

# Rakon Limited

## Challenging FY25, 2H Lift to Flow into FY26

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Rakon (RAK) has provided a modestly improved FY25 outlook, with underlying EBITDA now expected to be near the midpoint of its NZ\$5m to NZ\$15m guidance range (from the lower half previously). FY25 has proven to be a challenging period for RAK due to the impacts of geopolitical tensions and subdued telecommunications and positioning demand. However, RAK's updated guidance signals a slightly better-than-anticipated result relative to our prior expectations, reflecting robust second-half performance driven by stringent cost controls and operational efficiencies. Although uncertainty persists (particularly within the Telecommunications and Positioning segments), momentum in RAK's Space and Defence business is providing a more solid foundation for a recovery heading into FY26. We modestly lift our earnings estimates and our spot valuation.

NZX code	RAK	Financials: Mar/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$0.49	Rev (NZ\$m)	128.4	109.6	135.5	162.9	PE	24.9	n/a	12.9	5.3
Spot Valuation	NZ\$0.81 (from 0.79)	NPAT* (NZ\$m)	4.5	-3.6	8.7	21.3	EV/EBIT	36.4	n/a	10.3	4.1
Risk rating	High	EPS* (NZc)	2.0	-1.5	3.8	9.3	EV/EBITDA	9.4	31.0	5.6	3.1
Issued shares	229.8m	DPS (NZc)	0.0	0.0	0.0	1.5	Price / NTA	0.8	0.8	0.8	0.7
Market cap	NZ\$113m	Imputation (%)	100	0	0	100	Cash div yld (%)	0.0	0.0	0.0	3.1
Avg daily turnover	62.4k (NZ\$46k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	4.3

### What's changed?

- **Earnings:** We lift our FY25/FY26/FY27 EBITDA estimates by +NZ\$2.7m/+NZ\$0.3m/+NZ\$0.3m respectively.
- **Spot valuation:** Our blended spot valuation lifts +2cps to NZ\$0.81.

### Modestly improved outlook for FY25

RAK guided to the lower end of its underlying EBITDA range of NZ\$5m to NZ\$15m at its 1H25 result in November 2024. However, the reported result will be moderately ahead of this guidance, with RAK noting a 'marked improvement in 2H over 1H performance across most segments.' RAK executed cost-saving and efficiency initiatives during FY25, helping to preserve profitability despite a relatively sharp contraction in revenue from its core segments.

### Further clarification of its US tariff exposures

RAK also updated the market on the US tariffs and anticipates a manageable 1%–2% revenue impact from the new US 'tech-sector' tariffs, mitigated by its diversified global manufacturing footprint and proactive adjustment of logistics and exemption opportunities. This was in line with our estimates in our 7 April 2025 *US Liberation Day Tariffs' Impact* note. RAK has undertaken a comprehensive review of its global customer and supply chain arrangements, resulting in its decision to discontinue commercial relationships with a Chinese telecommunications customer representing approximately 5% of FY25 revenue.

### Positive momentum into FY26 supported by AI, Space and manufacturing optimisation

Entering FY26, RAK expects positive momentum, underpinned by its Space & Defence order book, gradual recovery in Telecommunications, and significant revenue commencement from new AI and Cloud Infrastructure contracts. The accelerated transfer of key product lines to its recently opened Indian facility promises margin improvements and operational optimisation from early FY26. RAK's strategic emphasis on AI-driven hardware and its growing presence in low-earth-orbit (LEO) satellite constellations offer significant revenue potential, highlighting these segments as core drivers of the anticipated earnings recovery.

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

Priced as at 28 Apr 2025	0.49
52 week high / low	1.24 / 0.51
Market capitalisation (NZ\$m)	112.6

