

MTI WIRELESS EDGE (LON:MWE)

Examining the enlarged company

A LEADER IN SPECIALITY TECHNOLOGIES

MTI Wireless Edge (LON:MWE) is a technology group focussed on communication and radio frequency solutions. The applications addressed include civil and military communications, wireless irrigation controls, and speciality consulting services in the antennas and electronics space.

MTI benefits from strong growth dynamics across its business segments. We are forecasting 21% EPS CAGR over the 3 years 2018-2020e. In this report, we examine some of the growth drivers. These include structural demand growth in wireless networks, water conservation demands in irrigation, and new contract wins in the defence/security and consulting businesses.

BROADENING THE BASE – THE MERGER WITH MTI COMPUTERS

MTI Wireless Edge is headquartered in Israel, and until recently was 53% owned by Tel Aviv-listed MTI Computers (MTCO.TA). In August 2018 the two companies merged under the London LON:MWE listing. Benefits of the merger include a broader revenue base, cost savings from a single market listing, and elimination of potential or perceived conflicts of interest.

Most importantly, in our view, the increased market capitalisation and the free float of MTI Wireless following the merger should bring the company "onto the radar screen" for more investors, which could lead to a re-rating in valuation terms.

FINANCIALS/VALUATION

MTI Wireless Edge has a net cash position of \$4.6m (June 2018 accounts) providing a strong financial base. Furthermore, the company has been consistently profitable in recent years with gross margin 32-34% for 2015-2017 and operating margins 7.0-8.5%. Most importantly, in our view, the earnings growth trend remains intact. We are forecasting EPS growth of 19% for 2018e (pro forma basis, defined in this report) and 26% for 2019e.

In spite of the strong financial metrics and growth prospects, the shares currently trade on a 7.3x P/E multiple for 2019e. We argue that the valuation is incongruous with the company's financial strength and gross prospects. In this report, we examine the valuation in a peer-group context.

Yr end Dec 31, \$,000s	2016a	2017 pf	2018e pf	2019e
Revenue	23276	34653	36330	40480
Operating profit	1483	2410	3075	3850
EPS (US cents)	1.78	2.29	2.73	3.43
P/E *	14.1	10.9	9.2	7.3

Source: Capital Network * P/E calculated with GBPUSD = 1.30

TECHNOLOGY HARWARE AND EQUIPMENT

10/10/2018

SHARE PRICE	52 WEEK LOW
▲ 19.3p	▲ 19.0p
MARKET CAP	52 WEEK HIGH
▲ £16.8mln	▲ 34.0p
CASH	NAV
▲ \$4.6mln	▲ \$19.7mln

MAJOR SHAREHOLDERS

- 1) Borovitz family vehicles 35%
- 2) Beer family vehicles 11%
- 3) Directors and PDMRs 7%

Shares in Issue	87.04m
Avg Volume	15,404
Primary index	AIM
EPIC	LON:MWE
Next Key Announcement	Q3 results, expected November 2018
Sector	Tech hardware and equipment

SHARE PRICE CHART



Important: All disclaimer information can be found on the last page of this document. Please note that this publication has been commissioned by the company to which this publication relates and therefore it cannot be considered independent.

Company Information

Address: 11 Hamelacha Street, Rosh Ha'ayin 48091, Israel
Website: www.mtiwe.com

Analyst Details

Ed Stacey
Ed.stacey@proactiveinvestors.com
+44(0)20 7264 3921

OVERVIEW

MTI Wireless Edge Ltd (LON:MWE) is a technology group headquartered in Israel and listed on the London AIM market. The company operates through four divisions.

Two divisions are the “old” MTI Wireless Edge businesses, which were part of the company before the recent merger:

Antennas - supplies antennas for both military and commercial markets from 100 KHz to 90 GHz.

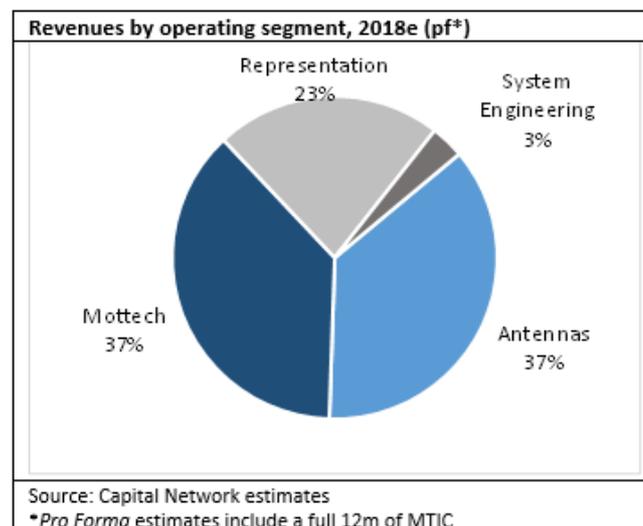
Mottech Water Solutions – provides wireless remote control solutions for water management and irrigation applications, including agricultural, municipal and water distribution applications.

The other two divisions came into MTI Wireless Edge through the merger with MTI Computers, which was completed in August 2018. More details of the merger are on p4. The two divisions are:

Representation – provides expert consultation services specialising in RF and Microwave solutions and applications into the Israeli and Russian markets.

System Engineering - design and integration of aerostat operation systems, used for surveillance and border control.

