

Rakon Limited

FY24 Result Cyclicity, Opportunities Grow

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FY24 was a challenging period for Rakon (RAK), with revenue sliding -29% from FY23 to NZ\$128.0m due to a significant downturn in its Telecommunications and Positioning segments. The steep fall in revenue reflects the culmination of: (1) one-off chip shortage contracts rolling off, (2) a slowdown in 5G investment, and (3) a slower-than-anticipated normalisation of elevated industry inventory levels. Group gross margin fell from 49% in FY23 to 45% on one-off restructuring costs and diseconomies of scale. However, recent success in Space and Defence (S&D) and a focus on operational efficiency means RAK ends FY24 on a mixed note. RAK has made significant strides in its S&D segment, achieving +27% revenue growth in FY24, highlighting its continued R&D investment and innovation-driven strategy. We adjust our near and medium-term estimates for a deeper revenue cycle in Telecommunications (with weaker core 5G telco markets partially offset by progress in AI/data centres) and Positioning (on price pressure), and better-than-expected progress in Space and Defence. No new information was provided on the NZ\$1.70 takeover offer and no dividend was declared due to the costs associated with the proposal and operating performance. Our blended spot valuation falls -3% to NZ\$0.95.

NZX Code	RAK	Financials: Mar/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$0.85	Rev (NZ\$m)	128.4	136.2	164.8	193.6	PE	43.3	62.0	15.6	8.9
Spot Valuation	NZ\$0.95 (from 0.98)	NPAT* (NZ\$m)	4.5	3.2	12.6	22.0	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	2.0	1.4	5.5	9.6	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	229.8m	DPS (NZc)	0.0	0.0	1.5	1.5	Price / NTA	1.3	1.3	1.3	1.2
Market cap	NZ\$195m	Imputation (%)	100	0	100	100	Cash div yld (%)	0.0	0.0	1.8	1.8
Avg daily turnover	86.9k (NZ\$86k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	2.5	2.5

What's changed?

- **Earnings:** We revise our underlying EBITDA estimates down by -40%, -24%, and -10% in FY25, FY26, and FY27, respectively. However, these falls are off relatively small bases, thus magnifying the apparent impact of the declines.
- **Spot valuation:** Our blended spot valuation falls -3cps to NZ\$0.95.

Weaker Telecommunication and Positioning markets partially offset by strength in Space and Defence

RAK's Telecommunications segment experienced a significant downturn, with revenues declining by -34% from FY23 and margins falling from 42% to 34%, primarily due to delayed 5G infrastructure investments by key mobile operators. The Positioning segment also saw a substantial revenue reduction of -59%, and margins fell from 54% to 43%. In contrast, the S&D segment continued its upward trajectory, with revenue growing by an impressive +27% due to rising demand in space markets and sustained defence demand. RAK revealed its previously announced NZ\$17m Low Earth Orbit (LEO) contract is with MDA Space (MDA.TO) to supply its oscillator and subsystem technology to MDA's customer Telesat's LEO satellite constellation 'Telesat Lightspeed'. RAK wrote down the carrying values of its investments in Timemaker (from NZ\$14.1m to NZ\$12.0m) and Thinextra (from A\$1.8m to A\$0.4m) during FY24. The total write-down amounted to approximately NZ\$3.7m, which we incorporate into our valuation.

Outlook remains challenging

As RAK enters 1H25, challenges persist in the Telecommunications and Positioning segments. While RAK's tier-1 customers expect market improvements by the end of FY25, there is still uncertainty about when stronger industry investment in 5G networks will resume. On a positive note, RAK's S&D segment will likely maintain its growth trajectory, bolstered by a strong order book and the NZ\$17m three-year LEO contract expected to generate NZ\$3m in FY25 revenue. RAK also retains its focus on efficiency initiatives.

