NEW ZEALAND EQUITY RESEARCH | TECHNOLOGY | ELECTRONIC EQUIPMENT & PARTS
27 MAY 2022

Rakon Limited
FY22 Record Result Awaits New Capacity

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Rakon Limited (RAK) reported its most profitable year (in its fifty year history) over FY22, with underlying EBITDA of NZ$54.4m +132%, on revenue of NZ$172m +34%. With RAK flexing its local manufacturing base and avoiding supply chain issues, it was able to reap the benefits of global industry shortages. The result was above management's guidance range of NZ$49m–NZ$53m and ahead of our NZ$51m underlying EBITDA estimate. Management's comments about the strength in underlying core markets provides confidence for the future. Given current capacity constraints, RAK awaits the completion of its new Indian manufacturing facility to take advantage of strong demand. The Board refreshed RAK's ESG policies with a framework disclosed. WACC adjustments, given higher interest rates, and higher costs see our spot valuation falling 9% to NZ$2.09.

NZX Code	RAK
Share price	NZ$1.52
Spot Valuation	NZ$2.09 (from 1.93)
Risk rating	Medium
Issued shares	229.1m
Market cap	NZ$348m
Avg daily turnover	247.2k (NZ$336k)

Financials: Mar/	22A	23E	24E	25E
NPAT* (NZ$m)	33.1	18.1	24.4	31.9
EPS* (NZc)	14.5	7.9	10.7	13.9
EPS growth* (%)	n/a	-45.3	34.6	30.8
DPS (NZc)	0.0	0.0	5.3	7.0
Imputation (%)	0	0	100	100

*Based on normalised profits

Valuation (x)	22A	23E	24E	25E
PE	10.5	19.2	14.3	10.9
EV/EBIT	8.2	13.5	11.0	8.3
EV/EBITDA	6.2	8.6	7.2	6.0
Price / NTA	2.7	2.4	2.2	2.0
Cash div yld (%)	0.0	0.0	3.5	4.6
Gross div yld (%)	0.0	0.0	4.9	6.4

What's changed?

- **Spot valuation:** Positive effect of earnings upgrades tempered by WACC adjustments, our spot valuation is now NZ$2.09.

Underlying growth continues in core markets

Demand in the core market segments of Telecommunications (5G and data centres) and Positioning (industrial applications) remains solid. Management did an exceptional job of flexing its local manufacturing capacity by +60% during FY22. Results would have been even stronger if the company had additional manufacturing capacity available. We understand that for most of FY22 and looking across FY23 the company will be running at or near capacity. The new manufacturing facility in India, under construction, will not only provide additional capacity but will also drive overall cost efficiencies and develop manufacturing redundancy. We anticipate it will come online in either late 3Q or 4Q of FY23 (November 2022 to March 2023) and ramp upwards during FY24 onwards.

Normalising interest rates impacting valuation

Since NZ interest rates have returned to more normalised levels, in line with their 15-year average, we have moved to update our cost of capital assumptions (outlined in our report, *WACCed: The Short Road to Normalising Rates*, dated 13 May 2022). Our spot valuation falls to NZ$2.09, being the net effect of earnings revisions and WACC changes from higher interest rates.

Outlook

RAK's management has not yet issued guidance for FY23. We expect this will occur at the company's AGM in the middle of August 2022. Our FY23 estimates for underlying EBITDA remains NZ$37.7m, on total revenues of NZ$175m. While we forecast revenue up slightly in FY23, EBITDA is expected to be lower, given the one-off contracts obtained during the industry shortages were at higher margins and extra costs were loaded into the company. Outlook commentary had a positive tone to it, with a growing confidence in developing the NewSpace opportunity. Management reiterated its strategy of investing more in R&D to bring cutting-edge, new products to market faster. Some uncertainty still exists on whether RAK can again successfully mitigate supply chain issues in FY23 as it did in FY22.

Rakon Limited (RAK)

Market Data (NZ$)	
Priced as at 26 May 2022	**1.52**
52 week high / low	2.22 / 0.87
Market capitalisation (NZ$m)	348.2

Key WACC assumptions	
Risk free rate	4.00%
Equity beta	1.13
WACC	9.5%
Terminal growth	2.5%

Profit and Loss Account (NZ$m)	2021A	2022A	2023E	2024E	2025E
Sales revenue	130.9	173.6	175.0	199.3	230.0
Normalised EBITDA	**23.5**	**54.4**	**37.7**	**44.3**	**53.5**
Depreciation and amortisation	(13.4)	(13.2)	(8.9)	(10.4)	(11.2)
Normalised EBIT	**11.3**	**41.4**	**24.0**	**29.1**	**38.4**
Net interest	(1.6)	(1.9)	(1.3)	(0.7)	(0.6)
Associate income	1.4	2.4	1.7	1.8	1.8
Tax	(1.5)	(8.8)	(6.4)	(5.7)	(7.7)
Minority interests	0	0	0	0	0
Normalised NPAT	**9.6**	**33.1**	**18.1**	**24.4**	**31.9**
Abnormals/other	0	0	0	0	0
Reported NPAT	**9.6**	**33.1**	**18.1**	**24.4**	**31.9**
Normalised EPS (cps)	4.2	14.5	7.9	10.7	13.9
DPS (cps)	0	0	0	5.3	7.0

