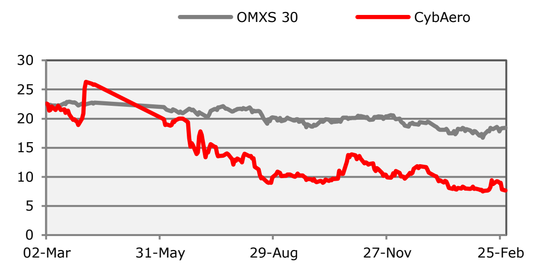
Summary

CybAero (cba.st)

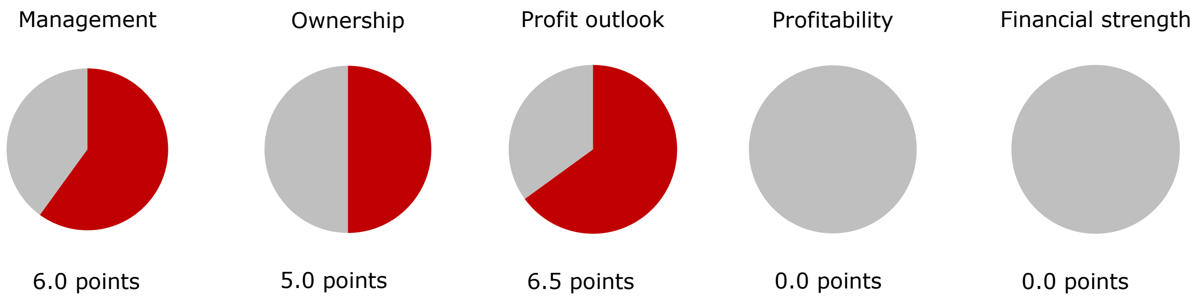
New co-pilot, but still hovering

- H2'15 revenues far below our expectations, but in the end top line is currently only an accounting issue for CybAero – cash flow is what counts for now.
- As for cash flow, we're still waiting for successful delivery and payment in the Chinese customs order. If this doesn't happen in "early 2016" as the firm now forecasts, we see a financing need before summer.
- FY2016 we expect further clarity on end customer, first deliveries and potential next call-off order(s) from AVIC and also more specifics on new deals.
- Recent addition of a majority shareholder, who also takes an active board role, is very positive in our view.
- Our fair value range remains intact between ~5-19 SEK per share, but with a lowered base case.
- No changes to Redeye Rating.

List:	First North
Market Cap:	251 MSEK
Industry:	Industrials
CEO:	Mikael Hult
Chairman:	Claes Drougge



Redeye Rating (0 – 10 points)



Key Financials

	2014	2015	2016E	2017E	2018E
Revenue, MSEK	47	5	200	299	376
Growth	*92%*	*-90%*	*4,066%*	*49%*	*26%*
EBITDA	-22	-61	3	14	55
EBITDA margin	*neg*	*neg*	*1%*	*5%*	*15%*
EBIT	-34	-72	-16	-5	35
EBIT margin	*neg*	*neg*	*neg*	*neg*	*9%*
Pre-tax earnings	-34	-74	-18	-7	34
Net earnings	-34	-74	-18	-7	27
Net margin	*neg*	*neg*	*neg*	*neg*	*7%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-2.47	-3.53	-0.56	-0.21	0.83
P/E adj.	neg	neg	neg	neg	9.5
EV/S	8.7	59.7	1.1	0.9	0.6
EV/EBITDA	neg	neg	83.3	18.8	4.4

Share information	
Share price (SEK)	7.9
Number of shares (m)	32.0
Market Cap (MSEK)	251
Net debt (MSEK)	-27
Free float (%)	80 %
Daily turnover ('000)	135

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Redeye Rating: Background and definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

New co-pilot on board – but still in hovering state

CybAero's H2 and full-year report 2015 looks disappointing, even compared to our forecasts. But the low revenues are primarily an accounting issue, and the case for the firm really hasn't changed in our view. We're still looking at a promising company that will have to prove in the coming quarters that it can deliver on the great long-term potential it has in its products and the market it addresses. So cash flows, the China customs delivery and progress on the first AVIC call-off are what investors should continue to focus on to draw their conclusions about the stock's upside and risks in the mid-term. And among all this complexity and continued waiting, we are glad to see the firm has a new co-pilot on board – the US fund Subversive Capital, who now has 11% and two board seats in the firm.