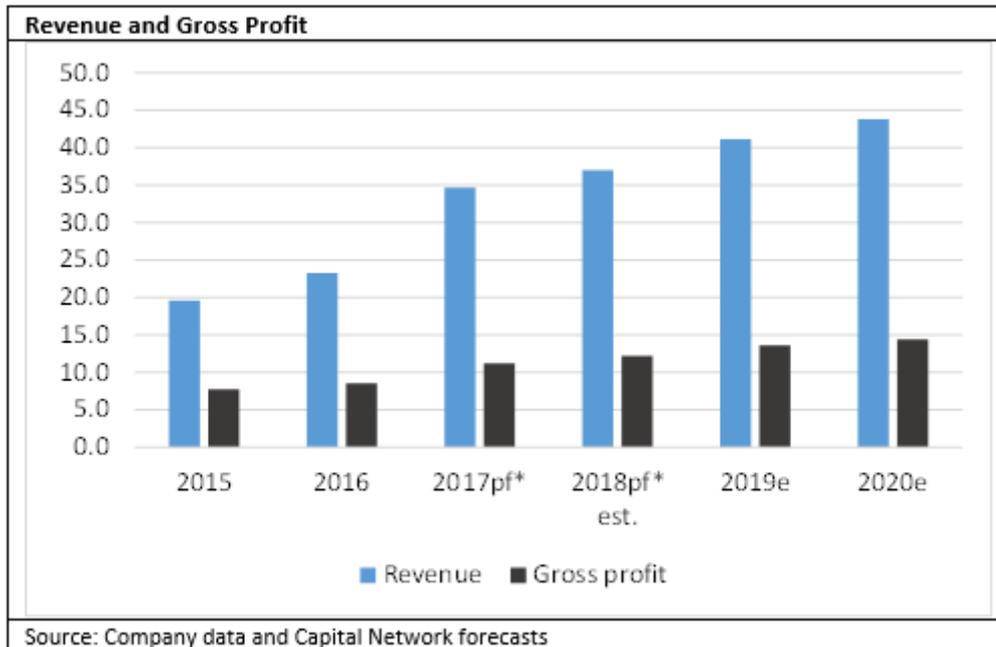
The following charts show the revenue breakdown by operating division. These figures are calculated in a *pro forma* (pf) basis, meaning they are stated as though a full 12 months of the merged business were in place. We will use pro forma figures elsewhere in the report also.



We argue that MTI is well positioned to deliver growth in revenue and profits in the next two years. We examine the drivers in more detail in our divisional analysis (p5-p9). Some of the key drivers include:

- Ongoing structural growth for the Mottech irrigation business
- Mobile networks investment benefiting the Antennas division
- Representation benefiting from ongoing structural growth together with new client wins
- A major new contract in the System Engineering business affecting 2019e.

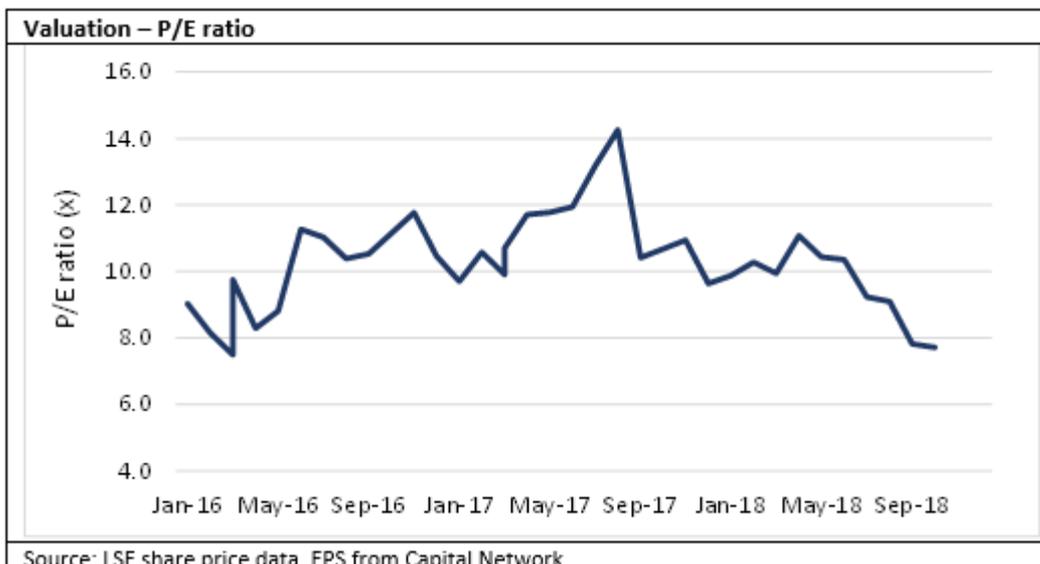
The following chart shows our forecasts for group revenues and gross profits.



We believe that the growth in revenue comes at broadly consistent gross margins (on a like-for-like basis pre/post-merger). We believe that selling, general & administrative (SG&A) and central cost growth will be constrained by comparison, leading to a strong drop-through of gross profit to net profit. We are forecasting earnings per share (EPS) growth of 19%, 26%, 19% respectively in 2018e (pro forma), 2019e and 2020e.

Valuation

In spite of the strong earnings growth potential, and a net cash balance sheet position, the shares have suffered a de-rating over the last six months in terms of valuation multiples. The following chart shows the P/E multiple of MTI Wireless Edge, on a 12m rolling EPS basis.



