Company Note

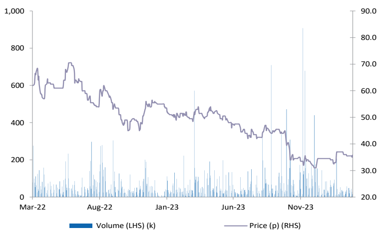
Finals

11 March 2024

Corporate

Current price	**36.5p**
Sector	**TMT**
Code	**MWE.L**
Listing	**AIM**

Share Performance



% Change	1m	3m	12m
MWE.L	-3.3	+10.1	-27.7

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		**32.3**
Shares in issue (m)		**88.5**
52 weeks (p)	High	Low
	54	**31**
Financial year end		**31 December**

Source: Company Data, Allenby Capital

Key Shareholders

Borovitz Family	31.8%
Beer Family	10.4%
Directors & PDMRs	6.3%
Herald Investment Man. Ltd	5.0%
Premier Miton Asset Man.	4.8%

Source: Company Data, Allenby Capital

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MTI Wireless Edge Ltd (MWE.L)

Diversified business model benefits

Finals from MTI Wireless Edge Ltd (MWE.L), the technology group focused on comprehensive communications and radio frequency solutions, were in line with forecast with growth in underlying but a reduction in reported revenue, reflecting the Israeli Shekel's (NIS) weakness against the US$ in 2023, although this benefited EBIT (+1%), given MTI's NIS-denominated cost base. Increased global defence spend, initially spurred by the war in Ukraine and more recently by the conflict in Israel, is supporting growth and defence accounted for 44% of revenue (FY22: 37%) and this should persist over the forecast period. MWE continues to benefit from its diversified business model - growth in Antennas mostly offset a decline in Mottech whilst MTI Summit was flat. Medium term growth drivers for each division remain intact and MTI remains very well capitalised, supporting its progressive dividend policy, share repurchases and M&A. No change to FY24 forecasts and 75p fair value. We introduce FY25 forecasts.

- **Financials:** FY23 reported revenue declined 1% to $45.6m but increased 2% on a constant currency basis. Improved product mix and price increases boosted GM by 60bps to 32.1%, and coupled with cost control and the FX impact, adj. EBIT increased 6% to $4.8m and PBT by 12% to $4.8m. The latter benefited from increased interest income and a reduction in the PSK deferred consideration. Operating cash flow conversion remains good at $3.5m (FY22: $3.6m) and net cash was c. $8.1m (FY22: $8.1m), post a $2.7m dividend. The FY23 DPS at 3.1c (FY22: 3.0c) was slightly below forecast (3.2c) but the company continues to repurchase its shares and recently increased the programme by £500k to £0.7m.

- **Divisional:** Each division (Antennas, Mottech and MTI Summit) remained profitable. The Antenna division grew 5% to $12.2m, driven by sharp growth in international military demand, directly and via Israeli systems houses, and a more moderate increase in RFID. There was a small decrease in 5G backhaul but as previously noted, the opportunity is large (particularly in India) but ordering is sporadic. September's competitive displacements are encouraging, and its innovative ABS product is entering preproduction after successful OEM testing. Mottech revenue declined 6% to $17.2m, mainly an FX function, but EBIT +8% to $2.0m. Recurring revenue continues to grow, representing 20% of divisional income. MTI Summit (down 1% at $16.2m) saw a slightly slower order rate as well as the previously reported delays to two projects. There was growth in Q4, however, as expected, as the division benefited from increased Israeli government spend.

- **Outlook:** FY24 has started well across all three divisions and we anticipate growth at the top and bottom lines in FY24 and FY25. We now expect slightly lower DPS growth but MTI is still yielding 7.0% in FY24 and 7.3% in FY25 and has net cash of $8.1m (7.2p/share) on the balance sheet. Fair value of 75p/share unchanged.