Where did all the revenues go?

Limited insights to be gained from the income statement in current phase of the firm

We expected CybAero to report around 64 mSEK in revenues 2015. This was mainly due to the fact that the firm switched to the percentage of completion method for revenue forecasting in 2014. According to this method, revenues are recognized as the products or services are being produced, and not when they actually are sold and handed over to the customer. In the case of CybAero, the production for the first 5 AVIC systems, which were ordered by the customer early 2015, had been started in fall after delays due to the China customs order postponements. This had been driving our revenue and margin forecasts. In the end, it seems that the firm decided to be much more conservative in its revenue recognition. As we understand, this was mainly due to the fact that the exact specification of the first AVIC units (e.g. which add-on systems, type of engine) is not clear yet. This is also connected to the fact that the final customer is not clear yet, which has caused the earlier issues with ISP export approval. As a result, the exact final revenues and costs for these orders cannot be determined yet, which makes it harder to recognize a fractional revenue of this future income. In order to avoid a potential overstatement of the period's revenues and costs, it was therefore decided to be conservative. Looking at the increase in raw materials in the balance sheet (from 6.8 to 14 mSEK H1 to H2 2015), it is however clear that the production has started.

Given the described use of the percentage of completion method, it was and will even going forward be rather hard for us to estimate how much and when revenue is recognized for the first and potential second AVIC call-off. We explain our forecasts later in this update.

Expected vs. Actual - Summary

mSEK	H2'14	H2'15E	Actual	Diff
Net Sales	26.0	61.6	2.1	-97%
EBITDA	-17.6	-3.6	-36.3	908%
EBIT	-23.7	-11.3	-41.9	272%
EPS	neg	neg	neg	n/a
Sales growth YoY	neg	136.9%	-91.9%	
EBIT margin	neg	neg	neg	n/a

Source: Redeye Research, Company Information

Expected vs. Actual - Costs

mSEK	H2'14	H2'15E	Actual	Diff
Raw materials & co	-24.9	-40.3	-4.4	-89%
Other external costs	-9.9	-10.3	-15.8	54%
Personnel cost	-13.2	-19.5	-19.4	-1%

Source: Redeye Research, Company Information

When will the next equity issue be necessary?

Chinese customs delivery and payment (still) decisive for potential short-term financing need

This is a frequently recurring question in many investors' heads, and of course still a relevant one. It is closely linked to the progress in both the production of the AVIC units, but even more in the delivery to the Chinese customs agency. The 3 units for this customer have been in the firm's balance sheet as receivables worth around 45 mSEK for some time now, due to several delays.

The delays were caused by a combination of technical difficulties (required improvements in systems integrations) and changed demands from the customer which required further technical changes and tests. In early 2015, CybAero announced that they had to prolong the factory acceptance test (FAT) in Sweden with representatives of the Chinese customs agency due to minor technical issues related to systems integrations. But while announcing that the FAT had been completed "successfully" in early June, the firm also came with news that certain tests could not be completed due to a lack of approval from proper authorities (such as to use the frequency for the data link). They would therefore later be conducted as part of the SAT (site acceptance test) at the client's premises in China. The first and biggest payment on the receivable by the client is however bound to the completion of the remaining few tests which originally were planned as part of the FAT.

Based on earlier expectations by CybAero, we had expected the majority of the receivable to be paid by the customer during Q2 2015, and after additional delays during Q3 or potentially Q4, depending how quickly the final tests could be executed and how long the settlement of the payment takes afterwards. In the end, the tests didn't take place in 2015 at all, and the current expectation by the firm is that tests, delivery and thereafter payment can now be executed in "early 2016". We interpret this as Q1 or shortly thereafter, meaning March or April. It is important to note in this context that, independently of the eventual timing of the acceptance tests, the customer will first approve, receive and pay for the first unit. We estimate that this could generate well-needed cash flow of around 15 mSEK ($1/3^{rd}$ of the outstanding receivable) and the remaining 2 units will go through the same process within several weeks thereafter.

In its H2 report, the firm names that it had 5.4 mSEK in the bank at the end of 2015, and in total around 28 mSEK liquidity available including the equity issue to Subversive Capital (closed Feb 2016) and loan & overdraft options. If the delivery to the Chinese customs goes through as expected now, the firm say this ensures cash flow and limits external financing need until "the latter part of the year". This however also means that if there are any further delays in the Chinese customs delivery, and/or if for example a new major call-off from AVIC or any other bigger order comes in during the next months and generates a need for additional working capital build-up, a financing need will arise earlier. In case the Chinese customs payment does not come in as expected currently, we think the firm will need additional financing already before summer.

