

Mobilicom Ltd (ASX:MOB)

New contracts roll in, including a “game changer”

Events

Over the past few months, MOB has made several announcements of new contracts/business developments; this indicates to us that the Israeli-based company is starting to gain global traction in the mobile private networks space – and particularly in the rapidly growing drone market.

- Global aerospace **Airbus** has integrated MOB's SkyHopper Pro into its commercial drone platform. While the initial purchase order is not material, the sale to a top-tier aerospace company is a strong endorsement of the product's capability.
- Sales momentum growing with sales of SkyHopper and/or MCU products to companies such as ExxonMobil, General Electric (GE), Nexter Robotics (part of Nexter, a leading French land defense company), DLR (Germany's national centre for aerospace, energy, and transportation research), and an (unnamed) US ground robotics company.
- The Israeli Ministry of Defence and the Israel Innovation Authority have approved a two-year A\$1.8m R&D program for MOB to investigate the development of **cyber security** using AI for drones and robotics platforms.
- Breakthrough commercial drone security upgrade solution & increased Israeli MOD orders.
- **MOB enters a key strategic partnership with leading drone manufacturer Yuneec.**

State One comment: Yuneec could be a “game-changer”

While the announcements undoubtedly signal that MOB is gaining traction as a premium provider of communication solutions for autonomous elements (including drones and robots), we suggest that the strategic partnership with Yuneec is particularly exciting. Yuneec – part-owned by Intel – sells more than one million drones per annum, is the world's second biggest manufacturer of drones in the consumer and commercial markets (albeit a distant second behind Chinese-based DJI) and has manufacturing operations across five sites worldwide. Under the strategic partnership, Yuneec will release two drone platforms (in mid-2019, and end-2019/start-2020) for the commercial and government markets incorporating the SkyHopper Pro communication product with security and encryption functionality, plus optional add-ons. Note the drones will have SkyHopper in the name, in much the same way that the ‘Intel Inside’ branding is used by computer manufacturers. MOB expects sales of the platforms to commence during 2019. We believe that the new commercial/government product offerings will be significantly more advanced and have significantly more functionality than Yuneec's current consumer/commercial product range. As a result, we believe the products will command average prices of US\$15,000-US\$20,000 per unit (versus the current ARP of US\$3,000-US\$6,000 per unit). **With sales targeting to ramp to from thousands of units to ten thousand (and then tens of thousands), we suggest that revenues to MOB from the Yuneec partnership alone could conservatively run into +US\$10m per annum by 2020/2021.** While MOB's current manufacturing base in Israel has the capability to fulfil orders of several thousand MCUs, we understand that management is looking to establish relationships with component manufacturers (outside China) to meet the expected increase in demand as Yuneec's sales and marketing push gains traction over the next 12-24 months.

PE/DCF-derived target price: A\$0.65ps (unchanged)

The raft of new business developments announced in recent months – with, we suspect, more announcements to come – gives us increased confidence in our forecast of an aggressively growing revenue profile. We forecast group revenues increasing from A\$2.6m in the last reported financial year (FY18) to A\$24m in FY21E and A\$56m in FY22E. Our 75%:25% weighted PE multiple/DCF-derived target price of A\$0.65 per share (equivalent to a target m'cap of ~A\$150m) offers attractive upside potential relative to current share price levels. **We maintain a Speculative Buy (Higher Risk) recommendation.** Risks to our EPS profile and target price include but are not limited to: the sales profile of Mobilicom's communication units (MCU), particularly in the SkyHopper (drone) division which we estimate will account for some 60% of group revenues by FY21E, competition from existing competitors in the mobile mesh space and from new or alternative technology providers, IP risk, key personnel risk, government regulation (particularly relating to drone applications/use), and MOB's near-term cash flow before forecast maiden positive EBITDA in FY20E.

