

25th June 2019

Shekel Brainweigh

Tax loss selling weighing on the share price

Shekel Brainweigh (ASX:SBW) is an OEM supplier of accurate/fast weighing technology to Blue Chip clients the likes of GE Healthcare (Infant care), Toshiba and Fujitsu (self-checkouts). The group has a long history of market leadership in this space and has exclusive supplier status with these customers as a result. Adjusted group EBITDA has been positive for the last 2-years, which is a rarity amongst peers and provides a healthy base for new product development. We initiated on June 3, 2019 with a base case DCF valuation of \$0.51/share. However, like a scene from the 1980s' movie, Flying High, "we picked a bad time to initiate on SBW". Apparent tax loss selling has seen SBW fall from \$0.18 at initiation to \$0.13 late last week, a decline of 30% in 6-weeks and quite frankly an indictment on our stock market. Fundamentally nothing has changed in 6-weeks, in-fact a weakening A\$ (SBW's products are priced in US\$) and news of Coles looking at technology to reduce costs add further support to SBW earnings and our medium-term investment themes respectively.

Business model

Shekel Brainweigh produces weighing scale hardware that is employed by OEMs for self-checkout and healthcare applications requiring speed and accuracy. Prices received from customers is typically fixed, and gross margins are in-line with that achieved by most OEM equipment suppliers. The group is now looking to extend this weighing technology into new verticals, opening up larger market opportunities, potentially higher gross margins and some recurring SaaS style revenue from data analytics.

Share price disconnect

We initiated on SBW on June 3 with a base case DCF valuation of \$0.51/share. Our initiation report can be downloaded [here](#). One thing our initiation report brushed over which, at a share price of \$0.13 may be worth exploring, is the underlying earnings multiple of the core SBW business. This business in CY17 generated US\$2.6m (A\$3.8m) EBITDA. Pre-raise this represents an EV/EBITDA multiple of 3.4x at the current share price. In CY18, SBW reported an EBITDA loss of US\$0.3m, but this included IPO costs (\$US0.95m), share based payments (US\$1.15m) and a material increase in R&D spend related to new product development (\$US0.74m). Backing out these items, EBITDA in CY18 would have been US\$2.51m (A\$3.6m), an EV/EBITDA multiple of 3.6x at the current share price. Most peers identified have little or no earnings, let alone a multiple befitting a debt-ridden mining contractor! As we detailed in our initiation report the core business has a strong backdrop for growth over the medium-term, and SBW have exclusive supply agreements with key global leaders in each field. So investors are currently paying 3.6x core EBITDA and nothing for new product development, which is either in the early stages of commercialisation (Innovendi vending machines) of undertaking PAID trials with leading global retailers (Smart Shelves). Interestingly the share price of every peer identified in our initiation report has declined between 5% and 33% over the last 6-weeks, perhaps related to tax loss selling, with SBW down 28%.

Historical earnings and RaaS Advisory estimates (in US\$m)

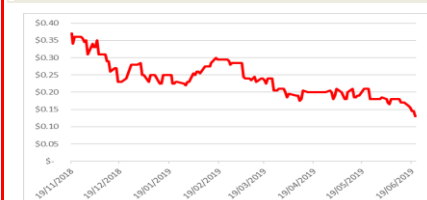
Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	P/E (x)	EV/Sales (x)
12/18a	18.7	(0.3)	(1.2)	(0.01)	19.7	0.24
12/19e	20.3	0.9	0.2	0.00	24.2	0.34
12/20e	23.9	2.4	1.3	0.01	8.0	0.28
12/21e	28.2	4.5	2.9	0.02	4.0	0.17
12/22e	31.7	6.6	4.6	0.04	2.7	0.03

Source: Company data, RaaS Advisory Estimates for FY19e, FY20e, FY21e and FY22e

Share details

ASX Code	SBW
Share Price	\$0.13
Market Capitalisation	\$18.1M
Number of shares	139M
Enterprise Value	~\$10.0M
Sector	Technology
Free Float	20%

Share price performance (since float)



Upside Case

- Strong growth expected in the group's core self-checkout and healthcare markets.
- New verticals have commenced commercialisation, with significant opportunities.
- Mix shift to recurring SaaS fees will increase gross margins and lower days receivables.

Downside Case

- Low liquidity with 20% free-float
- Currency translation from USD adds complexity for Investors
- Near term ROE likely to be impacted by R&D expenditure

Catalysts

- Automated vending machine roll-out in FY19
- Integration of product-aware shelving to retailers

Comparative companies (Australia & NZ)

AMS, ELS, IKE, MOB, MX1, PVS, RVS

Substantial Shareholders

Axcel Partner VI LLC 37.21%,
Consepta (2006) Ltd 25.34%;
Beit-Keshet Agricultural Co-operative Society 16.59%

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FINANCIAL SERVICES GUIDE

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