If a financing need occurs, the next question will be whether it can be solved with debt, equity or a combination – and at what terms

Should this become reality, the next big question naturally will be whether financing will raised through an equity issue, some sort of short- or longer-term debt or a combination of the two. The firm comments that they have initiated a dialogue with financial entities regarding debt financing. We understand that this would be long-term debt and not primarily short-term borrowings. We expect however that the firm will have to deliver on certain milestones, such as (partial) Chinese customs delivery or more specificity around the first AVIC call-off, in order to be able to secure such debt financing at favorable conditions.

On a final note regarding cash flows and cash management, CybAero also notes in its report that they are constantly overseeing their operational structure in order to keep it cost efficient. Looking at the section reviewing key events after the year 2015, the formulation of this is even more aggressive, saying the board had decided on a "restructuring plan to cut costs". We are looking forward to hearing more details about these measures in the near future, and the potential impact they could have on the firm's cash flows. At the same time, we expect that the firm will have to rather build up certain parts of its organization in order to succeed in the future - for example in areas such as sales and marketing.

Who is the new copilot that has come aboard?

In fall 2015, CybAero could announce that an institutional investor had bought the remaining block of shares owned by AeroVironment. This was already good news since such a transaction and owner was much more favorable than AeroVironment continuing to sell off shares via the general market, as it had been the case before. Some months later, it became clear that the buyer of the shares, US-based fund Subversive Capital, could however be even more important than that. In late December 2015, CybAero's extraordinary general meeting approved a directed issue to the fund, including the assignment of two board seats for them.

New majority shareholder could support both in sales, organizational and IR aspects

While there is not much material available publicly about the fund, we know that they are focused on investing in companies that are active in product or geographic markets where regulation has a big impact, and/or sales are directed towards government buyers to a bigger extent. They seem to have made at least one other investment in the drone space (Hivemapper, software) and invest in both private and public companies internationally. We see their investment and board engagement as a positive signal for two main reasons.

Firstly, the new shareholder and its representatives could potentially contribute with contacts in the US, which has historically been the world's most important market for UAVs. Michael Auerbach, who is one of the representatives for Subversive Capital, is also working with Albright Stonebridge Group, a commercial diplomacy consulting firm that CybAero signed a strategic agreement with in fall 2015 (although the specifics around this agreement have not been announced, as we commented earlier). Secondly, adding these new international and financially oriented investor representatives to the board will likely be a good complement to the existing, industry-heavy board composition.

At the same time, it was somewhat disturbing to see the two rather sparsely commented changes to the role of the chairman of the board within a short period of time. First the stepping down of Claes Drougge, who is also a co-owner of ACC, CybAero's distribution partner in China, and his replacement with Anna Öhrwall-Rönnbäck. And then just some weeks later the fact that Anna not only stepped down from this new role, but actually left the board entirely. Both of these events have not been commented on by the firm in detail. We hope that the addition of the new, likely more financially thinking board members can have a positive impact on the firm's investor relations and communications work.

Other relevant events during and after H2'15

CybAero conducted a number of demonstration flights in China and Sweden for both commercial and civil service customer groups.