We can conjecture various possible reasons for this price/earnings (P/E) multiple compression:

- Pressure on the Emerging Market investment space in general in recent months, reflecting MTI’s geographic customer mix.
- Possible merger-related overhang, for example some holders of the former Tel Aviv listed MTCO.TA could now be exiting the London-listed combined entity; however, we are not able to identify any specific selling trend along these lines.
- Pronounced share price weakness in one of the few listed pure-plays in irrigation systems – Jain Irrigation (BSE:500219); however, this company addresses different geographies and customers compared to MTI, and supplies a different category of products within the irrigation market.

Whatever the reason for the P/E compression for MTI Wireless Edge, we note that the valuation is now right at the bottom of its recent historic range.

BACKGROUND AND MERGER

MTI Wireless Edge was established in Israel in 1972, with a focus on antenna technologies for commercial and military applications, and listed on the London AIM market in 2006. Since listing, there have been two major corporate actions:

Acquisition of Mottech

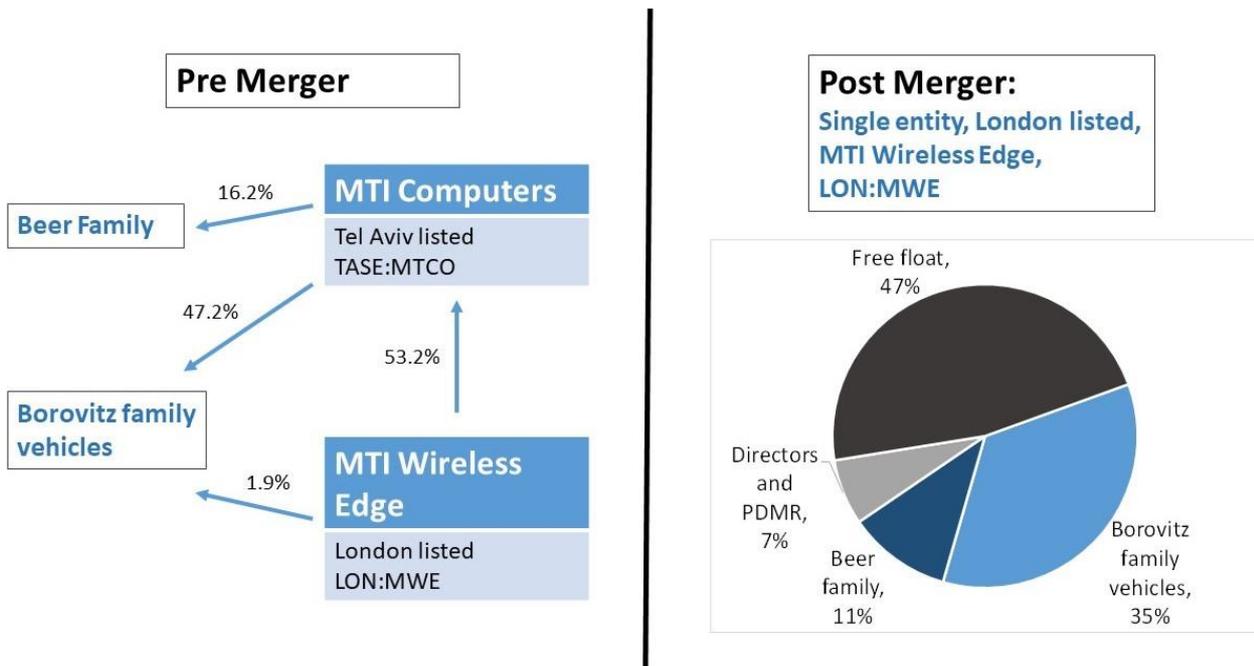
MTI acquired Mottech Water Solutions, a provider of wireless electronic controls for irrigation systems. The logic of the deal was to expand MTI’s presence across the wireless systems value chain, and to access the high growth market of smart irrigation. Subsequent to the acquisition, Mottech has delivered 16.5% annual revenue growth (over two years 2016-18), and consistent strong profitability.

Merger with MTI Computers

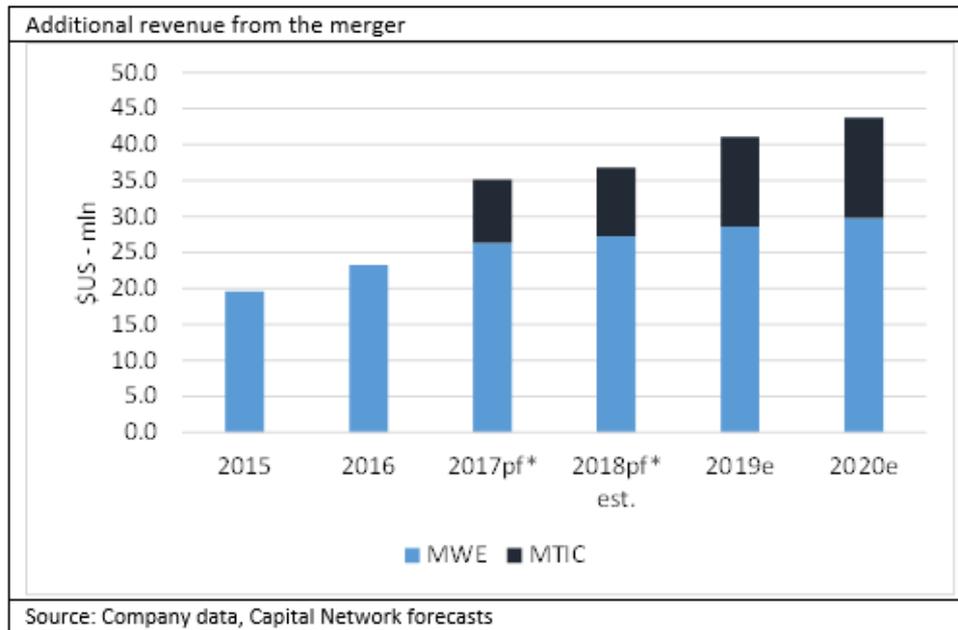
In May 2018, MTI Wireless Edge announced plans for a merger with its own controlling shareholder MTI Computers (TASE:MTCO). The company cited the following benefits from the deal:

