

Rakon Limited

FY25—2H Frequency Signals FY26 Rebound

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Rakon (RAK) has navigated one of its most challenging years to deliver FY25 underlying EBITDA of NZ\$9.5m, near the midpoint of its guidance, despite significant headwinds in Telecommunications and Positioning. The result reflects a marked sales recovery in 2H25 and falling opex costs (supported by a higher proportion of capitalised R&D). With a leaner cost base, RAK is now better positioned to capitalise on 2H25 sales momentum. The recovery in FY26 should be supported by: (1) a stabilisation in the core Telecommunications and Positioning markets; (2) new growth opportunities (AI and Cloud infrastructure) beginning to contribute materially; and (3) continued strong growth in Aerospace & Defence. RAK ended FY25 with NZ\$3m in net cash. While we have reduced our estimates again, the 2H25 run-rate provides increased confidence our forecasts have now been appropriately rebased. Our blended spot valuation reduces -11% to NZ\$0.72, representing ~10x our updated FY27 EPS.

NZX code	RAK	Financials: Mar/	25A	26E	27E	28E	Valuation (x)	25A	26E	27E	28E
Share price	NZ\$0.61	Rev (NZ\$m)	104.4	130.2	156.0	181.6	PE	n/a	36.9	8.2	5.8
Spot Valuation	NZ\$0.72 (from 0.81)	NPAT* (NZ\$m)	-5.8	3.8	17.0	24.1	EV/EBIT	n/a	30.6	6.5	4.6
Risk rating	High	EPS* (NZc)	-2.5	1.7	7.4	10.5	EV/EBITDA	62.5	9.9	4.5	3.5
Issued shares	229.8m	DPS (NZc)	0.0	0.0	0.0	2.1	Price / NTA	1.0	1.1	1.0	0.9
Market cap	NZ\$140m	Imputation (%)	0	0	0	100	Cash div yld (%)	0.0	0.0	0.0	3.4
Avg daily turnover	81.2k (NZ\$82k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	4.8

What's changed?

- **Earnings:** We revise our underlying EBITDA estimates down -22%/-8%/-6% over FY26/FY27/FY28 respectively.
- **Spot valuation:** Our blended spot valuation falls -9cps to NZ\$0.72 due to earnings changes.

Strong revenue recovery in 2H25 underpins recovery into FY26

FY25 was a tale of two halves for RAK. Group sales collapsed -32% in 1H25 versus the prior corresponding period, amidst a sharp slowdown in Telecommunications and Positioning orders. However, 2H25 was an inflection point. Revenue jumped +49% sequentially from 1H25 and was just -7% below 2H24. Demand in RAK's core markets stabilised and began to improve throughout the year, while Aerospace & Defence continued its strong growth. The Aerospace & Defence segment delivered record revenue of NZ\$42.4m, up +15% YoY, driven by strong demand for RAK's leading-edge components and subsystems, notably for Low-Earth Orbit (LEO) satellite constellations.

Opex control solid, but helped by increased capitalisation of R&D

Total operating expenses in FY25 fell -10% versus FY24 to NZ\$51.4m, when normalising for NZ\$3.5m of costs relating to acquisition proposals and organisational transformation. While we view this outcome positively, the FY25 result benefited from significantly increased capitalisation of R&D as RAK invested in new product development. RAK capitalised NZ\$9.8m of R&D in FY25, significantly ahead of NZ\$3.9m in FY24. Adjusting for this movement, normalised opex would have been broadly flat in FY25.

AI & Cloud computing emerging

RAK's AI & Cloud Infrastructure products have begun generating revenue (we estimate <NZ\$5m of the Telecommunications segment), with significant contributions anticipated from FY26. With products already designed into next-generation architectures and substantial orders secured from major industry players, this segment is poised to rapidly establish itself as a new core market, driving future revenue and margin expansion. That said, we now expect revenues to ramp up slower than previously anticipated.

