

£5m biological threat-detection contract award

16 November 2022

Kromek Group has announced the award of a three-year UK Government department biological threat-detection programme contract worth **£4.9m**. Work on the contract is scheduled to commence in December 2022; the three-year term includes an option for extended maintenance-related services.

This is a significant contract and a **clear ratification** of the development work undertaken by Kromek, focused on the detection of biohazards which include the recent COVID-19 pandemic, but also extend to the development of systems capable of identifying and geo-locating other biological threats. In an environment currently absorbed by a variety of economic and geopolitical risks, the threat represented by natural or man-made biological agents has not diminished.

That the UK Government has awarded this contract to Kromek underlines recognition of the Group's expertise and leadership in this field. Today's contract also follows the recent (10th November) US nuclear security US\$1.3m (D3M gamma/neutron) radiation detector contract award.

Order book indicates a strong recovery, with building momentum

Kromek reported FY22 revenue of £12.1m, +16.5%YoY, within which revenue from the CBRN segment grew 1.5x to £5.4m. We noted at the time of reporting that the CBRN segment was experiencing increased interest from government agencies, and cited the BlackRock Investment Institute Geopolitical Risk Indicator rated "high", with "long-lasting" risks. Kromek commented that it expected accelerated growth in FY23 - in both its core segments – leading to "a **substantial year-on-year increase in revenue**".

Kromek started FY23 with a reported 53% of contracts sealed, a further 37% under negotiation and 10% underpinned as repeat business and announced two new orders worth a total of US\$0.751m (a US\$0.5m medical imaging order from an established customer for detectors used in bone mineral densitometry diagnosis, and a US\$0.251m order from a US medical imaging customer for CZT detectors).

Reporting the 10th November contract, Kromek added that it expects revenue growth of "approximately 45% for the six months to 31 October 2022". **The latest, £5m, biohazard detection contract, adds to this momentum.**

Forecasts and valuation

Our FY23 outlook remains unchanged, at £18.0m revenue, +49%YoY (E), EBITDA (adj.) of £0.3m, and a reduced EBIT loss of (£4.3m) vs FY22: (£5.5m). For FY23 we estimate revenue in the Advanced Imaging division of £7.5m, +63%YoY, and CBRN at £7.5m, +39%YoY.

Our Fair Value is maintained at 26p/share.

Summary Financials

Year to 30 Apr (£m)	2020	2021	2022	2023E
Revenue	13.12	10.35	12.06	18.0
EBITDA (adj)	(1.93)	(1.69)	(1.16)	0.3
Pre-Tax Profit (adj)	(5.80)	(6.28)	(6.03)	(4.9)
EPS (adj, p)	(1.16)	(1.47)	(1.11)	(0.8)
Net debt / (cash)	(3.84)	(7.40)	1.38	3.0

Source: Company data. Equity Development estimates.

Company Data

EPIC	KMK.L
Price (last close)	8p
52 weeks Hi/Lo	18p / 8p
Market cap	£34.6m
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 of whom over 100 are involved in R&D, with two US operations (California and Pittsburgh). Kromek has filed or registered over 280 patents.

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FINANCIALS

Summary P&L

Profit & Loss FY21 – FY23E					
Year to Apr 30, £m	FY21	H1 22	H2 22	FY22	FY23E
Revenue	10.4	4.7	7.3	12.1	18.0
Gross	5.0	2.2	3.4	5.6	9.0
	<i>Margin</i>	<i>48.4%</i>	<i>46.8%</i>	<i>46.7%</i>	<i>46.8%</i>
COGS	(5,346)	(2,503)	(3,916)	(6,419)	(9,000)
Other income	0.4	1.3	0.1	1.4	0.0
Distribution	(0.3)	(0.3)	(0.3)	(0.6)	(0.7)
Admin	(10.9)	(6.1)	(6.1)	(12.2)	(13.0)
Sum Op-ex	(10.8)	(5.1)	(6.3)	(11.3)	(13.6)
Exceptional items	0.1	0.1	0.0	0.1	0.0
EBIT Reported	(5.8)	(2.8)	(2.8)	(5.6)	(4.6)
EBIT Adjusted	(5.7)	(2.7)	(2.7)	(5.5)	(4.3)
Amortisation	(2.4)	(1.3)	(1.3)	(2.6)	(2.8)
Depreciation	(1.7)	(0.9)	(0.9)	(1.8)	(1.8)
EBITDA Reported	(1.7)	(0.7)	(0.6)	(1.3)	0.0
EBITDA Adjusted	(1.7)	(0.6)	(0.5)	(1.2)	0.3
Financial income	0.00	0.01	0.03	0.03	0.03
Financial expense	(0.5)	(0.3)	(0.3)	(0.6)	(0.6)
PBT Reported	(6.3)	(3.1)	(3.1)	(6.1)	(5.2)
PBT Adjusted	(6.3)	(3.0)	(3.0)	(6.0)	(4.9)
Tax	1.0	0.7	0.5	1.2	1.5
PAT Reported	(5.4)	(2.3)	(2.6)	(4.9)	(3.7)
PAT Adjusted	(5.3)	(2.3)	(2.5)	(4.8)	(3.4)
Basic wtd. av. Shares, m	358.9	431.9	431.9	431.9	431.9
Diluted wtd. av. Shares, m	359.3	432.2	432.2	432.2	432.2
EPS Reported Basic (p)	(1.5)	(0.5)	(0.6)	(1.1)	(0.8)
EPS Adjusted Basic (p)	(1.5)	(0.5)	(0.6)	(1.1)	(0.8)

