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Harvest Technology Group Ltd

EU Defence Force needs secure communications

Harvest Technology Group Limited (ASX:HTG) licenses its proprietary video compression and encryption technology for low-bandwidth, high-latency applications needing secure real-time streaming video communication. The company delivers solutions for data transfer from anywhere via satellite or congested networks. Harvest offers a solution which enables real-time monitoring of remote locations, real-time feedback for field technicians, and secure video conferencing. In 2022 Harvest launched two new product platforms with further product developments expected. HTG raised \$6.78m in March 2022 via a private placement in preparation for an increase in sales tempo and customer numbers. In FY23 Q2 the company has focused on efficient delivery of systems to large customers and is expected to once again see substantial revenue growth which will translate to cashflow at a higher margin after onshoring some technical roles. An improved cost structure potentially suggests a shorter path to breakeven than we currently model. Harvest's trading update on Dec-15 confirmed sales are strong and interest in the Infinity suite of products is increasing. The current geopolitical environment is supportive of a business engaged in securing communications and providing connectivity in remote locations and we expect further strong sales growth.

Business model

HTG offers products and solutions which enable real-time monitoring of remote locations, real-time feedback for field technicians, and secure video conferencing. HTG has two trademarked product platforms, Infinity Nodestream and Remote Inspection System (RiS). The company is on the verge of large-scale roll-out of the Infinity Nodestream secure video transmission product suite through reseller agreements with the major maritime satellite communications operators. It has also launched its own Remote Inspection System (RiS) and a US business focused on enabling remote field technician support via real-time video over low-bandwidth networks and satellite. The company has a Perth headquarters and has expanded over the past 12 months, establishing sales offices in the US and UK/EMEA regions. HTG is currently focused on converting a strong sales pipeline into customer wins.

EU Defence Force contract likely to grow

Harvest issued a trading update on Dec-15 highlighting strong revenue from customers with expected Q2 revenue in the range \$950k to \$1.05m. The company had previously announced its first contract with a European Union Defence Force in September 2022. Harvest has now reported a highly successful outcome to the field trial of the Nodestream system and has entered the next phase of discussions. The customer has previously indicated a successful outcome would see a wider roll-out and expansion of the technology within the customer's network and asset base. This will build on the initial US\$60k two-year trial. Harvest is currently assembling the staff and resources necessary to fulfil further orders from this customer. The EMEA region is showing strong signs of growing demand.

Valuation base-case at \$165m or \$0.28/share

No change to our valuation - which is based on a DCF using a Beta of 1.47 and risk-free rate of 3.5%. We have modelled three cases differentiated by customer conversion rates, cost of hardware manufacture, and licence fees received. Our downside case values HTG at \$122m, while we can estimate upside to \$345m. The crucial period to achieve sufficient momentum in sales to justify these valuations is in FY23 with results from Q3, Q4 and outlook supportive. Recent cost reductions will likely shorten the period until cash breakeven is attained. We have not included a revenue increase from the EU contract in our forecasts yet.

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

Year end	Revenue	EBITDA rep.	NPAT rep.	EPS* (c)	EV/Sales (x)	Price/Book (x)
06/21a	8.3	(7.5)	(10.3)	(1.4)	2.9	0.77
06/22a	2.1	(11.0)	(14.5)	(2.5)	15.5	0.93
06/23f	8.0	(3.0)	(4.7)	(0.8)	4.4	0.98
06/24f	13.3	1.9	0.0	0.0	3.0	1.10

Source: Company data; RaaS Advisory estimates for FY23f and FY24f; *EPS normalised for one-time items

Share Details

ASX code	HTG
Share price (intraday)	\$0.07
Market capitalisation	\$41.2M
Shares on issue	588.9M
Net cash 30-Sept-2022	\$4.497M
Free float	~64%

Share Price Performance (12 months)



Upside Case

- Faster conversion of current leads
- Strong Australian government take-up
- Inmarsat uses as part of key selling proposition of FleetXpress satellite service

Downside Case

- Lower conversion
- Slower take-up due to economic/COVID issues
- Difficulty in scaling/supply of hardware

Catalysts

- Continuing growth in quarterly revenue
- Reaches own goal of 1,000 licences by end-CY22
- Further evidence of take-up of technology
- Evidence of reduced cash burn in CY23

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FINANCIAL SERVICES GUIDE

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