

Equity Research | MELTRON: Strengthening financials with sight set on positive cash flow

With an upcoming rights issue in September, Meltron has secured about 64% of the total SEK 16m through guarantees and commitments from a group of investors and board + management. The SEK 20m MOU with Oman in February has still not produced any signed deals but in light of the country's vast infrastructure project investments we continue to see a fair chance for firm orders to unleash the potential in Meltron. Following a reverse split of 10:1 and a forward offset of our estimates, our combined DCF and multiple approach supports a fair value of SEK 0,29 – 0,39 (0,10 – 0,13 (pre-split)) in 12 – 24 months.

64% guaranteed in upcoming rights issue

Meltron has now released some details regarding the upcoming rights issue in September, where the company will seek to raise SEK 16m at SEK 0,1 per share. SEK 10m (64%) has already been guaranteed by a group of investors, and another SEK 300,000 has been guaranteed by the company's board and management. Since market cap has tumbled to below SEK 10m, the rights issue will mean significant dilution for non-participating shareholders. With the proceeds from the issue, Meltron will continue its establishment in Oman, assuming MOU will lead to firm orders, where discussions are ongoing but have not yet converted into placed orders. Meltron stands ready to deliver on tenders to both football stadiums and large infrastructure projects, but still await the first pivotal order to be placed.

May or may not carry the company to self-financing

With Stefan Kåla appointed as the new CEO and a cost cutting program implemented in April, we have seen an upswing of recurring orders from Finnish customers so far in 2022. In the announcement regarding the upcoming rights issue, the company argues that the SEK 16m from the rights issue will be enough to reach positive cash flow in 2023. But for the company's claim to hold true, Meltron will need the operations in Oman to take off. In our base case, we forecast losses on EBITDA level of SEK -15m this year (jul-jun 2021/22), SEK -11m next year to reach SEK 0 in EBITDA in 2023/24, suggesting that the company will likely need additional funds within our forecast horizon.

High potential hinging on breakthrough in Oman

The underlying drivers are still in Meltron's favor where focus on energy efficiency and safety at work have increased as of late, and we still see significant long-term potential with the company's distribution and partner strategy, as well as in the infrastructure segment in Oman. Adding to that, the cooperation with Huawei and their design of smart cities, where we still believe there's a big part for Meltron to play, also has the potential to translate to big business for Meltron. We have revised our estimates somewhat to reflect the longer than anticipated lead times for firm orders in Oman and now forecast sales of SEK 12m in 2022/23 (SEK 20m) and SEK 40m in 2023/24 (SEK 50m). With a discount rate of 30% and a 1.4x target sales multiple we find support for a fair value of SEK 0,29 – 0,39 per share. This suggests that the current depressed share price could be considered an attractive entry point for the long-term investor, should Meltron manage to capitalize on the opportunities at hand.



Read the full report here https://www.emergers.se/meltron_e/

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