

Bio-detection becomes a commercial reality

8 November 2023

Recent new contracts show that Kromek's investment in bio-hazard detection technology is becoming a commercial reality. On 26 October the Group received a US\$5.9m (£4.84m) contract from the US Department of Homeland Security Countering Weapons of Mass Destruction (CWMD) Office - the first for Kromek - to research and develop technologies for agent-agnostic bio-detection. The four-year programme should contribute US\$874,000 (£0.72m) in year one. Kromek CEO, Arnab Basu, noted that the contract: "underscores our belief that there are significant market opportunities in this area, as our technologies align well with government biosecurity strategies".

Subsequently, on 31 October Kromek announced 3 more orders for CBRN detection worth a total of US\$1.0m (£0.82m), most of which is expected to be recognised in the current year to 30 April 2024. At FY23 results (see Equity Development report 24 July 2023, *Encouraging H2 supports a positive outlook*) we noted that Kromek reported visibility of 60% on FY24 revenue, of which 45% was either contracted or shipped. The recent contract awards further underpin this outlook.

Further progress in next-generation medical imaging

In April Kromek had announced a major agreement with a Tier 1 OEM to develop and incorporate its CZT-based detectors in advanced medical imaging scanners, marking the start of the next phase of significant upgrades in the medical imaging market. Post-FY23, on 12 September, the Group announced that another key customer, Spectrum Dynamics Medical, had introduced its latest SPECT/CT scanner, the VERITON-CT 300 Series, based on Kromek's digital detectors. As per our report of 26 May, *Funding the opportunity in medical imaging*, the shift to single photon-based scanning marks a step change in imaging quality at lower X-ray dosage; Spectrum Dynamics' 300 series offers a 2x to 4x improvement in energy range and system sensitivity. Latterly, on 7 November, the Group announced a collaboration agreement with a new blue chip partner for CZT-based photon-counting CT medical applications; the partner provides solutions to over 100,000 customers globally.

Refinancing completed

On 28 September the Group announced refinancing of its HSBC RCF through a new £5.5m secured loan from Polymer N2 Ltd., 9.6% Kromek shareholder controlled by Dr. Graeme Speirs. The facility is repayable by 27 March 2025 (12-month extendable), with interest at 9.5% (payable quarterly), i.e. on similar terms, just 0.4% above the prior facility. Kromek also has the option to pay the interest when due through the issue of new ordinary shares of 1p each.

Forecasts and valuation

Our outlook remains unchanged, indicative of a FY25 E EV/EBITDA multiple of 6.8x. We also maintain our Fair Value at 26p / share.

Summary Financials

Yr to 30 Apr (£m)	2021	2022	2023	2024E	2025E
Revenue	10.35	12.06	17.31	21.00	25.11
EBITDA (adj)	(1.69)	(1.16)	(0.98)	0.91	2.59
Pre-Tax Profit (adj)	(6.28)	(6.03)	(7.02)	(5.41)	(4.36)
EPS (adj, p)	(1.48)	(1.11)	(1.35)	(0.67)	(0.55)
Net debt / (cash)	(7.40)	1.38	5.26	1.67	1.44
EV/EBITDA	(10.4)x	(15.2)x	(18.0)x	19.4x	6.8x

Source: Company data. Equity Development estimates.

Company Data

EPIC	KMK.L
Price (last close)	5.3p
52 weeks Hi/Lo	12.4p / 3.0p
Market cap	£22.9m
ED Fair Value / share	26p

Share Price, p



Source: ADVFN

Description

Kromek is a detection and advanced imaging specialist operating globally in the fields of advanced imaging and hazard detection (CBRN: chemical, biological, radiation and nuclear). Within the advanced imaging segment, medical imaging, including BMD (bone mineral density), CT (computer tomographic) and SPECT (single photon emission computer tomography), is particularly important, utilising Kromek's cadmium-zinc-telluride (CZT) materials technology.

Other key markets in advanced imaging include security screening and industrial imaging. Principally focused on radiation detection, CBRN also includes development of biohazard threat detection, including the presence of COVID-19.