News from the UAV/RPAS market

UMS creates Joint Venture with Saab

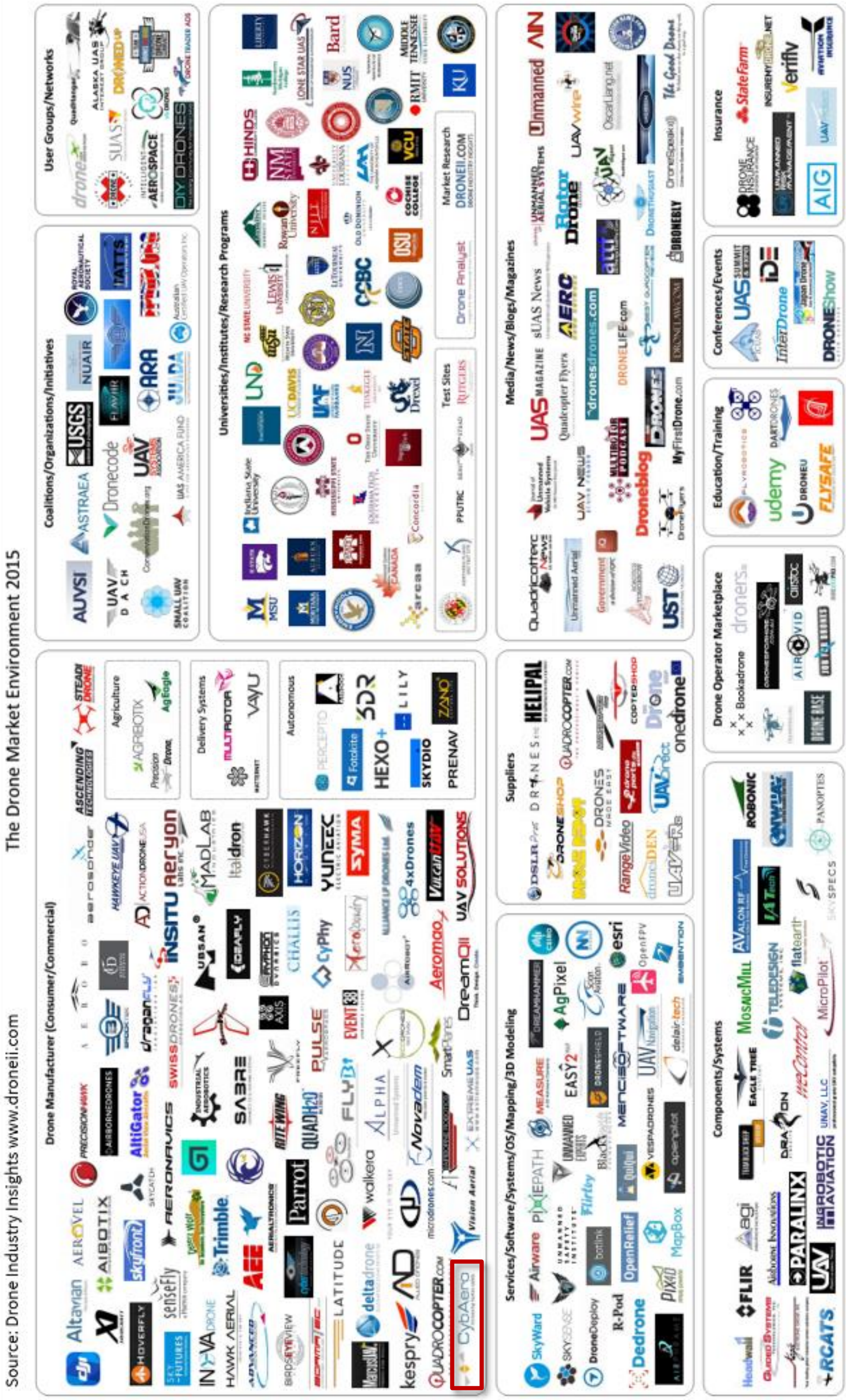
December 2015 also brought news from two of CybAero's competitors in the small UAV class. SAAB and Switzerland based UMS Aero Group announced the formation of a joint venture that will take over the commercialization of Saab's Skeldar platform. The joint venture will be able to market a range of 4 UAV systems from 20-250 kg MTOW. The biggest helicopter is based on an older version of CybAero's UAV system, and also UMS' own VTOL UAV system R-350 is in the size class off CybAero's APID ONE. The new firm will have 55 employees based in Switzerland and Sweden (Linköping). It is therefore likely that the joint venture called UMS Skeldar will compete with CybAero in a number of future sales opportunities, across all key customer segments.

Swedish police buying first drones

After earlier tests, the Swedish police have in January 2016 announced they will buy 3 small-sized drones from Saab. Producer of the systems is however AeroVironment, which is a key player in the military UAV market in the US and one of CybAero's partners. The systems bought will be evaluated in tests during 2016 and are in a different size class and for different use cases compared to CybAero's systems. But the order is still one of the aspects proving that the civil service market is opening more and more in Europe and the Nordics.

