

Rakon Limited

Amid Weak Core Markets, AI Sales Start Soon

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Rakon Limited's (RAK) 1H25 was marked by significant challenges, as the Telecommunications and Positioning segments faced subdued demand amidst adverse market conditions. Profitability declined more sharply than anticipated, driven by diseconomies of scale and costs associated with transitioning production to India. Following a 1H25 EBITDA loss of -NZ\$7.3m, RAK revised its FY25 underlying EBITDA guidance to the lower half of its previous NZ\$5m to NZ\$15m range. Despite these pressures, RAK does not believe it has lost market share in its core segments, except in the more consumer orientated Positioning markets. The company is balancing short-term cost reductions with strategic investments in growth areas, such as Space and Defence, and AI and Cloud infrastructure, maintaining its commitment to long-term R&D investment through the cycle. Positively, RAK expects significant revenue contributions from AI and Cloud Infrastructure contracts to commence in 1H26, with the segment projected to become core within five years. While RAK is targeting an ambitious +25% CAGR in medium-term revenue from FY26 to FY29, we make substantial cuts to near-term revenue and earnings forecasts. We now model a subdued recovery in Telecommunications and Positioning, partially offset by strong expectations in AI and Cloud Infrastructure, and Space and Defence. Our new FY25 underlying EBITDA estimate is NZ\$6.4m, toward the bottom of the guidance range. Consequently, our blended spot valuation declines -10% to NZ\$0.79.

NZX code	RAK	Financials: Mar/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$0.64	Rev (NZ\$m)	128.4	109.6	135.5	162.9	PE	32.6	n/a	17.2	7.0
Spot Valuation	NZ\$0.79 (from 0.88)	NPAT* (NZ\$m)	4.5	-3.5	8.5	21.2	EV/EBIT	48.7	n/a	13.7	5.4
Risk rating	High	EPS* (NZc)	2.0	-1.5	3.7	9.2	EV/EBITDA	12.5	37.0	7.5	4.0
Issued shares	229.8m	DPS (NZc)	0.0	0.0	0.0	1.5	Price / NTA	1.0	1.0	1.0	0.9
Market cap	NZ\$147m	Imputation (%)	100	0	0	100	Cash div yld (%)	0.0	0.0	0.0	2.3
Avg daily turnover	81.2k (NZ\$82k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	3.3

What's changed?

- **Earnings:** Our underlying EBITDA estimates fall -55%/-16%/-2% over FY25/FY26/FY27 respectively, on operating deleverage.
- **Target price:** Our blended spot valuation falls -9cps to NZ\$0.79.

1H25 core Telecommunications and Positioning segments remained under considerable pressure – cost out is helping

RAK reported NZ\$41.7m in 1H25 revenue, a -32% decline against the same period last year, driven by sustained weakness in its Telecommunications and Positioning segments. The company advanced its cost reduction programme during the period, reducing personnel numbers by -22% year-on-year, and transferring key production lines to its manufacturing facility in India. While these measures are expected to support margin recovery as production stabilises, we anticipate further significant cost efforts will be required in 2H25 to achieve RAK's NZ\$5m to NZ\$10m EBITDA guidance range. Despite challenges, the company anticipates an improved 2H25 performance, supported by early signs (in September/October) of stabilisation in the Telecommunications segment.

Opportunities in Space and Defence, AI and Cloud Infrastructure markets develop

The Space and Defence, and AI and Cloud infrastructure segments are central to RAK's return-to-growth strategy. The Space and Defence segment sustained its positive momentum, achieving a +10% revenue increase in 1H25 and marking its fourth consecutive half-year of growth. Meanwhile, the emerging AI and Cloud infrastructure segment is poised to become a key growth driver, underpinned by contracts secured from leading industry player(s). Meaningful contributions from this segment are expected to materialise from 1H26, further diversifying RAK's revenue base and strengthening its earnings recovery.