Rakon Limited (RAK)

Market Data (NZ\$)

Priced as at 28 May 2025	0.61
52 week high / low	1.33 / 0.59
Market capitalisation (NZ\$m)	140.2

Key WACC assumptions

Risk free rate	5.00%
Equity beta	1.45
WACC	12.9%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)	2024A	2025A	2026E	2027E	2028E
Revenue	128.4	104.4	130.2	156.0	181.6
Normalised EBITDA	11.0	2.2	14.8	33.0	42.2
Depreciation and amortisation	(8.1)	(9.8)	(10.0)	(10.3)	(10.0)
Normalised EBIT	2.9	(7.6)	4.8	22.7	32.2
Net interest	(0.2)	(0.8)	(1.2)	(1.3)	(1.2)
Associate income	(2.6)	1.3	1.5	1.5	1.6
Tax	4.2	1.3	(1.3)	(5.8)	(8.5)
Minority interests	-	-	-	-	-
Normalised NPAT	4.3	(5.8)	3.8	17.0	24.1
Abnormals/other	-	-	-	-	-
Reported NPAT	4.3	(5.8)	3.8	17.0	24.1
Normalised EPS (cps)	1.9	(2.5)	1.7	7.4	10.5
DPS (cps)	-	-	-	-	2.1

Growth Rates	2024A	2025A	2026E	2027E	2028E
Revenue (%)	-29.0	-18.7	24.7	19.8	16.4
EBITDA (%)	-73.2	-79.7	>100	>100	28.0
EBIT (%)	-91.4	n/a	n/a	>100	42.0
Normalised NPAT (%)	-81.7	n/a	n/a	>100	41.5
Normalised EPS (%)	-81.7	n/a	n/a	>100	41.5
Ordinary DPS (%)	-100.0	n/a	n/a	n/a	n/a

Cash Flow (NZ\$m)	2024A	2025A	2026E	2027E	2028E
EBITDA	11.0	2.2	14.8	33.0	42.2
Working capital change	3.0	10.6	(2.4)	(7.2)	(7.0)
Interest & tax paid	(4.0)	(1.2)	(2.5)	(7.2)	(9.7)
Other	8.0	(2.7)	-	-	-
Operating cash flow	18	9.0	9.9	18.7	25.6
Capital expenditure	(17.0)	(17.0)	(13.1)	(9.7)	(10.4)
(Acquisitions)/divestments	-	-	-	-	-
Other	(1.9)	(2.2)	(2.2)	(2.3)	(2.3)
Funding available/(required)	(0.9)	(10.1)	(5.5)	6.7	12.9
Dividends paid	(2.9)	-	-	-	(2.3)
Equity raised/(returned)	-	-	-	-	-
(Increase)/decrease in net debt	(3.8)	(10.1)	(5.5)	6.7	10.6

Balance Sheet (NZ\$m)	2024A	2025A	2026E	2027E	2028E
Working capital	81.3	70.7	73.1	80.3	87.2
Fixed assets	40.1	41.5	42.2	39.2	37.2
Intangibles	10.8	19.9	24.5	29.1	33.6
Right of use asset	7.0	9.1	6.9	4.7	2.4
Other assets	25.0	31.8	31.8	31.8	31.8
Total funds employed	164.3	172.9	178.4	185.0	192.3
Net debt/(cash)	(11.2)	(2.9)	2.5	(4.1)	(14.7)
Lease liability	5.8	7.5	5.2	3.0	0.6
Other liabilities	10.9	13.8	13.8	13.8	16.3
Shareholder's funds	158.8	154.6	156.9	172.4	190.1
Minority interests	-	-	-	-	-
Total funding sources	164.3	172.9	178.4	185.0	192.3

* 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	0.70
PE driven comparables valuation	0.73

DCF valuation summary (NZ\$m)

Total firm value	189
(Net debt)/cash	3
Less: Capitalised operating leases	-30
Value of equity	162

