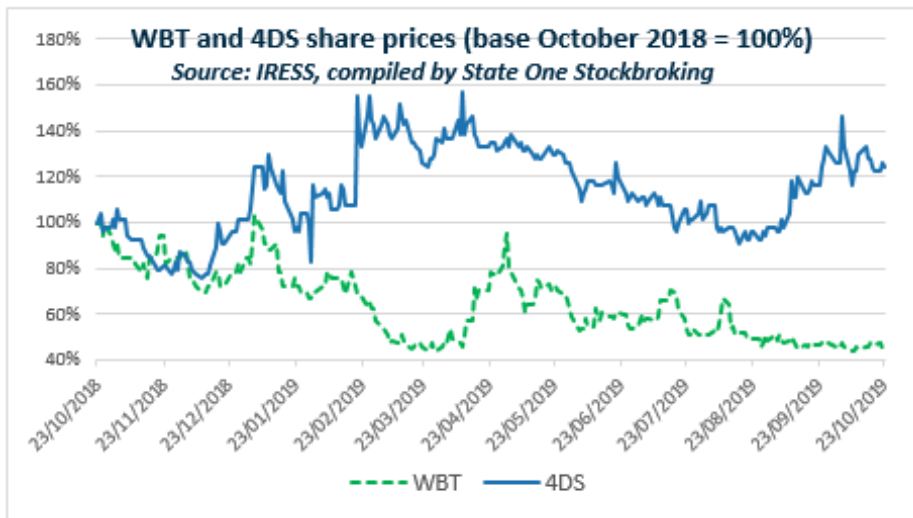


# Weebit Nano Ltd (ASX:WBT)

## WBT – a “Cinderella” semiconductor stock

At current share price levels, WBT is trading close to its historical low. We note that over the past year, WBT has significantly underperformed its closest peer in the ASX-listed semiconductor developer space - 4DS Memory Limited (ASX:4DS). As a result, 4DS's current market capitalisation of A\$76.1m is nearly three times (3x) WBT's m'cap of A\$26.6m.



### State One comment:

4DS's share price appreciated strongly in January and February 2019 following announcements that it had lab fabricated functional 300mm wafers and tested them with its development partner, Belgium-based IMEC. WBT has not yet fabricated a 300mm wafer – the most common size wafer currently used by global chip fabricators; we believe this largely accounts for WBT's share price underperformance. What the market may have missed, however, is that negotiations are most advanced between WBT and a South Korean-based top 10 global analogue company which has its own (chip) fabrication facility; critically, this company uses 200mm wafers (in addition to larger geometries). This company has already provided WBT with data on its memory module (chip interface) as well as information on how to adapt WBT's array to its fab requirements. WBT's strategy is to prioritise this first potential customer which does not require 300mm wafer geometry, i.e., it is a good fit for where WBT's technology is currently at, and thus potentially fast track the commercialisation process. Increasing, at a later juncture, the wafer geometry to 300mm (or larger) is, we believe, a relatively straightforward technological process – although requiring, of course, time and capital.

### Risk-weighted NPV-derived target price: A\$1.40ps (A\$1.42ps previously)

Underpinned by an assumed 20-year 1.5% royalty stream (commencing in FY21E), we calculate WBT's un-risked equity value at A\$242m (equivalent to A\$3.36 per share). Attaching a significant (~60%) risk discount – primarily because of technology risk associated with developing the ReRAM product to a commercial stage, and poor visibility on the timing and metrics of any commercial agreement – we calculate WBT's risked equity value at A\$100m (A\$1.40 per share). **We maintain a Speculative Buy (Higher Risk) recommendation.** Risks to our forecast earnings profile and target price include, but are not limited to: global growth rates in semiconductor chips, demand for new technology memory and ReRAM memory in particular, technology risk associated with ReRAM development, key personnel risk, successfully entering into a technology licencing agreement, timing and royalty rates associated with this agreement, working capital requirement prior to receipt of first license fees (State One forecast: ~A\$2m in FY20E) - lower than forecast licence fees and/or later than expected receipt could require additional external (debt/equity) funding in FY20E/FY21E.

