



Weebit Nano Ltd (ASX:WBT)

43% share price fall post share consolidation

Event
WBT's share price has fallen by ~43% to current price levels of 36cps from pre-25:1 share consolidation price levels of 63cps on 13 February 2019.



State One comment

Share consolidation (also known as a reverse stock split), can be perceived negatively by the market; the argument is that it can be a signal that a company has run out of company-specific share price catalysts and that management is attempting to artificially inflate the price without any new business proposition. With WBT consistently hitting project milestones, and with significant project developments targeted to come in 2019 – reduction in the transistor size to 28nm, lab fabrication of units onto industry standard 300mm wafers, and potential partner/JV agreements - we suggest that this argument does not hold. Indeed, we support management's reasons for carrying out the corporate action, i.e., to reduce the number of quoted shares on issue from an unwieldy 1.59 billion (quoted) to 63.7 million, and to make the share price more attractive to institutional investors. While the market may be discounting a potential share-overhang caused by the upcoming (31 March 2019) release from voluntary escrow of 10m shares largely belonging to two of the group's biggest seed investors, we suggest that in the absence of negative underlying business news, the sell-off is overdone.

Risk-weighted NPV-derived target price: A\$1.42ps

Underpinned by an assumed 20-year royalty stream (commencing in FY21E), we calculate WBT's unrisks equity value at A\$154m (equivalent to A\$2.12 per fully diluted share (post 25:1 share consolidation)). Attaching a 33% risk discount – primarily because of technology risk associated with developing the ReRAM product to a commercial stage, and poor visibility on the timing and metrics of any commercial agreement – we calculate WBT's risks equity value at A\$103m (A\$1.42 per fully diluted share). We note that 4DS Memory Limited (ASX:4DS) – a peer in the new technology semiconductor developer space - has a (fully diluted) market capitalisation of A\$85m. 4DS's share price jumped up 40% on the back of a 31 January 2019 announcement that it had lab fabricated functional 300mm wafers. We believe that a similar announcement by WBT - expected in 2019 – could have a similarly dramatic impact on its share price. **We maintain a Speculative Buy (Higher Risk) recommendation.**

Risks to our forecast earnings profile and target price include, but are not limited to: global growth rates in semiconductor chips, demand for new technology memory and ReRAM memory in particular, technology risk associated with ReRAM development, key personnel risk, successfully entering into a technology licencing agreement, timing and royalty rates associated with this agreement, working capital requirement prior to first royalty payments which could require external (debt/equity) funding.

20 March 2019

Share Price: A\$0.36

Target Price: A\$1.42

Target Upside: 300%

Recommendation

Speculative Buy

Risk Assessment

Higher

IT – Semiconductors (SC) and SC equipment

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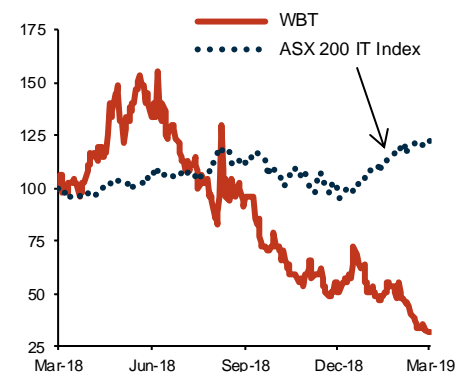
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Weebit Nano Limited

ASX Code	WBT
52-week range (A\$)	A\$0.36-A\$2.00
Market Cap diluted (ASm)	27
Shares diluted (m)	73
Av Daily Turnover (shares)	5.4 million
ASX All Ordinaries	6,165
FY19E BV per share (A\$)	4.6
FY19E EPS (A\$)	-9.2
FY19E Net (Debt)/Cash (A\$m)	1.2

Relative Price Performance



Weebit Nano Ltd (WBT)

Year ending June

Profit & Loss Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Royalty (incl. FY20E licence)	0.0	0.0	5.0	2.7	6.0
Licensing fee to Rice University	0.0	0.0	(0.1)	(0.0)	(0.1)
Corporate, G&A	(3.4)	(3.5)	(3.7)	(3.9)	(4.1)
R&D	(1.1)	(3.0)	(2.0)	(1.0)	(1.1)
EBITDA	(4.4)	(6.5)	(0.8)	(2.2)	0.8
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Operating profit	(4.4)	(6.5)	(0.8)	(2.2)	0.8
NOI	0.0	0.0	0.0	0.0	0.0
EBIT	(4.4)	(6.5)	(0.8)	(2.2)	0.8
Interest income	0.1	0.1	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	(0.1)	(0.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(4.3)	(6.4)	(0.7)	(2.3)	0.7
Normalised NPAT	(4.3)	(6.4)	(0.7)	(2.3)	0.7
EBITDA margin (%)	na	na	na	-84%	13%
Operating profit margin (%)	na	na	na	-84%	13%
EPS Reported (A\$c)	(7.2)	(9.2)	(1.0)	(3.1)	1.0
EPS Normalised (A\$c)	(7.2)	(9.2)	(1.0)	(3.1)	1.0
Dividend payout (%)	na	na	na	na	0%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
Dil Av no. of shares (m)	59	70	73	73	73
Dil YE no. of shares (m)	64	73	73	73	73