Valuation Ratios	2024A	2025A	2026E	2027E	2028E
EV/Sales (x)	1.0	1.3	1.1	1.0	0.8
EV/EBITDA (x)	11.9	62.5	9.9	4.5	3.5
EV/EBIT (x)	45.5	n/a	30.6	6.5	4.6
PE (x)	33.0	n/a	36.9	8.2	5.8
Price/NTA (x)	0.9	1.0	1.1	1.0	0.9
Free cash flow yield (%)	-0.7	-7.2	-3.9	4.8	9.2
Adj. free cash flow yield (%)	11.5	4.9	5.5	11.7	16.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	3.4
Gross dividend yield (%)	0.0	0.0	0.0	0.0	4.8

Capital Structure	2024A	2025A	2026E	2027E	2028E
Interest cover EBIT (x)	14.6	n/a	4.0	17.1	27.2
Interest cover EBITDA (x)	56.1	2.7	12.3	24.9	35.7
Net debt/ND+E (%)	-7.6	-1.9	1.6	-2.5	-8.4
Net debt/EBITDA (x)	n/a	n/a	0.2	n/a	n/a

Key Ratios	2024A	2025A	2026E	2027E	2028E
Return on assets (%)	1.4	-3.5	2.2	9.6	12.6
Return on equity (%)	2.7	-3.8	2.4	9.9	12.7
Return on funds employed (%)	2.0	-2.8	1.7	7.5	9.8
EBITDA margin (%)	8.6	2.1	11.4	21.2	23.3
EBIT margin (%)	2.2	-7.3	3.7	14.5	17.7
Capex to sales (%)	13.3	16.2	10.1	6.2	5.7
Capex to depreciation (%)	272	199	151	111	125
Imputation (%)	0	0	0	0	100
Pay-out ratio (%)	0	0	0	0	20

Segment Revenue (NZ\$m)	2024A	2025A	2026E	2027E	2028E
Telecommunications	66.9	45.4	62.5	78.1	93.7
Positioning	13.9	10.9	11.4	12.0	12.3
Space and Defence	36.8	42.4	49.9	58.6	67.4
Other	10.5	4.9	5.6	6.5	7.5
Other revenues	-1.0	0.8	0.8	0.8	0.8
Total Revenue	127.1	104.4	130.2	156.0	181.6

Segment Gross Margin (%)	2024A	2025A	2026E	2027E	2028E
Telecommunications	33.8	25.6	33.0	40.0	40.0
Positioning	44.4	46.2	46.0	47.0	47.0
Space and Defence	65.2	64.6	64.6	64.6	63.6
Other	49.1	11.7	11.7	11.7	11.7

Segment Gross Margin (NZ\$m)	2024A	2025A	2026E	2027E	2028E
Telecommunications	22.6	11.6	20.6	31.2	37.5
Positioning	6.2	5.0	5.3	5.6	5.8
Space and Defence	24.0	27.4	32.2	37.8	42.8
Other	5.2	0.6	0.7	0.8	0.9

"Underlying EBITDA" (NZ\$m)	2024A	2025A	2026E	2027E	2028E
Underlying EBITDA estimates	13.4	9.5	18.9	37.2	46.5

Results review

RAK's FY25 result highlighted a challenging year, with revenue falling -19% to NZ\$103.7m. Underlying EBITDA was NZ\$9.5m, landing near the midpoint of the NZ\$5m–NZ\$15m guidance and down -29% from NZ\$13.4m in FY24. However, a clear divergence between 1H/2H performance was evident: the revenue split 1H/2H was 40%/60% (versus 48%/52% in FY24), with 1H25 producing a -NZ\$7.3m underlying EBITDA loss (on a 37.8% gross margin) and 2H25 producing a +NZ\$16.8m profit on a much stronger 46.7% gross margin (and above the 45.2% level seen over FY24). No dividend was declared. RAK ended FY25 with NZ\$3m in net cash, supported by inventory being trimmed by -NZ\$8.5m, which assisted operating cash flow. Management highlighted the continued operational transition to India, which aims to enhance margins and operational leverage as volumes recover.

