

Core scales revenue growth well ahead of expectations

Shekel Brainweigh Limited (ASX:SBW) has provided a 1HCY21 sales update ahead of its result release set down for late August. Group sales will be in the range of US\$10.5m-US\$10.6m, ~35% above the PCP and a record half (previously 2HCY19). The core Scales business will see growth of ~32% and “Retail Innovation” division ~240% off a low base, but higher than the entire CY20 contribution. Core growth is well above RaaS estimates for the half while “Retail Innovation” is below, but difficult to forecast as several projects enter commercialisation and some COVID disruptions remained. While three new customer contract wins late in 2H20 have contributed for the first time in 1HCY21, organic growth also looks strong in the Scales division. Historically SBW full year sales have been skewed to the 2H (45/55), setting the group up for another record sales half in 2HCY21. No earnings information was released, other than R&D spend remains elevated (we forecast US\$1.8m each half in CY21). We will do a complete review of our numbers and outlook post the result release, but the 1HCY21 sales results and low base for the balance of CY21 provide significant support.

Business model

SBW produces weighing scale hardware/software that is employed by OEMs for self-checkout and healthcare applications requiring speed and accuracy. Prices received from customers are typically fixed, and gross margins are in-line with that achieved by most OEM equipment suppliers. The group is looking to extend this market leading technology into new verticals, opening up larger market opportunities, potentially higher gross margins and some recurring SaaS style revenue from data analytics. One of the new verticals (Innovendi vending machines) is in commercialisation while others are nearing commercialisation (Micro-market Capsule and the Hubz).

Sales growth accelerating

Following a period of COVID disruption over CY20, particularly for own brand healthcare (-45%), retail checkout (-10%) and new product trials/sales, unaudited 1HCY21 sales growth has accelerated to ~35%, and been relatively consistent over the first two quarters. New client wins and a return to some sort of normality across many key selling regions is driving the growth, and with easy comparisons for 2HCY21 and ab historical 45/55 sales skew 1H/2H SBW are on track for another record sales period in 2HCY21.

Base case valuation A\$0.35/share with implied dilution

Our base case DCF valuation for SBW remains at \$0.35/share. This valuation assumes the US\$5m convertible note issued in April 2021 converts at a share price of \$0.40 at the conversion date in April 2023. We continue to highlight investors are paying nothing for the “new retail” division if the underlying core scales business is valued at 8x our estimated underlying EBIT.

Historical earnings and RaaS Advisory estimates on a reported basis

Year end	Revenue (US\$m)	EBIT (US\$m)	NPAT (US\$m)	EPS (c)	PER (x)	EV/sales(x)
12/19a	18.8	(2.1)	(2.4)	(0.02)	(5.6)	0.60
12/20a	18.3	(4.0)	(4.4)	(0.02)	(4.9)	0.75
12/21e	22.6	(1.6)	(2.1)	(0.01)	(10.4)	0.71
12/22e	27.6	1.9	1.3	0.01	9.5	0.58

Source: Company Data, RaaS Advisory Estimates

Technology – Hardware/software

29th July 2021

Share details

ASX Code	SBW
Share price 28 July '21	\$0.145
Market Capitalisation	\$22.2M
Shares on issue	153.2M
Enterprise value	\$18.2M
Cash at 30 Jan '20	A\$4.0M
Free float	~27%

Share performance (12 months)



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 ~27% free float
- Currency translation from USD and AASB16 adds complexity for investors
- Near term ROE likely to be impacted by R&D expenditure

Management

Arik Schor	Executive Chairman
Barak Nir	Chief Financial Officer
Udi Weisner	GM, Innovation Division
Nir Lesham	GM, Scales Division

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FINANCIAL SERVICES GUIDE

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