

Upgrading forecasts again

Disruptive technology is turning the world upside down. Look anywhere from online retailing, autonomous vehicles and social media, to big data, augmented reality and artificial intelligence. Life is changing, and fast. Similarly we think Elektron's Checkit service is set to transform the workplace, simplifying everyday tasks such as cleaning schools, monitoring food safety and testing patient blood samples, whilst simultaneously delivering substantial time/cost savings, along with improving customer service and regulatory compliance.

Significant future overseas and ...

So far 281 customers have signed up, generating annualised revenues of >£1m (vs £780k Jan'18 & £540k Jan'17) - including John Lewis, the NHS, Claridges, Alton Towers, Compass, Cambridge University and Center Parcs. The latter decided only last month to extend coverage from 2 to all of its 5 UK locations - "freeing up more than 20,000 hours of resource per year".

... data monetisation opportunities

Elsewhere, we think there are material opportunities in leveraging the data, where Checkit already collects >35m measurements/month. For instance, providing industry benchmarking services (re continuous improvement), and 'anomalous' data sets to other 3rd parties, say for advertising purposes.

Positive momentum continues across the patch

So how is the business performing? Well encouragingly, the firm reported this morning that **it is set to beat consensus estimates**, thanks to **record H1'19 sales (+14%)/orders at Bulgin**, a **144% jump in turnover at Checkit to £0.4m** (re contract implementations) and a **33% leap in EET revenues**, reflecting the pull-through of orders and improved distribution.

All told, **group H1'19 sales came in at £15.9m or 16.9% above LY**, driving est PBT to £1.4m and **closing net cash of £6.8m**, boosted by the £0.8m disposal of Queensgate Nano. CEO John Wilson, adding "**strong double digit growth during H1'19 is representative of the multi-year transformation of our business. We now expect to be ahead of market expectations.**"

Lifting estimates & SOTP valuation to 66p/share

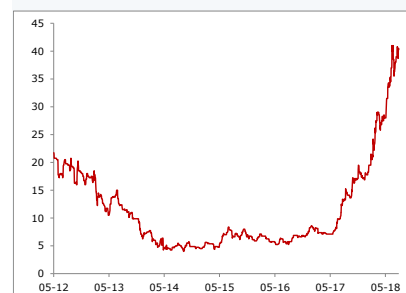
Accordingly, **we have increased our FY19 turnover and adjusted PBT forecasts by 4% and 17% respectively to £31.9m (£29.8m LY) and £2.7m (£2.7m)**. We have nudged up the Jan'19 closing net cash position to £8.3m (£5.2m) and lifted the **sum-of-the-parts (SOTP) valuation by 6.5% (or 4p) to 66p/share** (see below) - split 46p Bulgin, 14p Checkit, 3p EET and 3p net funds.

9th August 2018

Company Data

EPIC	AIM: EKT
Price	42p
52 week Hi/Lo	42p/13p
Market cap	£78m
ED SOTP valuation	66p/share
Avg. daily volume	200k

Share Price, p



Source: Web Financial

Description

Elektron (EKT) is a specialist niche product OEM and B2B operational service provider, enjoying a wide economic moat. It runs 3 separate divisions (see below), each targeting distinct markets, yet bound together by a single centre of engineering excellence located in Cambridge.

- 1) Bulgin designs and manufactures premium, fail-safe, hermetically sealed (ie air/water tight) circular connectors and electronic components.
- 2) Checkit is a hi-growth (>100%+ LFL) real-time operational management platform, that digitises, streamlines, and vastly improves the management of routine activities, providing top to bottom visibility.
- 3) EET - develops field vision and macular pigment screening devices to the ophthalmic industry.

