



Addvalue Technologies Ltd

(ADDV SP/AVAU.SI)

Not Rated

Price as of 7 Jun 2018	0.04
12M target price (S\$)	na
Previous target price (S\$)	na
Upside (%)	na

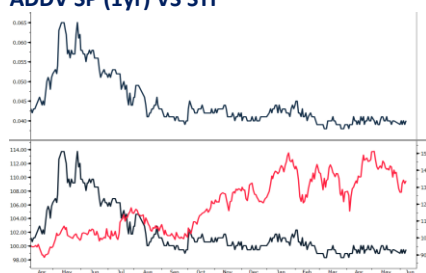
Trading data

Mkt Cap (S\$m) / (US\$m)	71 / 53
Issued Shares (m)	1,770
Ave Daily Traded (3-Month) Vol / Val	6.5m / \$0.3m
52 week lo / hi	\$0.04 / \$0.06
Free Float	93.6%

Major Shareholders

Tan Khai Pang	2.3%
Chan Kum Lok	2.2%

ADDV SP (1yr) VS STI



Source: Bloomberg

Finally commercialising its flagship technology

Event

Houston, we have lift-off. Addvalue Technologies (Addvalue) provides mobile satellite broadband communications terminals and solutions. Its latest technology, the inter-satellite data relay system (IDRS), has commenced commercialisation after more than 3 years of development and testing. Based on the company's estimates, IDRS has the potential to increase Addvalue's revenues by 10x over the next three years.

Commercialising its IDRS product. Its key flagship technology, the IDRS, will enable the world's first commercial 24/7 real-time on demand communications services for Low Earth Orbit (LEO) satellites. In April, Addvalue secured its first major commercial IDRS contract with a satellite services provider for the design and supply of IDRS terminals to be installed on the customer's multi-LEO satellite constellation. In the same month, it also entered into an agreement with a US-based aerospace company to carry out feasibility study for the adoption of IDRS in the latter's space missions.

Huge potential uplift from IDRS. Based on the company's estimates, IDRS has the potential to add >US\$40mn in recurring revenues, subsequent to the full deployment of the client's multi-LEO satellite constellation. This is based on a mix of recurring airtime services and hardware sales, which could generate US\$11mn net profit assuming a 28% profit margin. As a reward to shareholders, it intends to spin-off AVS, which holds the IDRS business, via a distribution-in-specie of a portion of the AVS shares currently held by the company to Addvalue's shareholders.

Valuation & Action

Addvalue has been loss-making over the past three years mainly due to the amortisation and impairment loss of intangible assets and development costs. We understand that amortisation is expected to decline to US\$0.5mn in FY2019 compared to the US\$1.8mn average in the past 3 years. Furthermore, with Addvalue securing its first contract for IDRS, and with ongoing talks with several other satellite service operators, the group may finally be turning around. If we were to assume that Addvalue could deliver the IDRS on net profit margins of at least 28% (yielding net profit of US\$11m) in the next 3 years, it would be trading at an attractive 5x FY2021 EPS.

Risks

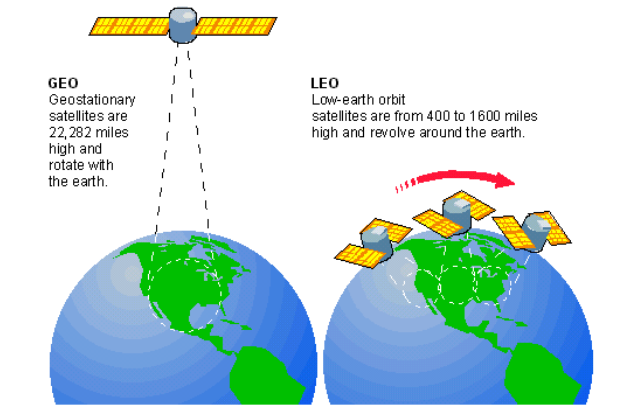
Addvalue has been developing its IDRS system for years and a failure or delay to commercialise it may impact profitability and its balance sheet. In addition, it will still take 2-3 years before clients are able to fully deploy their own LEO satellite constellations. In the meantime, there could be further dilution to shareholders if it were to seek new equity funding for its working capital needs.

