

# Rakon Limited

## New Indian Plant Opens Opportunities

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Rakon (RAK) has opened its new state-of-the-art research and manufacturing facility in Bengaluru, India, replacing two of its leased sites in the city, future-proofing its Indian operations and signalling a significant move towards expansion. RAK intends to substantially expand its presence in India by increasing production to service global customers and meet rising demand in India's growing space, defence and telecom markets. In addition to increased manufacturing flexibility and risk reduction, the company expects to see a positive effect on margins in the long-term due to lower manufacturing overheads. RAK plans to continue to invest in the new site with the support of the attractive Make-in-India government subsidies.

NZX Code	RAK	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.90	Rev (NZ\$m)	180.7	171.1	194.0	220.2	PE	8.9	14.1	9.9	7.4
Spot Valuation	NZ\$1.32	NPAT* (NZ\$m)	23.2	14.6	20.8	27.7	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	10.1	6.4	9.1	12.1	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	229.1m	DPS (NZc)	1.5	1.5	1.5	3.0	Price / NTA	1.4	1.3	1.2	1.0
Market cap	NZ\$206m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.7	1.7	1.7	3.3
Avg daily turnover	61.4k (NZ\$69k)	*Based on normalised profits					Gross div yld (%)	2.3	2.3	2.3	4.6

### Rakon's new Indian manufacturing site opens

RAK has officially inaugurated a new 100,000-square-foot facility in the SEZ Aerospace Park in Bengaluru, India. The facility is one of the world's largest and most sophisticated research and manufacturing sites for advanced frequency control and timing solutions. RAK has operated out of India for over 15 years and is the country's largest manufacturer and exporter of advanced frequency control and timing products. Over the long-term, RAK's plans to transfer some of its products that are currently manufactured at sites in New Zealand and France to the new facility, including those produced through its proprietary XMEMS® nanotechnology manufacturing process. In the future, RAK expects that India, which accounts for 25–35% of the company's annual revenue currently, may contribute up to half of all revenues. It is also likely to see its current employee base in India of 500 increase by +60%. The new facility was designed in accordance with sustainable building practices regarding the use of water and energy and is expected to attain a Leadership in Energy and Environmental Design (LEED) certification.

### "Make-in-India" initiative sweetens the deal

Indian Prime Minister Narendra Modi's ambitious Make-in-India campaign aims to turn India into a leading manufacturing destination. As a part of this campaign, Modi has pledged US\$10b to attract chipmakers to India, offering to cover half the cost of setting up semiconductor sites. For RAK, the Make-in-India scheme could substantially reduce capital costs associated with the new site. It has already invested NZ\$15m in building its new facility and aims to inject a further NZ\$55m in the coming three to five years.

### Micron selects India for a new semiconductor facility amidst rising geo-political risks

In a significant boost to Modi's Make-in-India initiative, Micron Technology Inc. (MU.US), the United State's largest semi-conductor chip manufacturer, is reportedly on the brink of a significant commitment to Indian manufacturing – an investment ranging from US\$1b to US\$2b. With this move, Micron move aims to establish a semiconductor packaging factory in India, marking a notable shift in Micron's geographic footprint and providing supply chain diversification for the NASDAQ listed firm. Micron's investment comes against a backdrop of rising US-China tensions that have cast uncertainty over the status of US chipmakers in the world's largest semiconductor market. The agreement, although not yet finalised, is expected to be announced during the visit of Prime Minister Narendra Modi to the US later this month.

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

Priced as at 19 Jun 2023	0.90
52 week high / low	1.57 / 0.83
Market capitalisation (NZ\$m)	206.1

**Key WACC assumptions**

Risk free rate	4.50%
Equity beta	1.13
WACC	9.9%
Terminal growth	2.0%

**Profit and Loss Account (NZ\$m)**

	2022A	2023A	2024E	2025E	2026E
Revenue	173.6	180.7	171.1	194.0	220.2
<b>Normalised EBITDA</b>	<b>50.4</b>	<b>41.1</b>	<b>28.5</b>	<b>36.3</b>	<b>45.6</b>
Depreciation and amortisation	(8.9)	(7.8)	(9.4)	(9.6)	(9.6)
<b>Normalised EBIT</b>	<b>41.4</b>	<b>33.3</b>	<b>19.0</b>	<b>26.8</b>	<b>35.9</b>
Net interest	(1.9)	(0.5)	(0.0)	0.0	(0.3)
Associate income	2.4	(1.5)	0.5	1.0	1.3
Tax	(8.8)	(8.1)	(4.9)	(6.9)	(9.2)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>33.1</b>	<b>23.2</b>	<b>14.6</b>	<b>20.8</b>	<b>27.7</b>
Abnormals/other	0	0	0	0	0
<b>Reported NPAT</b>	<b>33.1</b>	<b>23.2</b>	<b>14.6</b>	<b>20.8</b>	<b>27.7</b>
Normalised EPS (cps)	14.5	10.1	6.4	9.1	12.1
DPS (cps)	0	1.5	1.5	1.5	3.0

