

Rakon Limited

NZ\$1.70 Per Share Offer Received

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Rakon (RAK) announced it has received a non-binding, indicative proposal from a 'credible industry player' to purchase 100% of the company in an all-cash offer of NZ\$1.70 per share. The 'incomplete and highly conditional' offer represents a significant >170% premium to RAK's last undisturbed trading price of NZ\$0.62 and is well above our blended spot valuation. The timing of the bid appears opportunistic, with RAK amid a cyclical industry downturn that has weighed heavily on its share price. We expect FY24 to be the trough in RAK's earnings, with the indicative offer price representing ~34x PE or ~15x EV/EBITDA on our more normalised FY25 year estimates. RAK has continued to invest in R&D throughout the cycle and has exciting prospects in growing markets like AI, data centres, and NewSpace, which are likely to be attractive to the potential buyer. We make no changes to our forecasts or blended spot valuation of NZ\$0.83, itself significantly suppressed by the cycle.

NZX Code	RAK	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$1.20	Rev (NZ\$m)	180.7	141.8	162.1	193.5	PE	11.8	62.0	23.8	13.2
Spot Valuation	NZ\$0.83	NPAT* (NZ\$m)	23.2	4.4	11.6	20.9	EV/EBIT	7.8	43.9	18.2	10.2
Risk rating	High	EPS* (NZc)	10.1	1.9	5.0	9.1	EV/EBITDA	6.3	20.2	11.7	7.7
Issued shares	229.8m	DPS (NZc)	1.5	1.5	1.5	1.5	Price / NTA	1.8	1.8	1.8	1.6
Market cap	NZ\$276m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.3	1.3	1.3	1.3
Avg daily turnover	67.6k (NZ\$58k)	*Based on normalised profits					Gross div yld (%)	1.7	1.7	1.7	1.7

Unsurprising timing given industry weakness

Prior to receiving the bid RAK's share price had fallen ~40% over the last 12 months, with: (1) industry weakness in telecommunications, (2) customer inventory destocking, and (3) general macroeconomic weakness suppressing earnings and investor sentiment. We are unsurprised that a strategic buyer is opportunistically making a bid now, given that the industry appears near the cycle's low point. Our FY24 underlying EBITDA estimate of NZ\$13.9m represents a ~74% fall from peak earnings in FY22. RAK delivered NZ\$54.4m in underlying EBITDA and produced NZ\$33.1m in NPAT during that period.

Long-term opportunity, with RAK's technology and expertise in focus

RAK has leading technology in its segments and is investing in R&D for the long term, with the potential to expand into new and rapidly growing market segments like AI, data centres, and NewSpace. The Space and Defence segment has been a silver lining recently, with strong +24% revenue growth seen during its 1H24 result. The industry player is likely willing to look through near-term earnings weakness. The offer price of NZ\$1.70 per share implies inflated multiples for FY24 and FY25 while the cycle bottoms and begins to recover. However, if RAK can return to peak earnings, it represents more reasonable multiples of 11.8x PE or 7.0 EV/EBITDA.

Figure 1. Implied multiples at offer price of NZ\$1.70

	FY24 Estimate	FY25 Estimate	FY22 (Peak earnings)
Implied PE multiple (x)	87.8x	33.7x	11.8x
Implied EV/EBITDA multiple (x)	27.5x	15.3x	7.0x

Source: Forsyth Barr analysis

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

Priced as at 11 Dec 2023	1.20
52 week high / low	1.20 / 0.59
Market capitalisation (NZ\$m)	275.8

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	4.4	11.6	20.9
Abnormals/other	0	0	0	0	0
Reported NPAT	33.1	23.2	4.4	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	80.5
Normalised EPS (%)	>100	-29.9	-80.9	>100	80.5
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)	(7.5)
Other	(2.6)	(1.3)	0.1	0.8	1.3
Operating cash flow	30	11.1	16.7	25.2	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	(3.4)	(3.4)	(5.7)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	17.4	(10.1)	(5.8)	4.8	1.7

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)	(10.6)	(15.5)	(17.2)
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	157.9	166.0	183.5
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	0.92
PE driven comparables valuation	0.70

DCF valuation summary (NZ\$m)

Total firm value	227
(Net debt)/cash	16
Less: Capitalised operating leases	-28
Value of equity	216

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.5	1.4	1.9	1.7	1.4
EV/EBITDA (x)	5.3	6.3	20.2	11.7	7.7
EV/EBIT (x)	6.4	7.8	43.9	18.2	10.2
PE (x)	8.3	11.8	62.0	23.8	13.2
Price/NTA (x)	2.1	1.8	1.8	1.8	1.6
Free cash flow yield (%)	6.3	-3.6	-0.9	3.0	2.7
Adj. free cash flow yield (%)	10.0	3.1	5.3	8.4	5.0
Net dividend yield (%)	0.0	1.3	1.3	1.3	1.3
Gross dividend yield (%)	0.0	1.7	1.7	1.7	1.7

Capital Structure	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	21.7	64.1	20.7	31.4	55.1
Interest cover EBITDA (x)	26.4	79.1	44.9	48.7	72.9
Net debt/ND+E (%)	-20.8	-11.7	-7.2	-10.3	-10.3
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	6.9	11.5
Return on equity (%)	24.5	14.8	2.8	7.0	11.4
Return on funds employed (%)	16.6	11.2	2.1	5.4	9.2
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	78	30	16

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 2. Price performance



Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

Shareholder	Latest Holding
Brent John Robinson	15.2%
Siward Crystal Technology	12.2%
Wairahi Investments and Wairahi Holdings Limited	5.1%

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

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E	
				2024E	2025E	2024E	2025E	2024E	2025E		
(metrics re-weighted to reflect RAK's balance date - March)											
Rakon	RAK NZ	NZ\$1.20	NZ\$276	62.0x	23.8x	20.2x	11.7x	43.9x	18.2x	1.3%	
Txc Corp	3042 TT	TWD100.00	TWD30,976	16.7x	14.2x	15.1x	9.2x	16.6x	12.8x	5.6%	
Sitime Corp	SITM US	US\$114.81	US\$2,578	>75x	>50x	<0x	>75x	27.9x	>75x	n/a	
Microchip Technology Inc	MCHP US	US\$86.08	US\$46,573	16.0x	17.9x	13.3x	14.9x	14.5x	16.4x	2.3%	
Siward Crystal Technology Co	2484 TT	TWD33.00	TWD5,261	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Daishinku Corp	6962 T	¥763.00	¥27,618	17.8x	16.6x	7.0x	5.4x	22.5x	14.2x	3.7%	
Nihon Dempa Kogyo Co	6779 T	¥1111.00	¥25,696	9.3x	6.7x	5.4x	4.2x	9.7x	7.2x	2.5%	
Seiko Epson Corp	6724 JP	¥2080.00	¥800,846	10.8x	10.9x	4.9x	4.9x	8.9x	8.6x	3.7%	
Compco Average:				14.1x	13.3x	9.1x	7.7x	16.7x	11.8x	3.5%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				RAK Relative:	339%	80%	121%	52%	163%	54%	-65%

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

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