**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
<b>Normalised EBITDA</b>	<b>41.1</b>	<b>10.9</b>	<b>3.5</b>	<b>20.0</b>	<b>36.7</b>
Depreciation and amortisation	(7.8)	(8.1)	(8.6)	(9.0)	(9.0)
<b>Normalised EBIT</b>	<b>33.3</b>	<b>2.8</b>	<b>(5.1)</b>	<b>11.0</b>	<b>27.8</b>
Net interest	(0.5)	(0.1)	(0.7)	(0.7)	(0.5)
Associate income	(1.5)	(2.3)	1.0	1.3	1.3
Tax	(8.1)	4.2	1.2	(2.9)	(7.3)
Minority interests	-	-	-	-	-
<b>Normalised NPAT</b>	<b>23.2</b>	<b>4.5</b>	<b>(3.6)</b>	<b>8.7</b>	<b>21.3</b>
Abnormals/other	-	-	-	-	-
<b>Reported NPAT</b>	<b>23.2</b>	<b>4.5</b>	<b>(3.6)</b>	<b>8.7</b>	<b>21.3</b>
Normalised EPS (cps)	10.1	2.0	(1.5)	3.8	9.3
DPS (cps)	1.5	-	-	-	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	-67.7	>100	83.4
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
<b>EBITDA</b>	<b>41.1</b>	<b>10.9</b>	<b>3.5</b>	<b>20.0</b>	<b>36.7</b>
Working capital change	(18.2)	2.8	7.6	(2.4)	(8.2)
Interest & tax paid	(10.5)	(3.6)	0.5	(3.6)	(7.8)
Other	(1.3)	6.6	1.0	1.3	1.3
<b>Operating cash flow</b>	<b>11</b>	<b>16.8</b>	<b>12.7</b>	<b>15.4</b>	<b>22.1</b>
Capital expenditure	(18.7)	(15.6)	(14.4)	(7.1)	(7.8)
(Acquisitions)/divestments	-	-	-	-	-
Other	(2.5)	(2.1)	(2.1)	(2.2)	(2.2)
<b>Funding available/(required)</b>	<b>(10.1)</b>	<b>(0.9)</b>	<b>(3.9)</b>	<b>6.1</b>	<b>12.1</b>
Dividends paid	-	(2.9)	-	-	(2.3)
Equity raised/(returned)	-	-	-	-	-
<b>(Increase)/decrease in net debt</b>	<b>(10.1)</b>	<b>(3.9)</b>	<b>(3.9)</b>	<b>6.1</b>	<b>9.8</b>

**Balance Sheet (NZ\$m)**

	2023A	2024A	2025E	2026E	2027E
Working capital	84.1	81.3	73.6	76.0	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
<b>Total funds employed</b>	<b>155.6</b>	<b>163.7</b>	<b>166.9</b>	<b>167.4</b>	<b>174.5</b>
Net debt/(cash)	(16.5)	(11.2)	(7.4)	(13.4)	(23.2)
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	155.7	164.5	182.4
Minority interests	-	-	-	-	-
<b>Total funding sources</b>	<b>155.6</b>	<b>163.7</b>	<b>166.9</b>	<b>167.4</b>	<b>174.5</b>

\* 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](http://www.forsythbarr.co.nz/corporate-news-events/cesg-report)

**Spot valuation (NZ\$)**

DCF	0.91
PE driven comparables valuation	0.72

**0.81**
**DCF valuation summary (NZ\$m)**

Total firm value	231
(Net debt)/cash	7
Less: Capitalised operating leases	-29
Value of equity	209

**Valuation Ratios**

	2023A	2024A	2025E	2026E	2027E
EV/Sales (x)	0.5	0.8	1.0	0.8	0.7
EV/EBITDA (x)	2.3	9.4	31.0	5.6	3.1
EV/EBIT (x)	2.9	36.4	n/a	10.3	4.1
PE (x)	4.8	24.9	n/a	12.9	5.3
Price/NTA (x)	0.8	0.8	0.8	0.8	0.7
Free cash flow yield (%)	-8.9	-0.8	-3.4	5.4	10.7
Adj. free cash flow yield (%)	7.7	13.0	9.4	11.7	17.6
Net dividend yield (%)	3.1	0.0	0.0	0.0	3.1
Gross dividend yield (%)	4.3	0.0	0.0	0.0	4.3

**Capital Structure**

	2023A	2024A	2025E	2026E	2027E
Interest cover EBIT (x)	64.1	21.1	n/a	16.7	61.1
Interest cover EBITDA (x)	79.1	82.3	5.1	30.3	80.8
Net debt/ND+E (%)	-11.7	-7.6	-5.0	-8.9	-14.6
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	-2.5	5.4	12.6
Return on equity (%)	14.8	2.8	-2.3	5.3	11.7
Return on funds employed (%)	11.2	2.2	-1.8	4.3	10.0
EBITDA margin (%)	22.8	8.5	3.2	14.8	22.6
EBIT margin (%)	18.4	2.2	-4.6	8.1	17.1
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
<b>Total Revenue</b>	<b>180.4</b>	<b>128.4</b>	<b>109.6</b>	<b>135.5</b>	<b>162.9</b>

