

Mobilicom Ltd (ASX:MOB)

Heightened security concerns offer opportunity

Events

A recent [news article by the BBC](#) indicates that the US Department of the Interior is becoming increasingly concerned over potential security issues associated with the use of unmanned aerial vehicles (UAVs) that are either manufactured in China or made from Chinese components. Many of the drones used by the US agency are made by Shenzhen-based Da Jiang Innovations Science and Technology Company (DJI); DJI currently dominates the global civilian (i.e., non-military) drone market.

Growing awareness of the importance of data encryption and security for commercial and consumer UAVs could offer opportunities for MOB; MOB offers an end-to-end communication system (hardware/software) offering for UAVs, with components manufactured in Israel, and whose technology has been validated by the Israeli Ministry of Defence. In March 2019, MOB entered into a strategic partnership with Yuneec International, the world's second largest drone manufacturer, with the objective of developing two small unmanned aircraft systems (sUAS) to target the commercial and government markets by merging Yuneec's existing commercially proven hexacopter H520 with MOB's high-end cyber security and encryption, dedicated frequencies and interference avoidance technology. By the October 2019 quarter the initial prototype of the joint venture drone – the H520 SkyHopper – had been developed and tested, with the first systems delivered to customers for validation. MOB indicated in their most recent presentation (October 2019), that they expected that first sales of the JV drone would be made before the end of December 2019.

Yuneec H520 hexacopter (Source: Yuneec)



The H520 is developed for commercial use.

The six-rotor system allows for stable and precise flight, even in high wind environments. The UAV is targeting use in inspection, law enforcement, security, construction, surveying and mapping applications.

During the October 2019 quarter, orders for MOB's UAV communication systems were placed by seven new customers in the US, Japan, the Czech Republic, Canada and Switzerland and five existing customers in the US, France, South Korea and Israel. On 18 December 2019, MOB announced a new contract exceeding A\$2m with Elbit Systems – an Israeli-based international defence electronics company. While predicting the revenue ramp-up profile at MOB's SkyHopper (UAV) division is problematic, industry analysts predict that the number of UAVs used for commercial/government applications will grow significantly. At an estimated average received price (ARP) of US\$2,000 per communication system, sales of 500 units (for example) could generate revenue of US\$1m; sales of 5,000 and 50,000 units could generate potential revenue of US\$10m and US\$100m respectively.

PE/DCF-derived target price: A\$0.46ps

We forecast group revenues increasing from A\$2.6m in the last reported financial year (FY18) to A\$3.9m in FY19E, A\$9.3m in FY20E and A\$17.3m in FY21E, with growth largely underpinned by the SkyHopper division. At current share price levels, we believe MOB offers significant upside potential.

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 (MCUs), particularly in the SkyHopper (drone) division which we estimate will account for some 40% 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, and government regulation (particularly relating to drone applications/use).

23 January 2020

Share Price: A\$0.115

Target Price: A\$0.46

Target Upside: 304%
Recommendation
Speculative Buy
Risk Assessment
Higher

IT – Technology Hardware & Equipment

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Senior Investment Analyst

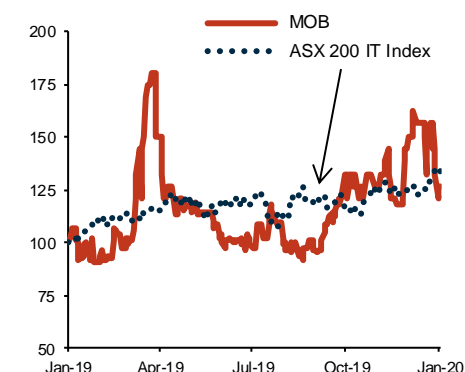
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Mobilicom Limited

ASX Code	MOB
52-week range (A\$ps)	A\$0.073-A\$0.16
Market Cap diluted (A\$m)	32
Shares diluted (m)	279
Av Daily Turnover (shares)	173k
ASX All Ordinaries	7,072
FY19E BV per share (A\$c)	1.4
FY19E EPS (A\$c)	-1.7
FY19E Net (Debt)/Cash (A\$m)	4.7

Relative Price Performance



Mobilicom Limited (MOB)

Year ending December

Profit & Loss Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	2.6	3.9	9.3	17.3	29.3
Cost of sales	(1)	(1.0)	(2.3)	(4.3)	(7.3)
Selling, marketing , G&A	(2.8)	(3.8)	(5.0)	(6.0)	(7.0)
R&D	(2.7)	(3.8)	(5.0)	(6.0)	(7.0)
EBITDA	(3.6)	(4.6)	(3.0)	1.0	8.0
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Operating profit	(3.6)	(4.6)	(3.0)	1.0	8.0
NOI	0.3	0.2	0.0	0.0	0.0
EBIT	(3.2)	(4.4)	(3.0)	1.0	8.0
Interest income	0.1	0.1	0.1	0.1	0.1
Interest expense	0.0	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	(0.3)	(2.4)
Reported NPAT	(3.2)	(4.3)	(2.9)	0.7	5.6
Normalised NPAT	(3.4)	(4.4)	(2.9)	0.7	5.6