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

Summary balance sheet

Balance sheet FY21 – FY23E					
Year to Apr 30, £m	FY21	H1 22	H2 22	FY22	FY23E
Goodwill net	1.3	1.3	1.3	1.3	1.3
Intangible assets	24.1	26.2	28.4	28.4	31.3
PPE net	11.2	10.9	10.9	10.9	10.2
RoU net	4.1	3.9	3.9	3.9	3.6
Fixed Assets	40.7	42.3	44.5	44.5	46.4
Inventories	6.2	7.3	10.5	10.5	7.1
Trade receivables	6.6	7.2	6.4	6.4	5.9
Tax assets	1.0	0.4	0.9	0.9	1.5
Cash, Equivalents	15.6	10.2	5.1	5.1	3.2
Current Assets	29.5	25.2	23.0	23.0	17.7
Total Assets	70.2	67.5	67.4	67.4	64.1
Trade payables	(6.2)	(6.0)	(7.9)	(7.9)	(7.9)
Borrowings	(5.4)	(4.8)	(5.7)	(5.7)	(5.7)
Leases	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current Liabilities	(12.0)	(11.2)	(13.9)	(13.9)	(14.0)
Total Assets less Current Liabilities	58.2	56.3	53.5	53.5	50.2
Deferred income	(1.1)	(1.2)	(1.1)	(1.1)	(1.2)
Leases	(4.3)	(4.1)	(4.2)	(4.2)	(4.1)
Borrowings	(2.8)	(2.0)	(0.7)	(0.7)	(0.5)
Long-term liabilities	(8.1)	(7.3)	(6.0)	(6.0)	(5.9)
Total liabilities	(20.1)	(18.5)	(20.0)	(20.0)	(19.8)
Net Assets	50.1	49.0	47.4	47.4	44.3
Share Capital	4.3	4.3	4.3	4.3	4.3
Share Premium	72.9	72.9	72.9	72.9	72.9
Capital redemption reserve	21.9	21.9	21.9	21.9	21.9
Translation reserve	0.0	1.2	2.1	2.1	2.6
Accumulated losses	(49.1)	(51.3)	(53.7)	(53.7)	(57.4)
Equity	50.1	49.0	47.4	47.4	44.3
Net cash/(debt)	7.4	3.5	(1.4)	(1.4)	(3.0)

Source: Company data. Equity Development estimates.

Summary cashflow

Cashflow FY21 – FY2					
Year to Apr 30, £m	FY21	H1 22	H2 22	FY22	FY23E
Net profit/loss	(5.4)	(2.3)	(2.6)	(4.9)	(3.7)
Finance (net)	0.5	0.3	0.3	0.5	0.6
Tax	(1.0)	(0.7)	(0.5)	(1.2)	(1.5)
Amortisation	2.4	1.3	1.3	2.6	2.8
Depreciation	1.7	0.9	0.9	1.8	1.8
Share-based payment	0.1	0.1	0.1	0.2	0.3
Other non-cash	0.1	(1.3)	(0.2)	(1.4)	0.0
Operating Cash Flow	(1.5)	(1.8)	(0.7)	(2.5)	0.3
Working capital					
(Increase)/Decrease inventories	0.2	(1.1)	(3.2)	(4.3)	3.4
(Increase)/Decrease in receivables	1.6	(0.5)	0.7	0.2	0.5
Increase/(Decrease) in payables	(2.6)	(0.1)	1.8	1.7	0.0
Change working capital	(0.8)	(1.7)	(0.6)	(2.3)	3.9
Cash from operations	(2.3)	(3.5)	(1.3)	(4.8)	4.2
Tax (paid)/received	1.0	1.3	(0.0)	1.3	1.3
Net cash from operations	(1.3)	(2.2)	(1.3)	(3.5)	5.5
Investing activities					
Investments	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0
PPE/RoU	(0.5)	(0.3)	(0.4)	(0.7)	(0.8)
IP	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Capitalised R&D	(5.5)	(3.1)	(2.5)	(5.6)	(5.5)
Net cash used in investing	(6.1)	(3.5)	(2.9)	(6.4)	(6.5)
Net OpFCF	(7.4)	(5.7)	(4.3)	(9.9)	(1.0)
Financing activities					
Shares (net)	12.2	0.0	0.0	0.0	0.0
Borrowings	3.2	0.6	0.2	0.8	1.1
Borrowings repaid	(0.6)	(0.7)	(0.6)	(1.3)	(1.3)
Leases	(0.4)	(0.3)	(0.3)	(0.6)	(0.1)
Interest	(0.3)	(0.2)	(0.2)	(0.3)	(0.6)
Net cash from financing	14.1	(0.6)	(0.9)	(1.6)	(0.9)
Net change in cash	6.8	(6.3)	(5.2)	(11.5)	(1.9)
Cash at start of year	9.4	15.6	10.2	15.6	5.1
Forex	(0.6)	1.0	0.0	1.0	0.0
Cash at period-end	15.6	10.2	5.1	5.1	3.2
Net cash/(debt)	7.4	3.5	(1.4)	(1.4)	(3.0)

Source: Company data. Equity Development estimates.



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