Key points from RAK's FY25 result:

- **Aerospace and Defence:** Revenue was up +15% to NZ\$42.4m, gross margin dollars rose +14% to NZ\$27.4m on a gross margin percentage of 64.6% (FY24: 65.2%); demand remains strong for subsystems and components, particularly in Low-Earth Orbit (LEO) satellite constellations, underpinning sustained growth.
- **Telecommunications:** Revenue was down -32% to NZ\$45.4m, gross margin dollars fell -49% to NZ\$11.6m on a gross margin percentage of 25.6% (FY24: 33.8%); despite a +63% revenue uplift in 2H25 versus 1H25, results remained significantly impacted by delayed global 5G network investment and prolonged customer inventory normalisation.
- **Positioning:** Revenue was down -21% to NZ\$11.0m, gross margin dollars fell -18% to NZ\$5.0m on a gross margin percentage of 46.2% (FY24: 44.4%); results reflect ongoing price competition, cyclical-low order volumes, and margin pressures from reduced operating leverage.
- **Other (including IoT and emerging):** Revenue fell -53% to NZ\$4.9m, gross margin declined -89% to ~NZ\$0.6m on a gross margin of 11.7% (FY24: 49.1%).
- **AI and Cloud Infrastructure:** Initial revenues have commenced; FY26 is expected to see significant contributions as products are designed into next-generation platforms by Tier-1 industry players.
- **Capex/ R&D:** Capital expenditure remained steady at NZ\$17.0m (representing 16.4% of revenues, compared to 13.3% of revenues in FY24) as RAK continued its investments in growth segments; RAK capitalised a much larger percentage of R&D, representing NZ\$9.8m or 46% of total R&D (versus NZ\$4.3m or 20% capitalised in FY24); FY25 R&D saw the successful launch of new semiconductor products, including the Vulcan™ AI chip.
- **Outlook:** Management expects: 'targeted YoY growth in Aerospace and Defence, significant FY26 revenue for AI and Cloud, and stabilised and improving Telco revenue' in FY26; positioning revenue is expected to remain flat; RAK does not foresee a material impact from tariffs in FY26; full guidance will be provided at the company's ASM.

Figure 1. FY25 result summary (NZ\$m)

NZ\$m	FY24	FY25	Change
Revenue	128.0	103.7	-19%
Cost of sales	(70.2)	(59.0)	-16%
Gross Profit	57.9	44.7	-23%
Other operating income	0.4	0.8	n/a
<i>Operating expenses:</i>			
Selling and marketing costs	(11.1)	(12.4)	+12%
Research and development	(17.7)	(11.7)	-34%
General and administration	(30.7)	(30.9)	+1%
Total operating expenses	(59.4)	(55.0)	-7%
Other gains/(losses) – net	4.1	2.0	-50%
Operating profit	2.9	(7.6)	n/a
Finance income	0.5	0.5	-5%
Finance costs	(0.7)	(1.3)	+83%
Share of net profits of associates	(2.6)	1.3	n/a
Profit before income tax	0.1	(7.1)	n/a
Income tax expense	4.2	1.3	n/a
Net profit after tax for the period	4.3	(5.8)	n/a
Underlying EBITDA	13.4	9.5	-29%

Source: Company, Forsyth Barr analysis

Earnings revisions

Despite the strong 2H25 recovery, FY25 revenue was below our expectations. We adjust our revenue estimates to reflect: (1) a more tempered recovery in RAK's Telecommunications segment (with network operators now making 'selective' 5G investments); and (2) a delayed scale-up of AI-driven revenues. In aggregate, our operating expense forecasts are broadly unchanged. However, we now model increased capitalised development, leading to higher capex/R&D. Underlying EBITDA declines less than NPAT due to increased D&A, finance costs and other non-cash movements.

Given lingering subdued trading conditions, modest levels of net cash, and a slower near-term recovery, we now assume dividends will not resume until FY28.

