the forthcoming 12–15 months. The launch of RAK's new IC-OCXO range, featuring the newly developed Vulcan™ chip, towards the end of 2024, will follow the release of the MercuryX™ series.

Valuation lifts on peer multiple expansion

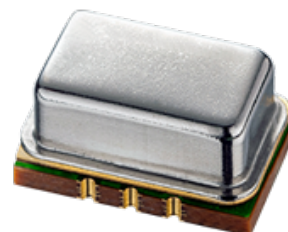
Our blended spot valuation rises +17c to NZ\$1.00, driven by an increase in the PE comparables valuation from NZ\$0.70 to NZ\$1.09. Since our last update on 12 December 2023, FY24 and FY25 PE multiples for RAK's peers have rerated, supported by investor interest in global semiconductor manufacturers. Further, we place more weight towards FY25 comparables to aid in looking through trough earnings.

Figure 1. MercuryX™ applications

- Data centres applications
- 5G, 5G Advanced, 6G radio heads and small cells
- Backhaul networking
- Satellite terminals
- Instrumentation

Source: Company, Forsyth Barr analysis

Figure 2. MercuryX™ measuring 14 x 9 x 6 mm



Source: Company

Rakon Limited (RAK)
Market Data (NZ\$)

Priced as at 25 Jan 2024	1.28
52 week high / low	1.31 / 0.59
Market capitalisation (NZ\$m)	293.8

Key WACC assumptions

Risk free rate	5.25%
Equity beta	1.35
WACC	11.8%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Revenue	173.6	180.7	141.8	162.1	193.5
Normalised EBITDA	50.4	41.1	13.3	23.5	35.8
Depreciation and amortisation	(8.9)	(7.8)	(7.2)	(8.3)	(8.8)
Normalised EBIT	41.4	33.3	6.1	15.2	27.1
Net interest	(1.9)	(0.5)	(0.3)	(0.5)	(0.5)
Associate income	2.4	(1.5)	0.1	0.8	1.3
Tax	(8.8)	(8.1)	(1.5)	(3.9)	(7.0)
Minority interests	0	0	0	0	0
Normalised NPAT	33.1	23.2	4.5	11.6	20.9
Abnormals/other	0	0	0	0	0
Reported NPAT	33.1	23.2	4.5	11.6	20.9
Normalised EPS (cps)	14.5	10.1	1.9	5.0	9.1
DPS (cps)	0	1.5	1.5	1.5	1.5

Growth Rates

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	32.7	4.1	-21.6	14.4	19.3
EBITDA (%)	>100	-18.3	-67.6	76.7	52.4
EBIT (%)	>100	-19.5	-81.6	>100	78.3
Normalised NPAT (%)	>100	-29.9	-80.8	>100	80.4
Normalised EPS (%)	>100	-29.9	-80.9	>100	80.0
Ordinary DPS (%)	n/a	n/a	0.0	0.0	0.0

Cash Flow (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
EBITDA	50.4	41.1	13.3	23.5	35.8
Working capital change	(15.3)	(18.2)	5.1	5.3	(13.6)
Interest & tax paid	(2.3)	(10.5)	(1.8)	(4.3)	(7.4)
Other	(2.6)	(1.3)	0.1	0.8	1.3
Operating cash flow	30	11.1	16.7	25.3	16.1
Capital expenditure	(10.2)	(18.7)	(17.0)	(14.8)	(6.5)
(Acquisitions)/divestments	0	0	0	0	0
Other	(2.6)	(2.5)	(2.1)	(2.1)	(2.2)
Funding available/(required)	17.4	(10.1)	(2.4)	8.3	7.4
Dividends paid	0	0	(2.9)	(2.9)	(5.2)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	17.4	(10.1)	(5.3)	5.4	2.2

Balance Sheet (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Working capital	65.8	84.1	79.0	73.7	87.3
Fixed assets	21.4	34.4	45.2	52.7	51.3
Intangibles	7.2	7.7	8.3	9.1	10.0
Right of use asset	4.8	3.4	12.2	15.5	13.8
Other assets	25.5	26.0	26.0	26.0	26.0
Total funds employed	124.6	155.6	170.8	177.0	188.3
Net debt/(cash)	(23.2)	(16.5)	(11.2)	(16.6)	(18.9)
Lease liability	3.4	2.5	10.9	13.8	11.6
Other liabilities	9.3	12.7	12.7	12.7	10.4
Shareholder's funds	135.2	156.9	158.4	167.2	185.2
Minority interests	0	0	0	0	0
Total funding sources	124.6	155.6	170.8	177.0	188.3

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Spot valuation (NZ\$)

DCF	1.00
PE driven comparables valuation	0.94
	1.09

DCF valuation summary (NZ\$m)

Total firm value	230
(Net debt)/cash	16
Less: Capitalised operating leases	-28
Value of equity	219