Year End: 31 December ($'000)	2021	2022	2023	2024E	2025E
REVENUE	43,184	46,270	45,634	48,078	50,508
ADJ. EBITDA	5,401	6,038	6,161	6,236	6,466
ADJ. PBT	4,038	4,317	4,835	4,936	5,116
ADJ. EPS (p)	4.07	4.21	4.58	4.56	4.72
NET CASH	12,536	8,130	8,076	8,663	9,710
EV/EBITDA (x)	5.3	5.4	5.4	5.2	4.8
DIVIDEND YIELD (%)	5.9%	6.5%	6.7%	7.0%	7.3%

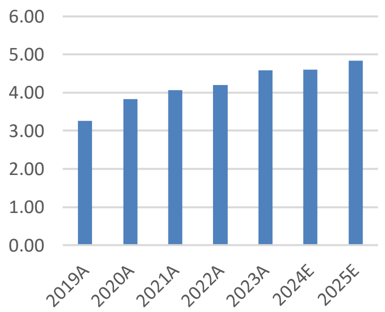
Source: Company; Allenby Capital. Allenby Capital acts as Nomad & Joint Broker to MTI Wireless Edge Ltd (MWE.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Investment summary

MTI Wireless Edge Ltd (MWE.L) benefits from a diversified business model that has communications and radio frequency technology at the core. MTI has a strong trading history with uninterrupted EPS growth over the past five years and good cash conversion that has been used to pay a progressive dividend, makes selective acquisitions, and invest to bring innovative products to market. At the current price, MTI is yielding 7.0% and trading on an EV/EBITDA of 5.2x in FY24. We maintain a fair value of 75p/share.

Exhibit 1: EPS progression



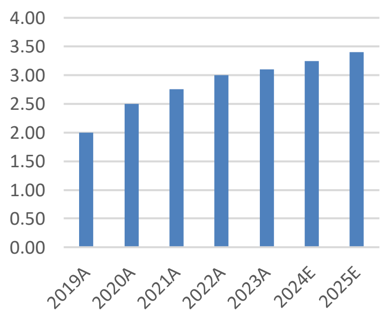
Source: Company; Allenby Capital

Financial performance

FY23 results were in line with forecast and each division (Antennas, Mottech and MTI Summit) remained profitable. FY24 has started in line with forecasts and the medium-term growth drivers remain intact for the group – increased global and domestic defence spending, increasing network data traffic driving the adoption of 5G and the ongoing challenges around water scarcity. Forecasts for FY24 remain unchanged and we introduce FY25 forecasts that indicate further growth at the top and bottom line.

There was underlying growth in FY23 group revenue (+2%) but a reduction in reported revenue (-1% to $45.6m; ACLe: $45.4m). This reduction was mainly a reflection of the Israeli Shekel's (NIS) weakness against the US dollar in 2023 but inevitably there was some short-term disruption in Q4 following the start of the conflict in Israel in October. This was reflected in small reductions to FY23 and FY24 forecasts in November at the time of the Q3 results. MTI's Israeli workforce was reduced to c. 80% of capacity in the aftermath as some staff were recruited to military service and others were displaced by the attacks. It should be noted however that c. 40% of MTI's staff are based internationally, logistics in and out of Israel saw minimal disruption, the attacks resulted in an immediate increase in domestic defence spending (>$2m in orders to MTI) and the Israeli government is investing in the affected areas, e.g. irrigation.

Exhibit 2: DPS progression

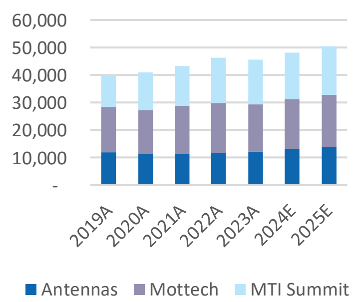


Source: Company; Allenby Capital

Improved product mix and price increases boosted gross margins by 60bps to 32.1%. Coupled with cost control and the FX impact of MTI's mainly NIS-denominated cost base, adj. EBIT increased 6% to $4.8m, adj. EBITDA by 2% to $6.2m (ACLe: $5.8m) and PBT by 12% to $4.8m (ACLe: $4.4m). PBT also benefited from increased interest income and a reduction in the PSK deferred consideration ($0.3m) and there was a related $0.2m non-cash goodwill impairment charge (excluded from adj. EBIT).