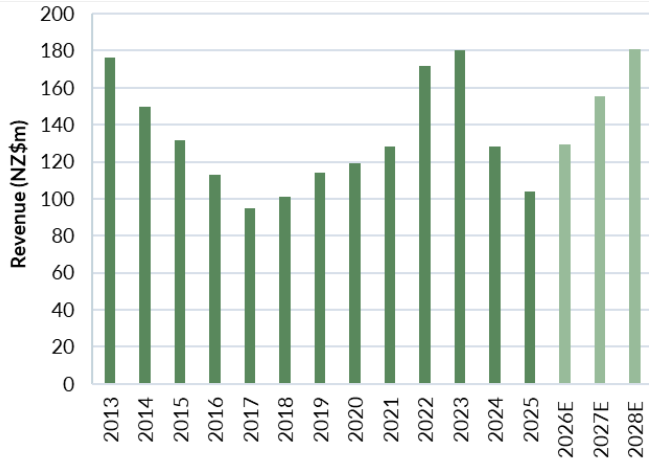
Figure 2. Earnings revisions (NZ\$m)

	FY26E			FY27E			FY28E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	135.2	129.4	-4%	162.5	155.2	-5%	184.8	180.8	-2%
Cost of sales	(71.4)	(71.1)	-0%	(81.2)	(79.6)	-2%	(92.9)	(93.7)	+1%
Gross Profit	63.8	58.4	-9%	81.2	75.6	-7%	91.8	87.1	-5%
Selling and marketing costs	(11.6)	(10.9)	-6%	(12.2)	(10.6)	-14%	(12.8)	(11.1)	-13%
Research and development	(14.9)	(14.9)	+0%	(16.2)	(15.5)	-5%	(16.6)	(16.3)	-2%
General and administration	(26.7)	(29.0)	+9%	(25.4)	(27.5)	+9%	(26.0)	(28.2)	+9%
Total operating expenses	(53.1)	(54.8)	+3%	(53.8)	(53.6)	-0%	(55.4)	(55.6)	+0%
Operating profit	11.0	4.4	-60%	27.8	22.8	-18%	36.8	32.3	-12%
Finance income	0.1	0.3	n/a	0.2	0.2	n/a	0.3	0.4	n/a
Finance costs	(0.8)	(1.5)	n/a	(0.7)	(1.5)	n/a	(0.6)	(1.5)	n/a
Share of net profits of associates	1.3	1.5	+15%	1.3	1.5	+15%	1.4	1.6	+15%
Profit before income tax	11.7	4.7	-60%	28.7	23.0	-20%	37.9	32.7	-14%
Income tax expense	(2.9)	(1.2)	-60%	(7.3)	(5.9)	-20%	(9.9)	(8.5)	-14%
Net profit for the period	8.7	3.5	-60%	21.3	17.1	-20%	28.1	24.2	-14%
Underlying EBITDA	23.7	18.5	-22%	40.5	37.3	-8%	49.6	46.6	-6%

Source: Forsyth Barr analysis

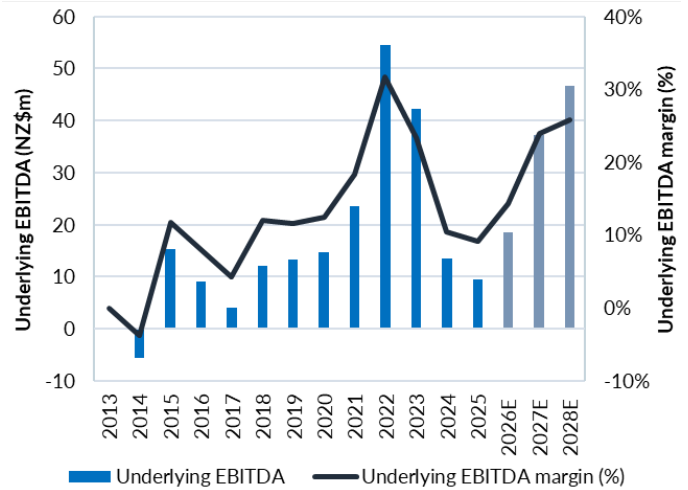
Key charts

Figure 3. Revenues (NZ\$m)