Growth Rates	2021A	2022A	2023E	2024E	2025E
Revenue (%)	10.0	32.7	0.8	13.9	15.4
EBITDA (%)	58.8	>100	-30.7	17.3	20.8
EBIT (%)	>100	>100	-41.9	20.9	32.2
Normalised NPAT (%)	>100	>100	-45.3	34.6	30.8
Normalised EPS (%)	>100	>100	-45.3	34.6	30.8
Ordinary DPS (%)	n/a	n/a	n/a	n/a	30.8

Cash Flow (NZ$m)	2021A	2022A	2023E	2024E	2025E
EBITDA	**23.5**	**54.4**	**37.7**	**44.3**	**53.5**
Working capital change	7.2	(15.3)	(1.9)	(11.8)	(12.9)
Interest & tax paid	(1.8)	(2.3)	(7.6)	(6.4)	(8.3)
Other	(8.8)	(6.7)	(2.1)	(2.2)	(2.3)
Operating cash flow	**20.1**	**30.2**	**26.1**	**23.8**	**29.9**
Capital expenditure	(5.1)	(10.2)	(15.4)	(6.6)	(7.4)
(Acquisitions)/divestments	0	-""	-""	-""	-""
Other	(3.0)	(2.6)	(2.8)	(2.4)	(2.5)
Funding available/(required)	**12.0**	**17.4**	**7.9**	**14.8**	**20.1**
Dividends paid	-""	-""	0	(4.9)	(13.7)
Equity raised/(returned)	-""	-""	0	0	0
(Increase)/decrease in net debt	**12.0**	**17.4**	**7.9**	**10.0**	**6.4**

Balance Sheet (NZ$m)	2021A	2022A	2023E	2024E	2025E
Working capital	50.6	65.8	67.7	79.5	92.4
Fixed assets	18.3	21.4	29.8	28.4	27.8
Intangibles	7.6	7.2	6.7	6.6	6.7
Right of use asset	7.2	4.8	2.4	14.8	11.7
Other assets	29.6	25.5	25.5	25.5	25.5
Total funds employed	**113.3**	**124.6**	**132.1**	**154.8**	**164.1**
Net debt/(cash)	(5.0)	(23.2)	(29.4)	(39.3)	(45.7)
Lease liability	5.4	3.4	0.6	13.8	11.3
Other liabilities	9.0	9.3	9.3	16.6	18.9
Shareholder's funds	103.9	135.2	151.5	163.7	179.6
Minority interests	0	0	0	0	0
Total funding sources	**113.3**	**124.6**	**132.1**	**154.8**	**164.1**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Spot valuation (NZ$)	**2.09**
DCF	2.09

DCF valuation summary (NZ$m)	
Total firm value	502
(Net debt)/cash	23
Less: Capitalised operating leases	(46)
Value of equity	478

Valuation Ratios	2021A	2022A	2023E	2024E	2025E
EV/EBITDA (x)	15.1	6.2	8.6	7.2	6.0
EV/EBIT (x)	31.4	8.2	13.5	11.0	8.3
PE (x)	36.1	10.5	19.2	14.3	10.9
Price/NTA (x)	3.6	2.7	2.4	2.2	2.0
Free cash flow yield (%)	4.3	5.8	3.1	5.0	6.5
Net dividend yield (%)	0.0	0.0	0.0	3.5	4.6
Gross dividend yield (%)	0.0	0.0	0.0	4.9	6.4

Capital Structure	2021A	2022A	2023E	2024E	2025E
Interest cover EBIT (x)	7.1	21.7	19.1	40.2	62.9
Interest cover EBITDA (x)	14.7	28.6	30.0	61.2	87.6
Net debt/ND+E (%)	-5.1	-20.8	-24.0	-31.6	-34.1
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios	2021A	2022A	2023E	2024E	2025E
Return on assets (%)	7.3	20.7	11.8	12.3	14.9
Return on equity (%)	9.3	24.5	12.0	14.9	17.8
Return on funds employed (%)	6.2	16.6	8.9	11.1	12.9
EBITDA margin (%)	17.9	31.4	21.6	22.2	23.3
EBIT margin (%)	8.6	23.9	13.7	14.6	16.7
Capex to sales (%)	3.9	5.9	8.8	3.3	3.2
Capex to depreciation (%)	45	89	217	76	78
Imputation (%)	0	0	0	100	100
Pay-out ratio (%)	0	0	0	50	50

