

Weebit Nano Ltd (ASX:WBT)

Share overhang out of the way

On 31 March 2019, 10m shares (~16% of quoted shares in issue) largely belonging to two of the group's biggest seed investors, came out of voluntary escrow; WBT's share price hit a low of 36c. Our understanding is that, over the past two months, the 10m tranche of escrowed shares has been successfully transferred to new shareholders. We believe the removal of a significant market overhang helped support a rise in the share price to a 78.5c high on 1 May 2019.

State One comment

Although WBT's share price has sold off from its early May levels, the removal of a significant share overhang into a recently consolidated (25:1) capital structure, are long-term positive developments.

With share ownership issues resolved, WBT management is now fully re-focused on the core business objectives of, 1) improving the technical parameters of its SiOx ReRAM semiconductors and, 2) commercialising the technology.

Recent tests on the latest batch of wafers conducted by French technology development partner Leti, showed (memory) retention of over 10 years at 120-150°C and endurance of a million cycles (on-off power). These results represent significant improvements over previous test results – which themselves demonstrated market level standards of retention and endurance - and indicate that WBT's product offering is now at the forefront of ReRAM technologies. The very high temperature results broaden the range of potential commercial applications for WBT's ReRAM technology, most notably for automotive applications; the endurance figures significantly exceed current state-of-the-art flash performance.

Running in parallel with product parameter optimisation, is work on commercialising the technology i.e., production. In mid-May 2019, WBT announced that it had appointed leading semiconductor company Kitec Design Co. Ltd. (Kitec) as its representative in South Korea, to progress ongoing discussions with potential customers and partners in this key market. South Korea is the world's largest memory chip manufacturer, producing 57% of global supply, and its semiconductor industry is the second largest in the world. Kitec Design is well connected with all the major players in the country.



Kitec Design, founded in 2000, specialises in promoting Electronic Design Automation (EDA) and IP companies into the South Korean market

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

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). 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\$82m. 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 4Q 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 receipt of first license fees (State One forecast: A\$5m in FY20E) - lower than forecast licence fees and/or later than expected receipt could require additional external (debt/equity) funding.

31 May 2019

Share Price: A\$0.50

Target Price: A\$1.42

Target Upside: 184%

Recommendation

Speculative Buy

Risk Assessment

Higher

IT – Semiconductors (SC) and SC equipment

David Brennan, CFA

Senior Investment Analyst

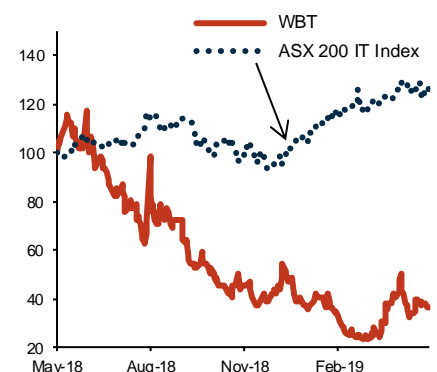
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Weebit Nano Limited

ASX Code	WBT
52-week range (A\$)	A\$0.36-A\$2.00
Market Cap diluted (ASm)	36
Shares diluted (m)	73
Av Daily Turnover (shares)	4.7 million
ASX All Ordinaries	6,388
FY19E BV per share (A\$)	1.8
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

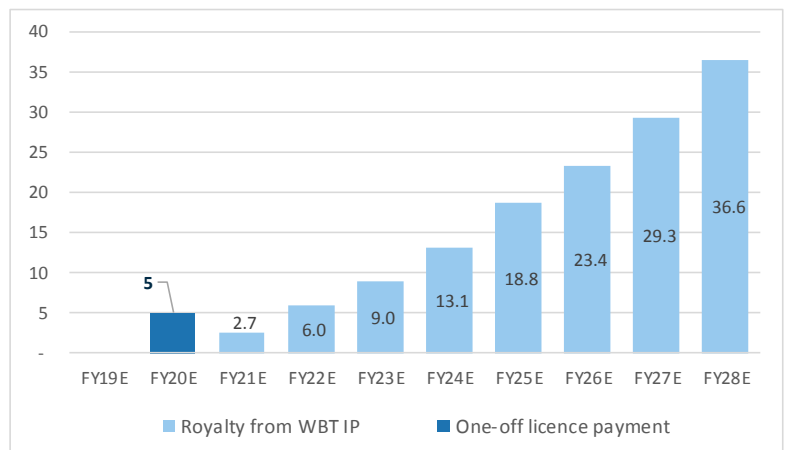
Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(4.4)	(6.5)	(0.8)	(2.2)	0.8
Investment in working capital	(0.4)	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(4.9)	(6.5)	(0.8)	(2.2)	0.8
Capex	(0.1)	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash 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	-7	-5	-42	-14	39
Book value per share (A\$)	0.06	0.02	0.01	-0.02	-0.01
EV/EBITDA	-6	-5	-42	-15	41
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\$)	0.50
Fcast one-year capital gain / (loss)	184%
Fcast 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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