Operating cash flow conversion remains good at $3.5m (FY22: $3.6m) and net cash was c. $8.1m (FY22: $8.1m), post the payment of a $2.7m dividend during the year and $13.1m has been paid over the past six years. The FY23 declared dividend of 3.1c (FY22: 3.0c) was slightly below forecast (3.2c) but the company continues to repurchase its shares and recently increased the programme by £500k to £0.7m and extended to March 2025.

Exhibit 3: Divisional revenue performance



Source: Company; Allenby Capital

Divisional performance

At the divisional level, FY23 revenue growth in the Antennas division mostly offset a small decline in Mottech whilst MTI Summit revenue was essentially flat, after nine years of uninterrupted growth. By sector, Defence accounted for c. 44% (FY23: 37%) of group, spanning Antennas and MTI Summit and, by geography, Israel accounted for 63% of revenue (FY22: 63%) but much of this is then exported by MTI's customers.

Antennas

Within individual divisions, there are also different growth dynamics. In **Antennas** in FY23 there was sharp growth in military demand as multiple countries increased defence budgets and MTI reports very high enquiry levels. Demand came from multiple international projects, mainly in Europe, as well as domestically and this was served by MTI both directly and via Israeli systems houses. The global military antenna market was valued at $3.7bn in 2021 and is projected to reach $6.7bn by 2031, a 6.1% CAGR (Source:

Allied Market Research). There was also a more moderate increase in Radio Frequency Identification (RFID) for applications such as toll roads and asset tracking.

Meanwhile there was a decrease in demand for legacy antennas for fixed wireless access following a strong FY22 performance. There was also a small decrease in demand for 5G backhaul on the back of slower installation rates. As previously noted, the opportunity is large as major mobile phone operators roll out 5G networks to deal with the growth in data traffic volumes but ordering at this stage remains sporadic.

ABS 5G opportunity

India represents a core 5G market for MTI and it has invested in local manufacturing, establishing a subsidiary, MTI Wireless Communication India Private Limited in July. In 2022, the market for E-Band 5G backhaul opened up and 2023 saw initial shipments. In September, MTI announced orders worth c. $0.6m from the Indian divisions of two large OEMs for its 5G backhaul antenna. These were existing MTI customers but the orders were placed to replace a competitor's antennas that had failed to meet the end customers' requirements. MTI's innovative ABS product, that ensures the antenna adapts to any small movements caused by different climate conditions, including wind or temperature, has also generated significant interest and is now entering preproduction after successful OEM testing.

Water Control & Management - Mottech

In the Water Control & Management division (trading as Mottech), EBIT increased 8% to $2.0m on the back of revenue down 6% to $12.5m, reflecting the benefit of currency movements and price increases that were agreed at the end of 2022. Recurring revenue continues to increase and now represent 20% of the divisional income. In April, Mottech announced two new long-term contracts worth $2.2m with a large Israeli municipality for installations and the provision of services. The municipality was an existing customer but the contracts were for a longer duration. In January 2024, it announced the retention of a service contract with a local Israeli municipality worth $200k p.a. for up to seven years.

Fountain management

Mottech has been supplying irrigation services to a number of municipalities in Israel for many years, combining hardware from Motorola and its own management software in order to reduce water and power usage and maximising growing efficiency. More recently, it has expanded into monitoring and partially controlling urban fountains. An initial project, comprising forty fountains, was completed in Q1 FY24 and there has been interest from other large municipalities. The division also continues to make progress in Italy and France for agricultural irrigation.

ICC Pro Autopilot launched

Mottech also continues to develop its partnership with Viridix, initially signed in 2022, to combine its water management and irrigation application with Viridix's Auto-Pilot precision irrigation system that measures the water available to the roots of plants enabling greater irrigation precision. The ICC Pro Autopilot has been launched and has been well received for metropolitan landscape irrigation.

MTI Summit

FY23 performance in the Distribution & Professional Services division (trading as MTI Summit Electronics) was mixed, after nine years of uninterrupted growth with revenue essentially flat at $16.2m and EBIT down 33% to $1.6m. MTI Summit exclusively represents c. 40 international suppliers of radio frequency/microwave components and sells these products to Israeli manufacturers for either domestic use or export. MTI Summit has considerable knowledge and experience and acts as a consultant to all parties and assists in the development of solutions.