**24 October 2019**

Share Price: A\$0.37

Target Price: A\$1.40

**Target Upside: 278%**

Recommendation

**Speculative Buy**

Risk Assessment

**Higher**

**IT – Semiconductors (SC) and SC equipment**

David Brennan, CFA

Senior Investment Analyst

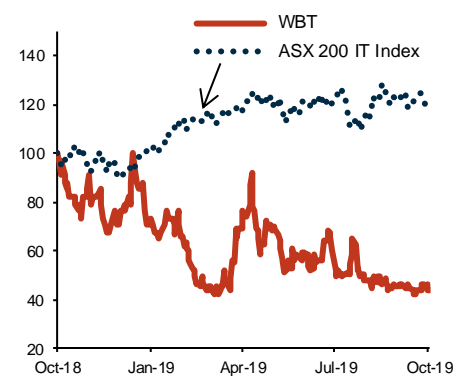
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### Weebit Nano Limited

ASX Code	WBT
52-week range (A\$)	A\$0.35–A\$0.95
Market Cap diluted (ASm)	27
Shares diluted (m)	72
Av Daily Turnover (shares)	2.2 million
ASX All Ordinaries	6,655
FY20E BV per share (A\$)	1.9
FY20E EPS (A\$)	-7
FY20E Net (Debt)/Cash (A\$m)	1.5

### Relative Price Performance



**Weebit Nano Ltd (WBT)**

Year ending June

Profit & Loss Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Royalty (incl. FY20E licence)	0.0	2.0	4.0	9.0	13.5
Licensing fee to Rice University	0.0	(0.0)	(0.1)	(0.1)	(0.2)
Corporate, G&A	(3.3)	(3.7)	(3.9)	(4.1)	(4.3)
R&D	(3.8)	(3.0)	(1.0)	(1.1)	(1.1)
<b>EBITDA</b>	<b>(7.1)</b>	<b>(4.7)</b>	<b>(0.9)</b>	<b>3.8</b>	<b>7.9</b>
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(7.1)</b>	<b>(4.7)</b>	<b>(0.9)</b>	<b>3.8</b>	<b>7.9</b>
NOI	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(7.1)</b>	<b>(4.7)</b>	<b>(0.9)</b>	<b>3.8</b>	<b>7.9</b>
Interest income	0.4	0.1	0.0	0.0	0.2
Interest expense	0.0	0.0	0.0	(0.1)	(0.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>(6.7)</b>	<b>(4.7)</b>	<b>(0.9)</b>	<b>3.7</b>	<b>8.0</b>
<b>Normalised NPAT</b>	<b>(6.7)</b>	<b>(4.7)</b>	<b>(0.9)</b>	<b>3.7</b>	<b>8.0</b>
EBITDA margin (%)	na	na	na	42%	59%
Operating profit margin (%)	na	na	na	42%	59%
EPS Reported (A\$c)	(10.8)	(6.9)	(1.2)	5.2	11.2
<b>EPS Normalised (A\$c)</b>	<b>(10.8)</b>	<b>(6.9)</b>	<b>(1.2)</b>	<b>5.2</b>	<b>11.2</b>
Dividend payout (%)	na	na	na	0%	0%
<b>DPS (A\$c)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Dil Av no. of shares (m)	62	68	72	72	72
Dil YE no. of shares (m)	64	72	72	72	72

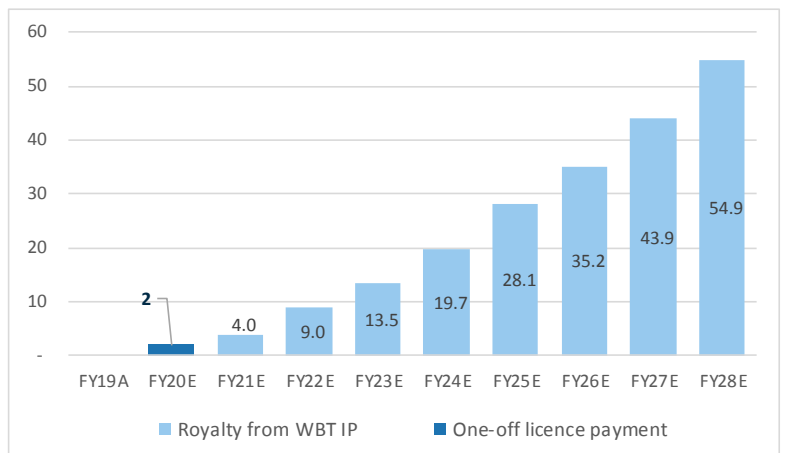
Cash Flow Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	(7.1)	(4.7)	(0.9)	3.8	7.9
Investment in working capital	0.2	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>(6.9)</b>	<b>(4.7)</b>	<b>(0.9)</b>	<b>3.8</b>	<b>7.9</b>
Capex	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Net interest received / (paid)	0.4	0.1	0.0	(0.0)	0.1
Debt draw down / (repayment)	0.0	0.0	0.0	2.5	0.0
Dividends declared	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	5.2	3.1	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>5.5</b>	<b>3.2</b>	<b>0.0</b>	<b>2.5</b>	<b>0.1</b>
Non-operating & Other	(0.4)	1.4	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>(1.7)</b>	<b>(0.2)</b>	<b>(0.9)</b>	<b>6.2</b>	<b>8.0</b>