Segment Revenue (NZ$m)	2021A	2022A	2023E	2024E	2025E
Telecommunications	77.0	86.2	106.1	133.7	156.4
Positioning	14.0	27.1	28.8	22.1	24.4
Space and Defence	29.8	26.3	27.6	30.6	36.0
IoT, Emerging and Other	7.4	32.3	12.5	12.9	13.3
Other revenues	2.5	1.6	0.0	0.0	0.0
Total Revenue	**130.8**	**173.6**	**175.0**	**199.3**	**230.0**

Segment Gross Margin (%)	2020A	2021A	2022E	2023E	2024E
Telecommunications	40	44	44	43	42
Positioning	48	55	56	56	55
Space and Defence	68	69	68	67	65
IoT, Emerging and Other	14	56	23	14	14

Underlying EBITDA	2021A	2022A	2023E	2024E	2025E
Profit before income tax	11.2	41.9	24.5	30.1	39.6
Depreciation and amortisation	(8.7)	(8.9)	(9.9)	(11.2)	(10.9)
Finance costs - net	(1.6)	(1.9)	(1.3)	(0.7)	(0.6)
Adjustments	(1.8)	(2.2)	(2.1)	(2.2)	(2.3)
Other non-cash items	(0.2)	(0.1)	0	0	0
Underlying EBITDA	**23.5**	**54.4**	**37.7**	**44.3**	**53.5**
Revenue Growth (%)	8	34	2	14	15
Underlying EBITDA Growth (%)	59	132	-31	17	21

FY22 results summary

RAK announced a record result for FY22 with revenue of NZ$172m and EBITDA of NZ$54.4m, up +34% and +132% respectively. Sustained growth in core markets saw an +11.6% revenue uplift in Telecommunications and +36% growth in the core Positioning segment. Gross profit rose +53% to NZ$90.1m, with gross margin rising from 46.1% to 51.8%. Operating expenses remained stable at NZ$49.3m, albeit NZ$1.2m of R&D was capitalised. The company ended the period with NZ$23.2m in cash up from NZ$5.0m pcp. A change of dividend policy saw renewed focus on reinvestment back into the business while retaining a conservative balance sheet rather than paying dividends. The policy will be reviewed regularly.

Figure 1. RAK — FY21 versus FY22 reported results (NZ$m)

	FY21 Actual	FY22 Actual	Change
Revenue	**128.3**	**172.0**	**+34%**
Cost of sales	(69.3)	(81.9)	+18%
Gross Profit	58.9	90.1	+53%
Other operating income	0.3	1.6	+528%
Operating expenses			
Selling and marketing costs	(9.4)	(9.4)	-0%
Research and development	(13.6)	(11.7)	-14%
General and administration	(25.9)	(28.2)	+9%
Total operating expenses	(49.0)	(49.3)	+1%
Other gains/(losses) — net	1.2	(0.9)	-181%
Operating profit	**11.3**	**41.4**	**+266%**
Finance income	0.0	0.0	+34%
Finance costs	(1.6)	(1.9)	+19%
Share of net profits of associates	1.4	2.4	+65%
Profit before income tax	11.2	41.9	+275%
Income tax expense	(1.5)	(8.8)	+475%
Net profit after tax for the period	**9.6**	**33.1**	**+244%**
Profit before income tax	11.2	24.5	+119%
Depreciation and amortisation	(8.7)	(8.9)	+3%
Finance costs — net	(1.6)	(1.3)	-21%
Adjustments for associate share of interest, tax and depreciation	(1.8)	(2.2)	+20%
Other non-cash items	(0.2)	(0.1)	-39%
Underlying EBITDA	**23.5**	**54.4**	**+132%**

Source: RAK, Forsyth Barr analysis

Strong demand constrained by capacity constraints

During FY22 RAK experienced solid demand in the core market segments of Telecommunications (5G and data centres) and Positioning (industrial positioning applications). While the management team has done an exceptional job of flexing its local manufacturing capacity, +60% during FY22, results would have been even stronger if the company had additional manufacturing capacity available. We understand that for most of FY22 and looking into FY23 the company will be running at or near capacity. The new manufacturing facility in India, currently under construction, will be a welcome addition to the business. We anticipate it will initially come online sometime late in FY23 with a ramping up period after this and benefits in FY24 and beyond.

Some long-tail growth factors are driving demand in market segments: 5G mobile tower infrastructure, data centres, low-earth-orbit (LEO) satellites, and autonomous mining and agriculture vehicles, to name a few. US and global technology companies have noted on recent earnings calls that demand in 5G-related markets remains strong and more capacity is needed. While this new capacity is coming online, given the supply constraints over many years, it may take two to five years for the overall foundry capacity to meet demand. On a recent investor earnings call, Kang Moon-soo, executive vice president at Samsung, said, when talking about its foundry business, that orders for the next five years are circa eight times that of the previous year's revenue. While not directly representative of RAK's revenues, it is a good indication of sustainable demand across several of RAK's core markets in 5G infrastructure, industrial positioning, and new Space markets like low-earth-orbit (LEO satellites).