- Creation of a larger company with a broader revenue base
- Alignment of shareholder interests and elimination of potential conflicts of interest
- Cost savings and efficiency from having a single market listing on AIM
- Prospective increase in share liquidity due to enlarged free float

The following schematic shows the shareholding structure before and after the merger.



In addition to the simplified shareholding structure and potentially greater liquidity, the merger also gave rise to an enlarged and broadened revenue base. The following chart shows the impact of the merger in revenue terms, including the pro forma figures for 2017 and 2018e, and our forecasts for 2019e and 2020e.



We argue that the enlarged group benefits from compelling growth drivers across all four segments. We next examine the business dynamics of each division.

DIVISIONAL ANALYSIS

We consider some of the main drivers for each of the four divisions.

Antennas

MTI Wireless Edge develops and produces high quality, low-cost antenna solutions for both military and commercial applications from 100 KHz to 90 GHz. Antenna solutions include smart antennas, multiple-input and multiple-output (MIMO) antennas and dual polarity for wireless applications such as LTE, WiFi, Broadband Wireless Access and Radio Frequency ID (RFID).

Applications include:

Commercial antennas

Commercial antenna solutions encompass directional, omni-directional and base station antennas, used in mobile networks infrastructure, Wi-Fi, public safety, and other applications.

Commercial – RFID

In RFID, MTI supplies radio frequency antennas for specialist application such as product ID in toll road, airport management and warehouses.

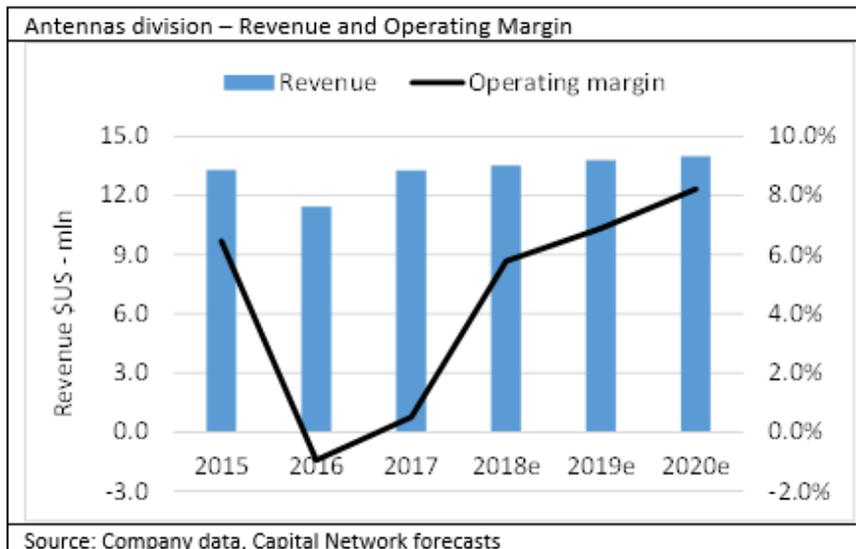
Military antennas

MTI Military products include a wide range of broadband, tactical and specialised communications antennas, antenna systems and direction finding arrays. Applications include airborne, ground and naval (including submarine) platforms for customers worldwide.

The following image is an example of an antenna application, in this case, a wireless access control system.



We are forecasting solid growth in operating profit from the Antennas segment in 2018e, 2019e, 2020e, driven by steady revenue growth, some improvement in gross margins, and an operational gearing effect to operating margins. The following chart summarises the revenue and operating margin forecasts.



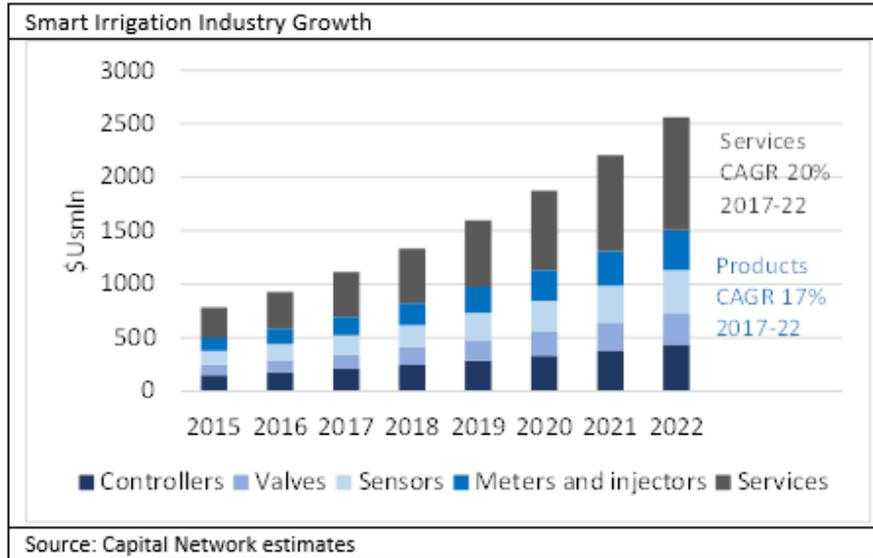
In 2015 and 2016, MTI reported revenue declines in the wireless broadband segment, driven in particular by one major customer scaling back demand in those years. The operating margin remained depressed in 2017 due to lower gross margin project work. We are forecasting growth in revenue and operating profit in 2018e.