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

Priced as at 27 Nov 2024	0.64
52 week high / low	1.33 / 0.59
Market capitalisation (NZ\$m)	147.1

Key WACC assumptions

Risk free rate	5.00%
Equity beta	1.45
WACC	12.8%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)

	2023A	2024A	2025E	2026E	2027E
Revenue	180.7	128.4	109.6	135.5	162.9
Normalised EBITDA	41.1	10.9	3.9	19.8	36.5
Depreciation and amortisation	(7.8)	(8.1)	(8.6)	(9.0)	(9.0)
Normalised EBIT	33.3	2.8	(4.7)	10.8	27.5
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	1.2	(2.8)	(7.2)
Minority interests	0	0	0	0	0
Normalised NPAT	23.2	4.5	(3.5)	8.5	21.2
Abnormals/other	0	0	0	0	0
Reported NPAT	23.2	4.5	(3.5)	8.5	21.2
Normalised EPS (cps)	10.1	2.0	(1.5)	3.7	9.2
DPS (cps)	1.5	0	0	0	1.5

Growth Rates

	2023A	2024A	2025E	2026E	2027E
Revenue (%)	4.1	-29.0	-14.6	23.7	20.2
EBITDA (%)	-18.3	-73.4	-64.4	>100	84.6
EBIT (%)	-19.5	-91.6	n/a	n/a	>100
Normalised NPAT (%)	-29.9	-80.6	n/a	n/a	>100
Normalised EPS (%)	-29.9	-80.6	n/a	n/a	>100
Ordinary DPS (%)	n/a	-100.0	n/a	n/a	n/a

Cash Flow (NZ\$m)

	2023A	2024A	2025E	2026E	2027E
EBITDA	41.1	10.9	3.9	19.8	36.5
Working capital change	(18.2)	2.8	7.8	(2.5)	(8.2)
Interest & tax paid	(10.5)	(3.6)	0.5	(3.5)	(7.7)
Other	(1.3)	6.6	0.8	1.3	1.3
Operating cash flow	11	16.8	13.0	15.0	21.9
Capital expenditure	(18.7)	(15.6)	(14.4)	(7.1)	(7.8)
(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)	(3.6)	5.7	11.9
Dividends paid	0	(2.9)	0	0	(2.3)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(10.1)	(3.9)	(3.6)	5.7	9.6

Balance Sheet (NZ\$m)

	2023A	2024A	2025E	2026E	2027E
Working capital	84.1	81.3	73.4	75.9	84.2
Fixed assets	34.4	40.1	45.5	42.8	40.9
Intangibles	7.7	10.8	13.2	16.0	18.6
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	166.7	167.3	174.4
Net debt/(cash)	(16.5)	(11.2)	(7.6)	(13.4)	(22.9)
Lease liability	2.5	5.0	7.8	5.7	3.4
Other liabilities	12.7	10.7	10.7	10.7	11.8
Shareholder's funds	156.9	159.3	155.8	164.4	182.1
Minority interests	0	0	0	0	0
Total funding sources	155.6	163.7	166.7	167.3	174.4

* 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	0.86
PE driven comparables valuation	0.72

DCF valuation summary (NZ\$m)

Total firm value	219
(Net debt)/cash	8
Less: Capitalised operating leases	-29
Value of equity	198

Valuation Ratios

	2023A	2024A	2025E	2026E	2027E
EV/Sales (x)	0.7	1.1	1.3	1.1	0.9
EV/EBITDA (x)	3.2	12.5	37.0	7.5	4.0
EV/EBIT (x)	3.9	48.7	n/a	13.7	5.4
PE (x)	6.3	32.6	n/a	17.2	7.0
Price/NTA (x)	1.0	1.0	1.0	1.0	0.9
Free cash flow yield (%)	-6.8	-0.6	-2.4	3.9	8.1
Adj. free cash flow yield (%)	5.9	10.0	7.4	8.7	13.3
Net dividend yield (%)	2.3	0.0	0.0	0.0	2.3
Gross dividend yield (%)	3.3	0.0	0.0	0.0	3.3