Earnings revisions & valuation update

We make minor changes to our forecasts with a slight upgrade of revenues in FY23 and FY24 of +1% and +2%, respectively but increase operating expenses by +6% and +3% respectively, reflecting the reinvestment into the business. As such, our estimates for underlying EBITDA remain flat at NZ$37.7m in FY23 and fall by 1% in FY24 to NZ$44.3m. We disclosure new FY25 estimates.

Figure 2. RAK — Earnings revisions (NZ$m)

	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	**173.3**	**175.0**	**+1%**	**196.2**	**199.3**	**+2%**		**230.0**	
Cost of sales	(93.9)	(91.1)	-3%	(107.4)	(108.1)	+1%		(125.9)	
Gross Profit	79.4	83.8	+6%	88.7	91.3	+3%		104.2	
Other operating income	0.2	0.0		0.2	0.0			0.0	
Operating expenses									
Selling and marketing costs	(10.1)	(10.0)	-1%	(10.4)	(10.5)	+1%		(10.8)	
Research and development	(18.2)	(18.7)	+3%	(21.6)	(18.9)	-12%		(21.2)	
General and administration	(27.8)	(31.0)	+11%	(28.5)	(32.8)	+15%		(33.8)	
Total operating expenses	(56.2)	(59.8)	+6%	(60.5)	(62.2)	+3%		(65.7)	
Other gains/(losses) — net									
Operating profit	**23.4**	**24.0**	**+3%**	**28.4**	**29.1**	**+2%**		**38.4**	
Finance income	0.1	0.0		0.1	0.0			0.0	
Finance costs	(0.6)	(1.3)		(0.3)	(0.8)			(0.7)	
Share of net profits of associates	2.7	1.7		2.7	1.8			1.8	
Profit before income tax	25.5	24.5	-4%	31.0	30.1	-3%		39.6	
Income tax expense	(5.9)	(6.4)	+8%	(7.3)	(5.7)	-21%		(7.7)	
Net profit for the period	**19.7**	**18.1**	**-8%**	**23.8**	**24.4**	**+3%**		**31.9**	
Profit before income tax	**25.5**	**24.5**	**-4%**	**31.0**	**30.1**	**-3%**		**39.6**	
Depreciation and amortisation	(9.2)	(9.9)		11.2	11.2			10.9	
Finance costs — net	(0.5)	(1.3)		(0.2)	(0.7)			(0.6)	
Adjustments for associate share of interest, tax and depreciation	(2.3)	(2.1)		(2.3)	(2.2)			(2.3)	
Other non-cash items	(0.1)	-		(0.2)	-			-	
Underlying EBITDA	**37.7**	**37.7**	**+0%**	**44.8**	**44.3**	**-1%**		**53.5**	

Source: Forsyth Barr analysis

Normalising interest rates impacting market multiples and valuation

Interest rates have returned to more normalised levels, in line with the 15-year average, post a prolonged period at artificially low levels. With bond rates up +3.0% since the low in late September 2020 we have moved to update our cost of capital assumptions. This was outlined in our, *WACCed: The Short Road to Normalising Rates*, note on 13 May 2022. Interest rates are a critical component (the risk-free rate or Rfr) in discounted cash-flow (DCF) based valuations. It has been the most significant increase in interest rates in New Zealand for 30+ years. The interpolated local 10-year government bond rate has also (re)-established itself as one of the highest amongst developed markets. Historically, there has been a very strong inverse correlation to bond rates, especially with technology stocks. The equity market has taken notice of the increasing rates, with the NZX50 Index down -14.6% year-to-date.

We update our WACC assumptions to reflect the higher interpolated 10yr interest rate and make no change to our tax-adjusted market risk premium (TAMRP) estimate. Our risk-free rate and TAMRP estimates are 4.0% and 5.5%, respectively. Our spot discounted cash flow (DCF) based valuation of RAK has fallen by 9% to NZ$2.09.

RAK is currently trading on 8.6x EV/EBITDA and 19.2x P/E based on our new FY23 numbers. Against its peer group, RAK trades at a 17% discount on EV/EBITDA on FY23 numbers that trade on 10.3x. It also compares to the 12-month forward median EV/EBITDA ratio for the NZX50 at 12.0x with a five-year average of 12.8x.

Global manufacturing costs continue to rise but cost pass through should see RAK's margins maintained

The pricing environment in many specialised technology applications, like semiconductors and electronic components, remains strong. We envisage RAK continuing to pass on higher costs, as necessary, during FY23, as seen in FY22. Cost increases for RAK have come primarily from labour, gas, chemicals, electricity, rent, quartz blanks, equipment and construction materials in building the new Indian facility. We surmise that RAK is taking a longer-term strategy of working with and building sustainable and enduring partnerships with its clients than using this as an opportunity to grab margin. The globally elevated awareness of increasing costs has allowed RAK to partially cover the rising costs of materials, labour and logistics. We believe the price rises seen in FY22 are the first time end product prices have risen in decades. Opening up these conversations with clients is also crucial given further supply constraint impacts from the war in Ukraine, Russia's exclusion from global markets, and the lock-downs in China due to COVID-19. We now expect a tight and robust pricing market to continue for RAK's FY23 and into FY24.