Going forward, a significant driver is in back-haul point-to-point wireless network infrastructure, as network operators prepare for next generation applications. We also expect growth in the RFID and Military segments in the coming years.

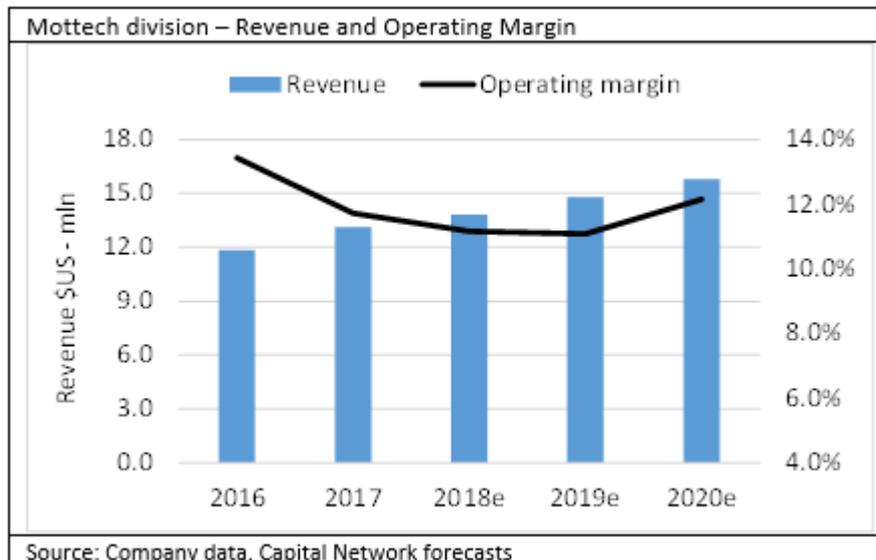
Mottech

The Mottech Water Solutions business was acquired by MTI Wireless Edge in 2015. Mottech is the worldwide master distributor for Motorola’s IRRInet platform, which is an irrigation control system, i.e. the “brain” of a smart irrigation system. Based on the IRRInet platform, Mottech provides comprehensive water management systems for agricultural, municipal, and water distribution applications.

Smart irrigation is a growth industry worldwide, driven by water conservation concerns. The chart below shows the growth in the smart irrigation market, including the controllers segment, which is applicable to MTI Wireless. We expect this segment to grow in line with the industry’s products growth rate of 17% p.a.



We are forecasting growth in revenue and operating profit for the Mottech division in 2018-2020e. The following chart summarises our revenue and operating margin forecasts.



Operating margins declined in 2017 due to increased marketing expense, particularly in relation to expanding the business’s presence in Asia. Going forward, we expect steady gross margins, with operating margins beginning to increase due to operating leverage.

Representation

The Representation division provides consulting services to international electronics businesses with respect to their operations in Israel. The business promotes a select group of international suppliers of RF/Microwave, satellite communication (SATCOM), and optic fibre components and systems, providing customers a complete solutions package. More recently the Representation business has expanded into Eastern Europe.

The Representation business has grown at an annual rate of 15.6% over the three years 2015-2018e. We are forecasting a continuation of robust growth in 2019e and 2020e based on additional client wins. Although Representation is smaller than Antennas or Mottech in revenue terms, this division is a material incremental profit driver for the group due to the strong drop-through of additional Representation revenue to the operating profit line. The following chart summarises our forecasts.



System Engineering

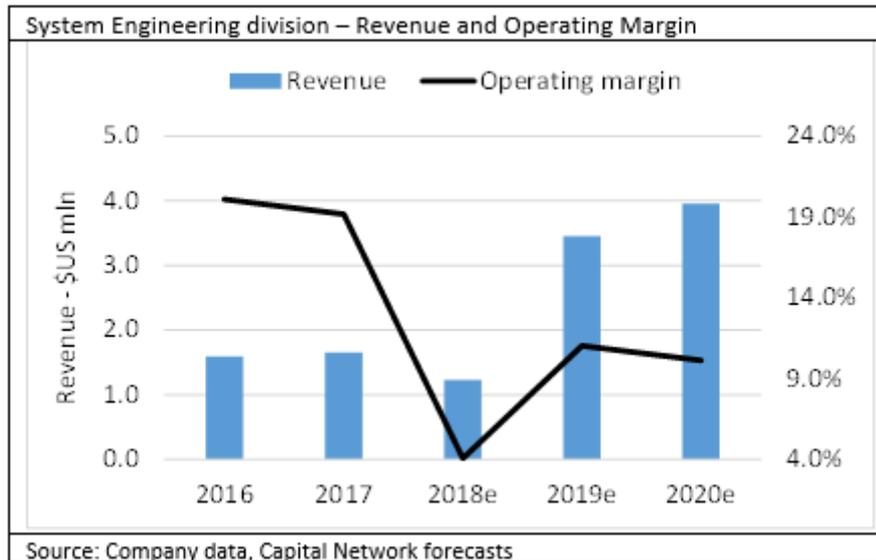
System Engineering is the smallest of the four divisions in revenue terms; however, this business is potentially a significant incremental driver of group profits in 2019e, and therefore significant to the investment thesis.