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

Priced as at 29 May 2024	0.85
52 week high / low	1.31 / 0.59
Market capitalisation (NZ\$m)	195.3

Key WACC assumptions

Risk free rate	5.00%
Equity beta	1.35
WACC	11.7%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)	2023A	2024A	2025E	2026E	2027E
Revenue	180.7	128.4	136.2	164.8	193.6
Normalised EBITDA	41.1	10.9	11.8	24.4	37.2
Depreciation and amortisation	(7.8)	(8.1)	(7.7)	(8.3)	(8.5)
Normalised EBIT	33.3	2.8	4.1	16.1	28.7
Net interest	(0.5)	(0.1)	(0.7)	(0.7)	(0.5)
Associate income	(1.5)	(2.3)	0.8	1.3	1.3
Tax	(8.1)	4.2	(1.1)	(4.2)	(7.5)
Minority interests	0	0	0	0	0
Normalised NPAT	23.2	4.5	3.2	12.6	22.0
Abnormals/other	0	0	0	0	0
Reported NPAT	23.2	4.5	3.2	12.6	22.0
Normalised EPS (cps)	10.1	2.0	1.4	5.5	9.6
DPS (cps)	1.5	0	0	1.5	1.5

Growth Rates	2023A	2024A	2025E	2026E	2027E
Revenue (%)	4.1	-29.0	6.1	21.0	17.5
EBITDA (%)	-18.3	-73.4	8.2	>100	52.5
EBIT (%)	-19.5	-91.6	47.2	>100	78.1
Normalised NPAT (%)	-29.9	-80.6	-30.2	>100	75.3
Normalised EPS (%)	-29.9	-80.6	-30.2	>100	75.3
Ordinary DPS (%)	n/a	-100.0	n/a	n/a	0.0

Cash Flow (NZ\$m)	2023A	2024A	2025E	2026E	2027E
EBITDA	41.1	10.9	11.8	24.4	37.2
Working capital change	(18.2)	2.8	2.6	(4.5)	(7.8)
Interest & tax paid	(10.5)	(3.6)	(1.7)	(4.9)	(8.0)
Other	(1.3)	6.6	0.8	1.3	1.3
Operating cash flow	11	16.8	13.5	16.3	22.7
Capital expenditure	(18.7)	(15.6)	(15.2)	(8.6)	(9.1)
(Acquisitions)/divestments	0	0	0	0	0
Other	(2.5)	(2.1)	(2.1)	(2.2)	(2.2)
Funding available/(required)	(10.1)	(0.9)	(3.8)	5.5	11.3
Dividends paid	0	(2.9)	0	(2.3)	(3.4)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(10.1)	(3.9)	(3.8)	3.2	7.9

Balance Sheet (NZ\$m)	2023A	2024A	2025E	2026E	2027E
Working capital	84.1	81.3	78.6	83.2	91.0
Fixed assets	34.4	40.1	46.2	44.8	44.1
Intangibles	7.7	10.8	14.2	17.8	21.1
Right of use asset	3.4	6.2	9.2	7.3	5.4
Other assets	26.0	25.3	25.3	25.3	25.3
Total funds employed	155.6	163.7	173.5	178.4	186.9
Net debt/(cash)	(16.5)	(11.2)	(7.5)	(10.6)	(18.5)
Lease liability	2.5	5.0	7.8	5.7	3.4
Other liabilities	12.7	10.7	10.7	11.8	11.8
Shareholder's funds	156.9	159.3	162.4	171.5	190.1
Minority interests	0	0	0	0	0
Total funding sources	155.6	163.7	173.5	178.4	186.9

* 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	0.95
PE driven comparables valuation	1.03
	0.86

DCF valuation summary (NZ\$m)

Total firm value	260
(Net debt)/cash	7
Less: Capitalised operating leases	-29
Value of equity	238

Valuation Ratios	2023A	2024A	2025E	2026E	2027E
EV/Sales (x)	1.0	1.4	1.4	1.2	1.0
EV/EBITDA (x)	4.3	16.9	16.2	8.0	5.3
EV/EBIT (x)	5.4	65.9	46.5	12.1	6.8
PE (x)	8.4	43.3	62.0	15.6	8.9
Price/NTA (x)	1.3	1.3	1.3	1.3	1.2
Free cash flow yield (%)	-5.1	-0.5	-1.9	2.8	5.8
Adj. free cash flow yield (%)	4.4	7.5	5.8	7.2	10.5
Net dividend yield (%)	1.8	0.0	0.0	1.8	1.8
Gross dividend yield (%)	2.5	0.0	0.0	2.5	2.5