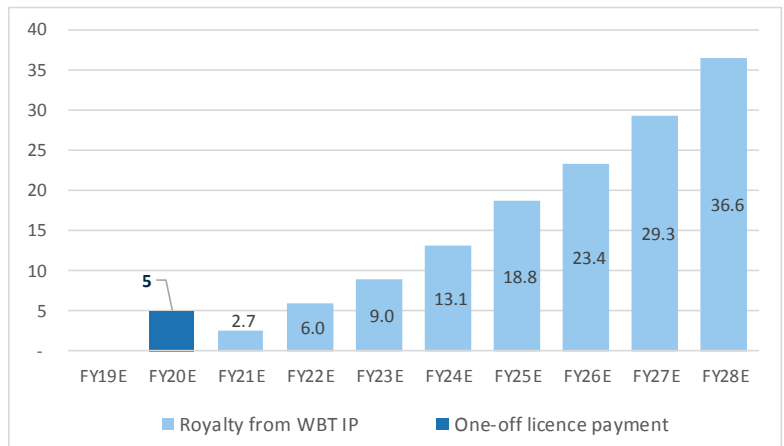
Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(4.4)	(6.5)	(0.8)	(2.2)	0.8
Investment in working capital	(0.4)	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(4.9)	(6.5)	(0.8)	(2.2)	0.8
Capex	(0.1)	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.1)	0.0	0.0	0.0	0.0
Net interest received / (paid)	0.1	0.1	0.0	(0.0)	(0.1)
Debt draw down / (repayment)	0.0	0.0	0.0	2.5	0.0
Dividends declared	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	6.4	4.2	0.0	0.0	0.0
Financing Cash Flow	6.6	4.3	0.0	2.5	(0.1)
Non-operating & Other	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	1.7	(2.2)	(0.7)	0.2	0.7

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Deposits	3.4	1.2	0.5	0.7	1.4
Receivables	0.6	0.6	0.6	0.6	0.6
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
Total Assets	4.0	1.8	1.1	1.3	2.0
Payables and other current Liabilities	0.5	0.5	0.5	0.5	0.5
Short Term Debt	0.0	0.0	0.0	2.5	2.5
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.5	0.5	0.5	3.0	3.0
Total Equity	3.5	1.3	0.6	(1.7)	(1.0)
Net Cash / (Debt)	3.4	1.2	0.5	(1.8)	(1.1)

Major Shareholders	%	Date
IBI Trust Management	31.9	
102 Cap Mngt	3.1	Sep-18
Silver Horizon	2.0	

Source: Company, IRESS, State One Stockbroking forecasts

Royalty calculation	FY18A	FY19E	FY20E	FY21E	FY22E
Emerging NVM market (US\$m)	-	900	1,500	2,500	4,000
YoY growth (%)	-	n/m	67%	67%	60%
WBT market share of RRAM market (%)	-	0.0%	0.0%	20.0%	25.0%
WBT market share (US\$m)	-	0	0	200	450
Effective royalty rate (%)	-	1.0%	1.0%	1.0%	1.0%
Royalty (US\$m)	-	0.0	0.0	2.0	4.5
AUD/USD exchange rate	-	0.75	0.75	0.75	0.75
Royalty (A\$m)	-	0.0	0.0	2.7	6.0

Forecast 10-year royalty profile (FY19E-FY28E) (A\$m)


Source: State One Stockbroking forecasts

Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Debt (A\$m)	0	0	0	3	3
Net Debt/Equity	cash	cash	cash	na	na
Interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	na	na	na	na	0.0
Price/OP Cash Flow	-5	-3	-30	-10	28
Book value per share (A\$)	0.06	0.02	0.01	-0.02	-0.01
EV/EBITDA	-4	-3	-29	-11	29
ROE (%)	-123%	-483%	-117%	137%	-73%

Valuation	(A\$m)	(A\$ per share)	Comment
Estimated NPV10 valuation	144	1.99	30-year IP royalty stream
Technology upside	8	0.11	Nominal 5% of royalty NPV
Enterprise value	152	2.10	
FY19E Net cash / (debt) (A\$m)	1	0.02	
Equity value (unrisked)	154	2.12	Equity valuation - unrisked
Risk discount	33%		Timing / operational / royalty
Equity value (risked) & TP	103	1.42	Equity valuation - risked

Note: Per share valuation based on 73 million shares (diluted)

Total Return	Recommendation
Current share price (A\$)	0.36
Forecast one-year capital gain / (loss)	300%
Forecast one-year dividend yield	0%
Speculative Buy	

Company Description

Weebit Nano Ltd (ASX:WBT) is an Israeli-based semiconductor company seeking to develop and commercialise the group's silicon oxide (SiOx) ReRAM (Resistive RAM) technology into the next generation of flash memory chips. ReRAM is non-volatile, fast, cost effective and can endure a significantly higher number of program erase cycles compared to incumbent flash memory technologies.

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