The System Engineering business provides lighter-than-air systems, known as aerostats. Effectively these are tethered airships that carry surveillance equipment for defence, border security and other applications. The image below shows some MTI lighter-than-air systems.



In these projects, MTI acts as a systems integrator. The airship itself is supplied by a specialist supplier (the example above is from TCOM of the USA), while the monitoring equipment comes from defence companies such as Rafael Advance Defence Systems of Israel. MTI project manages the configuration of the system and its entry into service. MTI also has the ability to deliver a managed service offering, overseeing the operation of the aerostat system after it has entered service.

This division has significant operating profit upside in 2019e in our view. The following chart summarises our revenue and operating margin forecasts.



We are forecasting a reduction in revenue and operating margin in 2018e versus 2017, based on programmes completing in 2017. In 2019e we are forecasting a strong uplift in revenues for System Engineering based on significant new projects. This is outlined in the document “Valuation Report of MTI and MTIC” within the merger documents of the MTI Wireless Edge investor relations site. The increased contribution from System Engineering is a material contributor to our group-wide earnings growth forecast for 2019e.

FINANCIALS

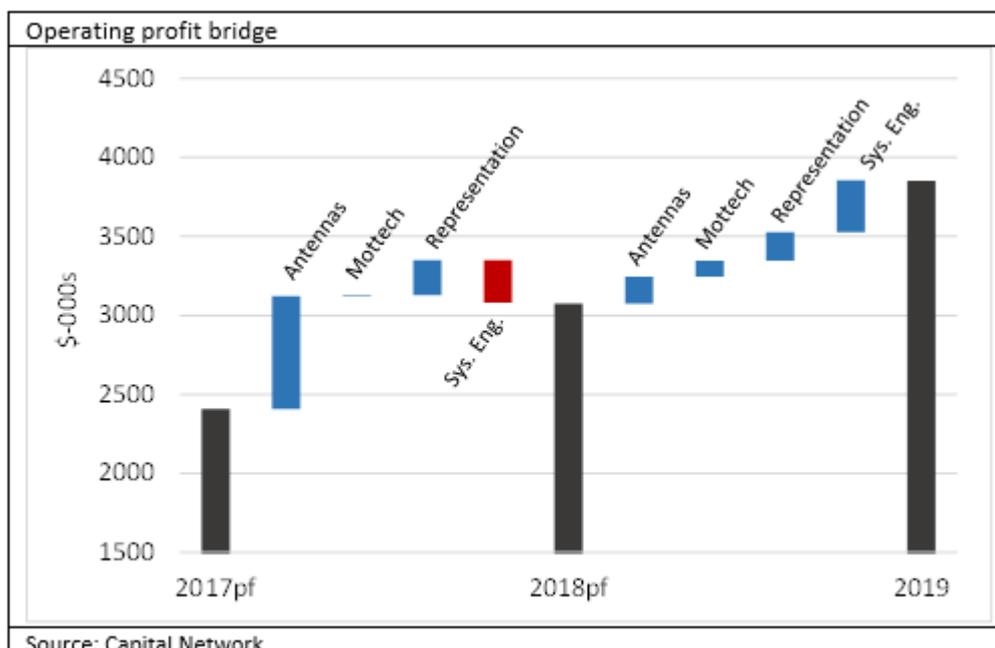
MTI delivered strong growth in operating profit and in earnings per share in 2017 (either pro forma or as reported), and we expect this to continue in 2018e based on the commentary around the first half results released August 28. For 2019e and 2020e, we are forecasting EPS growth of 26% and 19% respectively.

Looking specifically at the earnings growth drivers in 2018 and 2019:

For 2018e we are forecasting a recovery in operating profit for Antennas, with continued growth for Representation, offset by reduced operating profit from System Engineering due to projects completed in 2017.

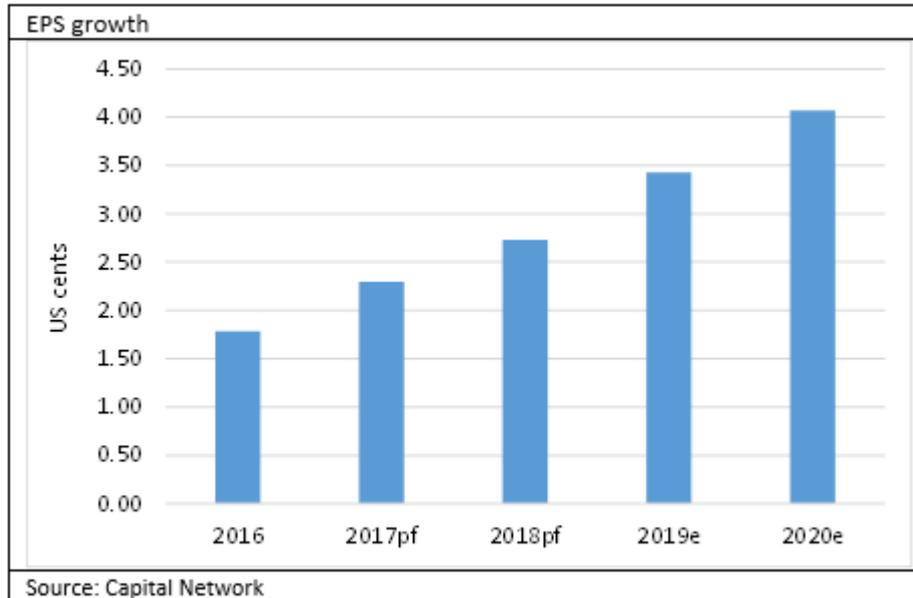
For 2019e we see Antennas, Mottech and Representation benefiting from structural demand growth, with operational gearing driving additional profit growth for Representation. We see a strong uplift in profit for System Engineering driven by the new Israeli programme.