**Growth Rates**

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	32.7	4.1	-5.3	13.4	13.5
EBITDA (%)	>100	-18.3	-30.8	27.5	25.5
EBIT (%)	>100	-19.5	-42.9	40.5	34.2
Normalised NPAT (%)	>100	-29.9	-37.0	42.5	33.1
Normalised EPS (%)	>100	-29.9	-37.0	42.5	33.1
Ordinary DPS (%)	n/a	n/a	0.0	0.0	100.0

**Cash Flow (NZ\$m)**

	2022A	2023A	2024E	2025E	2026E
<b>EBITDA</b>	<b>50.4</b>	<b>41.1</b>	<b>28.5</b>	<b>36.3</b>	<b>45.6</b>
Working capital change	(15.3)	(18.2)	6.9	(5.6)	(7.7)
Interest & tax paid	(2.3)	(10.5)	(4.9)	(6.9)	(9.5)
Other	(2.6)	(1.3)	0.5	1.0	1.3
<b>Operating cash flow</b>	<b>30</b>	<b>11.1</b>	<b>30.9</b>	<b>24.8</b>	<b>29.7</b>
Capital expenditure	(10.2)	(18.7)	(7.4)	(7.4)	(8.3)
(Acquisitions)/divestments	0	0	0	0	0
Other	(2.6)	(2.5)	(2.1)	(2.1)	(2.2)
<b>Funding available/(required)</b>	<b>17.4</b>	<b>(10.1)</b>	<b>21.4</b>	<b>15.3</b>	<b>19.3</b>
Dividends paid	0	0	(3.4)	(3.4)	(6.9)
Equity raised/(returned)	0	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>17.4</b>	<b>(10.1)</b>	<b>18.0</b>	<b>11.9</b>	<b>12.4</b>

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

	2022A	2023A	2024E	2025E	2026E
Working capital	65.8	84.1	77.2	82.8	90.4
Fixed assets	21.4	34.4	34.4	34.1	34.4
Intangibles	7.2	7.7	8.0	8.5	9.0
Right of use asset	4.8	3.4	11.1	13.8	11.4
Other assets	25.5	26.0	26.0	26.0	26.0
<b>Total funds employed</b>	<b>124.6</b>	<b>155.6</b>	<b>156.7</b>	<b>165.1</b>	<b>171.4</b>
Net debt/(cash)	(23.2)	(16.5)	(34.5)	(46.3)	(58.8)
Lease liability	3.4	2.5	10.4	13.3	11.1
Other liabilities	9.3	12.7	12.7	12.7	12.7
Shareholder's funds	135.2	156.9	168.0	185.4	206.3
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>124.6</b>	<b>155.6</b>	<b>156.7</b>	<b>165.1</b>	<b>171.4</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	1.32
PE driven comparables valuation	1.44
	1.14

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

Total firm value	359
(Net debt)/cash	17
Less: Capitalised operating leases	-44
Value of equity	332

**Valuation Ratios**

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.1	1.0	1.1	0.9	0.8
EV/EBITDA (x)	3.9	4.6	6.6	5.0	4.0
EV/EBIT (x)	4.7	5.7	9.8	6.8	5.1
PE (x)	6.2	8.9	14.1	9.9	7.4
Price/NTA (x)	1.6	1.4	1.3	1.2	1.0
Free cash flow yield (%)	8.5	-4.9	10.4	7.4	9.4
Adj. free cash flow yield (%)	13.4	4.2	14.0	11.0	13.4
Net dividend yield (%)	0.0	1.7	1.7	1.7	3.3
Gross dividend yield (%)	0.0	2.3	2.3	2.3	4.6

**Capital Structure**

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	21.7	64.1	>100x	n/a	>100x
Interest cover EBITDA (x)	26.4	79.1	>100x	n/a	>100x
Net debt/ND+E (%)	-20.8	-11.7	-25.8	-33.3	-39.8
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

**Key Ratios**

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	20.7	16.1	8.6	11.1	13.7
Return on equity (%)	24.5	14.8	8.7	11.2	13.4
Return on funds employed (%)	16.6	11.2	6.8	9.0	11.0
EBITDA margin (%)	29.0	22.8	16.6	18.7	20.7
EBIT margin (%)	23.9	18.4	11.1	13.8	16.3
Capex to sales (%)	5.9	10.3	4.4	3.8	3.8
Capex to depreciation (%)	143	286	100	98	110
Imputation (%)	0	100	100	100	100
Pay-out ratio (%)	0	15	24	16	25

**Segment Revenue (NZ\$m)**

	2022A	2023A	2024E	2025E	2026E
Telecommunications	86.0	101.6	94.5	112.4	129.3
Positioning	28.1	33.8	28.1	26.1	28.3
Space and Defence	24.5	28.9	31.2	37.8	44.6
IoT, Emerging and Other	33.4	17.0	17.3	17.7	18.0
Other revenues	2.5	0.4	0.0	0.0	0.0
<b>Total Revenue</b>	<b>174.5</b>	<b>181.7</b>	<b>171.1</b>	<b>194.0</b>	<b>220.2</b>