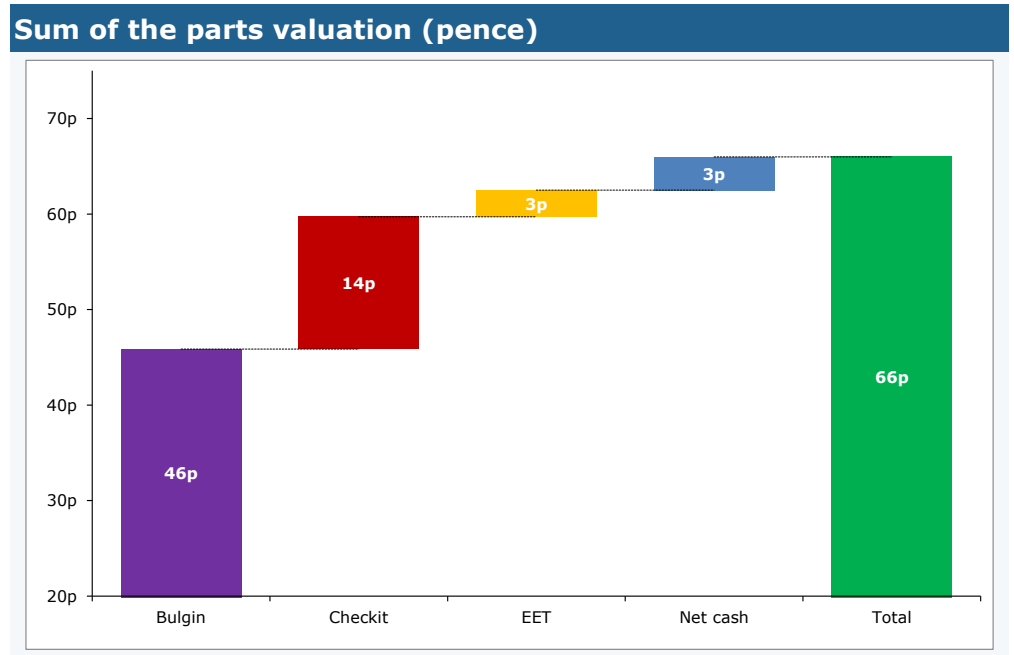
Next News: Interims 19th Sept'18

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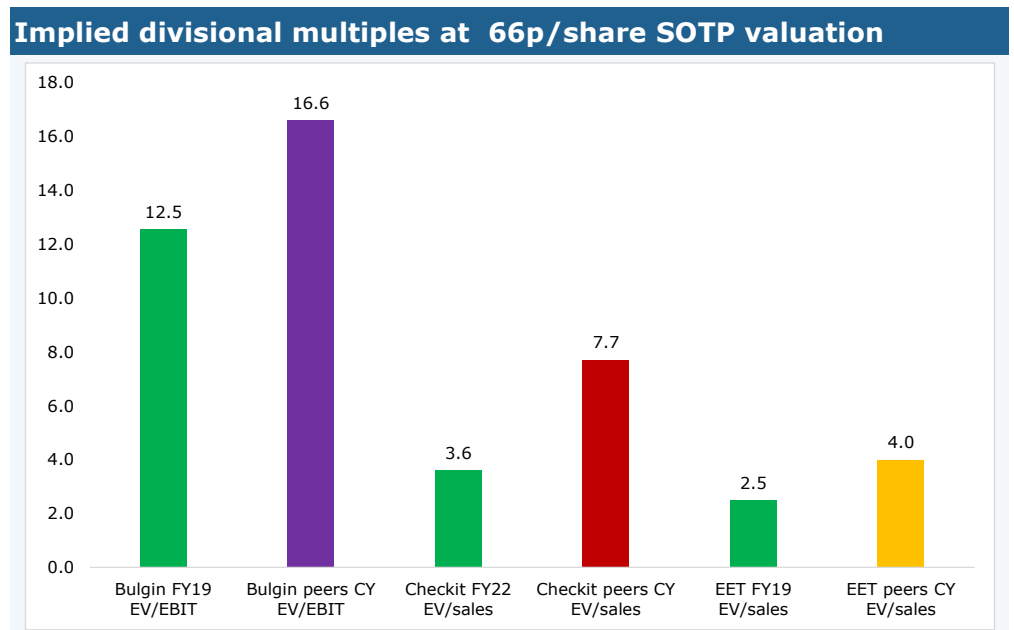
Risk/reward profile tilted to the upside



