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## XTEK Limited (XTE)

Armoured and ready

**Recommendation**

**Buy** (unchanged)

**Price**

**\$0.335**

**Target (12 months)**

**\$0.70** (previously \$0.80)

**GICS Sector**

**Capital Goods**

**Expected Return**

Capital growth	<b>109%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>109%</b>

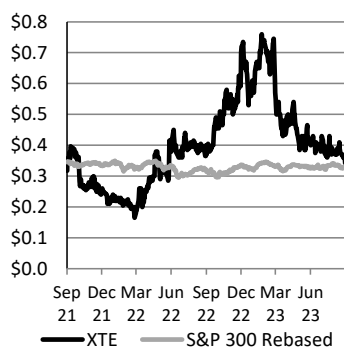
**Company Data & Ratios**

Enterprise value	<b>\$23.5m</b>
Market cap	<b>\$34.1m</b>
Issued capital	<b>101.8m</b>
Free float	<b>94%</b>
Avg. daily val. (52wk)	<b>\$184k</b>
12 month price range	<b>\$0.34 - \$0.77</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.38	0.41	0.39
Absolute (%)	-10.67	-18.29	-12.99
Rel market (%)	-9.32	-20.41	-15.36

**Absolute Price**



SOURCE: IRESS

**FY23 result ahead of guidance and BP estimates**

XTEK Limited (XTE) reported an FY23 result ahead of both guidance and BP estimates. The company recorded revenue of \$89.4m, which was an increase of 54% YoY and ahead of BPe (\$87.6m). The underlying EBITDA (adjusted for a one off \$0.8m impairment) was \$11.7m, equating to an underlying margin of 13% versus 19.7% in FY22. The reduction in margin is disappointing but expected due to higher revenue contribution from the lower margin Technology division, as well as increased opex. As expected, operating cash flow was weak (-\$23.4m) and there was a material reduction in the cash balance (\$6.9m), however this was a result of prepaid revenues recognised in the cash balance being unwound, rather than any significant cash burn.

**Changes to forecasts**

We have made minor upgrades to revenue based on management comments of continued revenue growth through FY24, and now forecast FY24 revenue of \$93.9m (+5% YoY). Further, we have revised our forecast EBITDA margins downwards in-line with today's result. We now forecast EBITDA margins of 14.4%, 14.8% and 15.2% in FY24, FY25 and FY25, respectively. We have also made some minor changes to inventory and other working capital.

**Investment View: 12.5% decrease in PT, retain BUY**

XTEK continues to perform strongly, maintaining strong revenue growth whilst remaining extremely cheap, trading on FY24e 3.9x PE and 2.0x EV/EBITDA. However, in our view, a lack of visibility over future revenue (which is common in this industry) is weighing on the share price. Positively, the company referenced multiple large ballistic orders as potential opportunities for FY24 and expects to provide a market update on a major new multi-year SUAS Support Contract shortly.

We have updated each valuation used in the determination of our price target for the forecast changes as well as market movements and time creep. The net result is a 12.5% decrease in our PT to \$0.70 and we retain our BUY recommendation.

**Earnings Forecast**

Year End 30 Jun	FY23	FY24e	FY25e	FY26e
Revenue (\$m)	89.4	93.9	95.9	98.4
EBITDA (\$m)	11.7	13.5	14.2	15.0
NPAT (underlying) (\$m)	6.9	8.7	8.8	9.3
NPAT (reported) (\$m)	6.1	8.7	8.8	9.3
EPS (cps)	6.0	8.6	8.7	9.1
EPS growth (%)	0.0	42%	2%	5%
PE (x)	5.5	3.9	3.8	3.7
FCF Yield (%)	nm	nm	nm	22%
EV/EBITDA (x)	2.3	2.0	1.9	1.8
Dividend (eps)	0.0	0.0	2.2	2.2
Yield (%)	0%	0%	6%	7%
Franking (%)	0%	0%	0%	0%
ROE(%)	16%	17%	15%	14%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# FY23 Result

## FY23 Result

XTEK Limited (XTE) reported an FY23 result ahead of both guidance and BP estimates.

A summary of the FY23 result is shown below.

Figure 1 - FY23 Result						
Year end 30 June	Result vs PCP			Result vs Forecast		Comment
	FY22	FY23	Change	FY23e	Variance	
Revenue (A\$m)	58.2	89.4	54%	87.6	2%	Guidance \$86.0m - \$88.0m
Cost of Goods Sold	-30.7	-55.7	-81%	(55.1)	1%	
Gross profit	27.4	33.7	23%	32.5	4%	
Total expenses	-16.4	-22.1	-34%	(22.0)	nm	
Underlying EBITDA	11.5	11.7	2%	10.5	11%	Guidance \$9.0m - \$10.5m
Depreciation and amortisation	-1.6	-1.9	-16%	(1.1)	77%	
Underlying EBIT	9.8	9.8	0%	9.4	4%	Underlying margin of 13% versus 19.7% in FY22
Net interest (expense)/revenue	-0.2	0.0	nm	(0.2)	nm	
Pre-tax profit	9.7	9.7	nm	9.2	5%	
Income tax benefit /(expense)	-1.4	-2.8	-97%	(2.3)	22%	Greater tax expense than anticipated
Underlying NPAT	8.2	6.9	-16%	6.9	nm	
Abs & extras	-2.5	-0.8	nm	-	nm	One-off impairment
Reported NPAT	5.7	6.1	7%	6.9	nm	
Gross margin	47.2%	37.7%	-946bps	37.1%	2%	
EBITDA margin	19.7%	13.1%	-664bps	12.0%	9%	
NPAT margin	14.1%	7.7%	-640bps	7.9%	-2%	
Diluted EPS	6.3c	6.0c	4%	7.6c	-20%	
Dividend	0.0c	0.0c	NM	0.0c	nm	No dividend anticipated until FY25

