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GERRY WIMMER

Investorfile Blog

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Jan 28

Novra Technologies is getting bigger and the stock is a value buy

Posted by: Gerry Wimmer
1/28/2018



NEW COVERAGE – TOP IDEAS: Recent acquisitions by Novra Technologies Inc. (TSXV: NVI) have expanded the Company's product portfolio and global footprint for the distribution of broadband multimedia content via satellite and terrestrial networks.

In June of 2016, Novra Technologies Inc. (TSXV: NVI – C\$0.15) began its transformation. In that month, Nova Technologies completed the acquisition of Kanata, Ontario-based International Datacasting Corporation (IDC) to form the Novra Group of Companies.

At that time we took note of the IDC transaction. Up to that point, Investorfile paid little attention to Novra Technologies because we felt that the Company was too small to sustain long-term profitability. With the inclusion of IDC, we noticed that the financial results for Novra Technologies began to scale. Revenues tripled and profits emerged from the operating leverage gained as a bigger company.

In November of 2017, we took note of Novra Technologies again. The Company's cash position (combined with GIC investments) increased to about C\$2 million as of September 30, 2017. The Company completed full repayment of all of its bank loans in 2017 and its balance sheet improved significantly.

Just recently Novra Technologies caught our attention again. Earlier this month the Company announced it had completed the acquisition of a 51% controlling interest of the Wegener Corporation (a USA competitor) for 2 million shares with a two-year option to purchase the remaining 49%. During the fiscal year ended September 1, 2017, Wegener had revenues of US\$3.4 million.

Given this news, Investorfile has decided to initiate coverage on Novra Technologies and appoint the stock to our list of [Top Ideas](#) as a small cap value stock investment opportunity.

Based in Winnipeg, Manitoba, Novra Technologies Inc. is the parent company of the Novra Group of Companies. Novra Group is an international technology provider of products, systems and services for the distribution of broadband multimedia content via satellite and hybrid networks. Novra's applications focus includes broadcast video and radio, digital cinema, digital signage and highly reliable data communications. It designs, manufactures, installs and supports high-quality solutions for secure and reliable delivery of digital content. Customers include major broadcasters and service providers, as well as government (military and civilian applications) and enterprise networks. In addition to Novra Groups' core video, radio and data products, other areas of expertise include encryption and cyber-security, next-generation hybrid networks (satellite/terrestrial/cloud), and



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efficient bandwidth utilization.

As of September 30, 2017 (last reported), Novra Technologies had a breakout year. Revenues grew 322% to C\$6.8 million over the first nine months of 2017. About 15% of revenues are recurring from monthly maintenance contracts and software licenses. Because the Company's gross margins are strong at 50%, Novra Technologies' net income for this period was C\$924 thousand or \$0.03 per share. Compared to 2016, the much-improved financial results reflect the inclusion of the acquisition of International Datacasting Corporation (IDC), deliveries against a higher-than-normal backlog and from gains in operating leverage.

Of note: The Company has stated that fourth quarter results for 2017 (to be released) will be soft due to orders that have been delayed into 2018. We expect first quarter of 2018 may also be weaker due to integration costs related to the fore-mentioned Wegener acquisition and due to the planned installation of AN Enterprise Resource Planning (ERP) system to manage areas such as purchasing, inventory, sales, marketing, finance and human resources used in larger companies.

As of September 30, 2017 the Company's balance sheet was healthy with C\$2.8 million in working capital. However, given the recent purchase of controlling interest in Wegener, the Company may decide to raise a small amount of additional capital in 2018 to fund restructuring initiatives at Wegener. Currently Novra Technologies has about 35.3 million shares issued and no outstanding warrants or convertible debt.

We see tremendous value in the Company's shares. For fiscal 2017 we believe Novra Technologies will report annual revenues near C\$9 million and earn an EBITDA of C\$1.1 million (12% margin). Under this scenario the stock currently trades at a valuation which is less than four times the Company's underlying Enterprise Value (EV) to EBITDA ratio. This is very inexpensive.

Yes, we see the value in the stock price today, but we also like the future growth prospects. According to the Company, the controlling interest acquired in Wegener will bring significant scale to its existing business with new product lines in the audio and digital signage space. Wegener also strategically positions the Novra Group to manufacture and sell more products in the USA. Novra Technologies has disclosed that it is on a short list to win a major contract from a U.S. broadcaster (a current customer) for a large radio network product refresh to be deployed in 2018.

As a result of our analysis, Investorfile recommends that small cap investors should take advantage of the current stock valuation levels of Novra Technologies and begin accumulating its shares.

Looking forward, we forecast that, by the back half of 2018, the Company could achieve a quarterly revenue run rate of about C\$3 million (C\$12 million annually). On this revenue base, EBITDA of about C\$1.56 million (13% margin) could be attained.

Based on this forecast, we suggest that investors should continue to accumulate shares of Novra Technologies over time up to a price of C\$0.30, which implies a forward multiple of about six times EV/EBITDA. That said future acquisitions could drive the stock price of Novra Technologies beyond our accumulation price target of C\$0.30, generating high returns for early investors.

The CEO of Novra Technologies owns about a 17% stake in the Company. The next largest shareholder with 11% ownership is the Crocus Investment Fund, a Manitoba-based Canadian Labour-Sponsored Venture Capital Corporation. Of note, the Crocus Investment Fund is currently in receivership.

The Company websites: www.novra.com and www.novragroup.com.

Author ownership disclosure: Yes: TSXV: NVI

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