Capital Structure	2023A	2024A	2025E	2026E	2027E
Interest cover EBIT (x)	64.1	21.1	6.0	23.9	58.2
Interest cover EBITDA (x)	79.1	82.3	17.2	36.1	75.4
Net debt/ND+E (%)	-11.7	-7.6	-4.8	-6.6	-10.8
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios	2023A	2024A	2025E	2026E	2027E
Return on assets (%)	16.1	1.4	2.0	7.4	12.3
Return on equity (%)	14.8	2.8	1.9	7.3	11.6
Return on funds employed (%)	11.2	2.2	1.5	5.9	9.7
EBITDA margin (%)	22.8	8.5	8.7	14.8	19.2
EBIT margin (%)	18.4	2.2	3.0	9.8	14.8
Capex to sales (%)	10.3	12.2	11.1	5.2	4.7
Capex to depreciation (%)	286	250	224	123	132
Imputation (%)	100	100	0	100	100
Pay-out ratio (%)	15	0	0	27	16

Segment Revenue (NZ\$m)	2023A	2024A	2025E	2026E	2027E
Telecommunications	101.6	66.9	69.2	85.8	101.2
Positioning	33.8	13.9	14.7	19.2	24.1
Space and Defence	28.9	36.8	42.0	49.9	58.9
IoT, Emerging and Other	17.0	10.5	10.0	9.5	9.0
Other revenues	-1.0	0.4	0.4	0.4	0.4
Total Revenue	180.4	128.4	136.2	164.8	193.6

Segment Gross Margin (%)	2023A	2024A	2025E	2026E	2027E
Telecommunications	42.3	33.8	35.0	36.5	38.0
Positioning	53.5	44.4	44.5	45.0	47.0
Space and Defence	68.0	65.2	64.2	63.2	62.2
IoT, Emerging and Other	47.7	49.1	49.1	49.1	49.1

Segment Gross Margin (NZ\$m)	2023A	2024A	2025E	2026E	2027E
Telecommunications	42.9	22.6	24.2	31.3	38.5
Positioning	18.1	6.2	6.5	8.7	11.3
Space and Defence	19.7	24.0	26.9	31.5	36.6
IoT, Emerging and Other	8.1	5.2	4.9	4.6	4.4

"Underlying EBITDA" (NZ\$m)	2023A	2024A	2025E	2026E	2027E
Underlying EBITDA estimates	42.2	13.5	14.4	28.0	40.9

Results analysis

RAK's FY24 result reflected a tough operating environment. Revenue fell -29% from FY23 to NZ\$128.0m, although impacted by unfavourable foreign exchange movements relating to RAK's hedging policies (impacting by ~NZ\$7m). Underlying EBITDA was NZ\$13.4m, at the lower end of the NZ\$13m–NZ\$19m guidance range and -68% down from NZ\$39.1m in FY23. NPAT was NZ\$4.4m as compared to NZ\$23.2m last year. Cost control measures were implemented but were offset by an additional NZ\$2.2m of costs relating to the acquisition proposal. Capex was NZ\$17.0m as RAK continues to invest in future development and retains its focus on an innovation-driven strategy. Over the year, RAK launched its new generation Niku™ and MercuryX™ product range aimed at the AI, cloud and data centre markets, and next-generation telecom networks. The Board did not declare a dividend in relation to FY24. A return to dividends will be considered at the next annual results. Management noted its manufacturing optimisation strategies continued, including an accelerated schedule for India facility production of select NZ/France product lines.

