Asetek

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Company Comment	IT/Technology	Denmark	18 May 2021

An attractive small cap gem with bright growth outlook

At our Small Cap Seminar today, Asetek CEO André Sloth Eriksen and CFO Peter Dam Madsen gave a confident presentation on its bright growth outlook and its target to reach USD 150m revenue by 2025. We assume 14% sales CAGR for 2020-25 and USD 143m revenue for 2025 but conservatively we have not factored in the sales potential from its new product area Simsports, which could provide significant upside to our long term estimates. Our mid-point DCF value is at NOK 160.

G&E business will continue to be the main growth driver

Asetek has had a lumpy growth journey over recent years with negative impact from trade war and increased tariff, loss of its largest customer, as well as semiconductor shortage on its end market for gaming PC. Despite these, the company has managed to grow its sales by 34% in 2020, and is on track to deliver 30% growth again in 2021, driven by increased demand for gaming PCs and market share gains. Thanks to its strong R&D function and product launches, we believe the company's G&E business will continue to grow at a sales CAGR of 8% or more in 2021-2025.

Datacenter remains lumpy in the short term, but long-term outlook looks promising

As reflected with its order book, the Datacenter business has had a soft start to the year with only three meaningful orders announced YTD. We think the business unit will remain lumpy in the short term, but remain positive on its long term growth potential, which could be triggered by potential change in legislation towards energy efficiency of the data centre industry. We have seen the Norwegian Ministry of Energy recently placed a new requirement on the companies to reuse waste heat when they build data centres. Norway is a small market and is unlikely to change the market dynamic much for Asetek. However, we think this could be a good reference for other European countries and we believe there will be good sales opportunity for Asetek if other EU countries follow the path. We continue to forecast USD 12m Datacenter revenue in 2021, increased from USD 8m in 2020. We assume Asetek's Datacenter business to reach USD 30m revenue by 2025, which only represents 1% of the global data centre liquid cooling market.

SimSports is the icing on the cake - significant upside potential to our estimates

Asetek has an ambition to enter the eSports market and management is confident in its product pipeline. The company plans to launch and commercialise a product portfolio of gaming simulators in the coming years. Although we see a good long-term sales potential in this new product area and sales synergies to its existing business, we have conservatively not factored it in our current sales forecasts at this early stage. However, we do acknowledge there is great upside to our estimates, assuming Asetek successfully enter

the market. We forecast USD 143m revenue for Asetek group in 2025, lower than the company's target at USD 150m.

Key figures

(USDm)	2020	2021E	2022E	2023E
Revenues (m)	73	95	104	115
Adj. EBIT	11	14	18	21
PTP (m)	9	14	18	21
EPS	0.35	0.39	0.51	0.61
EPS (adjusted)	0.35	0.39	0.51	0.61
DPS	0.00	0.00	0.00	0.00
Revenue growth (%)	33.9	30.4	9.6	10.8
EPS growth (%)	n.a.	11.5	29.3	20.1
Operating margin (%)	15.0	14.6	17.1	18.5
ROCE (%)	23.1	23.8	25.0	24.9
Net Debt/EBITDA (x)	(1.6)	(0.3)	(0.1)	(0.0)
PER (adjusted)	36.0	28.1	21.7	18.1
Dividend yield (%)	0.0	0.0	0.0	0.0
Free Cash Flow Yield (%)	2.4	(2.5)	(1.0)	(0.4)
P/BV (x)	7.0	5.1	4.2	3.4
EV/EBIT (x)	28.2	20.3	15.9	13.3
EV/Sales (x)	4.23	2.96	2.73	2.47

Source: SEB

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