Illustrative overview of the global market

On a side note and more for general UAV/RPAS/drone enthusiasts than specifically on the case of CybAero, we found an overview of the different players and categories of businesses in the global UAV market. It's very likely not complete, and to our understanding there is broad diversity in the use cases and sizes of the underlying hardware and software systems, with a strong focus in the market and regulatory attention currently seeming to be around smaller drones below 25 kg MTOW. But the visualization gives an idea about the dynamics and underlying potential in the market.


The Drone Market Environment 2015
Source: Drone Industry Insights www.droneii.com
Drone Manufacturer (Consumer/Commercial)
Agriculture
Delivery Systems
Autonomous
Coalitions/Organizations/Initiatives
User Groups/Networks
Universities/Institutes/Research Programs
Test Sites
Market Research
Services/Software/Systems/OS/Mapping/3D Modeling
Suppliers
Media/News/Blogs/Magazines
Components/Systems
Drone Operator Marketplace
Education/Training
Conferences/Events
Insurance

Forecasts & valuation

Financial forecasts

CybAero recognizes its revenues according to the percentage of completion method. This means that revenue is recognized as the production of helicopter systems progresses, given that an order is available by the customer. Sales for any given system could therefore be reported partially or fully in the financials even before the system has been completed or delivered. In addition, the firm has a rather disadvantageous payment policy in its current contracts, mandating that a majority (90-95%) of the payments from customers are due only after successful factory acceptance tests (tests of a quasi-finished system normally conducted at CybAero's facilities together with client representatives). This means that the firm's cash inflows are significantly delayed compared to their outflows. The firm aims to change its payment policies to a more favorable structure in the future. It is not unusual in the industry that the customer pays 30% or more of the contract value upfront after placing an order.

Simplifying our mid-term forecasting model due to currently limited information available

After earlier estimating a production and partial revenue recognition of 7 units for AVIC in 2015, we are adjusting our 2016 forecasts accordingly with the revenues not recognized by the company in the published 2015 financials. In addition, we are also adjusting our forecasts for both 2016 and 2017 with the effect of the delays in the fulfillment of the first AVIC call-off.

Overall our revenue forecasts are based on three major aspects:

- the forecasted 2016-17 revenues from current and future AVIC orders, and
- any additional revenues from new orders 2016-17 estimated a percentage of forecasted overall production capacity
- mid-term revenue based on (declining) yearly revenue growth rates

This is a slight change compared to our previous versions of the model, where we had additionally tried to forecast certain individual contracts (e.g. Korean and Indian Navy) that were named as being on the horizon. Given the fact that we do not have a lot of information about such specific sales leads from CybAero, we have decided to change forecasting to the capacity-based model named above and described below.

Forecasting AVIC orders based on linear extrapolation of frame agreement guidance, current status

Although we're not a fan of simplistic linear forecasting, we don't have much choice beyond forecasting future AVIC revenues based on a linear distribution of the estimated order timings we know of. In the frame agreement, the customer committed to order 20 systems in the first 3 years (i.e. until mid-2017). As of today, the customer has ordered (and received) a demo system and issued the first call-off order of 5 units. Production for these units has started, but both the final end customer and projected delivery time for these units is unclear. We estimate around 0.5 units have so far been recognized as revenues. Our revenues until mid-2017 for AVIC are therefore based on a projected production of 15 systems in the time until then, with 20 systems being ordered in total during the time. Again, it is not the timing of orders and deliveries, but rather the production of systems (for a specific order) that determines when revenues are recognized.

As for additional future orders and their revenues, we forecast a certain production capacity the firm has (as of today 2 systems per month, increased to 3 from 2017) and assume that CybAero will be able to generate new orders for 40% of the remaining capacity beyond the forecasted AVIC production. A more detailed forecast is in our view not possible, given the information currently available. The firm says that they have a number of sales dialogues in over 10 countries, at various stages from very early until specific RFP (request for proposal) decision processes. But until we have more specific information about underlying types of buyers, countries they are located in and size of the potential orders, we will have to forecast potential mid-term sales based on capacity and utilization assumptions.

Aftersales modeled with 1 year delay – but purely theoretical model until aftersales actually are starting

Regarding aftersales revenues, we are forecasting these to occur with a delay of 1 year compared to the initial systems revenues forecasted. Note that this assumption will have to be overseen in the future, once the firm has established its aftersales structure and first aftersales services have been delivered. Specifically, the one year timing could show to be a too optimistic assumption in case there will be delays between the production (and revenue recognition) of systems revenues and the actual delivery, which could mean that also the start of aftersales activities might be further postponed for individual deliveries. The sizing of aftersales revenues in our model is assumed at 15% yearly of the initial systems revenues for the AVIC contract, and 10% for any additional future contracts. This assumption is in line with the expectations communicated earlier by the firm, but will have to be revised once actual aftersales start to be delivered.

