

New contracts being won right across the board

It's often said that 'Rome wasn't built in a day'. What's less well appreciated is that many international capitals could literally become 'ghost towns' overnight, if attacked by terrorists, rogue nations &/or organised criminals, who successfully detonated a 'dirty bomb'.

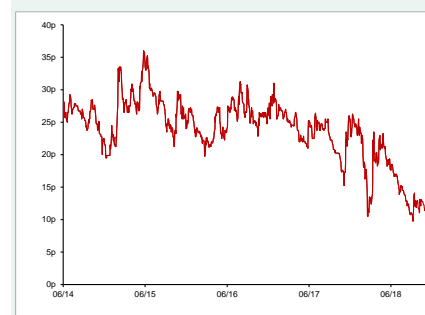
Europe moving a step closer to citywide D3S deployments

The US was the first to recognise the danger, but since then other western nations have woken up to the risks. Today Kromek said that it had **signed two D3S contract extensions** (worth £460k in FY21) **to provide networked 'counter nuclear terrorism' solutions** for a European government-related firm. Bringing the total awarded with this client to >£2.5m over the past 2 years. **Meaning these new follow-on orders certainly aren't 'early-stage'**.

Company Data

EPIC	AIM:KMK
Price (last close)	12.0p
52 week Hi/Lo	27p/8p
Market cap	£41.3m
Share count	344.6m
Net cash Apr'20	£3.8m
Daily volume	300k

Share Price, p



Source: Share Cast

Description

Kromek is a radiation detection company operating globally in three high-value markets – Medical Imaging (eg BMD, SPECT), Nuclear Detection (D3S), Security Screening (Airport baggage/bottles), primarily using cadmium zinc telluride (CZT) crystals.

Headquartered in Sedgefield (UK), Kromek has c.139 employees, of which approx. 116 are in R&D, with a 3 further sites in California, Pittsburgh and Germany. The firm has filed/registered >280 patents.

We estimate that as at 30th Apr'20 the orderbook stood at \$90m - defined as orders, normal repeat business and preferred supplier positions.

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D3S wearable & networked personal radiation detectors



Source: Kromek

Instead, **we think Kromek is inching closer to securing several largescale deployments of its leading D3S technology across major conurbations**. Each of which have the potential to generate £'ms in revenues.

All 3 core markets are recovering after Covid lull

Better still, after being rocked during the height of the pandemic, it appears **the group's 3 core markets** – namely Medical Imaging (elective procedures), Homeland Security (lockdowns) & Airport Screening (passenger flights) – **are all now recovering at various speeds**. Boding well for the rest of FY21 & beyond.

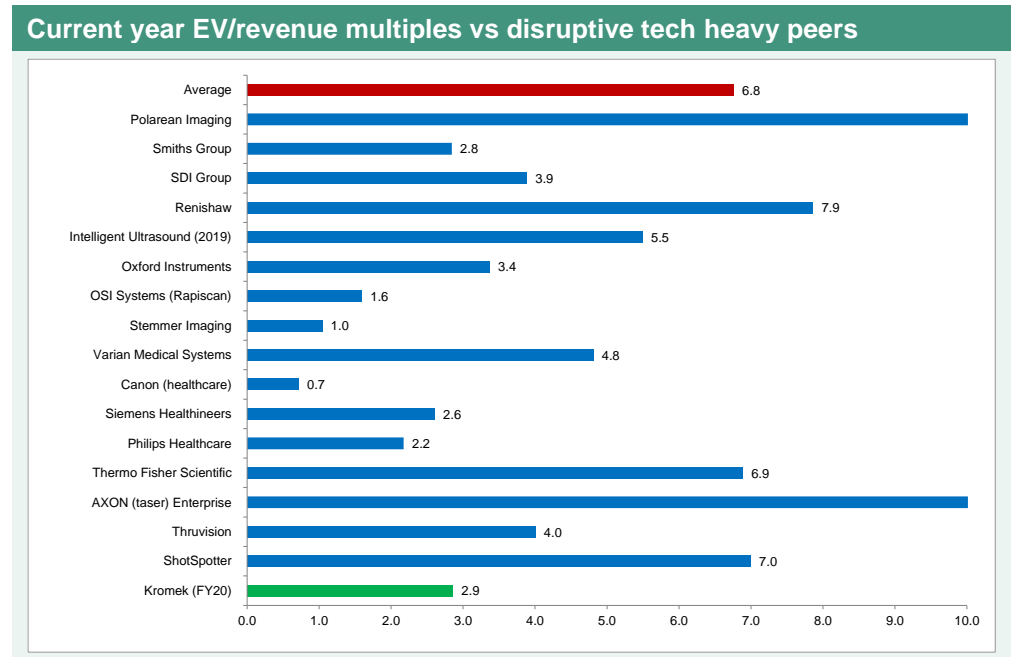
CEO Arnab Basu adding: "*these contract extensions are indicative of the **rebound in commercial activity** we are experiencing, and further evidence that **normal trading patterns are returning** for us as well as our customers.*"

"The D3S family of products is at the forefront of the innovative solutions being adopted by governments worldwide for countering threat of nuclear terrorism. We look forward to working with this customer and help with their roll-out programme over the next few years."