The following chart summarises our operating profit growth expectations for 2018e (pro forma) and 2019e.



We expect balanced growth across the divisions continuing into 2020e.

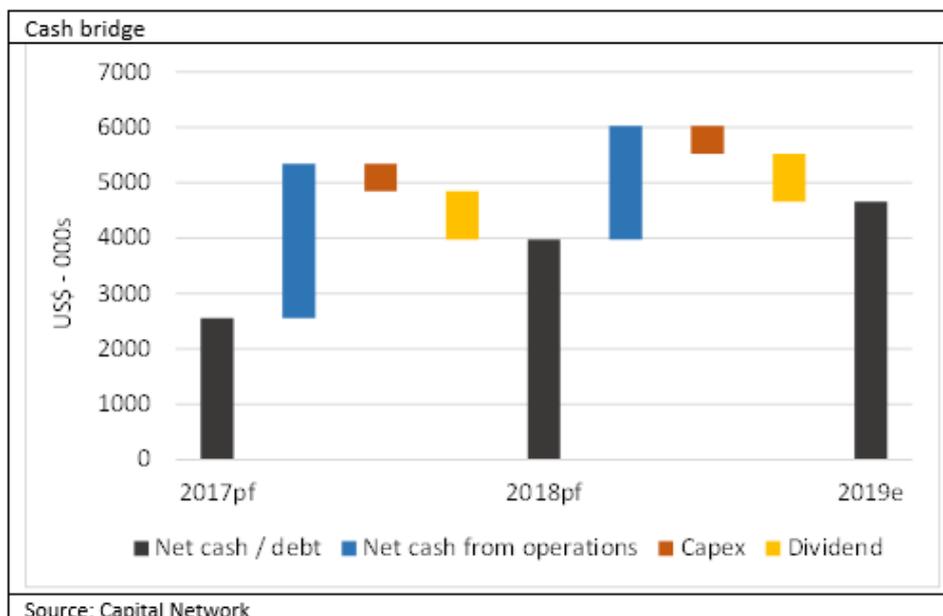
This growth in operating profit drives strong growth in earnings per share. Overall, we are forecasting EPS growth of 19%, 26%, and 19% in 2018e (pf) 2019e and 2020e respectively. The following chart summarises our EPS growth forecasts.



One of the key elements of the MTI Wireless Edge investment thesis, in our view, is a mismatch between the strong EPS growth prospects, and the P/E valuation ratio of only 7.3x. We examine this further on p11.

Cash position

We conclude our financial overview with a summary of the company’s cash position. The following chart shows the cash-flow bridge for 2017-2018-2019e. We are using pro forma balance sheet figures for 2017 and pro forma cash-flow for 2018e. We note that MTI Wireless Edge had a cash positive balance sheet position also on a pre-merger basis.



We argue that the net cash position provides a strong financial base for the expanded group. If the net cash position continues to grow, we believe that the company could consider an accelerated dividend payout or exploring M&A options in future.

VALUATION

In order to assess the P/E multiple being applied to MTI Wireless Edge, we would like to make a comparison with similar companies; however, given the unusual mix of business areas that MTI operates across, there are really no comparable companies, as such. Instead we have selected a group of stocks covering various different geographies and end markets, and different market cap brackets. The following table summarises our “comps” universe.

Company	Ticker	Overlap with MTI	Listing	Head-quartered	Market Cap (US\$m)
MTI	LON:MWE	-	LSE	Israel	22.1
Smartlink Holdings	BSE:SMARTLINK	Mobile infrastructure	BSE	India	22.4
TELIT	LON:TCM	Asset tracking	LSE	UK	283.4
BATM	LON:BVC	Antennas	LSE	Israel	187.2
CarTrack	SJ:CTK	Asset tracking	JSE	South Africa	292.5
Harris Corp	US:HRS	Antennas / Defence	NYSE	US	19,896.0
Cobham	LON:COB	Antennas / Defence	LSE	UK	3,647.8
ELBIT Systems	NASDAQ:ESLT	Electronics / Defence	NASDAQ	Israel	5,460.0
Jain Irrigation Systems	BSE:500219	Irrigation	BSE	India	474.2

Source: Stock exchanges

We compare valuation multiples based on consensus 2018e P/E multiples where available. For Smartlink holdings, we show a 2017 P/E multiple.