Figure 1. FY23 versus FY24 reported results (NZ\$m)

	FY23	FY24	Change
Revenue	180.3	128.0	-29%
Cost of sales	(91.5)	(70.2)	-23%
Gross Profit	88.8	57.9	-35%
Other operating income	0.4	0.4	-13%
Selling and marketing costs	(10.6)	(11.1)	+5%
Research and development	(17.0)	(17.7)	+4%
General and administration	(31.2)	(30.7)	-2%
Total operating expenses	(58.8)	(59.5)	+1%
Other gains/(losses) – net	3.0	4.1	+38%
Operating profit	33.3	2.8	-92%
Finance income	0.4	0.5	+43%
Finance costs	(0.9)	(0.7)	-26%
Share of net profits of associates	(1.5)	(2.3)	+60%
Profit before income tax	31.4	0.3	-99%
Income tax expense	(8.1)	4.2	n/a
Net profit after tax for the period	23.2	4.5	-81%
Profit before income tax	31.4	0.3	-99%
Depreciation and amortisation	(7.8)	(8.1)	n/a
Finance costs – net	(0.5)	(0.1)	n/a
Adjustments for associate share of interest, tax and depreciation	(2.1)	(1.6)	n/a
Other non-cash items	(0.4)	(3.2)	n/a
Underlying EBITDA	42.2	13.5	-68%

Source: Company, Forsyth Barr analysis

Compelling growth opportunities in NewSpace and AI/data centres

While the FY24 result was challenging, RAK's progress in NewSpace and AI/data centres were bright spots. In more detail:

- **NewSpace:** RAK's investment into R&D has enabled it to build a diversified portfolio for NewSpace, with the overall addressable market for its space products now estimated at ~NZ\$250m by the company. RAK is 'on track to double share of serviceable addressable market in the next five years, largely driven by demand for subsystem products as evidenced by [the] recent contract win'. The LEO contract win is a strong endorsement of RAK's technical capability in the NewSpace domain and a crystallisation of a multi-year product development strategy. Given the major LEO contract win, NewSpace growth is factored into our S&D revenue growth expectations.
- **AI/data centres:** Pleasingly, RAK's AI products are already generating revenue in its Telecommunication segment. Although the magnitude of current revenue is unknown (we estimate <NZ\$3m), RAK expects sales from AI to increase materially over the next five years and is projecting significant benefits in the next 12 months. RAK is working with leading players in AI hardware to enable the next generation platforms for new AI 'Factory' data centres. In 2023, RAK launched its next-generation Niku semiconductor chip, and in 2024 it debuted its enhanced MercuryX, strengthening its AI computing hardware product lines. Our Telecommunications segment FY26 and FY27 forecast revenue growth (with sales up +24% and +18%, respectively) implicitly incorporates some contribution from new products (AI/data centres etc) into our forecasts. We await further evidence of contract wins before explicitly modelling these revenue streams.

Earnings revisions

We adjust our revenue estimates for the prolonged cyclical downturn in RAK's core Telecommunications and Positioning segments. For Telecommunications, the slowdown, driven by 5G markets, was partially offset by signs of initial progress in AI/data centres where implicitly we now assume some growth. Our updated sales track reflects a more muted recovery in these core Telecommunications and Positioning markets, partially offset by stronger growth assumptions for S&D. At some stage we expect RAK to separate out the new AI/data centre products from the Telecommunication segment.

Following RAK's FY24 result, we reset our view on the outlook for operating expenses. RAK has communicated its intent to review its global cost base and find efficiencies. The deeper-than-expected revenue cycle has likely necessitated an increased focus on this objective. We now expect general and administration (G&A) expenses to decline over the next three to four years and moderate our growth expectations for selling and marketing (S&M) costs, driven by the ongoing transfer of staff and production capacity to RAK's new facility in India. By contrast, we assume R&D as a percentage of revenue will increase relative to our prior estimates. Commentary from management suggests RAK will prioritise investing in R&D in the future as it looks to compete in large growth markets like NewSpace and AI/data centres, while focussing on taking G&A and S&M costs out.

Given the weaker revised outlook, we now assume dividends will be reinstated in FY26 (prior estimates included an FY25 dividend).