**Segment Gross Margin (%)**

	2022A	2023A	2024E	2025E	2026E
Telecommunications	43.6	42.3	42.5	43.0	43.1
Positioning	58.4	53.5	52.5	53.0	54.0
Space and Defence	69.4	68.0	68.0	66.5	64.5
IoT, Emerging and Other	57.3	47.7	16.0	16.0	16.0

**Segment Gross Margin (NZ\$m)**

	2022A	2023A	2024A	2025A	2026A
Telecommunications	37.5	42.9	40.1	48.3	55.7
Positioning	16.4	18.1	14.7	13.8	15.3
Space and Defence	17.0	19.7	21.2	25.1	28.7
IoT, Emerging and Other	19.2	8.1	2.8	2.8	2.9

**"Underlying EBITDA" (NZ\$m)**

	2022A	2023A	2024A	2025A	2026A
Underlying EBITDA estimates	54.4	42.2	31.0	39.0	48.7

## SEZ Aerospace Park in Bengaluru, India

Figure 1. The new Indian facility



Source: Company

Figure 2. The ribbon cutting



Source: Company

Shri M Sankaran, Director, URSC (U R Rao Satellite Centre, India's lead Centre for ISRO's satellite design and development) and Graham Rouse (NZ Trade Commissioner & Consul General – India & South Asia) were guests of honour for the inaugural function (pictured L-R, Lorraine Witten, Rakon Chair, Graham Rouse, Shri M Sankaran, and Sinan Altug, Rakon CEO). See Figure 3.

Figure 3. The opening ceremony



Source: Company

Figure 4. The plant tour with officials



Source: Company

Figure 5. Inside the facilities



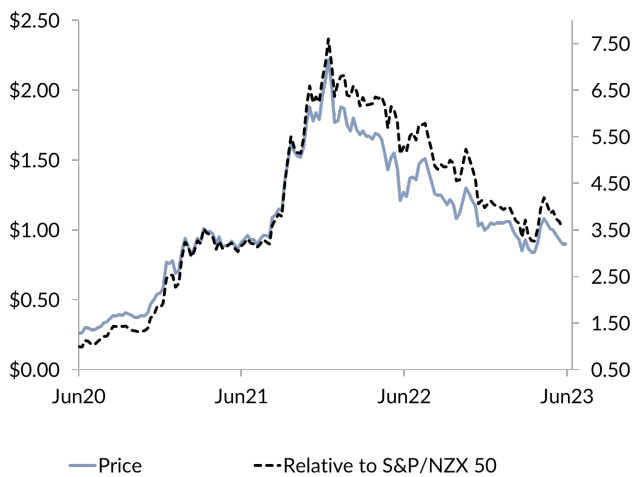
Source: Company

Figure 6. Inside the facilities



Source: Company

**Figure 7. Price performance**



Source: Forsyth Barr analysis

**Figure 8. Substantial shareholders**

Shareholder	Latest Holding
Siward Crystal Technology	12.2%
Ahuareka Trust	10.9%
Wairahi Investments and Wairahi Holdings Limited	5.1%

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

**Figure 9. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E
				2024E	2025E	2024E	2025E	2024E	2025E	
(metrics re-weighted to reflect RAK's balance date - March)										
<b>Rakon</b>	<b>RAK NZ</b>	<b>NZ\$0.90</b>	<b>NZ\$206</b>	<b>14.1x</b>	<b>9.9x</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>1.7%</b>
Txc Corp	3042 TT	TWD93.10	TWD28,838	15.3x	12.9x	7.0x	6.2x	14.3x	11.3x	n/a
Sitime Corp	SITM US	US\$116.00	US\$2,546	>75x	>50x	<0x	>75x	<0x	>75x	n/a
Microchip Technology Inc	MCHP US	US\$85.71	US\$46,745	13.6x	13.4x	11.9x	12.1x	12.8x	12.8x	2.2%
Siward Crystal Technology Co	2484 TT	TWD36.00	TWD5,739	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Daishinku Corp	6962 T	¥645.00	¥23,347	12.0x	9.1x	5.0x	4.2x	14.4x	10.8x	3.7%
Nihon Dempa Kogyo Co	6779 T	¥1313.00	¥30,368	6.7x	5.4x	4.9x	4.2x	7.5x	6.2x	2.0%
Seiko Epson Corp	6724 JP	¥2207.00	¥849,744	11.3x	10.8x	5.1x	5.0x	8.8x	8.5x	3.4%
<b>Compco Average:</b>				<b>11.8x</b>	<b>10.3x</b>	<b>6.8x</b>	<b>6.3x</b>	<b>11.6x</b>	<b>9.9x</b>	<b>2.8%</b>
<b>EV = Mkt cap+net debt+lease liabilities+min interests-investments</b>				<b>RAK Relative:</b>		<b>20%</b>	<b>-4%</b>	<b>n/a</b>	<b>n/a</b>	<b>-41%</b>

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

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