Balance Sheet (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Deposits	1.7	1.5	0.6	6.8	14.8
Receivables	0.2	0.2	0.2	0.2	0.2
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	0.1	0.1	0.1	0.1	0.1
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>2.0</b>	<b>1.8</b>	<b>0.9</b>	<b>7.1</b>	<b>15.1</b>
Payables and other current Liabilities	0.4	0.4	0.4	0.4	0.4
Short Term Debt	0.0	0.0	0.0	2.5	2.5
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>2.9</b>	<b>2.9</b>
<b>Total Equity</b>	<b>1.6</b>	<b>1.4</b>	<b>0.5</b>	<b>4.2</b>	<b>12.3</b>
Net Cash / (Debt)	1.7	1.5	0.6	4.3	12.3

Major Shareholders	%	Date
Citicorp Nominees	5.6	
IBI Trust Management	2.4	Sep-19
Silver Horizon	2.0	

Source: Company, IRESS, State One Stockbroking forecasts

Royalty calculation	FY19A	FY20E	FY21E	FY22E	FY23E
Emerging NVM market (US\$m)	900	1,500	2,500	4,000	5,000
YoY growth (%)	nm	67%	67%	60%	25%
WBT market share of RRAM market	0%	0%	20%	25%	30%
WBT market share (US\$m)	0	0	200	450	675
Effective royalty rate (%)	1.5%	1.5%	1.5%	1.5%	1.5%
Royalty (US\$m)	0.0	0.0	3.0	6.8	10.1
AUD/USD exchange rate	0.75	0.75	0.75	0.75	0.75
<b>Royalty (A\$m)</b>	<b>0.0</b>	<b>0.0</b>	<b>4.0</b>	<b>9.0</b>	<b>13.5</b>

**Forecast 10-year royalty profile (FY19E-FY28E) (A\$m)**


Source: State One Stockbroking forecasts

Leverage	FY19A	FY20E	FY21E	FY22E	FY23E
Debt (A\$m)	0	0	0	3	3
Net Debt/Equity	cash	cash	cash	na	na
Interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised P/E	na	na	na	0.0	0.0
Price/OP Cash Flow	-4	-6	-29	7	3
Book value per share (A\$)	0.03	0.02	0.01	0.06	0.17
EV/EBITDA	-4	-5	-28	6	2
ROE (%)	-417%	-333%	-167%	88%	65%

Valuation	(A\$m)	(A\$ per share)	Comment
Estimated NPV10 valuation	236	3.29	30-year IP royalty stream
Technology upside	4	0.06	Nominal
Enterprise value	240	3.34	
FY20E Net cash / (debt) (A\$m)	1.5	0.02	
Equity value (unrisked)	242	3.36	Equity valuation - unrisked
<i>Risk discount</i>	<i>58%</i>		<i>Timing /operational/royalty</i>
<b>Equity value (risked) &amp; TP</b>	<b>100</b>	<b>1.40</b>	<b>Equity valuation - risked</b>

Note: Per share valuation based on 72 million shares

Total Return	Recommendation
Current share price (A\$)	0.37
Fcast one-year capital gain / (loss)	278%
Fcast one-year dividend yield	0%
<b>Speculative Buy</b>	

Company Description
Weebit Nano Ltd (ASX:WBT) is an Israeli-based semiconductor company seeking to develop and commercialise the group's silicon oxide (SiOx) ReRAM (Resistive RAM) technology into the next generation of flash memory chips. ReRAM is non-volatile, fast, cost effective and can endure a significantly higher number of program erase cycles compared to incumbent flash memory technologies.

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