

# CML MICROSYSTEMS TECHNOLOGY

17 January 2023

## CML.L

490p

Market Cap: £78m

### SHARE PRICE (p)



12m high/low

500p/338p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (Debt)/Cash £22.7m (at 30/09/22)

Enterprise value £55.3m

Index/market AIM

Next news Trading update, Apr, '23

Shares in Issue (m) 15.9

Chairman Nigel Clark

Chief Executive Chris Gurry

### COMPANY DESCRIPTION

CML is a semiconductor company focused on the next generation of wireless communications technologies

[www.cmlmicroplc.com](http://www.cmlmicroplc.com)

CML MICROSYSTEMS IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## A strategic advance in next-generation wireless

CML has today announced the agreement to acquire, for up to \$18m, Microwave Technology Inc (MwT), marking a major step in CML's strategic drive in next-generation wireless technologies. The deal brings technologies, skills and products, along with market access within the US – and there also will be opportunities for CML to drive MwT's products internationally. Management expects it to be earnings enhancing in the first full year after completion. The deal is subject to regulatory approval and we are not revising forecasts yet, but we regard it as a significant move for CML.

- Strategically, financially and technologically important deal.** Today's announcement of the agreement to purchase Microwave Technology Inc for a total consideration of up to \$18m marks a considerable step forward in CML's ongoing strategic and technological realignment. MwT is a US-based leader in the design, manufacture and marketing of GaAs and GaN based MMICs, discrete devices and hybrid amplifier products for the commercial communication, defence, space and medical applications – fitting well in both technology and applications with CML's own ambitions in next-generation wireless (see our [initiation note](#)).
- Market access and understanding.** The transaction significantly extends CML's product range, and deepens and broadens its ability to develop and support next-generation wireless products. MwT's geographic focus has historically been within the US. There is significant potential to grow by leveraging CML's position, skills and access in other global markets, as well as by improving CML's own position in, and access into, the US.
- Mix of cash and shares – with key skills retained.** The \$18m (£14.8m at 1.22 \$:£) is to be financed from existing cash resources and the issue of new shares to vendors in a 60:40 ratio. This should leave CML with cash for ongoing investment in development and possibly further acquisitions. It is also very encouraging to note that MwT's majority shareholder, Dr Nathan Zommer, is taking shares and expected to join CML as a non-exec.
- Earnings enhancing in first full year.** The statement indicates that MwT is expected to be earnings enhancing in its first full year within CML (i.e. FY24 at the earliest), with deal completion anticipated, subject to regulatory clearance, in H1 2023. In the year-ended 31 December 2022, MwT generated revenue of \$6.5m, with a pre-tax loss of \$132k. We are excited by the opportunities this deal provides for both CML and MwT, and we will revisit our forecasts once the transaction is complete.

FYE MAR (£M)	2020	2021	2022	2023E	2024E
Revenue	15.0	12.5	17.0	20.5	23.3
Adj EBITDA	4.5	2.7	4.3	6.0	6.8
Fully Adj PBT	1.5	1.1	2.2	3.5	4.2
Fully Adj Dil EPS (p)	8.0	5.7	10.3	17.5	19.7
EV/Sales (x)	3.7x	4.4x	3.3x	2.7x	2.4x
EV/EBITDA (x)	12.3x	20.2x	12.8x	9.2x	8.2x
PER (x)	61.2x	85.6x	47.4x	28.0x	24.9x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

**Financial Summary: CML Microsystems**

Year end: March (£m unless shown)