As reported in the press, Samsung Electronics has been discussing price rises of as much as +20% for semiconductors this year. Other press has suggested that Taiwan Semiconductor Manufacturing Company (TSMC), the global number one semiconductor producer, is lifting prices by +5% to +8% in the coming year after a lift in prices of around +20% last year.

The NZ dollar fall to incrementally aid FY23 revenues

RAK has a formal hedging policy to smooth movements in the NZD against foreign currencies. Management and the Board's policy is to hedge "highly probable transactions over the subsequent 24 months" net of foreign-denominated costs. Most of RAK's sales are in USD (NZ dollar to US dollar or NZD/USD). However, RAK also hedges its other forward exposures of GBP/USD (Pound sterling to US dollar), EUR/USD (Euro to US dollar), USD/INR (US dollar to Indian Rupee) and JPY/USD (Japanese Yen to US dollar). Details of these positions are found in the annual report with RAK using a typical combination of forward foreign exchange contracts and options contracts to implement the policy. As of 31 March 2022, for NZD/USD exposures, an estimated 80–85% of revenues were hedged over the next 0–12 months and around 50–55% over the 12–24 month period. The weighted average contract rate on these forward exposures for the two forward years of NZD/USD is 0.6785. This compares to an end of period 31 March 22 rate of 0.6928.

Since RAK's 31 March 2022 balance date, the NZD has dropped to a two-year low against the USD, with the current spot NZ/USD cross rate of 0.6452. Concerns about New Zealand's economy, a spike in local interest rates, and inflation impacts on spending are all driving a weakening in the property market, and a flight to the safety of the USD, driving the cross rate weakness. Given the generally smoothing nature of RAK's hedging policy, movements take time to flow through. As such, we envisage that RAK will not benefit significantly over FY23 from the most recent fall in the NZD.

On the other side of the equation, RAK's imported product components costs are primarily USD. This is complicated somewhat by RAK's operations in France and India. We estimate component costs represent 10% to 20% of revenues as most costs are in labour and are taken into account when hedging is undertaken.

New ESG framework

With the help of Ernst & Young, RAK has begun development of a new Environmental, Social, and Governance (ESG) Framework. We see this as a necessity and key opportunity for RAK and will be following progress with interest. RAK is in the very early days of developing its framework but has undertaken a materiality assessment which identified the following key issues in the framework in Figure 3.

RAK states an intention to build on these issues to develop its Framework and reporting roadmap over the coming months.

Figure 3. RAK — ESG framework

	Topic	Sub-topics	Definition
Environment	Sustainable products	• Sustainable materials and product design • Waste and circularity • Decarbonisation (scope 3)	Minimising the negative impact of our products and embracing innovation to positively impact the environment.
Environment	Sustainable operations	• Waste and hazardous material management • Water management • Decarbonisation (scope 1 and 2) • Climate adaptation and resiliency	Sustainable and efficient use and protection of resources in the operating processes, particularly manufacturing. Adapting to the physical impacts of climate change to maintain a resilient business model.
Social	Ethical supply chain	• Responsible sourcing of materials • Modern slavery • Responsible selling of products	Ethical sourcing of raw materials, especially in relation to conflict minerals, and labour, particularly in partner manufacturing plants outside New Zealand where labour laws are less stringent. Ensuring sales of products that may have a military end use comply with international humanitarian law and trade laws.
Social	An engaged, healthy, diverse and capable workforce	• Employee health, safety and well-being • Employee engagement and growth • Diversity and inclusion	Cultivating a strong, healthy workplace culture that attracts, engages and develops high performing teams that embrace diversity of thought.
Governance	Risk management	• Risk management • Disclosure • Compliance to legal and regulatory requirements	Maintaining robust risk management processes.