As flagged at the interims, there were losses at PSK following the delay of two projects that drove additional costs but management believes that these were isolated incidents and PSK has entered FY24 with a healthy order book and a good pipeline of opportunities. Increased global defence spending has created a strong market environment for the existing MTI Summit business and PSK both domestically and for export via the Israeli systems houses.

For example, the PSK agreement with the Israeli Ministry of Defence, that was initially announced in July 2022 and worth $1.4m p.a. and up to $10m over the total potential term, was increased MTI Summit has also seen high demand for its telemetry shelters, including the addition of a new customer. In November, MTI Summit announced orders of c. $1m for the service and maintenance of surveillance platforms over the next 14 months.

Exhibit 4: Summary income statement

Year-end December ($000s)	2021A	2022A	2023A	2024E	2025E
Revenue	43,184	46,270	45,634	48,078	50,508
Growth	*5.6%*	*7.1%*	*-1.4%*	*5.4%*	*5.1%*
Gross Profit	13,499	14,590	14,671	15,433	16,163
Margin	*31.3%*	*31.5%*	*32.1%*	*32.1%*	*32.0%*
Total administrative and operating expenses	-9,074	-9,998	-10,021	-10,547	-11,097
Growth	*0.8%*	*10.2%*	*0.2%*	*5.3%*	*5.2%*
EBIT	4,425	4,592	4,650	4,886	5,066
Margin	*10.2%*	*9.9%*	*10.2%*	*10.2%*	*10.0%*
Adj. EBITDA	5,401	6,038	6,161	6,236	6,466
Margin	*12.5%*	*13.0%*	*13.5%*	*13.0%*	*12.8%*
Adj. Profit before tax	4,038	4,317	4,835	4,936	5,116
Shares in issue (diluted)	88.5	88.4	88.3	88.5	88.5
EPS (diluted) (cents)	4.1	4.2	4.6	4.6	4.7
DPS (cents)	2.8	3.0	3.1	3.3	3.4

Source: Company; Allenby Capital

Exhibit 6: Summary balance sheet

Year-end December ($000s)	2021A	2022A	2023A	2024E	2025E
Non current assets	7,582	10,633	9,910	9,060	8,161
Inventories	6,849	7,757	7,484	7,644	7,980
Trade and other receivables	10,628	11,035	14,284	13,125	14,142
Other current assets (excluding cash)	3,312	2,753	4,571	5,000	5,000
Cash and cash equivalents	12,567	8,279	8,454	9,041	10,086
Total current assets	**33,356**	**29,824**	**34,793**	**34,811**	**37,208**
Total assets	**40,938**	**40,457**	**44,703**	**43,871**	**45,369**
Non-Current Liabilities	-1,341	-2,585	-2,414	-1,964	-1,513
Trade and other payables	-12,241	-9,366	-12,440	-10,773	-11,334
Other current liabilities	-345	-468	-597	-564	-562
Total current liabilities	**-12,586**	**-9,834**	**-13,037**	**-11,337**	**-11,896**
Total liabilities	**-13,927**	**-12,419**	**-15,451**	**-13,301**	**-13,409**
Net assets	**27,011**	**28,038**	**29,252**	**30,570**	**31,960**

Source: Company; Allenby Capital

Exhibit 5: Summary cashflow

Year-end December ($000s)	2021A	2022A	2023A	2024E	2025E
Operating profit before movements in working capital	5,042	5,700	6,013	6,236	6,466
Cash generated from operating activities	7,586	4,031	6,054	5,567	5,674
Net cash flow from investing activities	-736	-4,749	-387	-550	-550
Net cash flow from financing activities	-2,820	-2,969	-2,980	-3,395	-3,327
Net increase/(decrease) in cash and cash equivalents	3,037	-4,127	171	587	1,044
Cash and cash equivalents at end of period	**12,567**	**8,271**	**8,454**	**9,041**	**10,085**
Net cash	**12,536**	**8,130**	**8,076**	**8,663**	**9,710**

Source: Company; Allenby Capital

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