	2020	2021	2022	2023E	2024E
<b>PROFIT &amp; LOSS</b>					
Revenue	15.0	12.5	17.0	20.5	23.3
Adj EBITDA	4.5	2.7	4.3	6.0	6.8
Adj EBIT	1.3	0.8	1.9	3.1	3.9
Reported PBT	1.2	0.0	1.7	3.1	3.8
Fully Adj PBT	1.5	1.1	2.2	3.5	4.2
PAT	1.4	0.8	1.2	3.1	3.6
Reported EPS (p)	8.0	4.8	7.4	19.2	22.7
Fully Adj Dil EPS (p)	8.0	5.7	10.3	17.5	19.7
Dividend per share (p)	4.0	52.0	9.0	10.8	13.5
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	6.5	7.7	3.0	6.9	6.5
Free Cash flow	7.0	8.2	3.9	6.9	6.3
FCF per share (p)	40.9	48.9	23.5	43.2	39.7
Acquisitions	(9.8)	(7.7)	(4.0)	(5.2)	(5.6)
Disposals	0.0	33.3	1.8	0.0	0.0
Shares issued	0.0	(1.6)	0.3	(4.5)	0.0
Net cash flow	(4.8)	23.0	(7.3)	(4.5)	(1.1)
Overdrafts / borrowings	(1.1)	(0.7)	(0.5)	(0.4)	(0.3)
Cash & equivalents	8.5	32.2	25.0	20.5	19.4
Net (Debt)/Cash	7.4	31.5	24.6	20.2	19.1
<b>NAV AND RETURNS</b>					
Net asset value	42.4	53.4	49.9	47.0	49.1
NAV/share (p)	246.8	310.9	290.0	295.4	308.3
Net Tangible Asset Value	12.9	35.9	30.0	24.5	24.2
NTAV/share (p)	75.1	208.9	174.6	154.2	151.9
Average equity	42.4	47.9	51.7	48.4	48.0
Post-tax ROE (%)	(12.0%)	(12.1%)	(0.8%)	2.4%	4.0%
<b>METRICS</b>					
Revenue growth		(16.7%)	36.0%	21.0%	13.5%
Adj EBITDA growth		(39.1%)	57.7%	39.4%	12.7%
Adj EBIT growth		(35.1%)	131.0%	65.9%	24.0%
Adj PBT growth		(30.3%)	110.2%	55.3%	21.6%
Adj EPS growth		(28.5%)	80.7%	69.3%	12.6%
Dividend growth		1200.0%	(82.7%)	20.0%	25.0%
Adj EBIT margins		6.5%	11.1%	15.2%	16.6%
<b>VALUATION</b>					
EV/Sales (x)	3.7	4.4	3.3	2.7	2.4
EV/EBITDA (x)	12.3	20.2	12.8	9.2	8.2
EV/NOPAT (x)	40.3	68.9	44.6	18.1	15.3
PER (x)	61.2	85.6	47.4	28.0	24.9
Dividend yield	0.8%	10.6%	1.8%	2.2%	2.8%
FCF yield	8.4%	10.0%	4.8%	8.8%	8.1%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

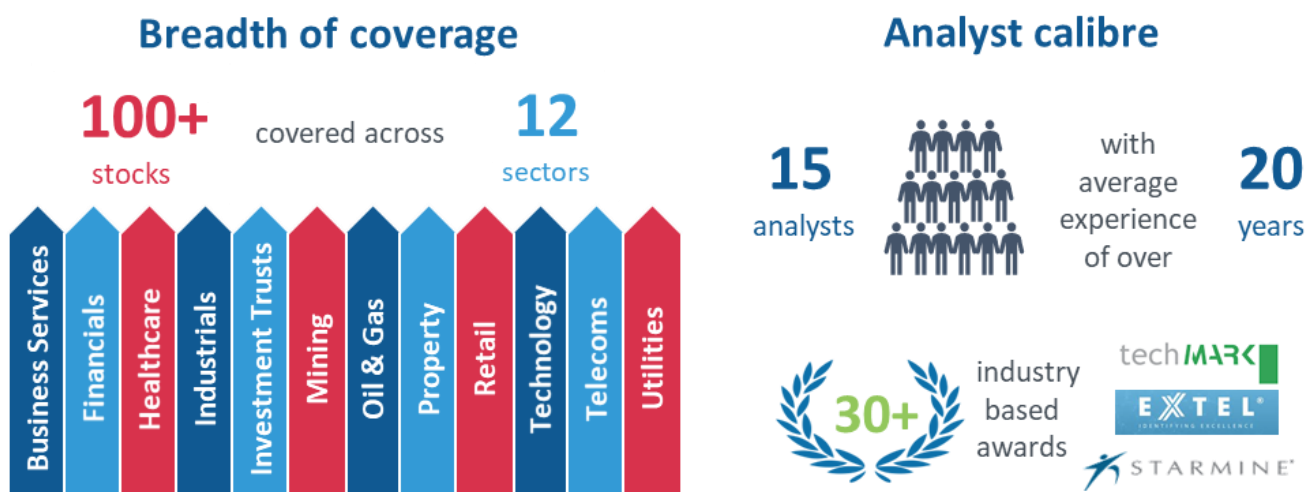
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