Source: Equity Development

Indeed if Checkit can deliver anywhere near its true potential (which we think it will), and Bulgin keeps ticking along - then at 66p, the shares will still appear cheap, equivalent to the undemanding divisional multiples shown below.

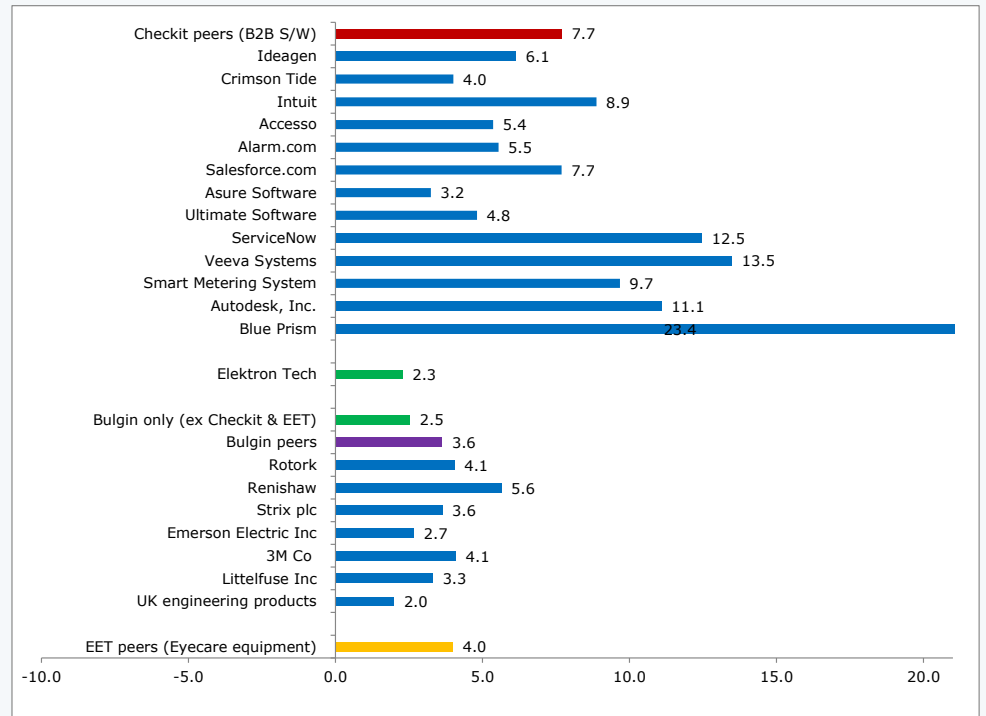
Stock could possibly even top 100p in 5 years' time