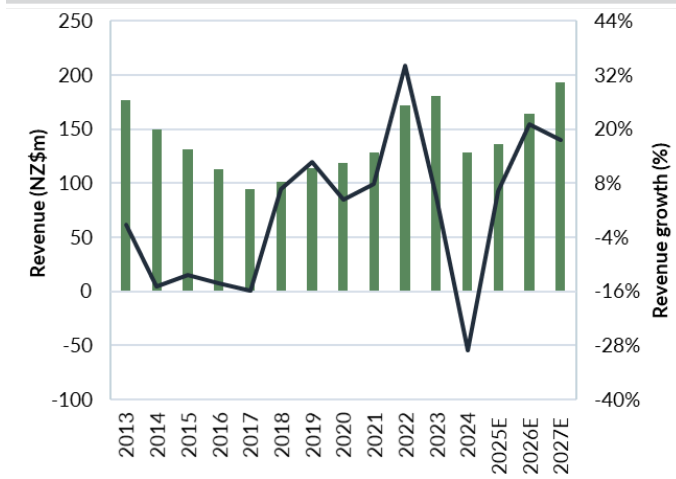
Figure 2. Earnings revisions (NZ\$m)

	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	158.5	135.8	-14%	188.6	164.4	-13%	213.8	193.2	-10%
Cost of sales	(82.6)	(73.2)	-11%	(98.2)	(88.3)	-10%	(110.9)	(102.4)	-8%
Gross Profit	76.0	62.6	-18%	90.4	76.2	-16%	102.9	90.8	-12%
Selling and marketing costs	(12.4)	(10.6)	-14%	(13.9)	(11.4)	-18%	(15.2)	(13.0)	-14%
Research and development	(20.3)	(19.0)	-6%	(20.9)	(21.4)	+2%	(22.9)	(23.2)	+1%
General and administration	(29.5)	(29.1)	-1%	(30.2)	(27.7)	-8%	(31.0)	(26.3)	-15%
Total operating expenses	(62.2)	(58.8)	-5%	(65.0)	(60.4)	-7%	(69.0)	(62.5)	-9%
Operating profit	13.8	4.1	-70%	25.3	16.1	-36%	33.8	28.7	-15%
Finance income	0.3	0.3	n/a	0.2	0.1	n/a	0.3	0.2	n/a
Finance costs	(0.8)	(1.0)	n/a	(0.7)	(0.8)	n/a	(0.6)	(0.7)	n/a
Share of net profits of associates	0.8	0.8	+0%	1.3	1.3	+0%	1.3	1.3	+0%
Profit before income tax	14.1	4.2	-70%	26.1	16.7	-36%	34.8	29.5	-15%
Income tax expense	(3.5)	(1.1)	-70%	(6.5)	(4.2)	-36%	(8.9)	(7.5)	-15%
Net profit for the period	10.6	3.2	-70%	19.6	12.6	-36%	26.0	22.0	-15%
Profit before income tax	14.1	4.2	-70%	26.1	16.7	-36%	34.8	29.5	-15%
Depreciation and amortisation	(8.3)	(7.7)	n/a	(8.7)	(8.3)	n/a	(8.7)	(8.5)	n/a
Finance costs - net	(0.5)	(0.7)	n/a	(0.5)	(0.7)	n/a	(0.3)	(0.5)	n/a
Adjustments for associate share of interest, tax and depreciation	(0.8)	(0.8)	n/a	(1.3)	(1.3)	n/a	(1.3)	(1.3)	n/a
Other non-cash items	(0.4)	(1.0)	n/a	(0.5)	(1.0)	n/a	(0.5)	(1.1)	n/a
Underlying EBITDA	24.1	14.4	-40%	37.1	28.0	-24%	45.7	40.9	-10%

Source: Forsyth Barr analysis

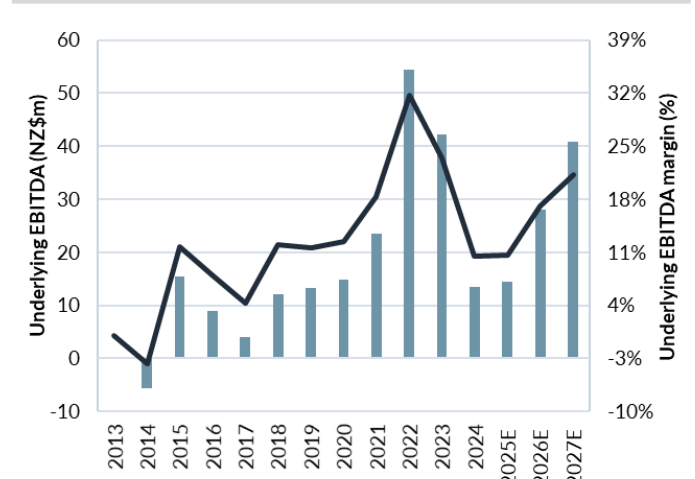
Key charts

Figure 3. Revenues (NZ\$m)