Capital Structure

	2023A	2024A	2025E	2026E	2027E
Interest cover EBIT (x)	64.1	21.1	n/a	16.3	60.3
Interest cover EBITDA (x)	79.1	82.3	5.7	30.0	79.9
Net debt/ND+E (%)	-11.7	-7.6	-5.2	-8.9	-14.4
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	-2.4	5.2	12.5
Return on equity (%)	14.8	2.8	-2.2	5.2	11.6
Return on funds employed (%)	11.2	2.2	-1.7	4.2	9.9
EBITDA margin (%)	22.8	8.5	3.6	14.6	22.4
EBIT margin (%)	18.4	2.2	-4.3	7.9	16.9
Capex to sales (%)	10.3	12.2	13.2	5.3	4.8
Capex to depreciation (%)	286	250	193	93	106
Imputation (%)	100	100	0	0	100
Pay-out ratio (%)	15	0	0	0	16

Segment Revenue (NZ\$m)

	2023A	2024A	2025E	2026E	2027E
Telecommunications	101.6	66.9	47.5	63.1	79.5
Positioning	33.8	13.9	11.4	13.1	14.4
Space and Defence	28.9	36.8	43.1	51.2	60.5
IoT, Emerging and Other	17.0	10.5	7.3	7.7	8.1
Other revenues	-1.0	0.4	0.4	0.4	0.4
Total Revenue	180.4	128.4	109.6	135.5	162.9

Segment Gross Margin (%)

	2023A	2024A	2025E	2026E	2027E
Telecommunications	42.3	33.8	27.0	33.0	40.0
Positioning	53.5	44.4	45.0	45.0	47.0
Space and Defence	68.0	65.2	66.0	65.0	64.0
IoT, Emerging and Other	47.7	49.1	49.0	49.0	49.0

Segment Gross Margin (NZ\$m)

	2023A	2024A	2025E	2026E	2027E
Telecommunications	42.9	22.6	12.8	20.8	31.8
Positioning	18.1	6.2	5.1	5.9	6.8
Space and Defence	19.7	24.0	28.4	33.3	38.7
IoT, Emerging and Other	8.1	5.2	3.6	3.8	4.0

"Underlying EBITDA" (NZ\$m)

	2023A	2024A	2025E	2026E	2027E
Underlying EBITDA estimates	42.2	13.5	6.4	23.4	40.2

Result review

RAK's 1H25 result demonstrated the challenges of navigating a difficult operating environment while attempting to position itself for future growth. Revenue declined to NZ\$41.7m, a steep -32% decrease against the same period last year, due to ongoing weakness in the Telecommunications and Positioning markets. RAK has taken action to counteract weak revenue, including reducing its global workforce by -22% and investing in its India production facility.

Divisionally:

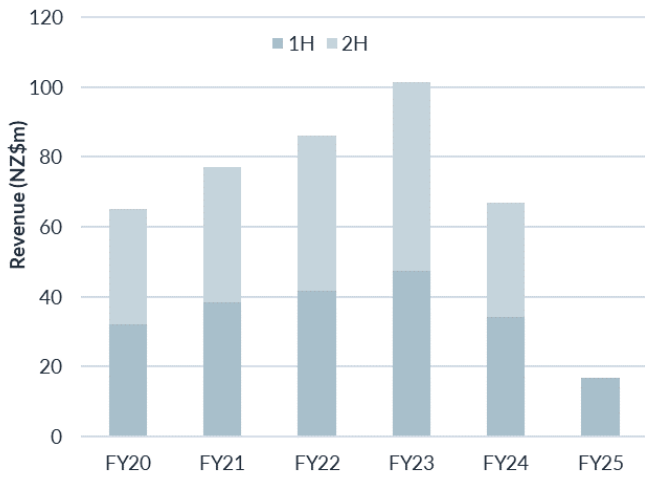
- **Space and Defence:** Revenue for the Space and Defence division increased to NZ\$16.8m in 1H25, a +10% rise against the same period last year. Gross margin rose to NZ\$10.7m, but margin in percentage terms fell from 66.3% to 63.6%.
- **Telecommunications:** Segment revenue dropped to NZ\$16.8m in 1H25, a -51% decline against the same period last year. The segment recorded a gross margin of NZ\$2.5m, with the margin in percentage terms falling from 31.9% to 14.9% as compared to the same period last year. The decline in margin reflected inefficiencies from lower production volumes and one-off costs related to facility transfers. Late 1H25 saw early signs of stabilisation, underpinned by selective 5G investments in North America. Segment performance is expected to recover in 2H25, albeit remain subdued.
- **Positioning:** Revenue from the positioning segment decreased to NZ\$5.5m in 1H25, down -23% against the same period last year. The gross margin was NZ\$2.5m, with the margin in percentage terms rising from 43.2% to 45.2% as compared to the same period last year.

