Filtronic

Trading update

Upgrading on stronger H225 expectations

Tech hardware and equipment

Filtronic's H125 trading update confirmed that the company expects to report FY25 results ahead of current market expectations. Robust customer demand has resulted in some orders being pulled forward from FY26 into H225. We upgrade our FY25 revenue and profit forecasts, with diluted normalised EPS up 26%, and maintain our FY26 forecasts. This assumes that further orders are received in H225 to replenish the order backlog. Filtronic's strong position in the space market and growing presence in the aerospace and defence market provide it with multiple sources of growth.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)
05/23	16.3	1.3	0.1	0.06	0	N/A
05/24	25.4	4.9	3.4	1.43	0	50.3
05/25e	43.0	11.2	8.9	3.80	0	19.0
05/26e	41.1	9.5	6.9	2.93	0	24.6

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Order pull-in drives stronger FY25

At its AGM update on 31 October, Filtronic noted that it expected FY25 revenue to be H1-weighted. Its largest customer, Space X, placed orders through the course of FY24 and H125 for gateway link rollouts to support the growth of the Starlink satellite constellation, as well as to retrofit existing gateway links with E-band solid state power amplifiers. The retrofit was largely completed in H125 with the remaining orders supporting expansion of the network. Filtronic has now confirmed that orders have been pulled forward from FY26 into H225, which should result in stronger results than current market expectations for FY25.

Upgrading FY25 forecasts

We have revised our forecasts to reflect the pull-in of orders into FY25. We maintain our FY26 forecasts assuming that the company's largest customer will place further orders during H225 and FY26. We also expect Filtronic to see an acceleration in orders from aerospace and defence customers post the government's strategic defence review (which is due to report in spring 2025). We have upgraded our FY25 revenue forecast by 7.6%, with EBITDA up 19.7%, PBT up 25.9% and diluted EPS up 25.8%.

Valuation: Growing confidence

The stock trades on a P/E of 19.0x FY25e and 24.6x FY26e. Using a 10-year reverse discounted cash flow with a weighted average cost of capital of 8%, the current share price is arrived at using revenue growth of 11% per year for FY27–34e and EBITDA margins growing from an estimated 23% in FY26 to 25% over the period. In our view, the relationship with SpaceX, the potential to widen the customer base in the space market and growing penetration of the aerospace and defence market all provide avenues for sustainable growth.

17 December 2024

Price	**72p**
Market cap	**£158m**
Net cash (£m) at end FY24 (including PPE lease liabilities)	5.2
Shares in issue	219.0m
Free float	66.1%
Code	FTC
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.7	2.7	289.9
Rel (local)	0.3	2.9	257.7
52-week high/low		79.5p	19.5p

Business description

Filtronic is a designer and manufacturer of advanced radio frequency communications products, supplying a number of market sectors including mobile telecommunications infrastructure, space, public safety and aerospace & defence.

Next events

H125 results 4 February

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Filtronic is a research client of Edison Investment Research Limited

Changes to forecasts

Exhibit 1: Changes to forecasts

£m	FY25e old	FY25e new	Change	y-o-y	FY26e old	FY26e new	Change	y-o-y
Revenues	39.9	43.0	7.6%	69.0%	41.1	41.1	0.0%	-4.3%
EBITDA	9.3	11.2	19.7%	128.4%	9.5	9.5	0.0%	-15.3%
EBITDA margin	23.4%	26.0%	2.6pp	6.8pp	23.0%	23.0%	0.0pp	-3.0pp
Reported operating profit	7.4	9.3	24.7%	156.7%	7.3	7.3	0.1%	-21.7%
Reported operating margin	18.6%	21.6%	3.0pp	7.4pp	17.6%	17.6%	0.0pp	-3.9pp
Reported PBT	7.1	8.9	25.9%	165.9%	6.9	6.9	0.1%	-22.5%
Normalised net income	7.1	8.9	25.9%	180.3%	6.9	6.9	0.1%	-22.5%
Reported net income	7.1	8.9	25.9%	184.5%	6.9	6.9	0.1%	-22.5%
Normalised basic EPS (p)	3.26	4.10	25.8%	178.1%	3.17	3.16	-0.1%	-22.8%
Normalised diluted EPS (p)	3.02	3.80	25.8%	165.4%	2.93	2.93	-0.1%	-22.8%
Reported basic EPS (p)	3.26	4.10	25.8%	182.3%	3.17	3.16	-0.1%	-22.8%
Net debt/(cash)	(6.7)	(8.2)	22.9%	56.8%	(11.9)	(13.8)	15.4%	68.1%