Our new forecasted revenues for 2016 and 2017 lie around 40 and 90 mSEK below our earlier forecasts. This is not only due to our changed forecasting of the “other” revenues from future orders, but also due to the current delays in the revenue recognition for the first AVIC units explained earlier.

The tables below provide an overview of our key assumptions for the coming years. Longer term growth from 2018 onwards is estimated based on a top-level growth rate per year that declines over time, as the firm’s sales grow and competition in the market will likely evolve.

Production estimates						
Systems	Avg. system revenue mSEK	2015e	H1'16e	H2'16e	2016e	2017e
AVIC	10.7	0.5	5	5	10	11
Other*	16.8	0	3	3	6	10
Total		**0.5**	**8**	**8**	**15**	**21**
Estimated avg. monthly production		0.0			1.3	1.7
Estimated avg. monthly capacity		1.8			2.0	3.0

* = 40% of remaining capacity | Source: Redeye Research

Revenue estimates					
mSEK	2015	H1'16e	H2'16e	2016e	2017e
AVIC	4.8	52	52	104	124
whereof system	*4.8*	*52*	*52*	*104*	*117*
whereof aftersales	*0.0*	*0*	*0*	*0*	*7*
Others	0.0	48	48	96	175
whereof system	*0.0*	*48*	*48*	*96*	*169*
whereof aftersales	*0.0*	*0*	*0*	*0*	*6*
Total	**4.8**	**100**	**100**	**200**	**299**

Source: Redeye Research, Company Information

Estimating margins is even more complex than revenues, since even the firm communicates openly that they don't know how exactly margins will develop as the organization and production are scaled up further. We therefore keep our earlier margin forecasts unchanged. They are mainly based on the firm's historical margin development, peer comparisons and the projected firm's hiring and product development plans. Compared to our last update, mid-term margins have been slightly adjusted due to the way we calculate "other" revenues apart from the AVIC contract, as explained above.

Margins even harder to forecast than revenues

We calculate our 2016-17 margins based on a forecasted gross margin as well as forecasted personnel growth and relation of other costs to forecasted sales. Mid-term forecasted EBIT (2018-24) is then based on a combination of forecasted margins on system sales (gradually increasing to reach 9.5% in 2019) and aftersales (14.5%).

At the same time, it has to be noted once again that both revenues and cost base assumptions may of course change significantly over time, based on the future decisions by CybAero's management. Examples for such decisions might be writing certain contracts in foreign currency or moving certain production or aftersales activities to other countries and closer to certain customer segments, for example in Asia. CybAero has plans to establish a joint venture with its customer AVIC and Swedish distributor ACC in China to organize its aftersales activities in the future. Since no details about these plans and any other geographical expansion plans are communicated as of today, we assume a progressing of the business according to the official information by the firm.

Income statement - actuals and estimates

mSEK	2014	2015	2016e	2017e
Net sales	**46.8**	**4.8**	**200.3**	**298.7**
Activated devcost & other income	8.8	7.6	6.1	5.0
Raw materials & co	-37.8	-10.8	-106.3	-123.8
Gross income	**17.8**	**1.6**	**100.2**	**179.9**
Gross margin	38.0%	33.9%	50.0%	60.2%
on total rev	32.0%	13.2%	48.5%	59.2%
Other external costs	-16.6	-25.9	-45.3	-89.6
Personnel cost	-23.5	-36.3	-52.1	-78.0
Other expenses	0.0	-0.5	0.0	0.0
EBITDA	**-22.3**	**-61.1**	**2.7**	**12.3**
EBITDA margin	neg	neg	1.4%	4.1%
on total rev	neg	neg	1.3%	4.0%
Depreciation & amortization	-11.4	-11.4	-19.1	-17.7
EBIT	**-33.7**	**-72.5**	**-16.3**	**-5.4**
EBIT margin	neg	neg	neg	neg
on total rev	neg	neg	neg	neg
Financial income	0.0	0.0	0.0	0.0
Financial expenses	-0.6	-1.6	-1.6	-1.2
EBT	**-34.2**	**-74.1**	**-17.9**	**-6.6**
Taxes	0.0	0.0	0.0	0.0
NI	**-34.2**	**-74.1**	**-17.9**	**-6.6**