Figure 1. Earnings comparison (NZ\$m)

	Actual 1H24	Actual 1H25	Change
Revenue	61.3	41.7	-32%
Cost of sales	(35.1)	(25.9)	-26%
Gross Profit	26.1	15.7	-40%
Other operating income	0.1	0.0	n/a
Selling and marketing costs	(5.8)	(6.0)	+3%
Research and development	(8.9)	(7.9)	-11%
General and administration	(14.1)	(16.2)	+15%
Total operating expenses	(28.8)	(30.0)	+4%
Other gains/(losses) – net	3.4	-	n/a
Operating profit	0.8	(15.8)	n/a
Finance income	0.3	0.2	n/a
Finance costs	(0.3)	(0.5)	n/a
Share of net profits of associates	(0.6)	0.9	n/a
Profit before income tax	0.2	(15.1)	n/a
Income tax expense	0.3	4.7	n/a
Net profit after tax for the period	0.5	(10.4)	n/a
Profit before income tax	0.2	(15.1)	n/a
Depreciation and amortisation	(3.5)	(4.3)	n/a
Finance costs – net	0.0	(0.2)	n/a
Adjustments (associates, tax, depreciation)	(1.2)	(1.0)	n/a
Other non-cash items	(0.4)	(2.3)	n/a
Underlying EBITDA	5.3	(7.3)	n/a

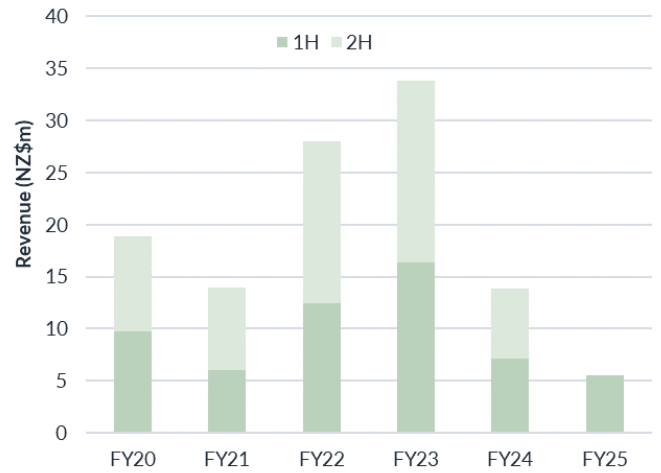
Source: Company, Forsyth Barr analysis

Figure 2. RAK – Telecommunications revenues (half years)



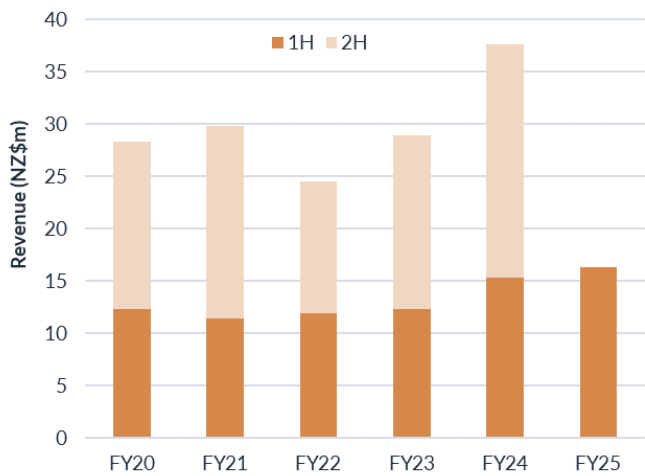
Source: Company, Forsyth Barr analysis

Figure 3. RAK – Positioning revenues (half years)