Headquartered in Sedgefield (NE UK), the company has c.160 employees: over 100 are involved in R&D, with 2 US operations (California and Pittsburgh). Kromek has filed or registered over 280 patents.

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Financials

Profit & Loss FY21 – FY25E					
Year to Apr 30 (£m)	FY21	FY22	FY23	FY24E	FY25E
Advanced Imaging		4.60	7.60	9.89	12.21
CBRN		5.40	7.43	9.14	10.65
R&D Projects		2.06	2.27	1.97	2.24
Revenue	10.35	12.06	17.31	21.00	25.11
Gross	5.01	5.64	8.94	9.93	11.80
	<i>Margin</i>	<i>48.4%</i>	<i>46.8%</i>	<i>51.6%</i>	<i>47.0%</i>
COGS	(5.35)	(6.42)	(8.37)	(11.07)	(13.31)
Other income	0.38	1.41	0.12	0.00	0.00
Distribution	(0.29)	(0.55)	(0.61)	(0.64)	(0.66)
Admin	(10.94)	(12.21)	(14.57)	(13.85)	(14.40)
Sum Op-ex	(10.84)	(11.35)	(15.06)	(14.48)	(15.06)
Exceptional items	0.05	0.13	0.08	0.00	0.00
EBIT Reported	(5.79)	(5.58)	(6.05)	(4.55)	(3.26)
EBIT Adjusted	(5.73)	(5.48)	(5.77)	(4.31)	(3.26)
Amortisation	(2.36)	(2.57)	(2.89)	(3.20)	(3.83)
Depreciation	(1.69)	(1.75)	(1.90)	(2.03)	(2.03)
EBITDA Reported	(1.74)	(1.26)	(1.26)	0.67	2.59
EBITDA Adjusted	(1.69)	(1.16)	(0.98)	0.91	2.59
Financial income	0.00	0.03	0.00	0.00	0.00
Financial expense	(0.55)	(0.58)	(1.25)	(1.10)	(1.10)
PBT Reported	(6.33)	(6.13)	(7.29)	(5.65)	(4.36)
PBT Adjusted	(6.28)	(6.03)	(7.02)	(5.41)	(4.36)
Tax	0.98	1.21	1.19	1.30	1.00
PAT Reported	(5.35)	(4.92)	(6.10)	(4.35)	(3.36)
PAT Adjusted	(5.30)	(4.81)	(5.82)	(4.11)	(3.36)
Basic wtd. av. shares	358.9	431.9	431.9	609.2	611.3
Diluted wtd. av. shares	359.3	432.2	432.2	616.1	618.3
EPS Reported Basic (p)	(1.5)	(1.1)	(1.4)	(0.7)	(0.6)
EPS Adjusted Basic (p)	(1.5)	(1.1)	(1.3)	(0.7)	(0.6)

Source: Company data. Equity Development estimates. Diluted basis EPS not reported.