Source: Equity Development

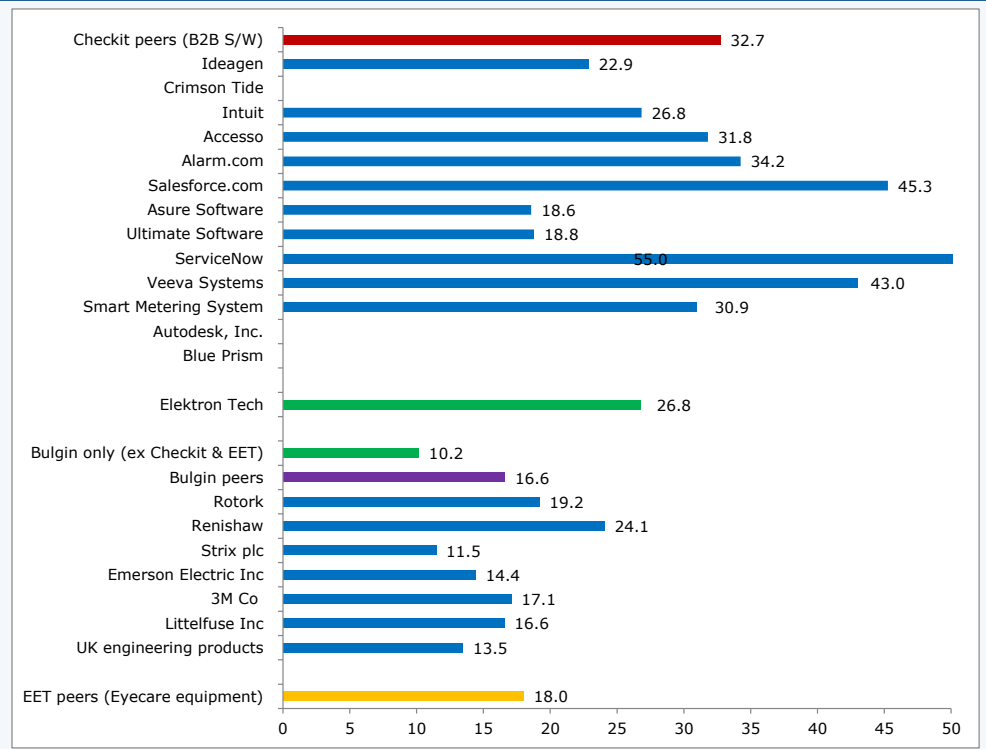
In fact, employing a range of peer group EV/sales and EV/EBIT multiples (see below), **we could even see the stock being valued at >100p by FY24** (implied ~12x EV/EBIT), representing a 138% gain from today.

Current Year (CY) EV/sales vs peers



Source: Equity Development, corporate sites – closing prices as at 8th August 2018

