

Delta Drone International Ltd

Contract values on the increase

Delta Drone International Ltd (ASX:DLT) delivers drone-based data service and technology solutions to the mining, agricultural and engineering sectors. It provides aerial surveying, mapping and surveillance, including blast-monitoring and fragment analysis, through a fully-outsourced service with AI. The company has secured long-term contracts with a growing list of multi-national mining and agricultural companies. During Q3 CY22, 40% of its revenue was contracted and recurring while another 26% is expected to re-occur. This was up from 29% contracted in Q2. Delta Drone is extending its services from data capture to data analysis, detection and reporting on land assets from a geo-spatial perspective. Mining companies are using its services to meet their ESG requirements on issues such as tailings management while agricultural companies utilise its services to monitor precision farming techniques.

Business model

Delta Drone is one of few Australian companies that holds the accreditation to fly drones over large areas. DLT has a team of accredited pilots who operate the drones securing high-resolution geo-spatial data which is then analysed using machine learning and the company's team of engineers and surveyors for safety issues, asset valuation and data capture for changes over time. DLT generates revenue through multi-year recurring revenue contracts and short projects which also have the potential to be recurring. The company has a growing customer base of multi-national and major companies, including AngloGold Ashanti, Anglo American, Newmont Mining, Seriti Resources, Newmont, Red5 Mining, Regis Resources, Boral, South 32, Pilbara Minerals, Syngenta and Bayer Inc. DLT's operations are based in both Australia, in Perth and Adelaide, and Africa where it has offices in Johannesburg, where much of its technical team is based, and Accra in North West Africa.

Growing share of revenue is long-term contracted

Delta Drone reported H1 FY22 revenue of \$2.8m, up 47% on the previous corresponding period. Almost 30% of revenue is multi-year contracted and 34% of revenue is generated in Australia. In Q2 CY22, the company signed three significant multi-year contracts which delivered total contract value of \$1.54m and annual recurring revenue of \$633k. The largest, with Red5 Ltd (ASX:RED), will run for three years across its mines in the Eastern Goldfields of WA, delivering DLT ARR of \$336k and TCV of \$1.01m. Seriti Coal from South Africa signed a three-year contract to oversee its operations with a TCV of \$252k and ARR of \$112k, while Exxaro signed an 18-month contract extension which added \$278k to TCV and \$185k to ARR. Since June-end, DLT has added two significant multi-year contracts which have seen both the total contract size and ARR increase. In July, Assmang Khumani Iron Ore signed a three-year contract for its South African operations, adding \$293k to ARR and TCV of \$880k. At the end of September, TCV stood at \$4.434m, up 16% on Q2, and ARR was \$2.044m. Post quarter end, Anglo American's Mogalakwena Platinum Mine in South Africa formalised an agreement for two years, with TCV of \$516k and ARR of \$258k.

Look to surveillance tech companies for peers

We find Delta Drone's peers amongst other surveillance technology companies of similar market capitalisation. These include Elsieht and Harvest Technology Group, which both trade at a premium to DLT on an EV/Sales basis. DLT is also trading at a discount to the All Tech Index which on an EV/Sales historical basis is trading on 3.9x, compared with DLT's 2.5x.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EV/Sales (x)
12/18a	0.9	0.3	(4.0)	(6.1)	(6.1)	(8.98)	13.4
12/19a	2.3	0.4	(2.1)	(2.9)	(2.9)	(2.61)	6.4
12/20a	3.4	2.0	0.1	(0.1)	(0.2)	(0.03)	5.1
12/21a	4.6	2.4	(1.7)	(1.7)	(3.6)	(0.34)	2.5

Source: Company data; Refinitiv *EBITDA, NPAT and EPS adjusted for one-time, non-cash items and discontinued operations

Technology Hardware & Equipment

7 November 2022

Share Details

ASX code	DLT
Share price (4-Nov)	\$0.014
Market capitalisation	\$7.16M
Shares on issue	511.6M
Net cash at 30-Sept-2022	\$2.3M
Free float	~22.7%

Share Performance (12 months)



Upside Case

- Long-term contracts with tier 1 and 2 clients
- Opportunity to upsell services to existing clients
- Largest shareholder (58%) is a significant listed player with access to EU capital markets

Downside Case

- Liquidity risk, stock is tightly held by insiders
- Longer lead times for signing multi-year deals
- Additional raisings may be needed

Catalysts

- Achieves cashflow and operating breakeven
- Evidence of upsell of additional services and contract extensions

Comparable Companies (Aust/NZ)

Elsieht (ASX:ELS), Harvest Technology Group (ASX:HTG), Specter (ASX:SP3)

Board and Management

Christopher Clark	Executive Chair/CEO
Paul Williamson	Exec. Director/CFO
Nicolas Clerc	Non-Exec. Director
Christian Viguie	Non-Exec. Director
Stephen Buckley	Company Secretary
Camron Pfaffertott	Sales/Marketing Head
Evan McKern	GM, Rocketmine WA

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FINANCIAL SERVICES GUIDE

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