Valuation Ratios

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.7	1.5	2.0	1.8	1.5
EV/EBITDA (x)	5.6	6.7	21.5	12.5	8.2
EV/EBIT (x)	6.9	8.3	46.8	19.3	10.8
PE (x)	8.9	12.6	66.0	25.4	14.1
Price/NTA (x)	2.3	2.0	2.0	1.9	1.7
Free cash flow yield (%)	5.9	-3.4	-0.8	2.8	2.5
Adj. free cash flow yield (%)	9.4	2.9	5.0	7.9	4.7
Net dividend yield (%)	0.0	1.2	1.2	1.2	1.2
Gross dividend yield (%)	0.0	1.6	1.6	1.6	1.6

Capital Structure

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	21.7	64.1	21.1	32.6	56.8
Interest cover EBITDA (x)	26.4	79.1	45.7	50.5	75.3
Net debt/ND+E (%)	-20.8	-11.7	-7.6	-11.1	-11.4
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	20.7	16.1	2.9	6.8	11.4
Return on equity (%)	24.5	14.8	2.8	6.9	11.3
Return on funds employed (%)	16.6	11.2	2.1	5.4	9.1
EBITDA margin (%)	29.0	22.8	9.4	14.5	18.5
EBIT margin (%)	23.9	18.4	4.3	9.4	14.0
Capex to sales (%)	5.9	10.3	12.0	9.2	3.4
Capex to depreciation (%)	143	286	277	205	86
Imputation (%)	0	100	100	100	100
Pay-out ratio (%)	0	15	77	30	17

Segment Revenue (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Telecommunications	86.0	101.6	78.7	93.7	113.4
Positioning	28.1	33.8	18.3	21.0	26.1
Space and Defence	24.5	28.9	35.4	37.9	44.3
IoT, Emerging and Other	33.4	17.0	9.4	9.5	9.7
Other revenues	-1.0	0.4	0.0	0.0	0.0
Total Revenue	171.0	181.7	141.8	162.1	193.5

Segment Gross Margin (%)

	2022A	2023A	2024E	2025E	2026E
Telecommunications	43.6	42.3	37.0	41.0	41.5
Positioning	58.4	53.5	47.8	44.0	45.0
Space and Defence	69.4	68.0	62.0	66.0	64.5
IoT, Emerging and Other	57.3	47.7	54.0	49.0	49.0

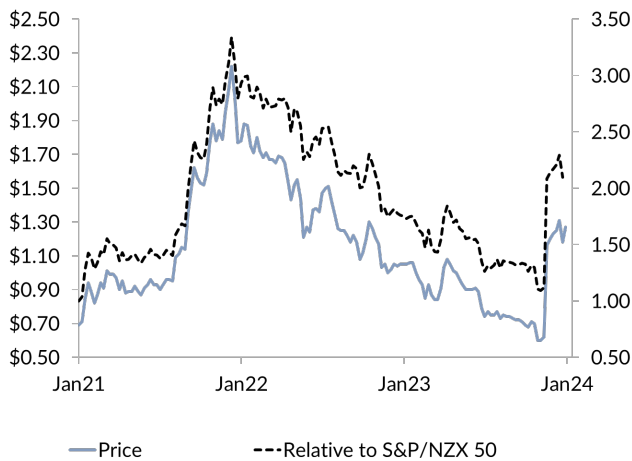
Segment Gross Margin (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Telecommunications	37.5	42.9	29.1	38.4	47.0
Positioning	16.4	18.1	8.7	9.2	11.7
Space and Defence	17.0	19.7	22.0	25.0	28.6
IoT, Emerging and Other	19.2	8.1	5.1	4.7	4.8

"Underlying EBITDA" (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Underlying EBITDA estimates	54.4	42.2	13.9	25.5	38.9

Figure 3. Price performance



Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Brent John Robinson	15.2%
Siward Crystal Technology	12.2%
Wairahi Investments and Wairahi Holdings Limited	6.1%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld	
				2024E	2025E	2024E	2025E	2024E	2025E	2025E	
Rakon	RAK NZ	NZ\$1.28	NZ\$294	66.1x	25.5x	n/a	12.5x	n/a	19.4x	1.2%	
Txc Corp	3042 TT	TWD96.00	TWD29,737	14.3x	13.8x	7.4x	n/a	11.0x	12.3x	5.8%	
Sitime Corp	SITM US	US\$124.00	US\$2,785	>75x	>50x	<0x	>75x	30.7x	>75x	n/a	
Microchip Technology Inc	MCHP US	US\$90.74	US\$49,094	17.3x	19.9x	14.1x	16.4x	15.6x	18.1x	2.2%	
Siward Crystal Technology Co	2484 TT	TWD31.85	TWD5,078	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Daishinku Corp	6962 T	¥945.00	¥34,206	21.0x	22.3x	7.5x	6.6x	25.2x	18.3x	3.0%	
Nihon Dempa Kogyo Co	6779 T	¥1284.00	¥29,697	12.3x	8.8x	6.0x	4.9x	10.8x	8.2x	1.6%	
Seiko Epson Corp	6724 JP	¥2249.00	¥865,915	11.9x	12.1x	5.4x	5.3x	10.0x	9.6x	3.4%	
Compco Average:				15.4x	15.4x	8.1x	8.3x	17.2x	13.3x	3.2%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				RAK Relative:		330%	66%	n/a	51%	n/a	46%

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (RAK) companies fiscal year end

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