

Benefitting from growth in global defence budgets

XTEK manufactures, and is commercialising, a range of proprietary products for use in the military, law enforcement, aerospace and commercial sectors. The company is a supplier of small unmanned aerial systems (SUAS) to the Australian Defence Forces and is advancing the commercialisation of its XTclave™ ballistics solutions range of body armour and helmets. It also owns XTatlas™, real time contextual video, which can be interfaced with existing SUAS systems. XTEK commenced FY20 with a transformative acquisition of profitable US body armour and personal protective equipment manufacturer, HighCom Armor Solutions Inc, for A\$3.6m in cash and shares. HighCom gave the company a manufacturing base in the US, complementary technology and access to its network including US military and defence which has accelerated sales of the XTclave™ range in that market. XTEK has announced FY20 revenues of \$42.7m, an increase of 13% on pcp and gross profit of \$9m, up 32.5% on the prior year. In August, the company raised \$9.2m at \$0.69/share in a share placement and has just completed an oversubscribed share purchase plan (SPP) to raise to \$2.9m additional, exceeding the original \$2m target. The proceeds from the Placement and the SPP will be used to execute XTEK's international ballistic strategy and commercialisation, including increasing XTclave™ manufacturing capability in the US which will double its revenue capacity in that market.

Business model

To date, XTEK has generated most of its revenue from the sale of third party and proprietary small unmanned aerial systems (SUAS) to Australian Defence Force contracts and other defence agencies on the Australasian region. The company generated around \$8m from its long term SUAS repair and maintenance contract with the ADF in FY20 and recently secured an additional contract to deliver more SUAS units in FY21. The company also earns ongoing revenue for repair and maintenance which it undertakes at its facility in Canberra. XTEK's key support services consist of providing spare parts, training, maintenance, and repairs including installation of spare parts, electronics and composite materials of the SUAS itself. XTEK's ADF SUAS support contract runs until 2022, with multiple options to extend through to 2025. In early CY2020, XTEK secured its first order for its XTclave™ manufactured ballistic armour plates from Tote Systems Australia to be used by an Australian Specialist Law Enforcement unit. The Finnish Defence Forces have subsequently ordered \$2m in XTclave™'s light weight manufactured ballistic plates.

Recent company commentary

XTEK has reported FY20 revenues of \$42.7m, an increase of 13% on the previous corresponding period, gross profit of \$8.6m and EBITDA of \$0.8m, a 2.5-fold increase on FY19. NPAT for FY20 was \$0.3m up from \$0.17m the year before. XTEK noted that it was strongly confident that FY21 revenues would exceed \$30m, underpinned by US ballistic sales, the Finnish defence ballistics order, ongoing SUAS support and parts to the ADF.

At a significant discount to its aerospace and defence peers

We have chosen four peers, Droneshield, Orbital Engine Corporation, PTB Group and Quickstep Holdings, of a similar market size in the aerospace and defence category. These peers are trading on a median EV/revenue multiple of 3.0x which is substantially above the 1.0x EV/revenue multiple that XTE trades on. Of these peers, only Quickstep Holdings has delivered revenue growth of a similar trajectory to XTEK.

Historical earnings and ratios

Year end	Revenue (A\$m)	Gross Profit (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
06/17a	9.0	3.4	-0.39	0.06	0.2	4.0	nm	nm
06/18a	17.3	4.7	-0.30	0.14	0.4	2.3	nm	nm
06/19a	37.8	6.8	0.48	0.17	0.4	1.1	25.2	nm
06/20a	42.7	8.6	0.83	0.30	0.6	0.9	45.8	nm

Source: Company data

Aerospace & Defence

4 September 2020

Share details

ASX Code	XTE
Share price (3-Sep)	\$0.695
Market Capitalisation	\$66.5M
Shares on issue post SPP	57.4M
Net cash at 30/06/2020	\$3.1M
Free float	48.4%

Share performance (12 months)



Upside Case

- A long-term supplier to the Australian Defence Forces
- Leveraged to global defence spending which is not impacted by economic downturns
- HighCom has delivered immediate market position in the US

Downside Case

- Long lead times on defence contract decisions
- Contracts tend to be lumpy
- Shareholders may not get the upside if an early takeover emerges

Catalysts/upcoming events

- Additional significant contracts in the US
- Confirmation of sales contracts and growth

Comparable companies (Aust/NZ)

Droneshield (ASX:DRO), Orbital Engine Corporation (ASX:OEC), PTB Group (ASX:PTB), Quickstep Holdings (ASX:QHL)

Top 5 shareholders (pre SPP)

Uwe Daniel Boettcher (Chairman)	6.57%
HighCom Global Security Inc	6.03%
CS Third Nominees	4.04%
Wendy Wing Lin Lo	3.81%
Washington H Soul Pattinson	3.71%

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