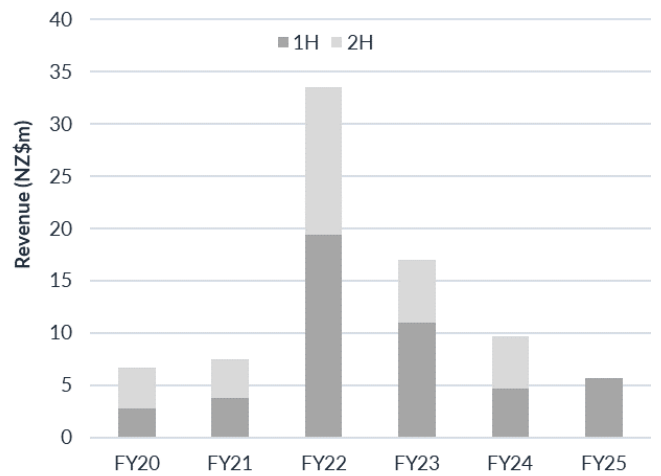
Source: Company, Forsyth Barr analysis

Figure 4. RAK – Space and Defence revenues (half years)



Source: Company, Forsyth Barr analysis

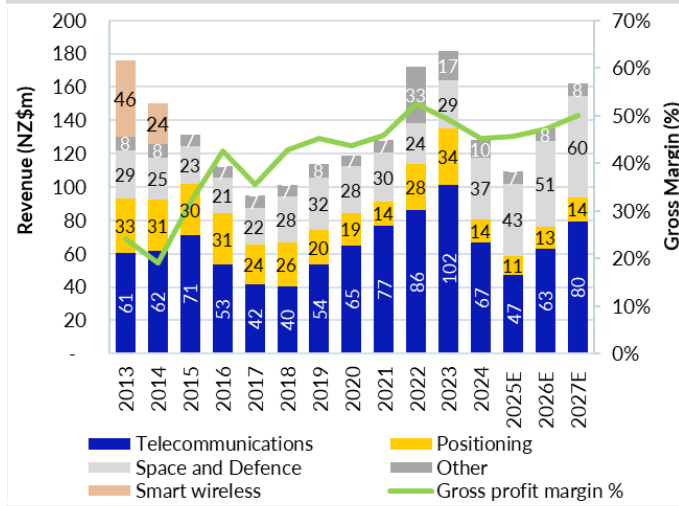
Figure 5. RAK – Other revenues (half years)



Source: Company, Forsyth Barr analysis

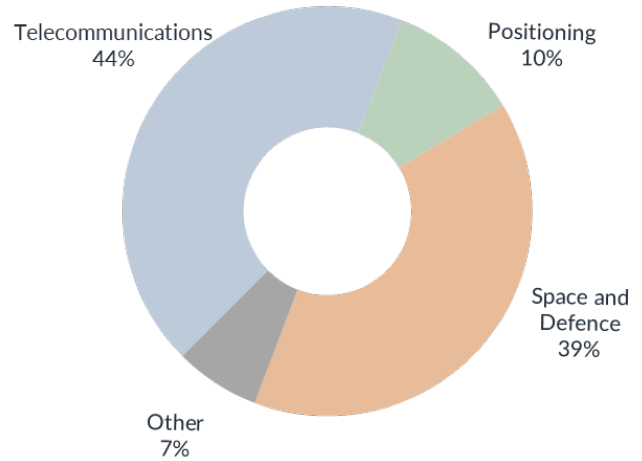
Key charts

Figure 6. RAK – Divisional revenue stack and gross margin (%)



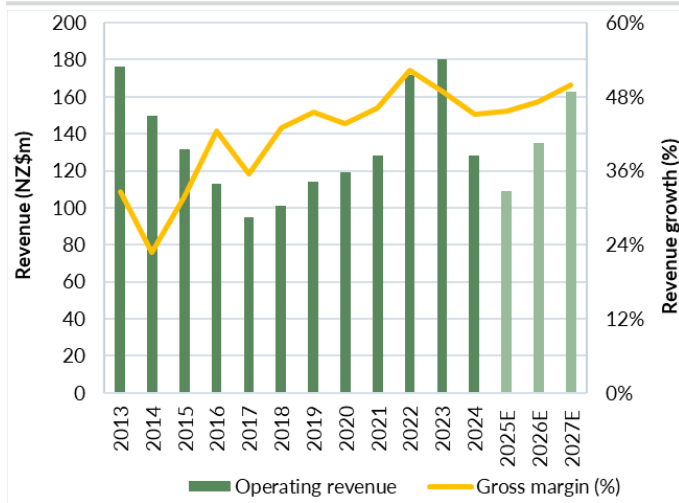
Source: Company, Forsyth Barr analysis

Figure 7. RAK – Revenue by division (FY25 estimate)