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See the last page for important disclosures.

What is LEO?

Figure 1: LEO vs GEO satellites



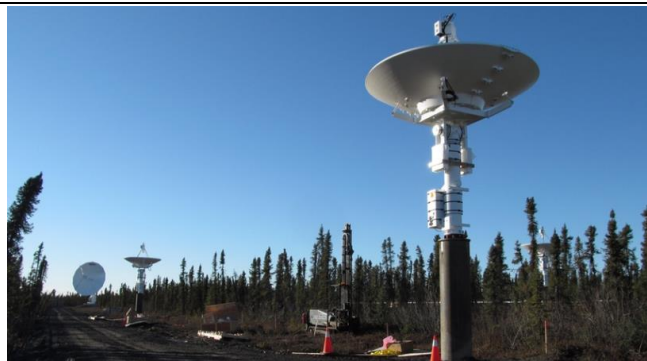
Source: PC Mag

A low Earth orbit (LEO) is an orbit around Earth with an altitude above Earth's surface of 2,000 kilometres (1,200 mi), and an orbital period between about 84 and 127 minutes. Objects below approximately 160 kilometers (99 mi) will experience very rapid orbital decay and altitude loss. The International Space Station conducts operations in LEO, while earth observation and spy satellites use LEO as they are able to see the surface of the earth more clearly.

A geostationary satellite (GEO) is an earth-orbiting satellite, placed at an altitude of approximately 35,800 kilometres (22,300 miles) directly over the equator, that revolves in the same direction the earth rotates (west to east).

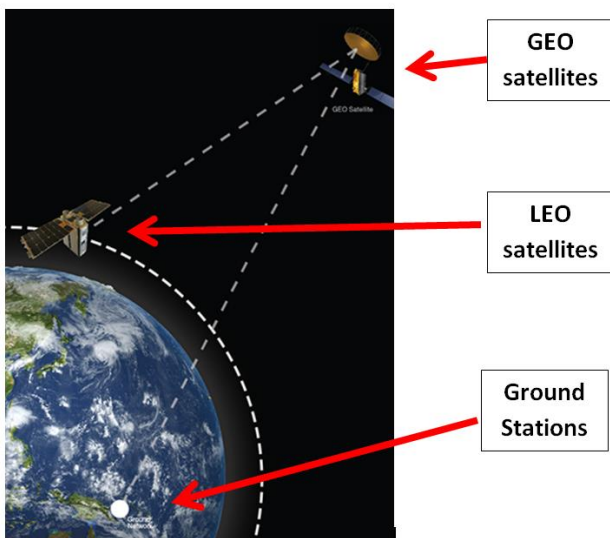
Traditional way of communicating with LEO satellites. Commercial satellite operators typically communicate with satellites in Low Earth Orbit (LEO) through ground stations (Figure 2). Often, that means operators gather information and send instructions during a period that lasts from 15 to 20 minutes per orbit.

Figure 2: Example of ground stations



Source: SpaceNews

Figure 3: IDRS Solution provides continous communication access to LEO satellites via Inmarsat's GEO satellites



Source: Addvalue, KGI Research

Addvalue's value proposition with its IDRS technology. Addvalue realised that the problem of communicating with satellites in low Earth orbit could be solved if operators could relay data through Inmarsat's Broadband Global Area Network (BGAN). Subsequently, Addvalue's engineers developed the IDRS which maintains continuous connection with LEO satellites via Inmarsat's BGAN.

IDRS customers will purchase communications services for their satellites the same way individuals buy data packages for mobile devices. Fees for the packages vary based on the amount of data operators exchange with their satellites per month.

Financial review

The group has been loss-making over the past three years mainly due to the continued amortisation of the intangible assets of its wholly-owned subsidiary Addvalue Communications (AVC). Addvalue had previously wanted to dispose of AVC as early as May 2017 but has since stopped actively pursuing new business activities for AVC while taking steps to reduce operations of AVC.