**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	9.2	23.7	40.5

## Earnings revisions

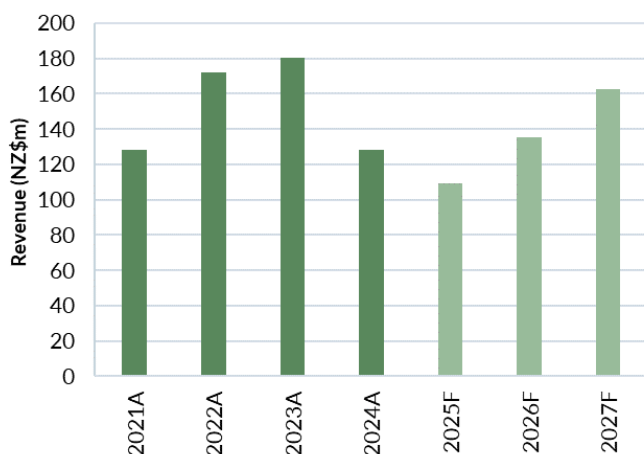
We leave our revenue forecasts unchanged but make minor cuts to our operating expense forecasts given RAK’s commentary around cost control. In FY25, we also factor in a higher level of non-underlying costs, with RAK noting strategic takeover interest from multiple parties over the last 18 months. Our underlying EBITDA estimate rises +NZ\$2.7m in FY25 and modestly in FY26 and FY27.

Figure 1. Earnings revisions (NZ\$m)

	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Revenue</b>	<b>109.2</b>	<b>109.2</b>	<b>+0%</b>	<b>135.2</b>	<b>135.2</b>	<b>+0%</b>	<b>162.5</b>	<b>162.5</b>	<b>+0%</b>
Cost of sales	(59.3)	(59.3)	+0%	(71.4)	(71.4)	+0%	(81.2)	(81.2)	+0%
<b>Gross Profit</b>	<b>50.0</b>	<b>50.0</b>	<b>+0%</b>	<b>63.8</b>	<b>63.8</b>	<b>+0%</b>	<b>81.2</b>	<b>81.2</b>	<b>+0%</b>
Selling and marketing costs	(11.4)	(10.9)	-5%	(11.7)	(11.6)	-1%	(12.3)	(12.2)	-1%
Research and development	(15.3)	(15.3)	+0%	(14.9)	(14.9)	+0%	(16.2)	(16.2)	+0%
General and administration	(28.3)	(27.7)	-2%	(26.9)	(26.7)	-1%	(25.5)	(25.4)	-1%
<b>Total operating expenses</b>	<b>(55.0)</b>	<b>(53.9)</b>	<b>-2%</b>	<b>(53.4)</b>	<b>(53.1)</b>	<b>-0%</b>	<b>(54.1)</b>	<b>(53.8)</b>	<b>-0%</b>
Other gains/(losses)-net	-	(1.5)	n/a	-	-	-	-	-	n/a
Operating profit	(4.7)	(5.1)	n/a	10.8	11.0	+2%	27.5	27.8	+1%
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	1.0	+33%	1.3	1.3	+0%	1.3	1.3	+0%
<b>Profit before income tax</b>	<b>(4.6)</b>	<b>(4.7)</b>	<b>n/a</b>	<b>11.4</b>	<b>11.7</b>	<b>+2%</b>	<b>28.4</b>	<b>28.7</b>	<b>+1%</b>
Income tax expense	1.2	1.2	n/a	(2.8)	(2.9)	+2%	(7.2)	(7.3)	+1%
<b>Net profit for the period</b>	<b>(3.5)</b>	<b>(3.6)</b>	<b>n/a</b>	<b>8.5</b>	<b>8.7</b>	<b>+2%</b>	<b>21.2</b>	<b>21.3</b>	<b>+1%</b>
Profit before income tax	(4.6)	(4.7)	n/a	11.4	11.7	+2%	28.4	28.7	+1%
Depreciation and amortisation	(8.6)	(8.6)	n/a	(9.0)	(9.0)	n/a	(9.0)	(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)	(1.0)	n/a	(1.3)	(1.3)	n/a	(1.3)	(1.3)	n/a
Other non-cash items	(1.0)	(3.6)	n/a	(1.0)	(1.0)	n/a	(1.1)	(1.1)	n/a
<b>Underlying EBITDA</b>	<b>6.4</b>	<b>9.2</b>	<b>+43%</b>	<b>23.4</b>	<b>23.7</b>	<b>+1%</b>	<b>40.2</b>	<b>40.5</b>	<b>+1%</b>

