

Equity Research | MELTRON: Bright outlook with triggers ahead

With a difficult fiscal year now in the books, Meltron is looking to start over with an increased focus on cost efficiency, direct sales and building a wider distribution network throughout Northern Europe. Combined with the high potential deals awaiting in the Middle East, and Oman in particular, there are several triggers to drive a revaluation of the share from today's levels. With the proceeds from the rights issue of SEK 16m at SEK 0,10 per share, we continue to find support for a fair value of SEK 0,29-0,39 per share in 12-24 months.

Cost efficiency and diversification highlights in H1'22

As Meltron close the books for the fiscal year 21/22 (July-June), we can conclude that it has been a tough one. Sales did rebound a bit during calendar H1'22 amounting to SEK 3,6m, but combined with the disappointing calendar H2'21, full year Sales landed at SEK 5m, compared to our forecast of SEK 7m. We do however note that the cost efficiency program launched with the appointment of CEO Stefan Kåla has gained traction, where costs decreased by 26% in calendar H1'22 compared to H2'21. The company has also signaled even further cost reduction through better purchase of components as well as outsourcing production, which should facilitate reaching breakeven at lower sales than we earlier anticipated. Meltron is in the midst of building a distribution network consisting of wholesalers and lightning experts throughout Finland and northern Europe, where profound discussions are expected to be finalized shortly. This strategy combined with direct sales to Finnish industry clients whom Meltron has long relationships with, will hopefully get sales going, without being too dependent on the higher deal values in the Middle East.

Protracted high-value negotiations in Oman

While discussions with customers in Oman, where deal values are considerably higher than in northern Europe, has taken longer than expected, Meltron has focused on what they can control and managed to deliver on several orders from larger industrial clients in Finland. This is important for stable future cash flows, to not just rely on a few big orders. We do however still see the considerable potential in Oman and other countries in the Middle East, where there are major infrastructural projects ongoing and Meltron stands ready to deliver on tenders to both football stadiums and large infrastructure projects included in the MOU signed in February. The initial deal value of about SEK 20m is associated with some additional investments in the area, but would give Meltron a local proof of work and a storefront to more easily lock in additional deals.

Several triggers to drive a revaluation

To reach neutral cashflow we estimate that Sales are required to reach at least SEK 45m at today's OPEX around SEK 19m, meaning that with the smaller, but recurring orders from Finnish industry customers (deals around SEK 0,6m) Meltron needs to significantly increase the pace of customer acquisition. We do however still see high potential both in the Middle East as well as the cooperation with global giant Huawei. The latter was announced in late September 2021, and is still



yet to deliver any firm deals. If order pace increases from Finnish and European customers and as we get more details regarding Oman, we expect to re-evaluate our rather defensive WACC of 30% which combined with a target multiple of 1.8x Sales 23/24E support a fair value of SEK 0,29 – 0,39 per share in 12-24 months, including the upcoming rights issue of SEK 16m.

Read full report here: https://www.emergers.se/meltron_f/

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