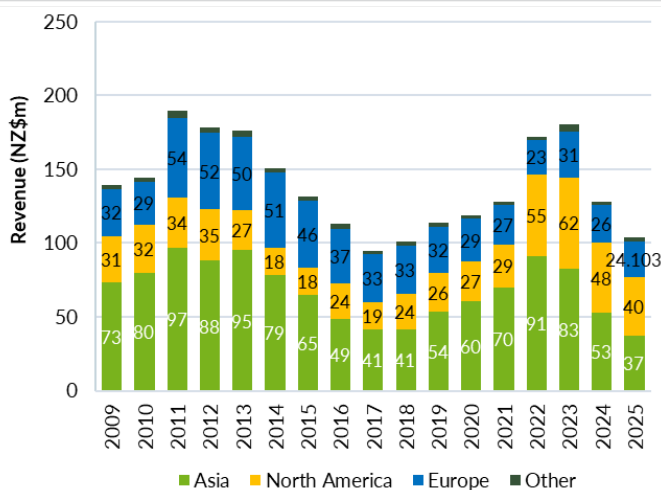
Source: Company, Forsyth Barr analysis

Figure 4. Underlying EBITDA (NZ\$m)



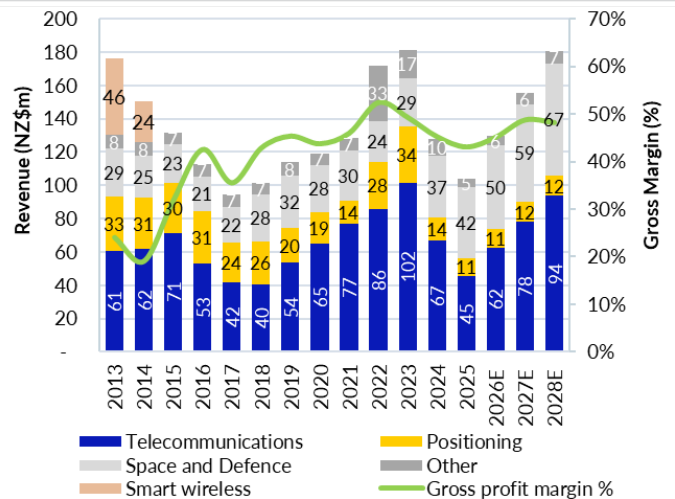
Source: Company, Forsyth Barr analysis

Figure 5. Geographic split of customer revenues



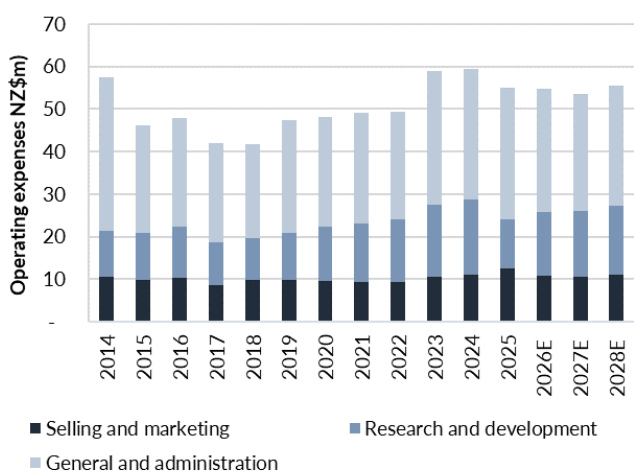
Source: Company, Forsyth Barr analysis

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



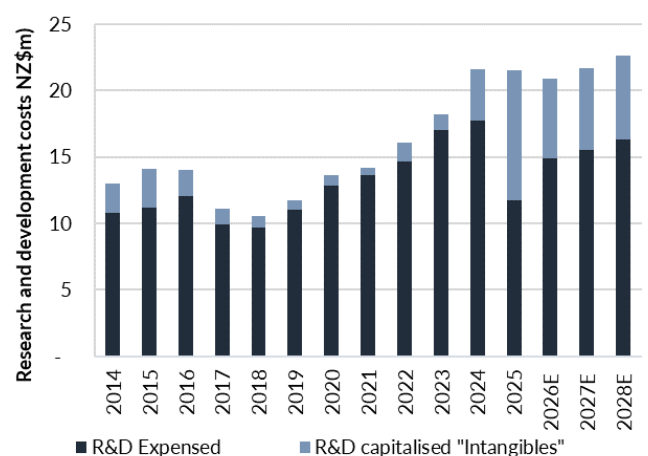
Source: Company, Forsyth Barr analysis

Figure 7. Opex fell in FY25 ...



Source: Company, Forsyth Barr analysis

Figure 8. ... however, capitalisation of R&D increased materially



Source: Company, Forsyth Barr analysis

Additional data

Figure 9. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 10. Substantial shareholders

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

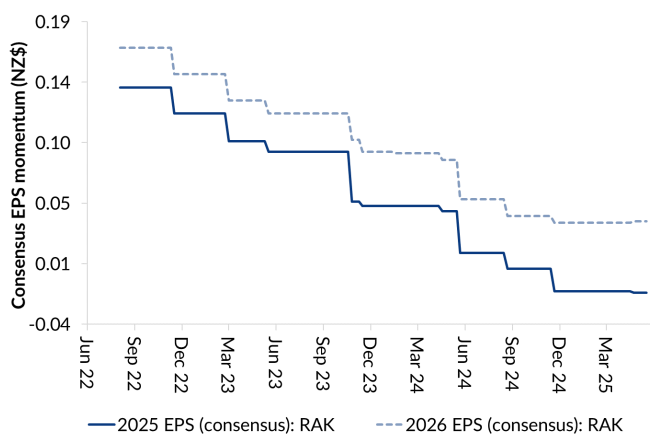