Source: Edison Investment Research

Exhibit 2: Financial summary

Year end May	£m	2021	2022	2023	2024	2025e	2026e
INCOME STATEMENT							
Revenue		15.6	17.1	16.3	25.4	43.0	41.1
EBITDA		1.8	2.8	1.3	4.9	11.2	9.5
Operating profit (before amort. and excepts.)		0.6	1.6	0.2	3.7	9.3	7.3
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.1	0.4	0.0	0.0	0.0	0.0
Reported operating profit		0.6	2.0	0.2	3.6	9.3	7.3
Net Interest		(0.4)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		0.1	1.5	0.1	3.4	8.9	6.9
Profit Before Tax (reported)		0.2	1.9	0.1	3.4	8.9	6.9
Reported tax		(0.2)	(0.4)	0.4	(0.2)	0.0	0.0
Profit After Tax (norm)		0.3	1.2	0.1	3.2	8.9	6.9
Profit After Tax (reported)		0.1	1.5	0.5	3.1	8.9	6.9
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		0.3	1.2	0.1	3.2	8.9	6.9
Net income (reported)		0.1	1.5	0.5	3.1	8.9	6.9
Average Number of Shares Outstanding (m)		213	215	215	216	218	219
EPS - normalised (p)		0.14	0.54	0.07	1.47	4.10	3.16
EPS - normalised fully diluted (p)		0.14	0.53	0.06	1.43	3.80	2.93
EPS - basic reported (p)		0.03	0.68	0.22	1.45	4.10	3.16
Dividend (p)		0.00	0.00	0.00	0.00	0.00	0.00
BALANCE SHEET							
Fixed Assets		6.2	5.4	7.4	8.2	13.8	14.7
Intangible Assets		1.7	1.5	1.8	2.3	2.9	3.6
Tangible Assets		3.3	3.0	4.3	4.9	9.9	10.1
Investments & other		1.2	0.9	1.3	1.0	1.0	1.0
Current Assets		8.4	11.1	10.7	17.0	26.4	31.5
Stocks		2.2	2.6	2.8	3.3	5.5	5.3
Debtors		3.3	4.5	5.3	6.6	9.4	9.5
Cash & cash equivalents		2.9	4.0	2.6	7.2	11.4	16.7
Other		0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities		(3.6)	(4.0)	(4.8)	(8.2)	(11.4)	(10.7)
Creditors		(2.4)	(3.0)	(3.7)	(5.4)	(9.6)	(8.9)
Short-term borrowings including lease liabilities		(0.6)	(0.5)	(0.6)	(0.9)	(0.9)	(0.9)
Other		(0.6)	(0.5)	(0.5)	(1.9)	(0.9)	(0.9)
Long-term Liabilities		(1.7)	(1.4)	(1.7)	(2.3)	(4.7)	(4.4)
Long-term borrowings		(1.6)	(1.3)	(1.7)	(2.1)	(4.5)	(4.3)
Other long-term liabilities		(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Net assets		9.4	11.0	11.5	14.8	24.2	31.1
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		9.4	11.0	11.5	14.8	24.2	31.1
CASH FLOW							
Op Cash Flow before WC and tax		1.8	2.8	1.3	4.9	11.2	9.5
Working capital		1.1	(0.8)	(0.4)	1.5	(1.9)	(0.5)
Exceptional & other		(1.0)	0.3	0.0	0.0	0.0	0.0
Tax		0.5	0.0	0.0	(0.0)	0.0	0.0
Operating Cash Flow		2.5	2.3	0.9	6.3	9.2	9.0
Capex (including capitalised R&D)		(0.4)	(0.3)	(1.5)	(1.6)	(4.2)	(2.3)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0
Net interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Equity financing		0.0	0.0	0.0	0.1	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow		1.9	1.9	(0.8)	4.6	4.7	6.3
Opening net debt/(cash)		0.7	(0.8)	(2.2)	(0.3)	(4.2)	(6.0)
FX		0.0	0.0	0.0	0.0	0.4	0.0
Other non-cash movements		(0.4)	(0.5)	(1.1)	(0.7)	(3.3)	(0.8)
Closing net debt/(cash) including lease liabilities		(0.8)	(2.2)	(0.3)	(4.2)	(6.0)	(11.6)
Property lease liabilities		1.2	1.0	1.295	1.0	2.2	2.2
Closing net debt/(cash)		(2.0)	(3.1)	(1.6)	(5.2)	(8.2)	(13.8)

Source: Filtronic, Edison Investment Research

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