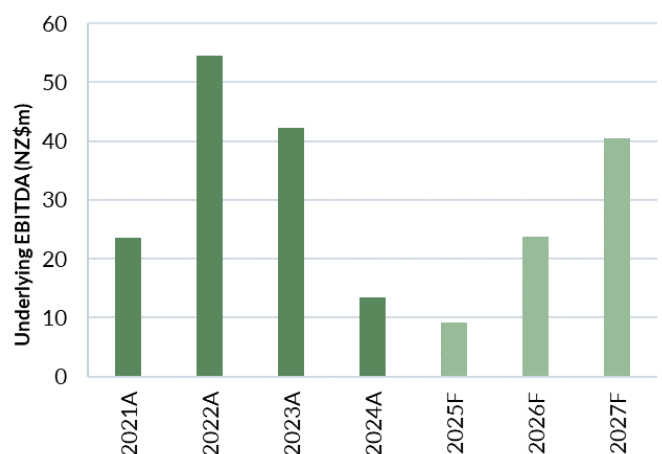
Source: Forsyth Barr analysis

Figure 2. RAK—revenue



Source: Company, Forsyth Barr analysis

Figure 3. RAK—underlying EBITDA



Source: Company, Forsyth Barr analysis

## Additional data

Figure 4. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 5. Substantial shareholders

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

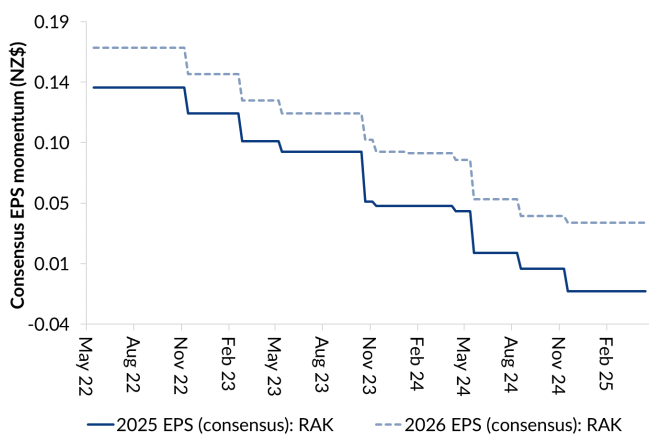
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. 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	2yr	1yr	2yr	1yr	2yr	
Rakon	RAK NZ	NZ\$0.49	NZ\$113	12.0x	5.2x	5.4x	3.0x	9.4x	4.0x	0.0%
TXC	3042 TT	TWD88.00	TWD30,183	13.6x	n/a	6.8x	n/a	10.4x	n/a	6.2%
Sitime	SITM US	US\$153.04	US\$3,630	>75x	54.8x	>75x	59.0x	>75x	49.2x	0.0%
Microchip Technology	MCHP US	US\$46.89	US\$25,218	37.2x	18.7x	22.2x	13.9x	27.8x	16.3x	4.1%
Daishinku	6962 T	¥519.00	¥16,680	12.0x	n/a	4.5x	n/a	12.3x	n/a	5.5%
Nihon Dempa Kogyo	6779 T	¥767.00	¥17,740	5.3x	n/a	3.7x	n/a	6.3x	n/a	4.6%
Seiko Epson	6724 JP	¥2007.00	¥749,761	10.6x	9.6x	4.1x	3.9x	7.7x	7.0x	4.0%

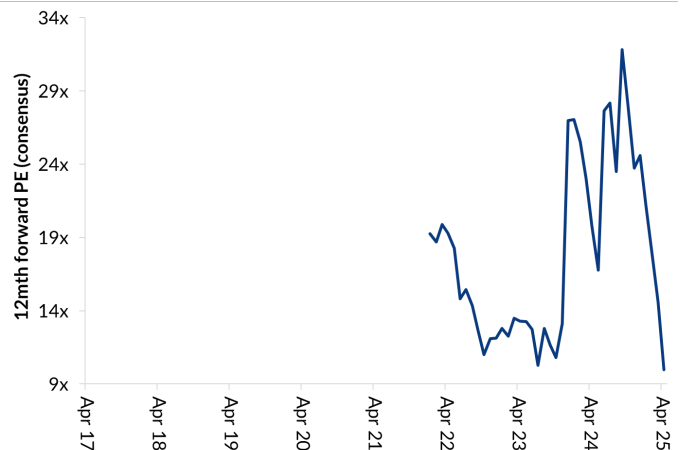
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 7. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 8. Consensus one year forward PE (x)



Source: LSEG, Forsyth Barr analysis, NOTE: Data excluded when PE<0x or >75x

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