

AVA Risk Group Ltd

Streamlined and focused on security tech products

AVA Risk Group Ltd (ASX:AVA) develops, manufactures and sells advanced risk management technologies (security and monitoring technology products) for perimeter intrusion detection and access control. Its key clients are high-value asset and critical infrastructure holders (including governments) and its offerings are deployed across ~3,500 sites in over 70 countries. AVA's solutions encompass three segments/brands: (1) Future Fibre Technologies (FFT), a Melbourne-based manufacturer of advanced fibre optic based sensors (for application to perimeters, pipelines, conveyors, power cables, data networks); (2) GJD Manufacturing (GJD), a recently acquired UK-based designer and manufacturer of optical sensors and illuminators for perimeters; and (3) BQT Solutions (BQT), a New Zealand-based manufacturer of smart locking and access controls including high security cards and biometric readers. AVA underwent a notable strategic transition in FY22 with: (1) The October 2021 disposal of its services division (international logistics and storage for high-value assets) netting \$42m proceeds with \$39m (16.1 cps) subsequently distributed via special dividend/capital return; and (2) Increased focus on growing its higher-margin security technology product offerings (i.e. FFT and BQT) particularly in the US and Europe via market share gains, acquisitions (e.g. GJD), and entering new or adjacent markets (e.g. FFT's 'Aura-IQ' condition monitoring solution received its first commercial order in July 2022). AVA has a three-year target of increasing revenue to \$70m-\$100m and a new policy to pay at least 35% of EBITDA in unfranked dividends annually. Meanwhile, CEO/Executive Director Rob Broomfield is retiring and will be replaced by Mal Maginnis (effective early-January 2023).

Business model

AVA primarily generates revenue from security technology product sales (~73% of FY22 revenue at ~70% gross margins ['GM']). It has three smaller revenue streams: (1) Product sales via distributors/OEMs (20% of revenue at ~55% GM); (2) Commissioning services (~6% of revenue at ~40% GM); and (3) Recurring revenue from licences and long-term support contracts (~1% revenue of at 90%+ GM). AVA is endeavouring to increase the contributions from distributors/OEMs (e.g. global agreement with dormakaba International for BQT products) and recurring revenue (e.g. support contracts for FFT systems). FFT is AVA's largest revenue generating segment (~53%) followed by GJD (~30%) and BQT (~17%). AVA's most significant regions (per FY22 revenue) are Europe (21%), Australia (19%), US (18%) and India (14%). AVA has expanded its US and European sales capabilities over the past year.

\$13-15m H1 FY23 revenue guidance; \$70-100m 2025 target

In-line with its strategic focus, AVA acquired GJD on 1 August for \$7.8m (60% cash/40% scrip) thereby adding a complementary third segment and ~\$8m revenue and ~\$1.5m EBITDA while enhancing its UK/European capability. AVA's recent announcements disclosed: (1) Q1 FY23 orders of \$7.8m (up 55% yoy and up 28% yoy excluding GJD); (2) H1 FY23 revenue guidance of \$13m-\$15m; (3) H2 FY23 revenue is expected to exceed H1; (4) Dividend policy of unfranked dividends equating to at least 35% of EBITDA annually; and (5) Three-year growth target of \$70m-\$100m revenue at current GM (~65%) with \$8m-\$12m of additional operating costs (vs. ~\$12m currently) for significantly increased EBITDA (i.e. \$22m-\$45m vs. \$1.4m in FY22 and \$8.5m in FY21 [includes \$8m one-off licence revenue]).

Trading on higher EV/Revenue multiple than peers

AVA is trading at EV/Revenue of 2.4x based on FY22 and ~1.8x for FY23 (annualising H1 FY23 guidance). The metrics implied by its three-year targets are 0.5x-0.8x EV/Revenue and 1x-2x EV/EBITDA. We have identified a NASDAQ-listed peer, Senstar Technologies (SNT), and three ASX-listed comparables, namely DTI Group (ASX:DTI), Spectur (ASX:SP3) and Icetana (ASX:ICE). AVA is trading at a premium to both SNT's CY21 EV/Revenue of 1.2x and the ASX-peer group's average FY22 EV/Revenue of 2.3x which likely reflects its relatively high growth trajectory expectations (per \$70-\$100m revenue target).

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

Year end	Revenue	EBITDA	NPAT adj.	NPAT rep.	EPS rep. (c)	DPS (c)#	PER (x)	EV/EBITDA (x)	EV/Rev (x)
06/19a	31.6	(2.9)	(4.7)	(4.7)	(2.2)	0.0	n.m	n.m	1.7
06/20a	46.1	7.4	4.9	4.9	2.1	0.0	11.6	6.7	1.1
06/21a	24.7*	8.5*	6.7*	13.7	5.7	3.0	4.3	4.9	1.7
06/22a	18.6*	1.4*	(0.7)*	33.1**	13.6**	13.0	n.m	31.7	2.4

Source: Company data; *Continuing operations only (i.e. excludes divested operations); **Includes \$31.9m gain on services division disposal; #Special dividends in FY21 and FY22

Tech Hardware & Equipment

8 November 2022

Share Details

ASX code	AVA
Share price (7-Nov)	\$0.245
Market capitalisation	\$62.6M
Shares on issue	255.41M
Net cash at 31-Aug-2022	\$9.0M
Free float	~56%

Share Performance (12 months)



Upside Case

- Reaches \$70m-\$100m pa revenue target (& significant EBITDA ↑) earlier-than-expected
- Accelerated growth from various initiatives (incl. GJD acq'n, Aura-IQ sales, ↑ US dist'b'n)
- Industry tailwinds (global security concerns, ↑ critical infrastructure spend) drive higher-than-expected growth

Downside Case

- Fails to meet \$70m-\$100m pa revenue target (& significant EBITDA ↑) by end-2025
- ↑ Production/supplier costs (inflation etc.)
- Economic uncertainty = clients delay or cancel product orders and/or projects

Catalysts

- Reaches \$70m-\$100m pa revenue target
- Significant EBITDA/NPAT ↑ = dividends ↑

Comparable Companies

DTI Group Ltd (ASX:DTI), Spectur Ltd (ASX:SP3), Icetana Ltd (ASX:ICE), Senstar Technologies (NASDAQ: SNT)

Board and Management

David Cronin	Non-Executive Chairman
Robert Broomfield	CEO/Executive Director
Mark Stevens	Non-Executive Director
Mike McGeever	Non-Executive Director
Neville Joyce	CFO/Joint CoSec

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FINANCIAL SERVICES GUIDE

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