EBITDA margin (%)	na	na	na	6%	27%
Operating profit margin (%)	na	na	na	6%	27%
EPS Reported (A\$c)	(1.4)	(1.64)	(1.0)	0.3	2.0
EPS Normalised (A\$c)	(1.5)	(1.7)	(1.0)	0.3	2.0
Dividend payout (%)	na	na	na	0%	0%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
Dil Av no. of shares (m)	234	259	279	279	279
Dil YE no. of shares (m)	234	279	279	279	279

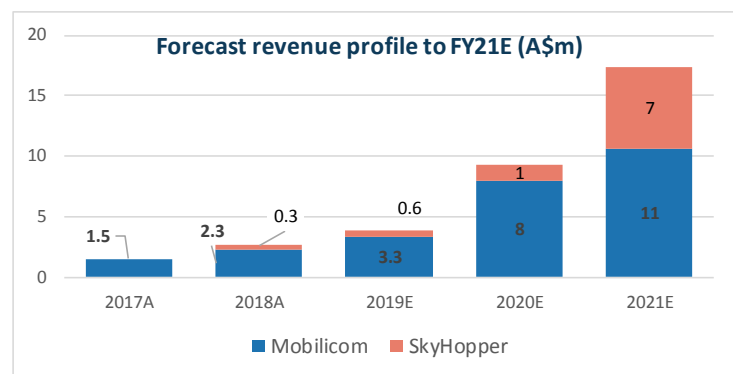
Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(3.6)	(4.6)	(3.0)	1.0	8.0
Investment in working capital	(0.1)	0.0	0.2	0.2	0.4
Tax expense	0.0	0.0	0.0	(0.3)	(2.4)
Operating Cash Flow	(3.7)	(4.6)	(2.8)	0.9	5.9
Capex	(0.0)	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.0)	0.0	0.0	0.0	0.0
Net interest received / (paid)	0.1	0.1	0.1	0.1	0.1
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	4.0	0.0	0.0	0.0
Financing Cash Flow	0.2	4.1	0.1	0.1	0.1
Non-operating & Other	0.4	0.2	0.0	0.0	0.0
Inc/(Dec) in Cash	(3.1)	(0.3)	(2.6)	1.0	6.0

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Deposits	5.0	4.7	2.1	3.1	9.1
Receivables	0.5	0.5	1.3	2.4	4.1
Inventories	0.4	0.4	0.9	1.7	2.9
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	5.7	4.3	7.3	16.1
Payables and other current Liabilities	1.0	1.0	2.5	4.7	7.9
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	3.2	5.3	8.6
Total Equity	4.3	4.0	1.2	1.9	7.6
Net Cash / (Debt)	5.0	4.7	2.1	3.1	9.1

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	2.3	3.3	8.0	10.7	16.0
SkyHopper	0.3	0.6	1.3	6.7	13.3
Total	2.6	3.9	9.3	17.3	29.3
YoY % change	-	49%	137%	86%	69%



Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Net Debt/Equity	115%	116%	175%	158%	120%
Net Debt/Total Assets	84%	83%	48%	42%	56%
Net interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised PER	-ve	-ve	-ve	43.1	5.7
Price/OP Cash Flow	na	na	-11	32.2	5.0
EV (A\$m)	25	25	28	27	21
EV/EBITDA	-7	-5	-9	26.6	2.6
ROE (%)	-74%	-105%	-241%	39%	75%

DCF calculation

Year	Free Cash Flow	Discount Factor	PV of FCF	Value of Equity
2019	-5	91%	-4	Operating Value 236
2020	-3	83%	-2	Excess Mkt Securities 4.7
2021	1	75%	1	Financial Investments 0
2022	6	68%	4	Excess Pension Assets 0
2023	16	62%	10	Enterprise Value 241
2024	27	56%	15	Debt 0
2025	40	51%	21	Capitalized Operating Leases 0
2026	41	47%	19	Retirement Related Liability 0
2027	41	42%	17	Preferred Stock 0
2028	41	39%	16	Minority Interest 0
2029	41	35%	15	Long-Term Operating Provision 0
2030	42	32%	13	Restructuring Provision 0
2031	42	29%	12	Future Stock Options 0
2032	42	26%	11	Stock options 0
2033	43	24%	10	Equity Value 241
Cont. Value	431	24%	103	
Operating Value			261	No. shares (million) 279
Continuing value % Operating value			40%	Value per Share (A\$) 0.86
Mid -Year Adjustment Factor			90%	
Operating Value (Adjusted)			236	

Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)	Capital gain (%)
DCF	0.86	50%	Target 0.46	Current 0.12
EPS/PER	0.07	50%		304%

EPS/PER- valuation based on 2-year rolling EPS and PER of 25x

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