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 [BACK TO CONTENTS](#)



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MTI Wireless looks for boost from acceleration in 5G investment

Israel-based tech group offers appealing mix of growth and income

The business

MTI Wireless Edge is an Israeli company which was founded by Zvi Borovitz, father of the current CEO, in the early 1970s. It has three divisions, all of which are currently performing well, and offers investors an appealing mix of growth and income.

Water Control operates under the Mottech brand and is the largest business line, accounting for 40% of revenues and 50% of profits. It was acquired by the group in 2015 and uses its proprietary software in combination with hardware from Motorola to provide wireless control of water irrigation systems. This is a 'green' product, reducing water usage and power consumption in agriculture and municipal spaces, which underpins its long term growth prospects. Revenues have grown 60% since acquisition with sales growing in more temperate climates as well as desert territories like Israel and South Africa. Last year saw the acquisition of a 50% stake in Mottech's Australian distributor to strengthen

its prospects in that market. Around 20% of divisional sales are recurring maintenance revenues.

The origins of MTI were in electronics distribution and consulting under the MTI Summit banner. Around 40 brands of radio frequency and microwave components are exclusively distributed in Israel and Russia. Domain expertise enables MTI to add value to its customers through advice and consultancy. This can result in long term relationships with some design projects lasting over 10 years. Strong growth was recorded last year with sales up 33% and prospects are good, with a healthy order book and new design wins which will translate into enduring revenue streams.

The antenna business was acquired about 25 years ago and should benefit from the coming wave of investment in 5G networks. The business was originally focused on the defence industry but has evolved into a 70/30 split between commercial and military. It provides 'off the shelf' flat and

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 [BACK TO CONTENTS](#)



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parabolic antennae as well as customised solutions. Last year saw sales decline 5% as the fixed wireless broadband market slowed, but good prospects for near-term growth lie in 5G backhaul (getting data from a mobile user to the core network) which doubled last year to 10% of the division's revenues. This will become a \$300-500m market and MTI sells to four of the seven mobile infrastructure manufacturers. The company is particularly strong in street-level backhaul which is a \$100m addressable market. Volumes are expected to ramp up in 5G in 2021 and margins will respond positively given the gearing from a relatively fixed R&D cost base. Antennae accounted for around 30% of revenues last year and 15% of profits. Management also sees a good pipeline of opportunities in the military side; so prospects here also look positive despite last year's stagnation.

Management and finances

Israeli stocks listed on AIM are not everyone's cup of tea. However MTI is a long established business with family share ownership of 45%. Directors own 7% with Miton also on 7% and Herald at 4%. The founder Zvi Borovitz is non-executive Chairman, while his son Moni is CEO. Moni has a degree in computer science from Tel Aviv University as well as being an accountant by training. Companies with a strong family influence from ownership or management tend to be outperformers over time. There are four other non-execs on the board, two of whom have an Israeli defence background.

The company joined AIM in 2006 and had a tough time during the financial crisis but it recovered and further strengthened the business through the acquisition of Mottech. MTI is cash generative, ending last year with net cash of \$7.7m, up from \$4.4m the prior year. The recently released results for the first quarter showed a further

improvement in net cash to \$8.6m with a negligible amount of debt. Gross margins dipped last year reflecting a shift to distribution at the expense of antennas in the sales mix; but they should improve again as antennas return to growth. Ebitda margins of 11% should pick up likewise and reflect the blend of distribution, hardware and software revenues in the business.

Valuation and outlook

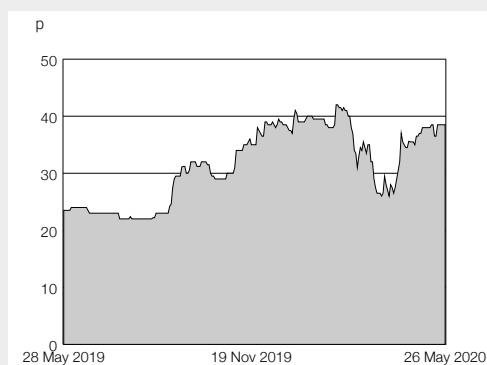
We spoke to Moni Borovitz in early March and again in mid-May after the Q1 results release. Covid-19 does not appear to be much of a factor given the company's geographic diversification and the nature of its customers. The Indian antennae factory was locked down for a period in March but has returned to work, while MTI has 'essential' status in Israel. Therefore "the second quarter will not be soft" according to Borovitz, who is "cautiously optimistic". There is a good order book across the three divisions with Q1 revenues up 5% and operating margins ahead. On 5G infrastructure prospects, the company is seeing tenders for business coming through and makes the point that demand for bandwidth has reached record levels on the back of home working.

The near term outlook for MTI looks to be more secure than it will be for many companies who will have been more affected by the pandemic. Prospects seem good across the business and the coming period should see an acceleration in antennas from the 5G investment cycle. The balance sheet looks strong and unusually for a small tech company there is a commitment to paying dividends, no doubt influenced by the family shareholding. In these uncertain times for dividends the shares make sense as an income play; but the forecast growth in earnings and dividends suggest a rerating is in order. The chart is healthy with the stock price almost back to pre-covid-19 levels, having hit 42p in February. ■

MTI WIRELESS EDGE ► READ MORE

www.mtiwe.com

GCI Recommendation – **BUY**



Ticker: AIM: MWE
Sector: Technology
Mid-price: 38.5p

Spread: 37p-40p
12-month high/low: 42p/26p
Market cap: £34m

RESULTS	Turnover (\$)	Pre-tax profit (\$)	EPS (p)	DPS (c)	p/e	Yield (%)
Dec 2018 (A)	35.5	2.7	2.1	1.5	18.3	3.2
Dec 2019 (A)	40.0	3.4	2.6	2.0	14.8	4.2
Dec 2020 (E)	43.5	4.3	3.0	2.5	12.8	5.3
Dec 2021 (E)	45.9	4.9	3.5	2.8	11.0	5.9

NB: data in US dollars apart from eps in pence

SECTOR PEERS	Ticker	Market cap (£m)	Pre-tax profit (£m)	p/e
Filtronic	FTC	20.5	0.1	-12.3
Solid State	SOLI	38.9	2.8	10.4
Telit Communications	TCM	170.5	\$59.8m	16.7