

# AVA Risk Group (ASX.AVA)

Strong 4Q20 bodes well for FY21

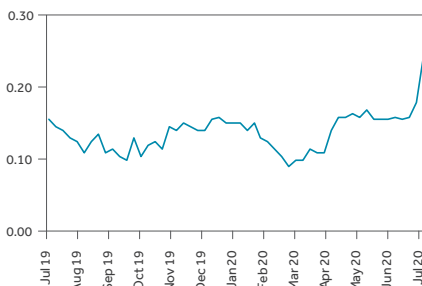
## Key Facts

Company Code	AVA
Closing Price (30/07/20)	\$0.26
Date of Report	31/07/20
Company Website	<a href="http://www.theavagroup.com">www.theavagroup.com</a>
Analyst	Aaron Muller

## Company Statistics

12-Month Range (A\$)	\$0.26-\$0.08
Market Cap (A\$Mil)	\$61m
Issued Shares (Mil)	234.1m
Issued Options (Mil)	\$9.95m
Cash (A\$Mil)	\$7.9m

## Share Price Performance



Source: IRESS

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## Cash continues to roll in

AVA reported a strong 4Q20 posting a record quarterly operating cash flow of \$4.0m and ended the year with net cash of \$7.9m. The result was underpinned by an improved performance from the Services division, the continued delivery of the Indian Ministry of Defence (IMOD) contract, and cost reductions across the business, which has helped lift margins. This helped to offset the impact of Covid-19 on the Technology division, which saw order delays of ~\$2.5m during the quarter.

As a result of the strong quarter, AVA has guided to FY20 revenue of ~\$45m and EBITDA of \$6.8m. This compares to our estimates of \$43.6m and \$5.7m – a 19% beat at the EBITDA line. With the Services division seeing an acceleration of revenue growth and gross margins, we have revised our FY21 EBITDA estimate by 18% to \$9.8m. We have also increased our Target Price to \$0.38 per share. We retain our BUY rating.

## Key points

**Logistics underpinned strong 4Q20 result** – Group revenue for 4Q20 of \$12.3m takes 2H20 revenue to \$24.6m (+50% on pcp). FY20 EBITDA guidance of ~\$6.8m implies 4Q20 EBITDA of \$2.6m and 2H20 EBITDA of \$4.6m (1H20: \$2.2m). The Services division outperformed expectations despite the impact of Covid-19 on airfreight capacity. 4Q20 revenue of \$9.7m was +59% on 3Q20. Management was able to respond quickly to the changes given its capital light model, which resulted in an acceleration and conversion of new customers. This bodes well for growth in FY21. In addition, Services division gross margins improved in line with higher freight costs - gross margins were 25% in FY20 vs 21% in FY19. This strong performance offset order delays in the Technology division due to Covid-19, which management called out as being \$2.5m. Revenue for 4Q20 of \$2.5m was down on the \$6.1m in 3Q20. The order backlog remains at ~\$16m, which we expect to be delivered in FY21.

**IMOD continues to bring in the cash** – AVA continued to deliver on its data network security contract with the Indian Ministry of Defence (IMOD). During the quarter, \$1.3m of revenue was recognised taking total revenue from the contract in FY20 to \$5.0m. During 4Q20, \$1.5m in cash was received. This, together with improved an improvement in working capital saw net cash increase to \$7.9m. With additional IMOD payments to be received in 1H21 of \$3.9m, we expect cash reserves could grow to ~\$12-14m by 31 December 2020.

**Strong growth outlook remains** – With strong momentum in Services, a technology order backlog of ~\$16m and the IMOD project being delivered on, FY21 is expected to deliver strong growth. A recent contract win by AVA's technology division with the Australian Department of Defence and the commercialisation of AVA's conveyor health monitoring solution, the Aura IQ, are also likely to contribute. There is some risk that Covid-19 related delays continue to impact the Technology division, however, as we saw with 4Q20, this would likely benefit AVA's Services division.

**Valuation and recommendation** – We have made some adjustments to our forecasts to reflect the result – FY20 EPS +14% to 1.9c and FY21 EPS +15% to 3.2c. Consequently, we have increased our valuation and Target Price to \$0.38 per share. At current levels AVA is trading on a FY21 PER of 8.2x and an EV/EBITDA multiple of 4.6x, which isn't that demanding considering the growth profile and cashed up balance sheet. We retain our BUY rating.