Company	Quoted currency	Share price	2017 EPS	2018 EPS*	2019 EPS*	EPS growth 2018-19	PE
MTI	GBP	19.9	2.29	2.73	3.43	26%	7.3
Smartlink Holdings	INR	96.9	3.91	N/A	N/A	N/A	24.8
TELIT	GBP	168.5	12.62	4.00	9.00	125%	42.1
BATM	GBP	36.2	0.06	0.00	1.00	N/A	N/A
CarTrack	ZAR	1399	86.00	100.5	N/A	N/A	13.9
Harris Corp	USD	168.5	5.53	6.5	7.80	20%	25.9
Cobham	GBP	117.9	6.00	4.93	6.56	33%	23.9
ELBIT Systems	USD	127.6	6.41	6.31	6.76	7%	20.2
Jain Irrigation Systems	INR	44.2	3.29	4.25	N/A	N/A	10.4

Source: Stock exchanges, consensus forecasts from FT.com

*2018 and 2019 forecasts include year-ends falling within the calendar year

In fact, we argue it would not matter much what universe of stocks we use as peers – electronics, communications equipment, defence, UK or global, small-cap or larger. Against any reasonable comparators that we can identify, the MTI valuation of 7.3x P/E is unusually low.

Conclusion:

We argue that MTI Wireless Edge offers substantial earnings growth in the 2018-2020 time-frame, driven by a strong portfolio of technologies. We believe that the current valuation represents an interesting entry point.

FORECASTS

P&L

Yr to Dec (\$-000s)	2016 A	2017 A	2018 E	2019 E	2020 E
Revenue	23276	34653	36330	40480	43130
COGS	-14728	-23430	-24180	-26950	-28770
Gross profit	8548	11223	12150	13530	14360
Operating costs	6430	8176	8475	9080	9243
EBITDA	2118	3047	3675	4450	5117
Depreciation & Amortisation	-635	-637	-600	-600	-600
Operating profit	1483	2410	3075	3850	4517
Net finance	-277	26	-150	-130	-100
Other income	105	114	0	0	0
Earnings before Tax	1311	2550	2925	3720	4417
Income tax expense	-222	-440	-527	-707	-839
Net Income	1089	2110	2399	3013	3578
Minorities	48	59	24	30	36
Profit net income to shareholders	936	1937	2375	2983	3542
EPS (c) - fully diluted	1.78	2.29	2.73	3.43	4.07
Dividend	1.0	2.0	2.0	2.0	2.0

Source: Company data, Capital Network forecasts

Cash Flow

Yr end Dec31 (\$- 000)	2016 A	2017 A	2018 E	2019 E	2020 E
Net profit	984	1,309	2,399	3,013	3,578
Depreciation	635	637	600	600	600
Add back tax	222	320	527	707	839
Add back finance expense	122	162	150	130	100
Other non-cash	(37)	35	(37)	(37)	(37)
Operating cash before WC	1,926	2,463	3,638	4,413	5,080
Movement in receivables	591	(967)	(969)	(1,783)	(1,138)
Movement in inventories	(466)	(269)	(409)	(673)	(430)
Movement in payables / other	107	480	1,208	931	595
Cash from operations	2,158	1,707	3,468	2,889	4,107
Net cash interest	(122)	(87)	(150)	(130)	(100)
Tax	(837)	(190)	(527)	(707)	(839)
Net cash from operations	1,199	1,430	2,791	2,052	3,167
PPA purchase	(314)	(447)	(500)	(500)	(500)
Other	2,142	(1,900)	-	-	-
Cash flow from investing	1,828	(2,347)	(500)	(500)	(500)
Share issue	28	101			
Debt repayment/drawdown	(706)	(769)	45	(300)	(200)
Dividends	(568)	(235)	(870)	(870)	(870)
Cash flow from financing	(1,246)	(903)	(825)	(1,170)	(1,070)

Source: Company data, Capital Network forecasts

Balance Sheet

Dec 31st (\$-000)	2016 A	2017 A	2018 E	2019 E	2020 E
Cash and marketable securities	4,428	3,508	4,974	5,356	6,953
Accounts Receivable / other	9,320	14,636	15,605	17,388	18,526
Inventories	4,910	5,481	5,890	6,563	6,992
Current Assets	18,658	23,625	26,469	29,306	32,471
GW/Intang.	894	995	995	995	995
PPA	5,453	4,211	4,111	4,011	3,911
Deferred tax / other	1,178	645	682	719	756
Non-current assets	7,525	5,851	5,788	5,725	5,662
Total Assets	26,183	29,476	32,257	35,031	38,133
Accounts payable	4,080	6,943	8,151	9,082	9,677
Other current liabilities	802	869	869	869	869
Long-term debt	1,664	955	1,000	700	500
Other non-current liabilities	405	734	734	734	734
Total Liabilities	6,951	9,501	10,754	11,385	11,780
Share capital	109	200	200	200	200
Premium	15,331	22,173	22,173	22,173	22,173
Retained earnings	3,468	(2,781)	(1,253)	890	3,598
Non controlling interest	324	383	383	383	383
Shareholders' equity	19,232	19,975	21,503	23,646	26,354

Source: Company data, Capital Network forecasts

Important – Please read this information: This report has been commissioned by MTI Wireless Edge and prepared and issued by Capital Network for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however, we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Capital Network at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. Capital Network does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Capital Network's solicitation to effect, or attempt to effect, any transaction in a security. This document is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Capital Network has a restrictive policy relating to personal dealing. Capital Network does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Capital Network may have a position in any or related securities mentioned in this report. Capital Network or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Capital Network within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Capital Network, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.