22 March 2019

Share Price: A\$0.08

Target Price: A\$0.65

Target Upside: 702%

Recommendation

Speculative Buy

Risk Assessment

Higher

IT – Technology Hardware & Equipment

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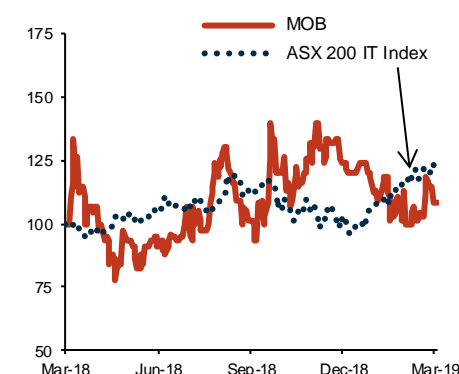
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Mobilicom Limited

| | |
|------------------------------|-----------------|
| ASX Code | MOB |
| 52-week range (A\$ps) | A\$0.06-A\$0.11 |
| Market Cap diluted (A\$m) | 19 |
| Shares diluted (m) | 234 |
| Av Daily Turnover (shares) | 185k |
| ASX All Ordinaries | 6,191 |
| FY19E BV per share (A\$c) | 0.8 |
| FY19E EPS (A\$c) | -1.2 |
| FY19E Net (Debt)/Cash (A\$m) | 2.3 |

Relative Price Performance



Mobilicom Limited (MOB)

Year ending December

| Profit & Loss Statement (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenue | 2.6 | 5.5 | 15.5 | 24.4 | 56.0 |
| Cost of sales | (1) | (1.4) | (3.9) | (6.1) | (14.0) |
| Selling, marketing, G&A | (2.8) | (3.5) | (5.0) | (6.0) | (13.4) |
| R&D | (2.7) | (3.5) | (5.0) | (6.0) | (7.0) |
| EBITDA | (3.6) | (2.9) | 1.6 | 6.3 | 21.6 |
| Depreciation & Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating profit | (3.6) | (2.9) | 1.6 | 6.3 | 21.6 |
| NOI | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 |
| EBIT | (3.2) | (2.8) | 1.6 | 6.3 | 21.6 |
| Interest income | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 |
| Interest expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax expense | 0.0 | 0.0 | 0.0 | (1.9) | (6.6) |
| Reported NPAT | (3.2) | (2.6) | 1.7 | 4.5 | 15.3 |
| Normalised NPAT | (3.4) | (2.7) | 1.7 | 4.5 | 15.3 |
| EBITDA margin (%) | na | na | na | 26% | 39% |
| Operating profit margin (%) | na | na | na | 26% | 39% |
| EPS Reported (A\$c) | (1.4) | (1.12) | 0.7 | 1.9 | 6.5 |
| EPS Normalised (A\$c) | (1.5) | (1.2) | 0.7 | 1.9 | 6.5 |
| Dividend payout (%) | na | na | 0% | 0% | 0% |
| DPS (A\$c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dil Av no. of shares (m) | 234 | 234 | 234 | 234 | 234 |
| Dil YE no. of shares (m) | 234 | 234 | 234 | 234 | 234 |

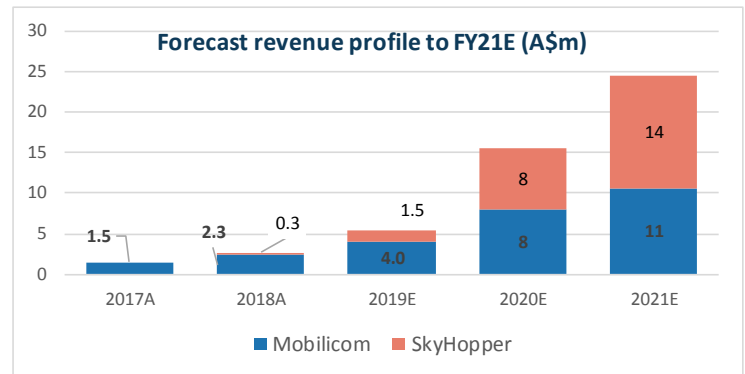
| Cash Flow Statement (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | (3.6) | (2.9) | 1.6 | 6.3 | 21.6 |
| Investment in working capital | (0.1) | 0.0 | 0.4 | 0.3 | 0.9 |
| Tax expense | 0.0 | 0.0 | 0.0 | (1.9) | (6.6) |
| Operating Cash Flow | (3.7) | (2.9) | 2.0 | 4.6 | 16.0 |
| Capex | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cash Flow | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest received / (paid) | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 |
| Debt draw down / (repayment) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends declared | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity raised / (repaid) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing Cash Flow | 0.2 | 0.1 | 0.1 | 0.1 | 0.3 |
| Non-operating & Other | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 |
| Inc/(Dec) in Cash | (3.1) | (2.6) | 2.1 | 4.8 | 16.2 |