# AVA

## Financial Summary

Profit & Loss (\$m)	2018A	2019A	2020F	2021F
Sales Revenue	19.8	33.1	45.0	53.1
EBITDA	-3.1	-2.8	6.8	9.8
Depreciation	-0.4	-0.7	-1.2	-1.2
EBITA	-3.5	-3.5	5.6	8.6
Amortisation	-1.1	-1.2	-1.2	-1.2
EBIT	-4.6	-4.7	4.4	7.4
Net Interest Expense	0.1	0.0	0.0	0.0
NPBT	-4.5	-4.7	4.4	7.4
Tax expense	1.1	0.0	0.0	0.0
NPAT (Normalised)	-3.5	-4.7	4.4	7.4
Significant items	0.0	0.0	0.0	0.0
NPAT (Reported)	-3.5	-4.7	4.4	7.4
Cash Flow (\$m)	2018A	2019A	2020F	2021F
Operating EBITDA	-3.1	-2.8	6.8	9.8
- Interest & Tax Paid	0.1	1.0	0.0	0.0
+/- change in Work. Cap.	2.1	-0.6	-0.9	-1.2
- other	1.3	-0.9	0.0	0.0
Operating Cashflow	0.4	-3.3	5.9	8.6
- Capex	0.0	-0.2	-1.0	-1.0
- Acquisitions/divestments	-1.3	-1.1	0.0	0.0
- other	0.0	-1.2	0.0	0.0
Free Cashflow	-1.0	-5.8	4.9	7.6
- Ord Dividends	0.0	0.0	0.0	0.0
- Equity /other	0.0	3.0	0.0	0.0
Net Cashflow	-1.0	-2.8	4.9	7.6
Cash at beginning of period	6.9	5.9	3.0	7.9
+/- borrowings / other	0.0	0.0	0.0	0.0
Cash at end of period	5.9	3.0	7.9	15.5
Balance Sheet	2018A	2019A	2020F	2021F
Cash	5.9	3.1	7.9	15.5
Inventories	4.3	4.5	4.6	5.4
Debtors	5.3	5.0	7.3	8.7
PPE	0.9	0.8	2.2	3.2
Intangibles	12.7	12.7	12.7	12.7
Other assets	0.5	0.4	0.4	0.4
Total Assets	29.7	26.5	35.0	45.8
Borrowings	0.0	0.7	0.0	0.0
Trade Creditors	4.8	4.0	5.5	6.5
Other Liabilities	1.6	1.5	1.5	1.5
Total Liabilities	6.4	6.3	7.0	8.0
NET ASSETS	23.3	20.2	28.0	37.8

### Board and Management

	Shares	% Options		
David Cronin - Chairman	33.9	14.5%	0.0	0.0%
Robert Broomfield - CEO	3.0	1.3%	1.8	17.6%
Mark Stevens - Non Exec-Director	0.5	0.0%	0.0	0.0%
Mike McGeever - Non Exec-Director	4.1	0.0%	0.0	0.0%

### Description

AVA is a leader in fibre optic intrusion detection systems which detect and locate perimeter intrusions, oil and gas pipeline interference and data network tapping. FFT has more than 1500 systems deployed in over 60 countries. AVA also offers access security products and secure logistics.

Valuation ratios	2018A	2019A	2020F	2021F
EPS (cps)	-2.1	-2.0	1.9	3.2
P/E (x)	-12.6	-12.9	13.8	8.2
PER Rel - All Ind.	-162%	-169%	-20%	-49%
PER Rel - Small Ind.	-165%	-171%	-17%	-46%
Enterprise Value (\$m)	55.0	58.5	52.9	45.4
EV / EBITDA (x)	-17.6	-20.5	7.8	4.6
EV / EBIT (x)	-11.9	-12.4	12.0	6.1
DPS (cps)	0.0	0.0	0.0	1.1
Dividend Yield (%)	0.0%	0.0%	0.0%	4.4%
Franking (%)	100%	100%	100%	100%
CFPS (cps)	0.2	-1.4	2.5	3.7
P / CFPS (x)	120.7	-18.4	10.3	7.1
Profitability ratios	2018A	2019A	2020F	2021F
EBITDA Margin (%)	-15.7	-8.6	15.1	18.5
EBIT Margin (%)	-23.2	-14.3	9.8	13.9
ROE (%)	-15.1	-23.4	29.4	37.1
ROA (%)	-19.4	-20.1	16.2	24.4
ROIC (%)	-20.4	-19.7	nm	nm
Balance Sheet ratios	2018A	2019A	2020F	2021F
Net Debt (cash)	-5.9	-2.4	-8.0	-15.5
Net Gearing (%)	cash	cash	cash	cash
Interest Cover (x)	nm	nm	nm	nm
NTA per share (\$)	0.15	0.07	0.04	0.06
Price / NTA (x)	1.8	4.0	6.1	4.1
EFPOWA (m)	166.7	234.1	234.1	234.1
Growth ratios	2018A	2019A	2020F	2021F
Sales revenue (\$m)	53.7%	66.9%	36.0%	18.0%
EBITDA (\$m)	nm	nm	nm	44.0%
EBIT (\$m)	nm	nm	nm	68.0%
NPAT (\$m)	nm	nm	nm	68.0%
EPS (cps)	nm	nm	nm	68.0%
DPS (cps)	na	na	na	na
Interim Analysis	1H18A	2H18A	1H19A	2H19A
Revenue	8.2	11.6	16.7	16.9
EBITDA	0.6	-3.7	-1.6	-1.2
EBITDA margin	nm	-31.6%	-9.6%	-7.4%
Valuation	2020F			
Normalised EBITDA multiple (x)				
EBITDA (\$m)	9.8			
Target EBITDA multiple (x)	7.5			
Net Debt (cash) (\$m)	-15.5			
Implied Valuation	89.0			
Per Share	0.38			
Target PE Multiple				
EPS (c)	3.2			
PE Target (x)	12.0			
Per Share	0.38			
Discounted Cash Flow				
Cost of equity	14.5%	WACC	14.5%	
Cost of debt	6.0%	TGR	3.0%	
Net Debt/ ND+E	0%	Per Share	0.38	

Source: Company reports and Canaccord Genuity

## Appendix: Important Disclosures

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