

Bulgin approach infers “substantial” upside

Price and value are often confused. Indeed it sometimes takes an impromptu bid before investors twig the difference. Take Elektron Tech, who today said it had received “**an unsolicited offer for Bulgin at a substantial premium to the Group’s market capitalisation** (ie £84m)”. On this occasion nothing came of it, with the interested party ultimately withdrawing “*due to strategic reasons*”. However, we believe the approach from an unspecified “*overseas buyer*” nonetheless highlights the considerable upside available, and puts a solid floor under EKT’s shares.

Elsewhere and totally unconnected, **the Board separately announced this morning that it is seeking buyers for EET**. The disposal is likely to take 3-6 months to execute, which if successful would allow the group to focus entirely on its core Checkit and Bulgin interests.

“Strong momentum” continues into FY20

Impressively too, this M&A activity has had very little impact on Elektron’s trading. In fact, not only did the business deliver **a slightly better than expected out-turn for FY19** (revenues +13% LFL to £33.7m vs £29.8m LY), but also the **healthy closing order book and pipeline** (Book:Bill >1 with order intake +7% £34.3m) provide a **springboard for a “record” Q1’20**.

Divisionally, the FY19 sales growth (**all organic**) came from Bulgin (+10% to £30.1m) and Checkit (+100% £1.0m), with the latter exiting the period on a contracted run-rate of £1.2m pa (+60%). Similarly EET was 30% higher at £2.6m vs £2.0m LY and profitable.

CEO John Wilson commenting “**FY19 has been outstanding and it is expected that profits, notwithstanding £200k of aborted transaction costs [re Bulgin], will remain in line with the most recent upgraded market forecasts.**” Plus despite broader macro concerns, the “**Board expects the strong momentum to continue**” with Q1’20 sales expected to “**set a new record**”.

£10m war chest opens strategic doors

Better still, **Bulgin is highly cash generative**, pushing **net funds as at Jan’19 to £10.1m** (vs £5.2m) - even after investing heavily in Checkit and building an extra £0.3m of working capital ahead of any potential Brexit related supply chain issues.

This cash pile provides the Board with numerous options, not least investing further in Checkit, which was launched on the US West Coast in October 2018. Additionally **a new cutting edge Work Management module** (Android compatible) **with GPS tracking was released in H2** – specifically aimed at non-food industry clients, such as the Blood Sciences Department of Leeds Teaching Hospitals NHS Trust.

5th February 2019

Company Data

EPIC	AIM: EKT
Price (last close)	45p
52 week Hi/Lo	49p/21p
Market cap	£83.7m
ED SOTP valuation	83p/share
Share count	186.1m
Avg. daily volume	200k

Share Price, p



Source: Web Financial

Description

Elektron (EKT) is a specialist niche product OEM and B2B operational service provider, enjoying a wide economic moat. It runs 3 separate divisions (see below), each targeting distinct markets, yet bound together by a single centre of engineering excellence located in Cambridge.

- 1) **Bulgin** designs and manufactures premium, fail-safe, hermetically sealed (ie air/water tight) circular connectors and electronic components.
- 2) **Checkit** is a hi-growth (>100%+ LFL) real-time operational management platform, that digitises, streamlines, and vastly improves the management of routine activities, providing top to bottom visibility.
- 3) **EET** – develops field vision and macular pigment screening devices to the ophthalmic industry.

Next News: Prelims early May 2019

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No change to FY20 estimates or 83p/share valuation

With regards to the numbers, **we reiterate our FY20 EBITDA forecast of £8.6m on turnover of £36.0m**, and likewise hold the sum-of-the-parts valuation at 83p/share.

Finally from a risk perspective, procedures have been put in place in the event of a “no-deal” Brexit – eg holding surplus inventory and ensuring channel partners have sufficient stock to service end users. Interestingly too – since Bulgin manufactures most of its products in Tunisia - it might be able to benefit if (as threatened on 1st March) the Trump administration decides to further hike tariffs on goods imported from China. America is Bulgin’s largest single market.