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 11. 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\$0.61	NZ\$140	13.0x	6.3x	6.2x	3.7x	10.3x	4.8x	0.0%
TXC	3042 TT	TWD93.80	TWD32,173	14.3x	n/a	7.4x	n/a	11.0x	n/a	5.0%
Sitime	SITM US	US\$200.21	US\$4,749	>75x	62.9x	56.3x	40.0x	>75x	53.6x	0.0%
Microchip Technology	MCHP US	US\$58.68	US\$31,652	37.5x	22.3x	26.2x	18.1x	31.4x	19.9x	3.1%
Daishinku	6962 T	¥510.00	¥16,391	11.3x	n/a	5.1x	n/a	13.7x	n/a	5.6%
Nihon Dempa Kogyo	6779 T	¥706.00	¥16,329	4.9x	n/a	3.4x	n/a	6.1x	n/a	5.1%
Seiko Epson	6724 JP	¥1886.50	¥704,746	10.7x	9.6x	4.6x	4.3x	8.6x	7.8x	4.1%

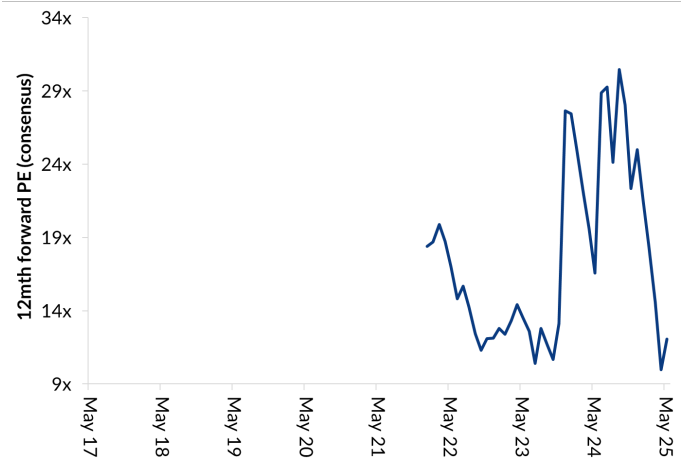
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 12. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 13. Consensus one year forward PE (x)



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

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