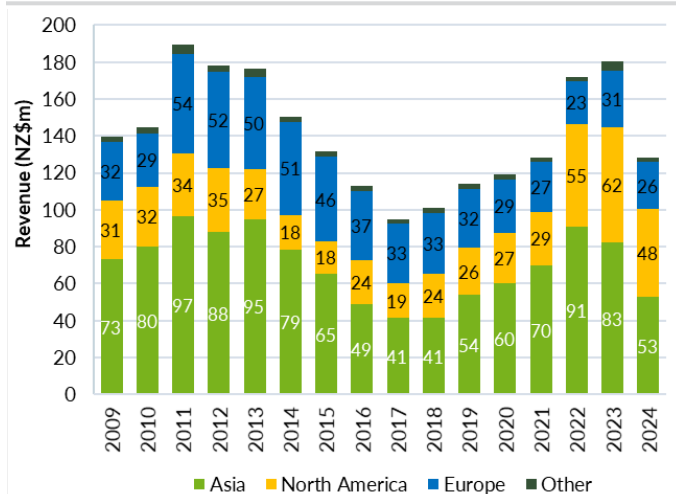
Source: Company, Forsyth Barr analysis

Figure 4. Underlying EBITDA (NZ\$m)



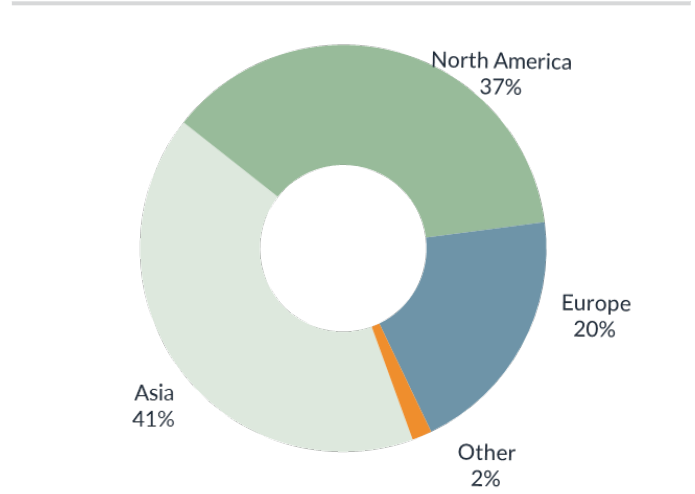
Source: Company, Forsyth Barr analysis

Figure 5. Geographic split of customer revenues



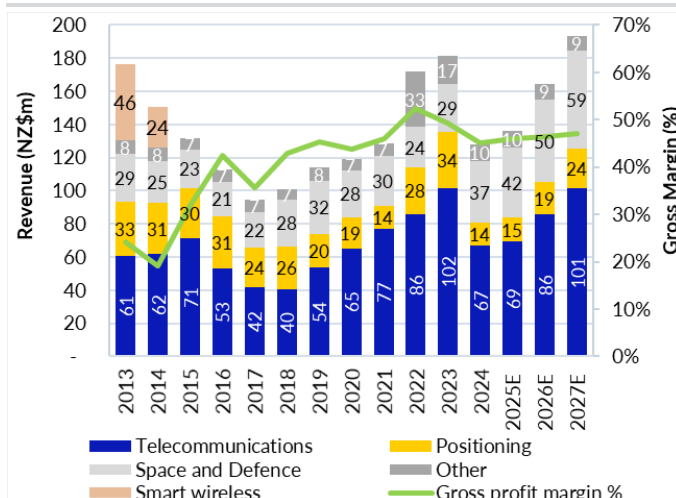
Source: Company, Forsyth Barr analysis

Figure 6. Regional revenue split (FY24)