Summary financial projections

Elektron Technology (January yearend)	2017 Act £ms	2018 Act £ms	2019 Est £ms	2020 Est £ms	2021 Est £ms	2022 Est £ms	2023 Est £ms	2024 Est £ms	2025 Est £ms
Bulgin	24.1	27.3	30.1	31.1	32.7	34.3	36.0	37.8	39.7
Checkit	0.3	0.5	1.0	1.9	3.8	6.8	10.9	17.0	25.4
EET	2.4	2.0	2.6	3.0	3.4	4.0	4.5	5.2	6.0
Turnover	26.8	29.8	33.7	36.0	39.9	45.1	51.5	60.0	71.2
<i>Bulgin</i>		13.3%	10.3%	3.3%	5.0%	5.0%	5.0%	5.0%	5.0%
<i>Checkit</i>		66.7%	100.0%	90.0%	100.0%	80.0%	60.0%	55.0%	50.0%
<i>EET</i>		-16.7%	30.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<i>% growth</i>		11.2%	13.1%	6.8%	10.8%	13.0%	14.2%	16.5%	18.6%
Gross Profit	11.2	14.8	17.1	18.4	20.7	23.7	27.5	32.5	39.0
<i>% margin</i>	41.8%	49.7%	50.7%	51.1%	51.8%	52.6%	53.3%	54.1%	54.8%
Bulgin	4.3	7.9	9.4	10.0	10.5	11.1	11.6	12.2	12.8
Checkit	-2.8	-2.7	-2.7	-1.8	-0.4	2.6	4.1	6.6	9.4
EET	-0.2	-0.1	0.2	0.3	0.5	0.6	0.8	1.0	1.3
Adj. EBITDA	1.3	5.1	7.0	8.6	10.6	14.3	16.6	19.8	23.5
<i>Bulgin</i>	17.8%	28.9%	31.3%	32.3%	32.3%	32.3%	32.3%	32.3%	32.3%
<i>Checkit</i>	-933.3%	-540.0%	-265.0%	-92.7%	-10.8%	37.4%	37.6%	38.7%	37.1%
<i>EET</i>	-8.3%	-5.0%	9.0%	11.6%	14.0%	16.1%	17.9%	19.5%	20.9%
% EBITDA margin	4.9%	17.1%	20.8%	24.0%	26.6%	31.6%	32.2%	33.0%	33.1%
Bulgin	3.3	7.2	9.0	9.6	10.1	10.6	11.2	11.7	12.3
Checkit	-3.5	-4.4	-4.5	-4.0	-3.1	-0.5	0.8	2.9	5.4
EET	-0.4	-0.3	0.1	0.2	0.3	0.4	0.6	0.8	1.0
Adj. EBIT	-0.6	2.5	4.7	5.8	7.4	10.6	12.5	15.3	18.7
<i>Bulgin</i>	13.7%	26.4%	30.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
<i>Checkit</i>	-1166.7%	-880.0%	-445.0%	-210.5%	-80.3%	-6.8%	7.0%	16.9%	21.3%
<i>EET</i>	-16.7%	-15.0%	3.8%	6.6%	9.0%	11.1%	12.9%	14.5%	15.9%
% EBIT margin	-2.2%	8.4%	13.9%	16.2%	18.5%	23.5%	24.3%	25.6%	26.2%
Adj. Profit before Tax	-0.6	2.6	4.7	5.8	7.4	10.6	12.5	15.3	18.7
Adjusted EPS (p)	-0.1	1.1	2.0	2.5	3.1	4.4	5.2	6.4	7.7
<i>EPS growth rate</i>		-1939.1%	86.0%	24.1%	25.8%	42.9%	17.4%	22.0%	21.1%
Dividend (p)	0.0	0.0	0.0	0.0	0.0	1.5	1.7	2.1	2.6
<i>Yield</i>	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%	3.9%	4.7%	5.7%
Valuation benchmarks									
<i>P/E ratio</i>	-774.9	42.1	22.7	18.2	14.5	10.1	8.6	7.1	5.8
<i>EV/Sales</i>	2.7	2.5	2.2	2.0	1.8	1.6	1.4	1.2	1.0
<i>EV/EBITDA</i>	56.7	14.4	10.5	8.5	6.9	5.2	4.4	3.7	3.1
<i>EV / EBITA</i>	-122.7	29.5	15.7	12.6	10.0	6.9	5.9	4.8	3.9
<i>Adjusted tax rate</i>	-83.3%	-26.9%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%
<i>EBITDA drop through rates</i>		126.7%	49.0%	70.7%	50.9%	70.3%	35.7%	38.0%	33.4%
<i>PEG ratio</i>		-0.02	0.26	0.76	0.56	0.24	0.50	0.32	0.28
Net cash/(debt)	2.5	5.2	10.1	14.8	20.7	26.3	32.7	40.2	48.8
Sharecount (Ks)	172.2	177.9	186.1	187.0	188.0	188.9	189.9	190.8	191.8
Shareprice (p)	45.0								

Source: Equity Development estimates, Company historic data

Key risks

- Slowdown in global GDP which could impact EKT's end-markets. In particular Bulgin is early-cycle with revenues amplified by distributor de/restocking.
- Forward visibility at EET and Bulgin tends to be only 8 and 12 weeks respectively.
- Anticipated growth/profitability (eg Checkit/EET) may take longer than envisaged, cost more and/or not be fully realised.
- Foreign exchange. However this is primarily a translation risk with 64% of Elektron's FY18 turnover being generated outside the UK.
- Regulatory and tax changes.
- Competition may intensify as a function of new/existing players.
- Being relatively small, Elektron could get squeezed by larger rivals, partners and customers, particularly with regards to margins.
- Generic risks of retention/recruitment of key staff, etc.
- Potential future impact from BREXIT and/or US-China/EU trade tariffs/sanctions
- As with many smallcap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.



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