

Trackwise Designs

Open offer oversubscribed

Placing and open offer

Tech hardware & equipment

9 December 2020

Price 235p
Market cap £67m

Net cash (£m) on 30 June 2020 (excluding IFRS 16 lease liabilities and £12.6m (gross) from placing and open offer) 1.6

Shares in issue (after placing and open offer) 28.4m

Free float (before placing and open offer) 59.3%

Code TWD

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(15.2)	138.9	248.8
Rel (local)	(23.7)	114.7	279.8
52-week high/low		361p	69p

Business description

Trackwise Designs is a UK manufacturer of specialist products using printed circuit technology. These include a lightweight replacement for conventional wiring harnesses known as IHT and RF antennae. In FY19, 64% of revenues related to exports.

Next event

FY20 results April 2021

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Trackwise has confirmed the results of its open offer, which was oversubscribed and, together with a placing, has raised £12.6m (gross). This will fund a new manufacturing facility that will quadruple IHT production capacity. The additional capacity is required to support the up to £38m electric vehicle (EV) contract announced in September and potential volume orders from electrosurgical catheter manufacturers and aerospace OEMs and suppliers. It will also support future production for nuclear fusion, pipe-leak detection and micromotor winding applications.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)
12/18	3.5	0.6	0.3	2.1	0.0	111.9
12/19	2.9	0.6	0.2	1.1	0.0	213.6
12/20e	7.1	0.7	(0.3)	0.35	0.0	671.1
12/21e	14.3	2.7	1.3	4.86	0.0	48.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Fundraising to support IHT expansion

The placing raised £11.0m and the open offer, which was originally intended to raise up to £1.0m, raised £1.6m, both at 200p/share. In total, £4.2m of the funds raised will be spent on plant and machinery for the new facility, £0.7m to fit out the new facility and the rest to satisfy working capital requirements. The new facility is scheduled to start production in Q421. Although we do not present detailed FY22 estimates, we provisionally estimate that expansion could support FY22 revenues of at least £24m. At present, we reduce our FY21 EPS estimate by 22% to reflect share dilution.

Second IHT facility needed to support EV contract

This additional IHT capacity is needed to support the three-year manufacturing agreement with a UK EV OEM, worth up to £38m. Deliveries under this contract are expected to reach full rate in Q421, stretching existing capacity. The new facility will also support medical customers. Trackwise has recently delivered samples to its lead electro-surgical catheter customer, a large US medical OEM. The samples are working as specified in trials, so management anticipates further orders in 2021 and is targeting early 2022 for production revenues. The additional capacity may also be useful for Trackwise's 30+ aerospace customers. For example, Trackwise is working with GKN Aerospace on the industrialisation of an ice protection system, which could potentially move to volume production in 2023.

Valuation: Addressing several high-potential sectors

While our peer multiples-based analysis shows Trackwise trading at a premium to its peers on all metrics, this approach fails to recognise the potential of the IHT business so we have augmented it with a scenario analysis, which is presented in our [September note](#). This explores how the three key segments in which Trackwise has developed prototype IHT products for customers (EVs, medical devices and aerospace) each have the potential to generate revenues of at least £100m at even relatively modest levels of market penetration.

Changes to estimates

Exhibit 1: Estimate revisions

£m	2020e			2021e		
	Old	New	Change	Old	New	Change
Revenues	7.1	7.1	N/A	14.3	14.3	N/A
EBITDA	0.7	0.7	N/A	2.7	2.7	N/A
Normalised PBT	(0.3)	(0.3)	N/A	1.3	1.3	N/A
Normalised basic EPS	0.36	0.35	(2.7%)	6.25	4.86	(22.2%)
Dividend per share	0.00	0.00	N/A	0.00	0.00	N/A
Net debt/(cash)	0.5	(11.6)	N/A	1.5	(1.0)	N/A

Source: Edison Investment Research

We leave our estimates broadly unchanged. The modifications are:

- Dilutive effect of the placing and open offer.
- Cash from the placing and open offer, where we assume the cost of the fundraising is £0.6m.
- An additional £9.6m capital expenditure on the new Gloucester facility in FY21, of which £4.2m is financed from the fund raising, the remainder from new finance leases.

Valuation

Peer multiples

Exhibit 2: Peer multiple analysis

Name	Market cap (\$m)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	CAGR*	EBITDA margin 1FY (%)	EBITDA margin 2FY (%)
AT & S	993.5	1.1	0.9	5.1	4.0	19.9	12.0	14.3%	20.7	22.9
CMK	252.5	0.5	0.5	10.7	5.5	(21.4)	17.9	-2.6%	5.0	8.7
Compeq Manufacturing	2,001.1	1.0	0.9	5.1	4.4	11.2	9.6	9.1%	19.1	20.0
Ibiden	6,648.1	2.3	2.0	9.7	6.9	33.8	24.7	10.3%	23.3	28.6
KCE Electronics	1,575.8	4.3	3.8	22.7	16.6	43.9	24.7	3.1%	19.1	22.6
Meiko Electronics	521.2	1.0	0.9	8.7	7.9	19.6	13.3	5.3%	11.0	11.0
Tripod Technology	2,245.9	1.0	0.9	5.3	4.7	11.0	10.1	3.1%	18.1	19.3
TTM Technologies	1,441.9	0.9	1.0	7.2	7.2	13.6	10.8	-10.6%	13.2	13.7
Unimicron Technology	4,375.3	1.6	1.5	10.2	7.6	28.5	20.4	7.4%	16.0	19.9
Zhen Ding Technology	4,130.6	1.0	0.9	5.3	4.2	13.1	10.6	9.0%	18.3	20.3
Mean		1.5	1.3	9.0	6.9	21.6	15.4		16.4	18.7
Trackwise Designs	89.1	9.5	4.8	96.5	24.7	671.1	48.3	121.5%	9.9	19.3

Source: Refinitiv, Edison Investment Research. Note: Prices at 7 December 2020. Grey shading indicates exclusion from mean.
*CAGR is compound average growth in revenue between year 0 and year 2.

