Sensera Ltd.

On track for operating cash flow breakeven by 4Q19

Sensera (ASX:SE1) recently announced its revenues and cash flow for 1Q19 (September quarter). Revenues came in at US$ 1.1M with gross cash receipts totaling US$ 1.6M (US$ 576k in 1Q18). Net cash from operations amounted to -/-US$ 2.7M compared to -/- US$ 1.4M in 1Q18.

Revenues of US$ 1.1M where somewhat soft in Q1 given the above average temperatures in the European summer. While July and August are very slow months in Europe to begin with, unusually warm weather resulted in slower sales across the continent.

We have heard similar comments from other electronics companies very recently. As is typical, though, we anticipate a revenue catch-up effect in 2Q19 as SE1's customers seek to fulfil their own commitments to their respective customers.

Revenue guidance reiterated

Despite the slow 1Q, SE1 has reiterated its revenue guidance for FY19 of US$ 10.5M to US$ 11.5M. Furthermore, the company reemphasized it aims to achieve operating break even by 4Q19 (June quarter). The recent A$ 8.3M capital raise will provide SE1 more than sufficient runway to get there, in our view.

In other words, we don't expect SE1 will need to call upon the capital markets again to fund the current growth path. Of course, future potential acquisition opportunities and/or a potential desire on the part of management to accelerate growth in the future are good reasons to tap the market. However, we haven't taken any further capital raises into account in our model.

Starting to engage directly with Mining industry

In addition to the existing channel partnerships in Nanotron's Mining vertical, SE1 has started to engage directly with potential mining customers. Tight cash management previously implied limited sales resources were available for direct sales.

However, SE1 anticipates it will be able to generate 2-3x higher revenues from Mining customers if it can sell its solutions directly to these end-users, rather than through channel partners. During Q1 the company was able to add one additional mine to its customer base with several prospective Mining customers in the sales pipeline currently.

			FY17A	FY18A	FY19E	FY20E
Number of shares (m)	244.3	Revenues	1.2	6.4	11.2	16.5
Number of shares FD (m)	252.8	EBITDA	(5.4)	(6.6)	(3.1)	0.9
Market capitalisation (A$ m)	24.4	NPAT	(5.3)	(6.9)	(3.2)	0.5
Free Float (%)	100%	EPS FD	(0.06)	(0.05)	(0.01)	0.00
12 month high/low A$	0.37 - 0.095	EV/EBITDA	nm	nm	nm	nm
Average daily volume (1,000x)	345	EV/Sales	12.8	2.4	1.4	0.9

MEMS building momentum for strong sales expansion

While the MEMS sales cycle can be a fairly long process due to the initial design-in phase, required to embed SE1's products into customers' designs, we believe MEMS has been gradually building sales momentum, as illustrated by the full-year 2018 results released in August with MEMS sales totaling US$ 1.95M versus US$ 910k in FY17. These sales were generated by just 5 customers, none of which we believe are fully ramped up yet.

SE1 has an additional 7 customers in various stages of the sales and design-in process and anticipates that production for all 12 customers will have commenced by the end of FY19, i.e. June 2019. As is typical for such customers, productions starts at low volumes, but can subsequently be ramped up quite strongly once manufacturing outsourcing partners have fine-tuned the production process and MEMS customers have started selling the end-product at full strength.

In our model, we have assumed MEMS will be able to increase revenues to US$ 4.4M in FY19 across the Medical and Military verticals. In part, this will be facilitated by the recently received ISO 13485 certification for quality management systems related to medical devices. Most tier 1 Medical Devices companies require their suppliers to get such certifications before being able to take component shipments from these suppliers.

MEMS also acquired multiple new production tools, including a nickel-plating tool and a plasma etcher, which will enhance the company's microfabrication capabilities. As outsourced production can be brought back in house due to these new tools, the company's gross margins in MEMS should have further upside, i.e. in addition to the existing upside we see as production volumes increase over the next few years.

The overall gross margin, across both MEMS and Nanotron, came in at 51.6% in FY18. However, we anticipate gross margins well in excess of 60% from FY20 onwards.

Expansion into Railway safety vertical

In addition to the Mining and Agriculture verticals, SE1 recently announced that Nanotron has expanded into Railway safety through a volume supply agreement with Protran Technology, a US-based provider of safety solutions for the railway sector.

Protran provides secondary advanced warning systems to the railway industry to enhance worker safety. Nanotron's swarm bee low energy product has been integrated into Protran's Roadway Worker protections system and can alert workers of oncoming trains up to 300 meters away.

Protran is part of Harsco Rail, a global provider of railway solutions to 125 railways. In turn Harsco rail is owned by Harsco Corporation (NYSE:HSC, market cap. US$ 2.25BN). Given Protran's network, we expect SE1 will be able to generate very substantial revenues from this agreement.

Well-positioned to aggressively drive revenue growth

In our view, management are doing all the right things to position SE1 as a strong player in the MEMS and location awareness space, i.e. it is building up its direct sales force next to its channel partnerships, certain outsourced production is brought in-house to drive up gross margins, it is expanding into new verticals with Nanotron and the company's MEMS unit is in bed with high margin customers in the Medical and Military verticals.

Furthermore, the company now has financial runway to reach cash flow break even in the next nine months. In other words, we believe SE1 is in a very strong position to aggressively drive revenue growth in the next few years.
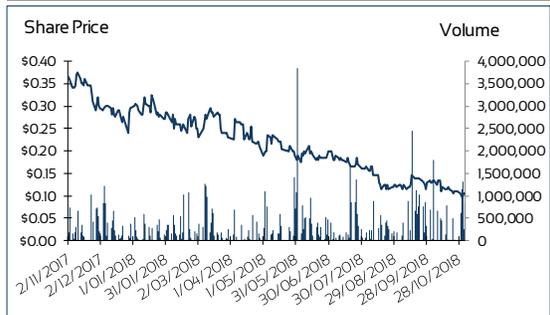
Reiterate our BUY rating and A$ 0.50 price target

Given SE1's current valuation, which we believe substantial understates the company's potential, we reiterate our Buy rating. Our price target for SE1 is unchanged at A$ 0.50 per share.