CY EV/EBIT vs peers



Source: Equity Development – closing prices as at 8th August 2018

Summary financial projections

Elektron Technology (January yearend)	2017 Act £ms	2018 Act £ms	2019 Est £ms	2020 Est £ms	2021 Est £ms	2022 Est £ms	2023 Est £ms	2024 Est £ms	2025 Est £ms
Bulgin	24.1	27.3	28.7	29.0	30.4	32.0	33.6	35.2	37.0
Checkit	0.3	0.5	1.0	2.1	4.2	7.6	12.1	18.7	28.1
EET	2.4	2.0	2.2	2.6	3.0	3.5	4.0	4.6	5.3
Turnover	26.8	29.8	31.9	33.7	37.7	43.0	49.7	58.6	70.4
<i>Bulgin</i>		13.3%	5.1%	1.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<i>Checkit</i>		66.7%	100.0%	110.0%	100.0%	80.0%	60.0%	55.0%	50.0%
<i>EET</i>		-16.7%	10.0%	20.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<i>% growth</i>		11.2%	7.0%	5.7%	11.7%	14.2%	15.5%	18.0%	20.2%
Gross Profit	11.2	14.8	16.2	17.2	19.5	22.6	26.5	31.7	38.6
<i>% margin</i>	41.8%	49.7%	50.7%	51.1%	51.8%	52.6%	53.3%	54.1%	54.8%
Bulgin	4.3	7.9	7.9	8.3	8.7	9.1	9.6	10.1	10.6
Checkit	-2.8	-2.7	-3.1	-2.1	-0.7	2.5	4.2	6.5	9.9
EET	-0.2	-0.1	0.1	0.2	0.4	0.5	0.7	0.8	1.0
Adj. EBITDA	1.3	5.1	5.0	6.4	8.4	12.1	14.4	17.4	21.5
<i>Bulgin</i>	17.8%	28.9%	27.6%	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%
<i>Checkit</i>	-933.3%	-540.0%	-305.0%	-100.0%	-15.5%	33.1%	34.4%	34.7%	35.1%
<i>EET</i>	-8.3%	-5.0%	5.0%	9.2%	11.9%	14.2%	16.3%	18.1%	19.6%
% EBITDA margin	4.9%	17.1%	15.6%	19.1%	22.3%	28.2%	29.0%	29.7%	30.5%
Bulgin	3.3	7.2	7.2	7.5	7.9	8.3	8.7	9.2	9.6
Checkit	-3.5	-4.4	-4.5	-3.9	-2.9	0.0	1.4	3.7	6.5
EET	-0.4	-0.2	0.0	0.1	0.2	0.3	0.5	0.6	0.8
Adj. EBIT	-0.6	2.6	2.7	3.7	5.3	8.6	10.5	13.5	16.9
<i>Bulgin</i>	13.7%	26.4%	25.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
<i>Checkit</i>	-1166.7%	-880.0%	-445.0%	-185.7%	-67.9%	0.1%	11.3%	19.7%	23.1%
<i>EET</i>	-16.7%	-10.0%	0.0%	4.2%	6.9%	9.2%	11.3%	13.1%	14.6%
% EBIT margin	-2.2%	8.7%	8.5%	11.1%	14.0%	20.1%	21.2%	23.0%	24.0%
Adj. Profit before Tax	-0.6	2.7	2.7	3.7	5.3	8.6	10.5	13.5	16.9
Adjusted EPS (p)	-0.1	1.1	1.2	1.6	2.2	3.6	4.4	5.5	6.9
<i>EPS growth rate</i>		-1939.1%	7.8%	36.8%	40.0%	63.0%	21.5%	27.0%	25.0%
Dividend (p)	0.0	0.0	0.0	0.0	0.0	1.2	1.5	1.8	2.3
<i>Yield</i>	0.0%	0.0%	0.0%	0.0%	0.0%	2.9%	3.5%	4.4%	5.5%
Valuation benchmarks									
<i>P/E ratio</i>	-723.2	39.3	36.5	26.7	19.0	11.7	9.6	7.6	6.1
<i>EV/Sales</i>	2.7	2.4	2.3	2.2	1.9	1.7	1.5	1.2	1.0
<i>EV/EBITDA</i>	56.1	14.3	14.6	11.3	8.7	6.0	5.1	4.2	3.4
<i>EV / EBITA</i>	-121.6	28.1	26.8	19.5	13.8	8.4	6.9	5.4	4.3
<i>Adjusted tax rate</i>	-83.3%	-29.6%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%
<i>EBITDA drop through rates</i>		126.7%	-5.5%	79.4%	50.3%	69.8%	34.2%	33.6%	34.5%
<i>PEG ratio</i>		-0.02	4.70	0.72	0.48	0.19	0.45	0.28	0.24
Net cash/(debt)	2.5	5.2	8.3	11.3	15.4	19.7	24.8	30.6	37.7
Sharecount (Ks)	172.2	177.9	187.0	188.0	188.9	189.9	190.8	191.8	192.7
Shareprice (p)	42.0								

Source: Equity Development estimates, Company historic data

Key risks

- Slowdown in global GDP which could impact EKT's end-markets. In particular Bulgin is early-cycle with revenues amplified by distributor de/restocking.
- Forward visibility at EET and Bulgin tends to be only 8 and 12 weeks' respectively.
- Anticipated growth/profitability (eg Checkit/EET) may take longer than envisaged, cost more and/or not be fully realised.
- Foreign exchange. However this is primarily a translation risk with 64% of Elektron's FY18 turnover being generated outside the UK.
- Regulatory and tax changes.
- Competition may intensify as a function of new/existing players.
- Being relatively small, Elektron could get squeezed by larger rivals, partners and customers, particularly with regards to margins.
- Generic risks of retention/recruitment of key staff, etc.
- As with many smallcap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.



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