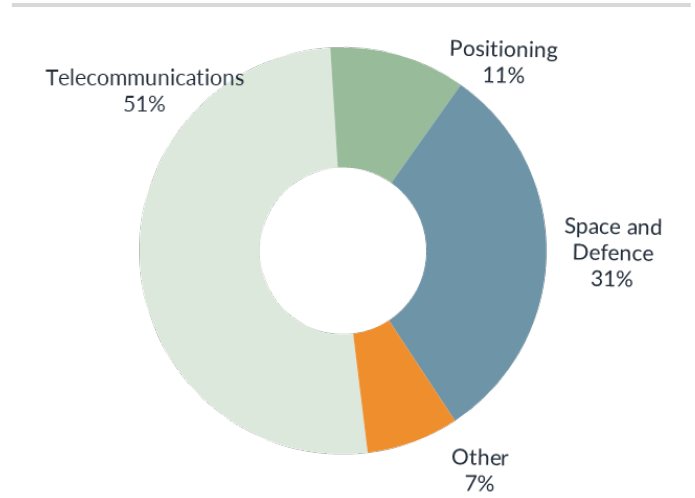
Source: Company, Forsyth Barr analysis

Figure 7. Divisional revenue stack and gross margin (%)



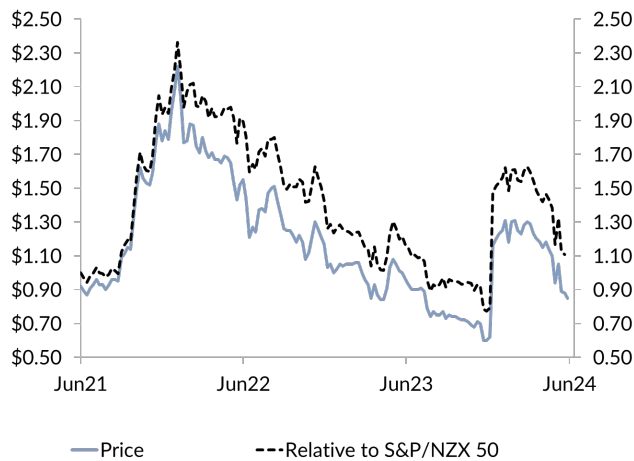
Source: Company, Forsyth Barr analysis

Figure 8. Revenue by division (FY25 estimate)



Source: Company, Forsyth Barr analysis

Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. 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 11. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2026E	
				2025E	2026E	2025E	2026E	2025E	2026E		
Rakon	RAK NZ	NZ\$0.85	NZ\$195	62.0x	15.6x	n/a	8.0x	n/a	12.1x	1.8%	
Txc Corp	3042 TT	TWD116.00	TWD35,933	16.7x	n/a	8.9x	n/a	15.5x	n/a	n/a	
Sitime Corp	SITM US	US\$125.18	US\$2,863	>75x	68.2x	>75x	47.8x	<0x	>75x	n/a	
Microchip Technology Inc	MCHP US	US\$98.23	US\$52,738	37.2x	23.4x	27.3x	19.2x	31.9x	21.0x	2.1%	
Siward Crystal Technology Co	2484 TT	TWD31.95	TWD5,094	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Daishinku Corp	6962 T	¥694.00	¥25,121	14.9x	n/a	4.7x	n/a	12.8x	n/a	n/a	
Nihon Dempa Kogyo Co	6779 T	¥1128.00	¥26,089	6.7x	n/a	4.3x	n/a	7.1x	n/a	n/a	
Seiko Epson Corp	6724 JP	¥2434.50	¥937,337	14.1x	12.9x	5.4x	5.2x	10.3x	9.3x	3.3%	
Compco Average:				17.9x	34.8x	10.1x	24.1x	15.5x	15.1x	2.7%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				RAK Relative:	246%	-55%	n/a	-67%	n/a	-20%	-34%

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

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