FY2018. The loss of the group in FY2018 was attributed mainly to a 62% drop in sales and lower profit margins. AddValue also took US\$5.5mn of impairments, which resulted in FY2018 losses of US\$11.1mn compared to a loss of US\$3.5mn in FY2017.

Figure 4: Key financial information

In Millions of USD 12 Months Ending	FY 2009 03/31/2009	FY 2010 03/31/2010	FY 2011 03/31/2011	FY 2012 03/31/2012	FY 2013 03/31/2013	FY 2014 03/31/2014	FY 2015 03/31/2015	FY 2016 03/31/2016	FY 2017 03/31/2017	FY 2018 03/31/2018	Current/LTM 03/31/2018
Market Capitalization	—	19.4	31.7	74.3	72.2	134.5	64.0	37.0	46.5	52.7	54.5
- Cash & Equivalents	0.0	0.2	0.6	0.4	0.2	0.3	0.3	0.5	0.3	0.3	0.3
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Total Debt	3.0	3.7	3.8	2.4	2.8	3.0	3.7	4.9	1.7	1.8	1.8
Enterprise Value	—	22.9	34.9	76.3	74.7	137.2	67.4	41.5	47.9	54.3	56.1
Revenue, Adj	4.0	8.4	15.2	10.6	10.2	13.6	14.7	9.9	10.8	4.1	4.1
<i>Growth %, YoY</i>	-45.8	107.8	80.4	-30.5	-4.0	34.2	7.9	-32.5	9.0	-62.3	-62.3
Gross Profit, Adj	2.4	2.6	7.5	5.1	4.5	6.2	4.5	3.4	4.1	1.3	1.3
<i>Margin %</i>	59.9	30.8	49.0	48.0	44.3	45.2	30.5	34.6	37.6	32.4	32.4
EBITDA, Adj	0.0	-0.8	5.4	2.5	1.7	2.3	-3.1	-0.9	-0.8	-9.1	-9.1
<i>Margin %</i>	-0.1	-9.5	35.5	23.5	16.9	16.7	-21.0	-8.8	-7.2	-223.2	-223.2
Net Income, Adj	-2.0	-2.3	5.7	0.8	-0.1	0.0	-6.2	-4.7	-3.5	-11.1	-11.1
<i>Margin %</i>	-50.4	-26.7	37.1	7.6	-0.9	0.3	-42.2	-47.4	-32.0	-272.6	-272.6
EPS, Adj	—	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
<i>Growth %, YoY</i>	—	—	—	-87.7	—	—	—	-36.5	41.6	-178.3	-274.5
Cash from Operations	0.1	-2.2	-2.1	-1.6	-1.5	0.1	-0.6	-0.7	-3.4	-3.7	-3.7
Capital Expenditures	-0.2	-0.6	-0.1	-0.2	-0.2	-0.8	-0.3	-0.2	-0.2	-0.1	-0.1
Free Cash Flow	0.0	-2.8	-2.2	-1.8	-1.7	-0.7	-0.9	-0.9	-3.6	-3.8	-3.8

Source: Bloomberg, KGI Research

Share Placement Exercise. On 15 May 2017, the group allotted and issued 103.8mn new ordinary shares at a placement price of S\$0.039 per Placement Share for approximately S\$4.0mn.

Convertible Loan Notes Exercise. Addvalue has an aggregate principal amount of S\$7.1mn convertible loan notes. These convertible notes can be converted to 128.5mn new ordinary shares in the capital of the company at a conversion price of S\$0.055 per conversion share. The group issued 83.5mn conversion shares on 2 June 2017. As at end March 2018, it had 45mn of outstanding convertible loan notes which may be converted to 45mn conversion shares.

Latest round of funding. It announced on April 30, 2018 that it seeks to place up to S\$10mn of shares at S\$0.040 per share. S\$6mn of the proceeds will be utilised for a capability development programme and the remainder for working capital.

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Rating	Definition
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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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