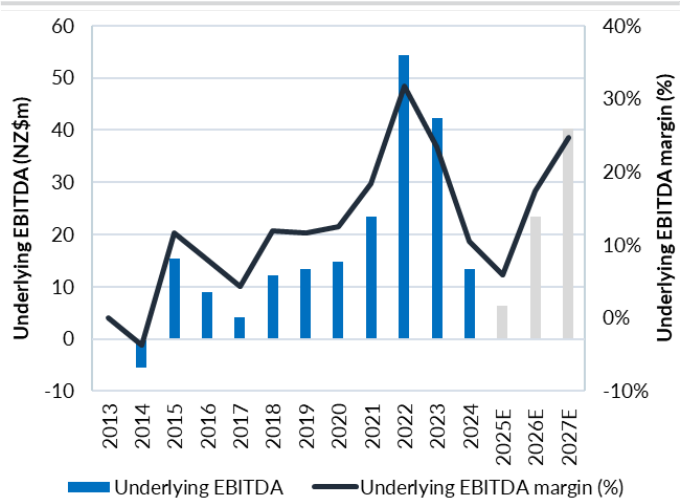
Source: Company, Forsyth Barr analysis

Figure 8. RAK – Revenues (NZ\$m)



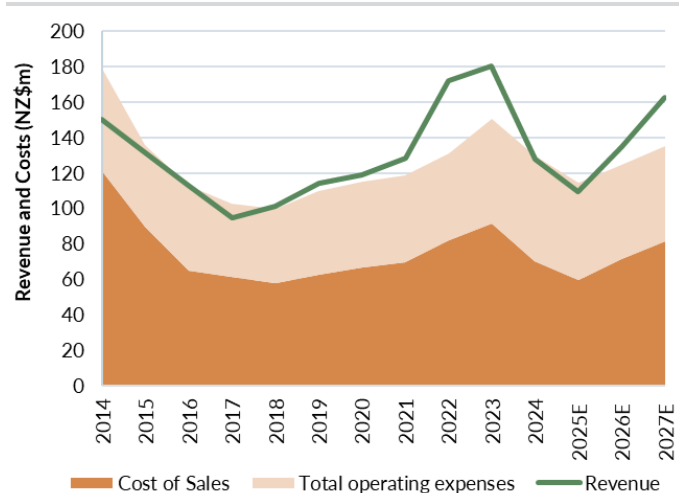
Source: Company, Forsyth Barr analysis

Figure 9. RAK – Underlying EBITDA



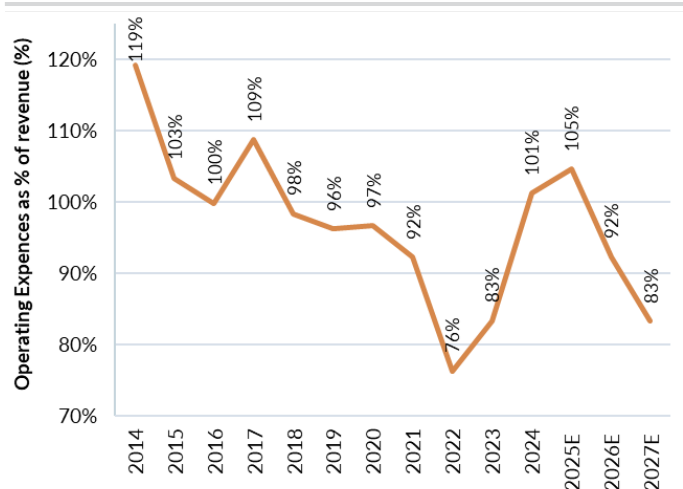
Source: Company, Forsyth Barr analysis

Figure 10. RAK – Operating leverage



Source: Company, Forsyth Barr analysis

Figure 11. RAK – Total operating expenses as % of revenue



Source: Company, Forsyth Barr analysis

Earnings revisions

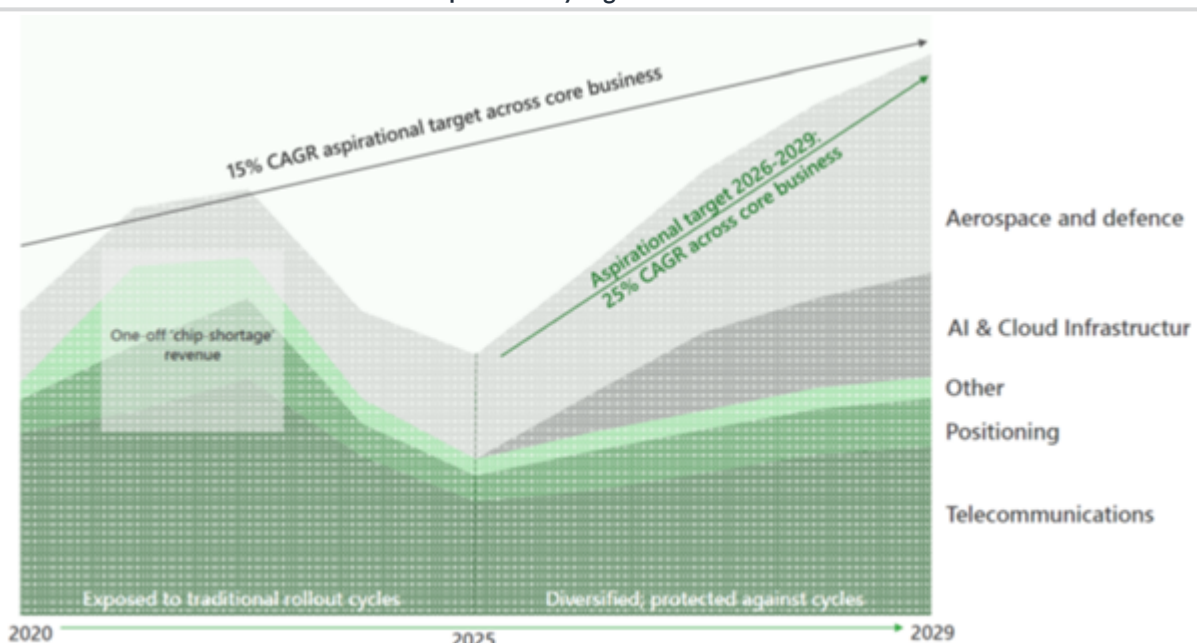
Despite the weak 1H25, RAK has said it expects FY25 underlying EBITDA to be in the lower half of the NZ\$5m to NZ\$15m guidance range. This indicates confidence in its 2H25 recovery, plus efforts for further cost out. Management commented on the first signs of stabilisation in key markets during September and October. We now do not expect Telecommunications and Positioning revenue to recover to previous highs when separating out AI and Cloud Infrastructure. We also expect a higher proportion of R&D to be capitalised going forward, affecting our expense estimates.