| Balance Sheet (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash & Deposits | 5.0 | 2.3 | 4.4 | 9.2 | 25.5 |
| Receivables | 0.5 | 0.5 | 2.2 | 3.4 | 7.8 |
| Inventories | 0.4 | 0.4 | 1.6 | 2.4 | 5.6 |
| 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 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Assets | 5.9 | 3.3 | 8.2 | 15.1 | 38.9 |
| Payables and other current Liabilities | 1.0 | 1.0 | 4.2 | 6.6 | 15.1 |
| Short Term Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Non Current Liabilities | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Total Liabilities | 1.6 | 1.6 | 4.8 | 7.2 | 15.8 |
| Total Equity | 4.3 | 1.7 | 3.4 | 7.9 | 23.2 |
| Net Cash / (Debt) | 5.0 | 2.3 | 4.4 | 9.2 | 25.5 |

| Major shareholders (quoted shares) | % | Date |
|---|----------|-------------|
| IBI Trust Management | 21.2 | |
| HSBC Custody Nominees | 3.2 | Feb-19 |
| Lancing Liquid Relative Value Fund | 3.2 | |

Source: Company, IRESS, State One Stockbroking forecasts

| Revenue composition (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Mobilicom | 1.5 | 2.3 | 4.0 | 8.0 | 10.7 |
| SkyHopper | 0.0 | 0.3 | 1.5 | 7.5 | 13.8 |
| Total | 1.5 | 2.6 | 5.5 | 15.5 | 24.4 |
| YoY % change | - | 74% | 107% | 184% | 58% |



| Leverage | FY18A | FY19E | FY20E | FY21E | FY22E |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Debt/Equity | 115% | 140% | 132% | 117% | 110% |
| Net Debt/Total Assets | 84% | 71% | 54% | 61% | 65% |
| Net interest Cover (x) | na | na | na | na | na |

| Valuation Ratios (x) | FY18A | FY19E | FY20E | FY21E | FY22E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Normalised PER | -ve | -ve | 11 | 4.2 | 1.2 |
| Price/OP Cash Flow | na | na | 9 | 3.8 | 1.1 |
| EV (A\$m) | 13 | 15 | 13 | 8 | -8 |
| EV/EBITDA | -4 | -5 | 8 | 1.3 | -0.4 |
| ROE (%) | -74% | -156% | 50% | 57% | 66% |

DCF calculation

| Year | Free Cash Flow | Discount Factor | PV of FCF | Value of Equity |
|------------------------------------|----------------|-----------------|------------|---------------------------------|
| 2019 | -3 | 91% | -3 | Operating Value 418 |
| 2020 | 2 | 83% | 2 | Excess Mkt Securities 2.3 |
| 2021 | 5 | 75% | 4 | Financial Investments 0 |
| 2022 | 16 | 68% | 11 | Excess Pension Assets 0 |
| 2023 | 30 | 62% | 19 | Enterprise Value 421 |
| 2024 | 34 | 56% | 19 | Debt 0 |
| 2025 | 53 | 51% | 27 | Capitalized Operating Leases 0 |
| 2026 | 55 | 47% | 26 | Retirement Related Liability 0 |
| 2027 | 57 | 42% | 24 | Preferred Stock 0 |
| 2028 | 59 | 39% | 23 | Minority Interest 0 |
| 2029 | 62 | 35% | 22 | Long-Term Operating Provision 0 |
| 2030 | 64 | 32% | 20 | Restructuring Provision 0 |
| 2031 | 67 | 29% | 19 | Future Stock Options 0 |
| 2032 | 69 | 26% | 18 | Stock options 0 |
| 2033 | 72 | 24% | 17 | Equity Value 421 |
| Cont. Value | 750 | 24% | 179 | |
| Operating Value | | | 427 | No. shares (million) 234 |
| Continuing value % Operating value | | | 42% | Value per Share (A\$) 1.80 |
| Mid -Year Adjustment Factor | | | 98% | |
| Operating Value (Adjusted) | | | 418 | |

Weighted Target Price

| Valuation method | Target value (A\$) | Weighting (%) | Share price (A\$) | Capital gain (%) |
|------------------|--------------------|---------------|-------------------|------------------|
| DCF | 1.80 | 25% | Target 0.65 | Current 0.08 |
| EPS/PER | 0.27 | 75% | | 702% |

EPS/PER- valuation based on 2-year rolling EPS of 1c (rounded) and PER of 27x

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