



XTEK (XTE)

Q1 FY21 – Profits look set to grow

Our View

Retain Outperform. XTE has built a variety of business lines in the defence area including body armour (XTclave) and SUAS (small unmanned aerial systems – drones) both of which are now being monetised. A recent contract win in Europe combined with the purchase of HighCom in the US shows that XTE has the distribution network to win contracts globally. One or two major contract wins within the body armour space could be the catalyst for a company re-rating.

The current valuation is reasonable, the business is now profitable and large new markets are being opened in part due to past investment in body armour. Underlying demand for XTE's products continues to be solid, driven by defence spending, which has proven resilient to economic cycles and in the current COVID-19 environment.

In order to continue to grow the business XTE is required to win defence contracts, which no doubt played a part in the recent appointment of Christopher Pyne, former Australian Defence Minister, to the board of directors.

Key Points

Encouragingly, XTE continues to release positive news:

Recent contract win(s), capital raising and trading update

- Appointment of strategic advisor to the board, Brigadier Mark Smethurst DSC, AM (Ret'd)
- Completed first international order from the Finnish army for \$2m of XTclave plates via distributor/ballistic manufacturer CPE Production OY.
- Raised fresh equity of \$9.2m with an SPP of up to \$2m. This provides timely capital for XTE to fund growth initiatives.
- Received first commercial order for XTclave plates from Australian law enforcement via Australian distributor TOTE Australia.
- Expectation for recurring US ballistic sales of AU\$14m p.a. based on HighCom network.
- Expected near term opportunities of AU\$70m across ballistic, SUAS and other solutions.
- Installed XTclave body armour plant in Adelaide in February 2020.
- Small unmanned aerial systems business continues to perform well underpinned by spare parts and maintenance work. XTE recently received a fresh \$2.8m in contract value for further new units.

Balance sheet and valuation

- XTE's balance sheet had \$3.6m in cash as at 31 July 2020 before the August 2020 capital raising, after gearing up the Adelaide plant and some working capital spending.
- We have a DCF derived valuation of 92 cents per share.

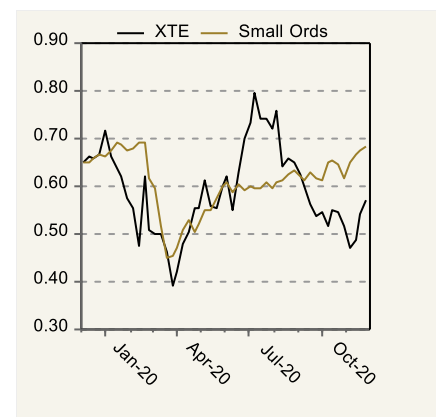
3 December 2020

Recommendation: Outperform

Summary (AUD)

Market Capitalisation	\$43.9m
Share price	\$0.62
52 week low	\$0.39
52 week high	\$0.91

Share price graph (AUD)



Key Financials (AUD)

June	FY20A	FY21E	FY22E
Revenue (\$m)	37.9	42.7	42.7
EBITDA (\$m)	0.5	1.2	3.0
NPAT Adj.	0.2	0.3	1.9
EPS Adj. (c)	0.4	0.6	3.0
Growth (pcp)		46.4%	high
PE Ratio (x)	148.1	101.2	20.9
DPS (c)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
Franking	0.0%	0.0%	0.0%
EV (\$M)	22.9	29.9	28.0
EV/EBITDA (x)	n.m	n.m	9.5
EV/EBIT (x)	n.m	n.m	15.4

Xtek Overview

XTE primary activities include:

1. The supply of products and services to Defence and Law Enforcement agencies throughout Australasia.
2. The supply and servicing of small unmanned aerial systems (SUAS) to the Army.
3. The continued development and commercialisation of XTclave isostatic composite consolidation technology – i.e. body armour.
4. The development of XTatlas contextual video and mosaic mapping technology to be used in SUAS to improve the image quality and situation awareness of SUAS.
5. Securing a range of new and enhanced products to assist governments in countering terrorism, border monitoring and security threats.

XTE has three paths to market as a distributor of military and security equipment, products and services; as a value-added reseller; and also offers its proprietary products/services within the body armour segment.

For a full and detailed run through of XTE, please refer to our initiation report released in August 2020, which is available on request.

Xtek – Risks

Risks include (but are not limited to) – Loss of distribution; dependency on a few major clients; subscale R&D; capital nature of sales; extremely long sales lead times; manufacturing, supply chain, acquisition and integration risk; international supply operations, licenses and authorisation; government contract reliance; product liability; competition; IP challenges; and the risk that margins for defence products can be capped.

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