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key take-outs are:

- **Revenue:** The company recorded revenue of \$89.4m, which was an increase of 54% YoY and ahead of BPe (\$87.6m). The revenue guidance was between \$86.0m and \$88.0m.
- **EBITDA:** The underlying EBITDA (adjusted for a one off \$0.8m impairment) was \$11.7m, equating to an underlying margin of 13% versus 19.7% in FY22. The reduction in margin is disappointing but expected due to higher revenue contribution from the lower margin Technology division, as well as increased opex.
- **NPAT:** The underlying NPAT of \$6.9m was in-line with BPe and the reported NPAT (\$6.1m) increased 7% YoY.
- **Cash and cash flow:** As expected, operating cash flow was weak (-\$23.4m) and there was a material reduction in the cash balance (\$6.9m), however this was a result of prepaid revenues recognised in the cash balance being unwound, rather than any significant cash burn.
- **Dividend:** There was no dividend declared and we do not anticipate a dividend until FY25. Management have stated their priority is to reinvest into capex to drive revenue growth and profitability.

# Forecast and Valuation Changes

## Changes to forecasts

We have made minor upgrades to revenue based on management comments of continued revenue growth through FY24, we now forecast FY24 revenue of \$93.9m (+5% YoY). Further, we have revised our forecast EBITDA margins downwards in-line with today's result. We now forecast EBITDA margins of 14.4%, 14.8% and 15.2% in FY24, FY25 and FY25, respectively. We have also made some minor changes to inventory and other working capital.

A summary of the changes in our key forecasts is shown below.

Figure 2 - Change in key forecasts						
Year end 30 June	FY24e	Change	FY25e	Change	FY26e	Change
Total revenue (A\$m)	93.9	5%	95.9	1%	98.4	1%
EBITDA	13.5	3%	14.2	-10%	15.0	-17%
NPAT	8.7	-2%	8.8	-14%	9.3	-21%
<b>Diluted EPS (cps)</b>	<b>8.6c</b>	<b>-11%</b>	<b>8.7c</b>	<b>-22%</b>	<b>9.1c</b>	<b>-29%</b>
DPS	0.0c	no change	2.2c	-32%	2.2c	-3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Outlook

XTEK continues to perform strongly, maintaining strong revenue growth and profitability YoY. However, in our view, a lack of visibility over future revenue (which is common in this industry) is weighing on the share price.

Positively, the company referenced multiple large ballistic orders, ranging from \$3m to \$20m, as potential opportunities for FY24 and beyond, and expects to provide a market update on a major new multi-year SUAS Support Contract shortly.

## 12.5% decrease in PT to \$0.70

We have updated each valuation used in the determination of our price target for the forecast changes as well as market movements and time creep. There are no changes to our DCF assumptions or the multiples we utilise in our EV/EBITDA and PE valuations.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 3 - Change in valuations and impact on PT						
Methodology	Old (as at 29-Jun-23)			New (as at 31-Aug-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
DCF	\$ 1.11	40%	\$ 0.37	\$ 0.94	33%	\$ 0.31
EV/ EBITDA	\$ 0.63	40%	\$ 0.21	\$ 0.66	33%	\$ 0.22
PE ratio	\$ 0.66	20%	\$ 0.22	\$ 0.52	33%	\$ 0.17
<b>Total</b>			<b>\$ 0.80</b>			<b>\$ 0.70</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

The net result is a 12.5% decrease in our Price Target to \$0.70 and we retain our Buy recommendation.

# XTEK Limited (XTE)

## Company Description

XTEK Limited (XTE) is an Australian defence manufacturer of advanced ballistics protection equipment and supplier of cutting edge military technologies. XTE's ballistics division manufactures helmets, hard armour plates, soft armour and shields under the HighCom brand at its two facilities in Adelaide, South Australia and Ohio, USA. The technology division acts as a re-seller for Australian and international OEM's as well as a supplier of XTE proprietary technologies. The company's customers primarily include military, law enforcement, government agencies and commercial parties.

## Investment Thesis

We maintain our BUY on XTEK Limited. Our investment thesis is based on.

- **Undemanding Valuation:** Our 12 month price target on XTE is \$0.70, which is a blend of three valuation methodologies; PE ratio, EV/EBITDA and DCF. The price target is >15% premium to the current share price and the total expected return is the same given there is no forecast dividend yield.
- **Unique product offering:** The company's key competitive advantage is the superior quality of its lightweight, high-performance ballistics protection equipment produced using its proprietary 'XTclave' manufacturing technology. The company's most advanced helmets and hard armour plates satisfy the highest levels of the NIJ quality standards and we anticipate a gradual revenue uplift from the higher price point on these products as sales improve through FY24 and FY25.
- **Strong revenue growth and higher margin sales:** During FY22, the company transitioned to a direct and channel sales based model to include a greater mix of sustainable higher margin sales. Coinciding with consistent contracts wins, XTE recorded FY23 revenue of \$89.4m, increasing 54% YoY (FY22 \$58.2m).

## Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Product Risk:** The inherent value of the XTE business is its claim to the lightest and strongest ballistics products in the market. If it is found that competitors are able to readily manufacture products of similar or superior quality, the company's product offering will suffer, which will have an adverse impact on sales growth.
- **Research & Development Risk:** A key competitive advantage for XTE is its proprietary XTclave technology. If the company is unable to maintain market leadership in advanced technologies or lags the rest of the market in its product development, it may have an adverse effect on the company's future operations.
- **Competition Risk:** The market in which XTE participates is competitive with a wide range of participants including large multi-national defence contractors who have extensive resources and scale.



**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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