Source: Forsyth Barr analysis

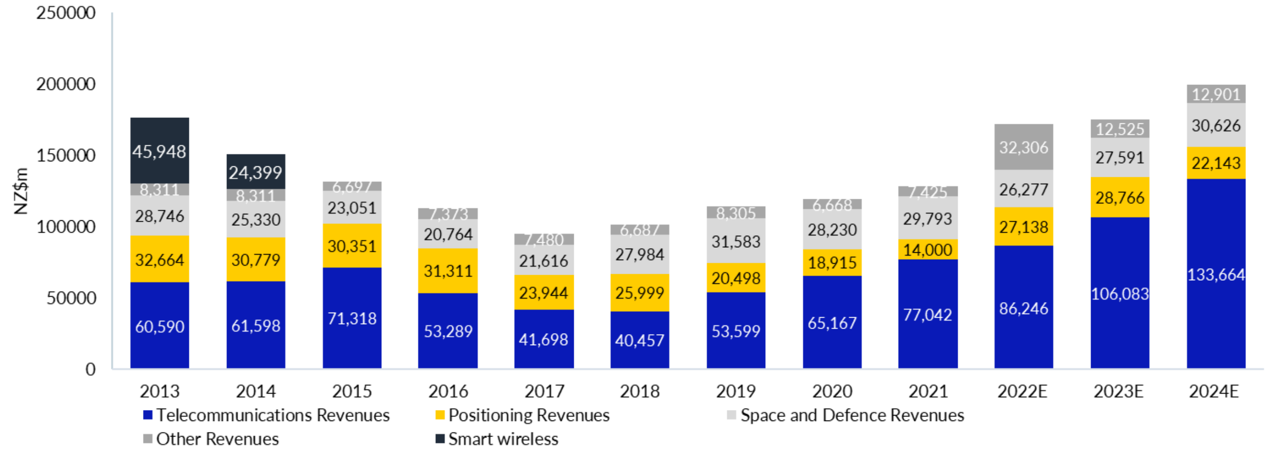
RAK and the Defence sector

In our view, we believe the key issue for RAK to disclose to ESG minded investors is how they ensure that its products do not end up in weapons. We were pleased to see some added disclosure here. See the following exerts from RAK's FY22 Report:

> Rakon's products are used in a wide range of applications in many different industries and market sectors. With customers in the defence industry, we are particularly focussed on ensuring we comply with rules designed to control the export of goods that may have a military end use (including in weapons) in all the countries where we do business.
>
> Rakon's Trade Compliance Policy requires compliance with export controls and restrictions in each of the countries it designs and manufactures products within; including application for export permits or licences. Our Trade Compliance Policy states that we will not sell products which could be used in weapons of mass destruction (or their means of delivery); or in cluster munitions or for terrorist activity. Further, Rakon must undertake customer due diligence when it is aware products may be purchased for a military end use.
>
> Rakon has a comprehensive compliance framework in place including: staff training, business management system protocols and senior management oversight and escalations. Compliance assurance reporting is required by the Board bi-annually.

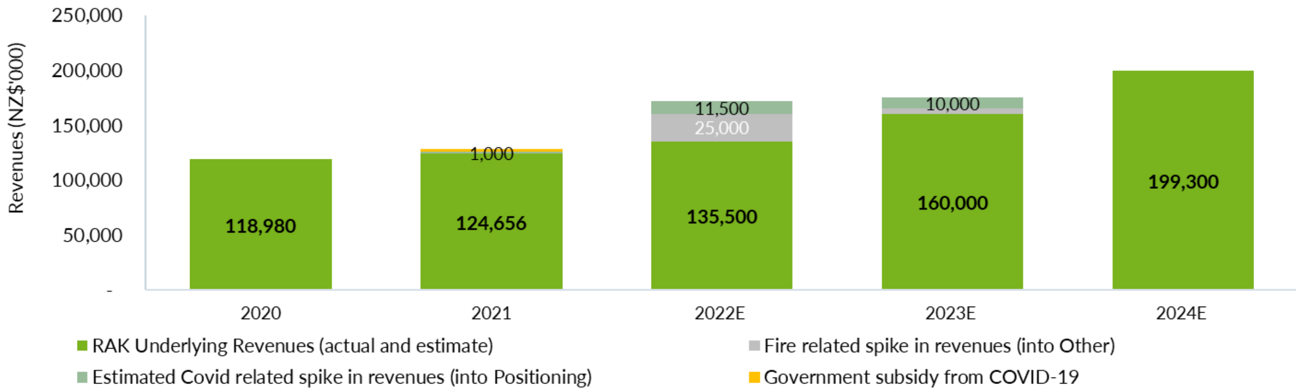
Key charts

Figure 4. RAK — Revenue stack by division (NZ$m)



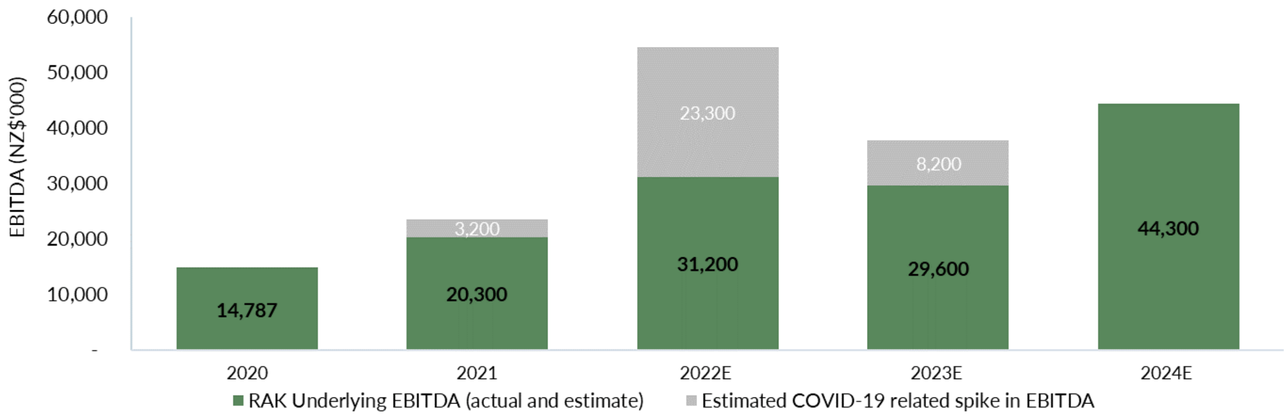
Source: Company data, Forsyth Barr analysis