Shares appear attractively priced

Elsewhere in terms of valuation, the stock at 12p trades on a 2.9x trailing EV/sales multiple vs >5x for similarly 'disruptive' IPR rich tech peers (see below). Plus given the increasing momentum, we suspect this discount will either close in due course, or if not, might attract 1 or more opportunistic buyers at current down-trodden levels.

Watch out for the interims on 13th January 2021, where we hope to reinstate forecasts.



Source: Equity Development

Key risks

- Although Kromek is presently commercialising its leading technology, there is no absolute certainty that anticipated revenues or growth can be achieved. Plus the adoption of new break-through science can take longer and cost more than originally thought.
- Covid19 related effects endure longer than expected, thus impacting Kromek's major image scanning markets.
- Orders tend to be lumpy in nature, and therefore by their nature difficult to forecast.
- The company is executing on many fronts, and therefore it is important there is sufficient management resource to facilitate the growth.
- Scaling up production and aftermarket support to satisfy substantially higher volumes could cause teething problems.
- Protection of intellectual property, especially from patent challenges.
- Competitive pressures – yet given Kromek's leading position in CZT, then this looks a less immediate threat.

- Customer concentration (largest client generated sales of £4.1m in FY19), and regulatory changes which may impact the introduction of CZT based products.
- Foreign exchange fluctuations and unwind of the working capital position, particularly relating to a large Asian OEM.
- The firm is loss making. In the event more funding is required, then it is not certain that future capital would be available at commercial rates.

Summary financials (£'000s)

Kromek (April year end)	2014 Act £'000s	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s
Product	4,746	3,726	5,432	6,671	9,611	12,060	10,314
Other	1,226	4,375	2,910	2,297	2,234	2,457	2,806
Turnover	5,972	8,101	8,342	8,968	11,845	14,517	13,120
% growth	121.9%	35.6%	3.0%	7.5%	32.1%	22.6%	-9.6%
Gross margin	3,871	5,626	4,429	5,117	6,684	8,309	6,208
% Margin	64.8%	69.4%	53.1%	57.1%	56.4%	57.2%	47.3%
Adjusted EBITDA (pre SBP)	-3,007	-1,557	-2,376	-1,461	482	1,974	-441
% Margin	-50.4%	-19.2%	-28.5%	-16.3%	4.1%	13.6%	-3.4%
Depreciation	-737	-673	-709	-762	-785	-879	-1,185
Amortisation of capitalised R&D	-560	-711	-828	-1,417	-1,907	-1,806	-2,142
Share based payments	-125	-181	-166	-99	-131	-195	-225
Adjusted EBIT (post SBP)	-4,429	-3,122	-4,079	-3,754	-2,341	-906	-3,993
% Margin	-74.2%	-38.5%	-48.9%	-41.9%	-19.8%	-6.2%	-30.4%
Underlying Interest charge	-515	-71	-83	-40	-192	-364	-544
Adj. Profit before Tax (post SBPs)	-4,944	-3,135	-4,162	-3,794	-2,533	-1,270	-4,537
Adj. Basic EPS (p)	-8.0	-2.9	-2.9	-1.8	-0.4	-0.1	-0.8
EPS growth rate			-1.3%	40.0%	76.0%	75.8%	-670.5%
Valuation benchmarks							
P/E ratio							
EV/Sales	6.3	4.6	4.5	4.2	3.2	2.6	2.9
EV/EBITDA (pre SBPs)						19.0	
EV/EBIT							
Effective tax rate				0.0%	0.0%	0.0%	0.0%
PEG ratio							0.0
% EBITDA drop-through rate					67.5%	55.8%	172.9%
Dividend yield					0.0%	0.0%	0.0%
Net cash/(debt) - pre IFRS16	6,563	151	3,857	17,343	7,738	16,420	3,838
Reported sharecount	61,871	107,818	141,337	174,573	260,162	275,073	344,644
Sharecount diluted	66,951	114,042	147,586	178,137	262,768	277,655	345,729
Shareprice (p)	12.0						

Source: Equity Development, Company



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