Source: Redeye Research

Key income statement estimates 2017-24

mSEK	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
Net sales	299	376	461	553	636	700	735	764
YoY growth	**49.1%**	**26.0%**	**22.5%**	**20.0%**	**15.0%**	**10.0%**	**5.0%**	**4.0%**
EBIT	-5	35	49	59	68	75	79	82
EBIT margin	**neg**	**9.3%**	**10.6%**	**10.7%**	**10.7%**	**10.7%**	**10.7%**	**10.7%**

Source: Redeye Research

Valuation

It is important to note that, given the information available today, we are not calculating with any additional capital requirements at least during 2016 in our model in the base case. As described earlier, this development could however become a potential negative catalyst for the share in the mid-term future, if a capital need would arise against current expectations, based on further delays in the fulfillment of the Chinese customs order, and/or the working capital impact of the progress in production, deliveries and future call-offs by AVIC. In addition, the structure and timeline of future orders from AVIC and new clients will show whether additional financing might be necessary in the mid-term (especially for working capital financing) or not.

You can always see our latest rating, valuation and investment case description on beta.redeye.se (free membership required).

Our WACC remains unchanged at 16.2%. It is based on a risk-free interest rate of 2.5% and the company's score in our Redeye Rating model of company qualities as described later.

Base case

Our DCF valuation yields a motivated value of 11.1 SEK per share in the base case

Our base case reflects the revenue and margin forecasts presented earlier on in this analysis, and therefore a substantial growth over the coming years, adding further and more profitable contracts based on the AVIC agreement as a solid basis.

Average mid-term sales growth 2017-24 is 18.8%, with a weighted average EBIT margin estimate in the same time frame of 9.7% (major competitor Schiebel is at around 10%). Terminal values (from 2025 onwards) for growth and EBIT margin are 4% and 10.7%, respectively. **This base case scenario yields an estimated fair value at 11.1 (14.0) SEK per share.** The difference to our earlier estimate is mainly due to the new share issue to Subversive Capital, reduced growth and margin estimates for 2016-17 and a reduced long-term growth rate (4% compared to earlier 5%).

Bull case

A reasonably realistic, but very optimistic bull scenario yields a fair value of 19.3 SEK per share

In our bull scenario, we draw a positive image of the future for CybAero. In it, we assume that the firm can sell for 75% (base case: 40%) of its excess capacity beyond the AVIC contract in the next years. This results in an average mid-term sales growth of 22.1% 2017-24, with a terminal growth of 3%. Our estimate of the weighted EBIT margin is 11.6% between 2017 and 2024, and 13% as terminal value, which would lie above main competitor Schiebel (10%).

This scenario is very positive, but at the same time deemed reasonably possible since significant growth especially in the commercial VTOL drone sector is anticipated within the next decade and CybAero's products are attractive for a number of customers in this segment. **Our bull case estimated fair value is SEK 19.3 (20.6) per share**, only slightly corrected for adjusted mid-term growth and the Subversive Capital share issue**.**

Bear case

Our pessimistic bear case scenario would imply a fair value of 5.0 SEK per share

Our bear case captures a rather negative scenario for the firm, namely what would happen if CybAero does not manage to close any additional contracts in the future and therefore only delivers to AVIC during the next years. Another similar scenario would be that the delivery to AVIC does not go as planned, and the partner therefore somehow wants to get out of the contract and CybAero only signs a few, much smaller contracts with smaller customers. In either case, yearly revenues gradually increase up to only around 113 (earlier: 175) mSEK by 2024, which is around 2.5 times 2014 revenues. At the same time, margins are pressured by excess capacity during especially the first years, since the organization is currently being ramped up for bigger volumes as planned.

Estimates for average mid-term growth 2017-24 lie at 4.6%, with weighted EBIT margins forecasted at only 7%. Terminal growth is at 0%, and in this scenario we forecast that the firm only achieves a margin of around 9% in the long run, lower than in the base case and competitor Schiebel. This scenario is quite pessimistic, but at the same time gives a good feeling for the value of the firm given a reasonable worst case scenario. **Our bear case estimated fair value is SEK 5.0 (4.8) per share.**

Stock catalysts

We see 5 key catalysts that can drive the share price in the short- to mid-term future

Summarizing our analysis, we currently see 5 catalysts in the stock for the short- and mid-term periods, which have the potential to drive share price development significantly up or down:

- Receiving payment from Chinese customs
- Executing on the first 5 AVIC orders
- Second call-off order from AVIC
- New major orders
- First bigger commercial contract for RPAS

You can read more about these catalysts and our estimation of the potential share price impact on our new website here. Note that this requires a paid premium membership.