Figure 5. RAK — reported and estimated revenues (with and without COVID-19 spike)



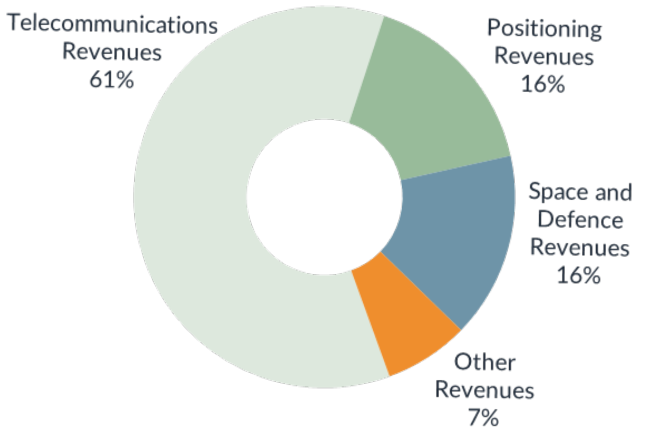
Source: Company data, Forsyth Barr analysis

Figure 6. RAK — reported and estimated EBITDA (with and without COVID-19 spike)



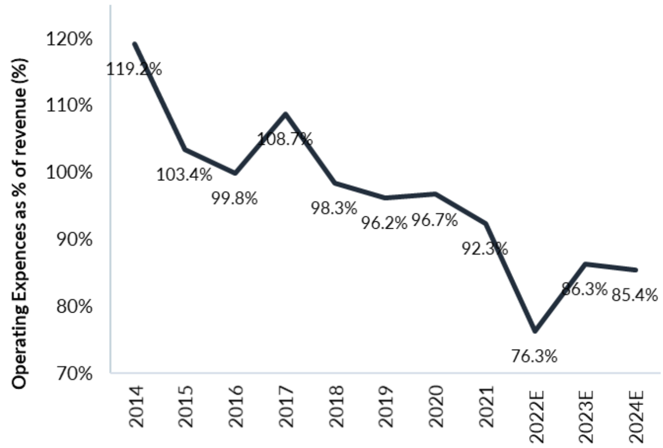
Source: Company data, Forsyth Barr analysis

Figure 7. RAK — Estimated revenue by division (FY23)



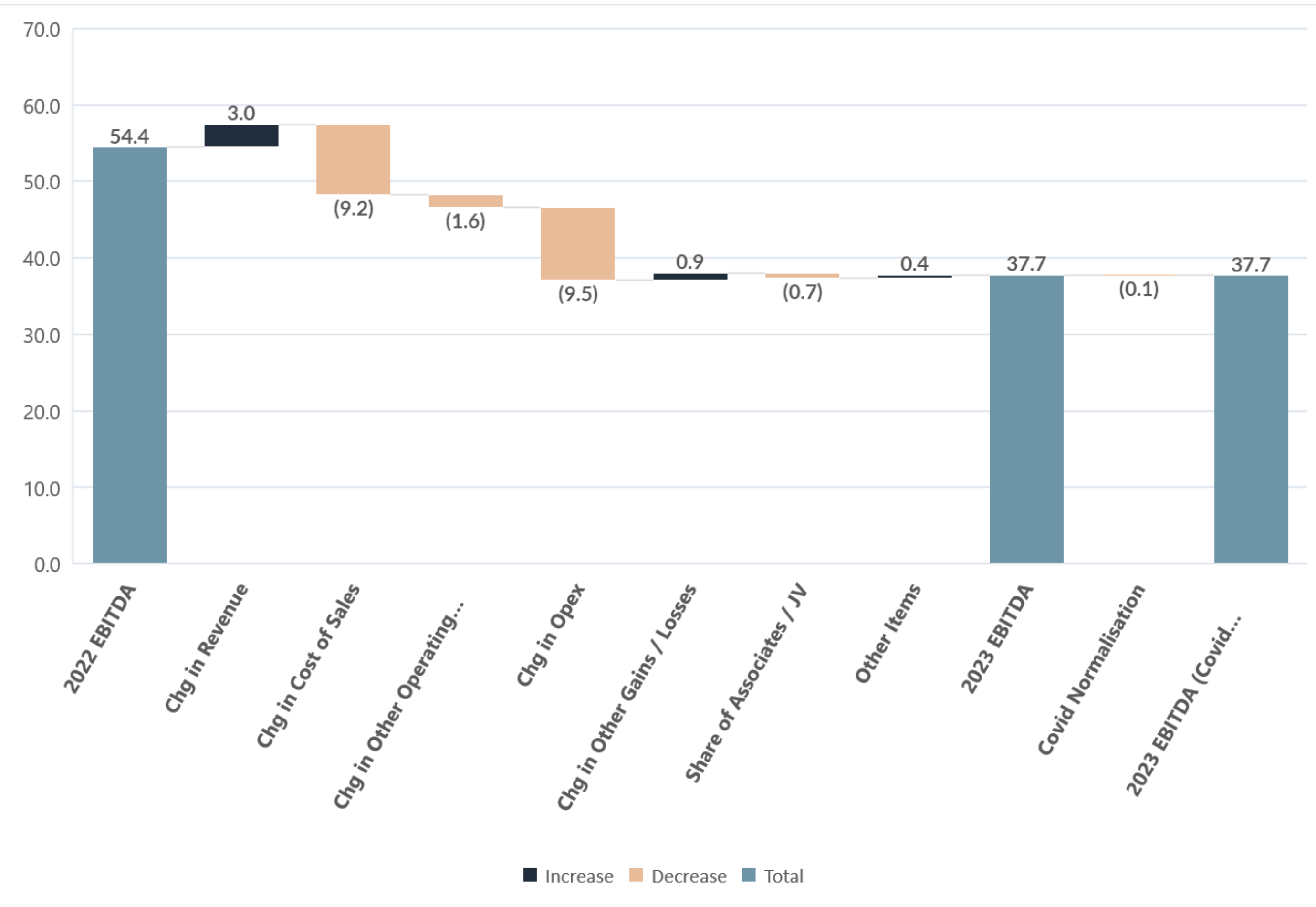
Source: Company data, Forsyth Barr analysis