Figure 12. Earnings revisions

	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	135.8	109.2	-20%	164.4	135.2	-18%	193.2	162.5	-16%
Cost of sales	(73.2)	(59.3)	-19%	(88.3)	(71.4)	-19%	(102.4)	(81.2)	-21%
Gross Profit	62.6	50.0	-20%	76.2	63.8	-16%	90.8	81.2	-11%
Selling and marketing costs	(10.6)	(11.4)	+7%	(11.4)	(11.7)	+3%	(13.0)	(12.3)	-5%
Research and development	(19.0)	(15.3)	-20%	(21.4)	(14.9)	-30%	(23.2)	(16.2)	-30%
General and administration	(29.1)	(28.3)	-3%	(27.7)	(26.9)	-3%	(26.3)	(25.5)	-3%
Total operating expenses	(58.8)	(55.0)	-6%	(60.4)	(53.4)	-12%	(62.5)	(54.1)	-13%
Operating profit	4.1	(4.7)	n/a	16.1	10.8	-33%	28.7	27.5	-4%
Finance income	0.3	0.3	n/a	0.1	0.1	n/a	0.2	0.2	n/a
Finance costs	(1.0)	(1.0)	n/a	(0.8)	(0.8)	n/a	(0.7)	(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	4.2	(4.6)	n/a	16.7	11.4	-32%	29.5	28.4	-4%
Income tax expense	(1.1)	1.2	n/a	(4.2)	(2.8)	-32%	(7.5)	(7.2)	-4%
Net profit for the period	3.2	(3.5)	n/a	12.6	8.5	-32%	22.0	21.2	-4%
Profit before income tax	4.2	(4.6)	n/a	16.7	11.4	-32%	29.5	28.4	-4%
Depreciation and amortisation	(7.7)	(8.6)	n/a	(8.3)	(9.0)	n/a	(8.5)	(9.0)	n/a
Finance costs - net	(0.7)	(0.7)	n/a	(0.7)	(0.7)	n/a	(0.5)	(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	(1.0)	(1.0)	n/a	(1.0)	(1.0)	n/a	(1.1)	(1.1)	n/a
Underlying EBITDA	14.4	6.4	-55%	28.0	23.4	-16%	40.9	40.2	-2%

Source: Forsyth Barr analysis

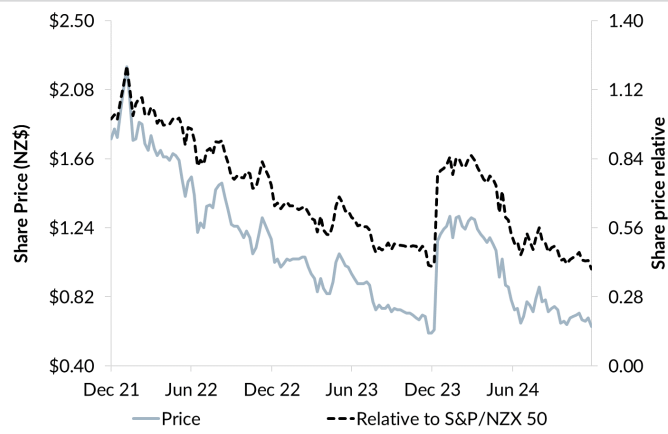
Figure 13. RAK's short to medium-term revenue aspirations by segment



Source: Company, Forsyth Barr analysis

Additional data

Figure 14. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 15. Substantial shareholders

Shareholder	Latest Holding
Brent Robinson	15.4%
Siward Crystal Technology	12.2%
Wairahi	6.1%

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

Figure 16. International valuation comparisons using consensus data (one and two year forward)

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 1yr
				1yr	2yr	1yr	2yr	1yr	2yr	
Rakon	RAK NZ	NZ\$0.64	NZ\$147	22.1x	9.6x	9.1x	5.3x	17.9x	7.4x	1.6%
TXC	3042 TT	TWD106.00	TWD36,357	13.9x	12.1x	9.5x	7.5x	13.2x	10.6x	5.9%
Sitime	SITM US	US\$209.76	US\$4,900	>75x	73.9x	>75x	40.8x	>75x	59.5x	0.0%
Microchip Technology	MCHP US	US\$68.41	US\$36,737	30.6x	20.2x	22.3x	15.7x	27.0x	19.6x	2.7%
Siward Crystal Technology	2484 TT	TWD26.80	TWD4,272	n/a	n/a	n/a	n/a	n/a	n/a	0.0%
Daishinku	6962 T	¥517.00	¥18,714	14.3x	8.0x	5.0x	4.1x	15.0x	9.2x	5.7%
Nihon Dempa Kogyo	6779 T	¥921.00	¥21,301	6.2x	4.9x	4.1x	3.4x	6.8x	5.6x	3.8%
Seiko Epson	6724 JP	¥2732.50	¥1,051,863	14.5x	12.5x	6.1x	5.7x	11.4x	10.2x	2.8%

Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Disclosures

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