Trackwise's share price has doubled since the announcement of the series production order for the EV manufacturer in September. At current levels, our peer multiples-based analysis shows Trackwise's shares trading at a premium to the sample means on all metrics. However, Trackwise is expected to grow revenues much more strongly than any of the sample over the next two years. Moreover, the IHT business has the potential to deliver growth that is faster than the average for our sample not just for the period covered by our estimates, but for several years beyond that, so the peers multiple-based approach fails to recognise the potential of the IHT activity longer term. We therefore supplement the peer multiples approach with a scenario analysis.



Scenario analysis

In our [September note](#), we presented a scenario analysis that looked at the potential revenues achievable if the company was successful in penetrating specific target markets. This approach showed the three key segments in which Trackwise has developed prototype IHT products for customers (EV, medical devices and aerospace) have the potential to generate revenues of at least £100m at relatively modest levels of market penetration. The contract with the EV manufacturer announced in September is the first demonstration of uptake of the technology at scale.

Exhibit 3: Financial summary

	£m	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		3.5	2.9	7.1	14.3
Cost of Sales		(2.4)	(1.8)	(4.4)	(8.9)
Gross Profit		1.1	1.1	2.7	5.4
EBITDA		0.6	0.6	0.7	2.7
Normalised operating profit		0.3	0.3	(0.2)	1.5
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		(0.0)	(0.1)	1.3	0.0
Share-based payments		(0.2)	(0.2)	(0.4)	(0.3)
Reported operating profit		0.1	(0.1)	0.7	1.2
Net Interest		(0.1)	(0.1)	(0.1)	(0.2)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0
Profit Before Tax (norm)		0.3	0.2	(0.3)	1.3
Profit Before Tax (reported)		0.1	(0.1)	0.6	1.0
Reported tax		0.0	0.1	0.4	0.3
Profit After Tax (norm)		0.3	0.2	0.1	1.4
Profit After Tax (reported)		0.1	(0.0)	1.0	1.3
Minority interests		0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0
Net income (normalised)		0.3	0.2	0.1	1.4
Net income (reported)		0.1	(0.0)	1.0	1.3
Basic average number of shares outstanding (m)		11.8	14.7	20.8	28.4
EPS - basic normalised (p)		2.14	1.13	0.35	4.86
EPS - diluted normalised (p)		2.05	1.06	0.34	4.71
EPS - basic reported (p)		0.63	(0.33)	4.69	4.70
Dividend (p)		0.00	0.00	0.00	0.00
Revenue growth (%)		22.9	(16.2)	145.0	100.2
Gross Margin (%)		30.3	37.9	38.4	37.7
EBITDA Margin (%)		17.8	19.7	9.9	19.3
Normalised Operating Margin		9.4	8.9	-3.3	10.8
BALANCE SHEET					
Fixed Assets		3.9	6.8	11.4	21.2
Intangible Assets		2.6	4.3	6.0	6.6
Tangible Assets		1.3	2.5	5.4	14.6
Investments & other		0.0	0.0	0.0	0.0
Current Assets		4.2	3.1	18.2	15.3
Stocks		0.4	0.6	2.4	3.5
Debtors		0.8	1.7	2.3	3.5
Cash & cash equivalents		2.8	0.6	13.2	8.0
Other		0.2	0.3	0.3	0.3
Current Liabilities		(1.0)	(1.4)	(2.2)	(2.3)
Creditors		(0.8)	(1.0)	(1.9)	(2.0)
Tax and social security		0.0	0.0	0.0	0.0
Short term borrowings		(0.2)	(0.3)	(0.3)	(0.3)
Other		0.0	0.0	0.0	0.0
Long Term Liabilities		(1.2)	(2.5)	(2.5)	(7.9)
Long term borrowings		(0.4)	(1.3)	(1.3)	(6.7)
Other long term liabilities		(0.8)	(1.3)	(1.3)	(1.3)
Net Assets		5.9	6.0	24.9	26.3
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		5.9	6.0	24.9	26.3
CASH FLOW					
Op Cash Flow before WC and tax		0.6	0.6	0.7	2.7
Working capital		(0.7)	0.1	(1.6)	(2.3)
Exceptional & other		(0.0)	0.0	(0.2)	0.0
Tax		0.0	0.0	0.4	0.3
Net operating cash flow		(0.1)	0.7	(0.7)	0.8
Capex		(1.3)	(2.7)	(2.7)	(5.6)
Acquisitions/disposals		0.0	0.0	(1.3)	(0.2)
Net interest		(0.1)	(0.1)	(0.1)	(0.2)
Equity financing		4.4	0.0	17.5	0.0
Dividends		0.0	0.0	0.0	0.0
Other		0.1	0.2	0.0	0.0
Net Cash Flow		3.2	(1.9)	12.6	(5.2)
Opening net debt/(cash)		0.9	(2.3)	1.0	(11.6)
FX		0.0	0.0	0.0	0.0
Other non-cash movements		0.0	(1.4)	0.0	(5.4)
Closing net debt/(cash)		(2.3)	1.0	(11.6)	(1.0)

Source: Company data. Edison Investment Research

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