Sensera FY-end June (US$ M)

Profit & Loss account	2017A	FY18A	FY19E	FY20E
Revenues	1.2	6.4	11.2	16.5
EBITDA	-5.4	-6.6	-3.1	0.9
EBITDA %	*-441%*	*-104%*	*-28%*	*5%*
Depreciation & Amortisation	-0.1	-0.3	-0.1	-0.2
EBIT	-5.3	-6.9	-3.2	0.7
EBIT %	*-437%*	*-109%*	*-29%*	*4%*
Interest income & expense net	0.0	0.1	0.2	0.2
Profit before Tax	**-5.3**	**-6.8**	**-3.1**	**0.8**
Taxes	0.0	0.0	0.0	-0.2
Net earnings	**-5.3**	**-6.8**	**-3.1**	**0.6**
Ordinary shares outstanding	94.0	244.3	271.8	271.8
Fully diluted # shares	94.0	252.8	280.3	280.3
Earnings per share	**-0.06**	**-0.03**	**-0.01**	**0.00**
Earnings per share fully diluted	-0.06	-0.03	-0.01	0.00

Cash Flow Statement	2017A	FY18A	FY19E	FY20E
Receipts from customers	0.5	5.5	10.3	14.3
Payments to suppliers and empl.	-5.0	-11.6	-12.9	-12.3
Interest Received	0.0	0.0	0.2	0.2
Interest Paid	0.0	0.0	0.0	0.0
Cash flow from operations	**-4.5**	**-6.1**	**-2.4**	**2.2**
Net cash flow from investments	-0.9	-4.4	-1.3	-1.6
Cash flow from financing	9.1	8.4	5.6	0.0
Impact of FX translation	0.3	0.1	0.0	0.0
Net cash flow	**4.0**	**-2.0**	**1.9**	**0.6**

Balance Sheet	2017A	FY18A	FY19E	FY20E
Current assets				
Cash and marketable securities	4.0	2.0	3.9	4.5
Accounts receivable	0.1	1.0	1.6	2.3
Inventories	0.4	0.4	0.8	1.0
Other current assets	0.1	0.7	0.4	0.4
Total current assets	**4.6**	**4.2**	**6.6**	**8.2**
Fixed assets				
Net property, plant & equipment	0.8	0.8	2.0	3.3
Goodwill	0.0	6.0	6.0	6.0
Other intangible assets	0.0	3.1	3.1	3.1
Total fixed assets	**0.8**	**9.8**	**11.0**	**12.4**
Total assets	**5.4**	**14.0**	**17.6**	**20.5**
Current liabilities				
Short-term debt	0.0	0.0	0.0	0.0
Accounts payable	0.4	3.6	0.9	1.0
Deferred revenue	0.0	0.6	0.6	0.6
Provisions	0.0	0.5	0.5	0.5
Other current liabilities	0.0	0.1	0.1	0.1
Total current liabilities	**0.4**	**4.8**	**2.1**	**2.2**
Long-term Debt	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.0	0.0	0.0
Other Liabilities	0.0	0.9	0.9	0.9
Total group equity	**5.0**	**8.3**	**14.6**	**17.4**
Total liabilities and equity	**5.4**	**14.0**	**17.6**	**20.5**

Valuation	2017A	FY18A	FY19E	FY20E
Relative valuation				
P/E (reported)	-1.3	-2.6	-6.4	31.9
P/B	1.4	2.2	1.4	1.2
P/CF	-1.5	-3.0	-8.3	9.1
Price to sales	5.5	2.9	1.8	1.2
EV / sales	12.8	2.4	1.4	0.9
EV / EBITDA	nm	nm	nm	nm
Dividend yield	0%	0%	0%	0%
EV / Common equity	3.1	1.9	1.1	0.9

Discounted Cash Flow

Assumptions

Long term interest rate	2.5%
Risk premium	5.5%
Marginal tax rate	27.5%
Long term growth	2%
Leveraged Beta	1.25
Implied WACC	9.4%
TMT Analytics applied WACC	12.4%
DCF fair value per share (A$)	0.44

Profitability ratios	2017A	FY18A	FY19E	FY20E
Return on Equity	-106.4%	-81.3%	-20.9%	3.5%
Return on Assets	-98.5%	-48.2%	-17.3%	3.0%
Return on Invested Capital	-106.4%	-81.3%	-20.9%	3.5%
EBITDA margins	nm	nm	-28.0%	5.4%
EBIT margins	nm	nm	-28.9%	4.0%
Net margins	nm	nm	-27.2%	3.7%

Financial Strength	2017A	FY18A	FY19E	FY20E
Net debt (cash)	-4.0	-2.0	-3.9	-4.5
Net debt / Equity	-0.8	-0.2	-0.3	-0.3
Net debt / EBITDA	0.8	0.3	1.2	-5.1
Interest coverage	nm	nm	nm	nm

Capital Structure

Ordinary shares	244.3
Performance shares	-
Options and warrants (m)	8.5
Fully diluted	252.8
Market capitalisation (A$ m)	24.4
Market cap. fully diluted (A$ m)	25.3
Free float %	100%
12 month high/low A$	0.37 - 0.095
Average daily volume (1,000x)	345

Source: Factset, TMT Analytics

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