Cashflow FY21 – FY25E					
Year to 30 Apr (£m)	FY21	FY22	FY23	FY24E	FY25E
Net profit/loss	(5.35)	(4.92)	(6.10)	(4.35)	(3.36)
Finance (net)	0.55	0.55	1.24	1.10	1.10
Tax	(0.98)	(1.21)	(1.19)	(1.30)	(1.00)
Amortisation	2.36	2.57	2.89	3.20	3.83
Depreciation	1.69	1.75	1.90	2.03	2.03
Share-based payment	0.14	0.24	0.35	0.24	0.00
Other non-cash	0.08	(1.44)	(0.08)	0.00	0.00
Operating Cash Flow	(1.52)	(2.47)	(0.98)	0.91	2.59
Working capital					
(Increase)/Decrease inventories	0.21	(4.30)	(0.39)	2.26	1.06
(Increase)/Decrease in receivables	1.57	0.22	0.90	(2.53)	0.14
Increase/(Decrease) in payables	(2.57)	1.74	(0.53)	1.15	1.94
Change working capital	(0.79)	(2.35)	(0.02)	0.89	3.15
Cash from operations	(2.31)	(4.81)	(1.00)	1.80	5.74
Tax (paid)/received	1.01	1.28	1.20	1.20	1.30
Net cash from operations	(1.31)	(3.53)	0.20	3.00	7.04
Investing activities					
Investments	0.00	0.00	0.00	0.00	0.00
Interest	0.00	0.03	0.00	0.00	0.00
PPE	(0.45)	(0.65)	(0.27)	(0.10)	(0.10)
Other intangibles	0.00	0.00	0.00	(0.06)	(0.06)
ROU	(0.16)	(0.18)	(0.18)	(0.06)	(0.06)
Capitalised R&D	(5.46)	(5.62)	(4.82)	(5.20)	(4.80)
Net cash used in investing	(6.07)	(6.42)	(5.27)	(5.42)	(5.02)
Net OpFCF	(7.38)	(9.95)	(5.07)	(2.42)	2.02
Financing activities					
Shares (net)	12.22	0.00	0.00	10.34	0.00
Borrowings short-term	0.00	0.00	2.84	0.00	0.00
Borrowings short-term repaid	0.00	0.00	0.00	(8.84)	0.00
Borrowings long-term	3.22	0.76	1.10	7.80	0.00
Borrowings long-term repaid	(0.60)	(1.34)	(1.26)	0.00	0.00
Leases	(0.40)	(0.65)	(0.69)	(0.70)	(0.70)
Interest	(0.31)	(0.34)	(0.70)	(1.10)	(1.10)
Net cash from financing	14.13	(1.57)	1.29	7.50	(1.80)
Net change in cash	6.75	(11.51)	(3.79)	5.08	0.22
Cash at start of year	9.44	15.60	5.08	1.10	6.18
Forex	(0.59)	0.99	(0.20)	0.00	0.00
Cash at period-end	15.60	5.08	1.10	6.18	6.40
Net debt / (cash)	(7.40)	1.38	5.26	1.67	1.44

Source: Company data. Equity Development estimates.

Balance sheet FY21 – FY25E					
Year to 30 Apr (£m)	FY21	FY22	FY23	FY24E	FY25E
Goodwill net	1.28	1.28	1.28	1.28	1.28
Intangible assets	24.14	28.38	30.55	32.62	33.65
PPE net	11.20	10.94	9.83	8.41	6.99
RoU net	4.08	3.87	3.76	3.31	2.87
Fixed Assets	40.70	44.47	45.42	45.62	44.78
Inventories	6.20	10.50	10.89	8.63	7.57
Trade receivables	6.64	6.43	5.53	8.05	7.91
Tax assets	1.02	0.94	0.94	1.30	1.00
Cash, Equivalents	15.60	5.08	1.10	6.18	6.40
Current Assets	29.46	22.96	18.46	24.16	22.88
Total Assets	70.16	67.42	63.88	69.78	67.66
Trade payables	(6.17)	(7.86)	(7.44)	(9.21)	(11.35)
Borrowings	(5.39)	(5.72)	(8.32)	0.52	0.52
Leases, Financial Insts.	(0.40)	(0.38)	(0.92)	(0.92)	(0.92)
Current Liabilities	(11.96)	(13.95)	(16.68)	(9.61)	(11.75)
Total Assets less Current Liabilities	58.20	53.48	47.20	60.17	55.91
Deferred income	(1.07)	(1.13)	(1.02)	(0.40)	(0.20)
Leases	(4.26)	(4.16)	(4.09)	(3.39)	(2.69)
Borrowings	(2.82)	(0.75)	(0.57)	(8.37)	(8.37)
Long-term liabilities	(8.14)	(6.04)	(5.68)	(12.16)	(11.26)
Total liabilities	(20.10)	(19.99)	(22.35)	(21.76)	(23.01)
Net Assets	50.06	47.44	41.52	48.02	44.65
Share Capital	4.32	4.32	4.32	6.11	6.11
Share Premium	72.94	72.94	72.94	81.49	81.49
Capital redemption reserve	21.85	21.85	21.85	21.85	21.85
Translation reserve	0.00	2.06	1.90	3.70	4.70
Accumulated losses	(49.06)	(53.74)	(59.49)	(65.14)	(69.50)
Equity	50.06	47.44	41.52	48.02	44.65
Net debt / (cash)	(7.40)	1.38	5.26	1.67	1.44

Source: Company data. Equity Development estimates.



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