Figure 8. RAK — Group operating expenses as % of revenue



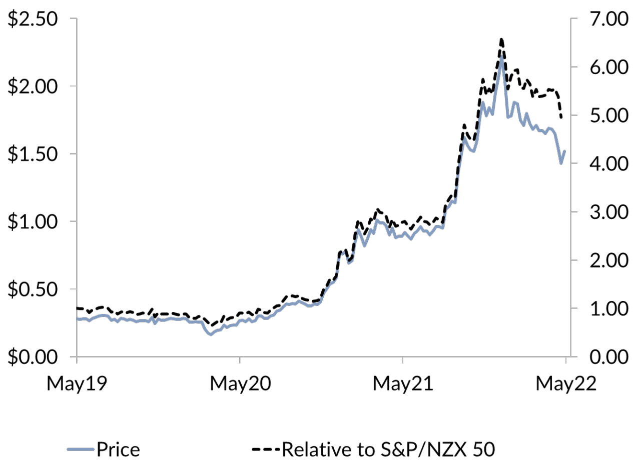
Source: Company data, Forsyth Barr analysis

Figure 9. RAK — EBITDA Bridge FY22 to FY23 (NZ$m)



Source: Company data, Forsyth Barr analysis

Figure 10. Price performance



Source: Forsyth Barr analysis

Figure 11. Substantial shareholders

Shareholder	Latest Holding
Siward Crystal Technology	12.2%
Ahuareka Trust	10.9%
Wairahi Investments and Wairahi Holdings Limited	5.1%

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

Figure 12. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect RAK's balance date - March)			(m)	2023E	2024E	2023E	2024E	2023E	2024E	2024E
Rakon	**RAK NZ**	**NZ$1.52**	**NZ$348**	**19.2x**	**14.3x**	**8.6x**	**7.2x**	**13.5x**	**11.0x**	**3.5%**
Txc Corp	3042 TT	TWD93.00	TWD28,807	9.7x	9.3x	6.1x	5.5x	8.5x	7.8x	7.9%
Sitime Corp	SITM US	US$188.42	US$3,965	41.5x	35.4x	29.5x	24.3x	32.4x	26.5x	n/a
Microchip Technology Inc	MCHP US	US$68.48	US$37,972	12.5x	12.0x	12.1x	11.5x	12.8x	12.4x	2.0%
Siward Crystal Technology Co	2484 TT	TWD37.30	TWD5,946	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Daishinku Corp	6962 T	¥987.00	¥35,726	9.6x	n/a	4.1x	n/a	7.4x	n/a	n/a
Nihon Dempa Kogyo Co	6779 T	¥1084.00	¥25,071	4.8x	n/a	4.7x	n/a	7.2x	n/a	n/a
Seiko Epson Corp	6724 JP	¥2127.00	¥850,023	12.3x	11.9x	5.3x	5.3x	9.0x	8.7x	3.1%
			Compco Average:	**15.1x**	**17.1x**	**10.3x**	**11.7x**	**12.9x**	**13.9x**	**4.3%**
EV = Current Market Cap + Actual Net Debt			**RAK Relative:**	**27%**	**-17%**	**-17%**	**-38%**	**5%**	**-21%**	**-19%**

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

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