Stock and owner information

US fund Subversive Capital is now the biggest owner in CybAero

Average turnover in CybAero's stock during the last 12 months was at around 135 000 shares per day (corresponding to 1.5 mSEK). As earlier and with many similar stocks, the volatility between individual days is however significant.

Also H2'15 saw a number of bigger ownership changes, which are summarized below. In addition, as described before Subversive Capital has become the biggest owner in the firm, through the acquisition of AeroVironment's remaining position last fall, the subsequent participation in the dilutive share issue in fall and the directed share issue from late 2015 that closed now in February 2016.

Ownership changes over +/- 0.5% from Jul 1 to Dec 31, 2015			
Person / entity	Chg. capital	Chg. position	New capital
Avanza Pension	3.42%	64.00%	8.77%
Pershing Llc.	2.84%		2.84%
JPM Chase NA	-1.89%	-100.00%	0.00%
Henrik Lewander	1.49%		1.49%
Lars Svensson	1.45%	77.46%	3.31%
Nordnet Pensionsförsäkring	1.06%	74.07%	2.49%
Cbny-National Financial Services Ll	-0.92%	-99.63%	0.00%
Mikael Hult	0.63%	47.41%	1.95%
Bernhard von Der Osten-Sacken	0.51%		0.51%

Source: Holdings.se, Redeye Research

Biggest shareholders as of 2016-02-09		
Person / entity	**% capital**	**Country**
Subversive Capital	11.2%	US
Avanza Pension	7.7%	SE
Boston State Street Bank & Trust Com.	4.9%	US
Rambas AB	3.0%	SE
Nordnet Pensionsförsäkring	2.2%	SE
Mikael Hult	1.9%	SE
Amer Al-Khalili	1.4%	SE
Henrik Lewander	1.4%	SE
JP Morgan Bank Luxembourg	0.7%	LU
Nqi Netfonds ASA	0.7%	NO

Source: Company Information, Redeye Research

Investment case

CybAero is at an interesting stage in its development. After years of developing their RPAS systems, the contracts with AVIC and also the Chinese customs office are CybAero's basis for moving into the stage of serial sales and production. This is a key step in the firm's growth - at the same time, it is only the beginning of a commercial journey. CybAero wants to win additional customers with its systems that have been engineered to enable maximum ease of use, are optimal for maritime usage and allow for the integration of many different sensors to enable a broad set of applications.

Despite its good technology base and the first customer contracts, the company currently faces several challenges ahead on its way to realize its full potential in a growing market.

Firstly, the market itself is a rather complex and slow animal. In the military and civil segments, the use of non-combat engaging VTOL systems is still at an early stage compared to the use of combat or reconnaissance drones with fixed wing architecture (similar to traditional airplanes). This is partly due to the fact that decision-making processes for defense buying are rather slow, partly since it is driven by strategic military and political decisions. In addition, the commercial use of RPAS is at an even earlier stage. While more and more firms are open to test the use of drones to validate different future applications, indicating the major market potential in this segment, a key issue remaining to be solved in almost all countries is that of regulation.

Secondly, with market demand slowly catching on and the first major contracts flowing in, CybAero as a company is facing the challenge to step up its game. As with any growth company, CybAero will have to quickly evolve key processes such as especially sales, production and aftersales in line with increased market potential. This will both take time from existing staff and management as well as require additional hiring, making it essential to balance this growth and ramp up neither too slow nor too quickly. This also makes it hard to get a clear picture of the margins that could be expected during the coming years.

In addition to the contracts closed, the company seems to have several prospective clients in the pipeline, especially in the civil and military segments. This as well as the recent launch of the new product program continue to require significant investments into R&D and working capital. With the successful equity issues late 2015 and early 2016, and if both the Chinese customs delivery and payment as well as the first deliveries to AVIC come in as expected during the next quarters, we are however not expecting further external financing needs for now. Any additional contracts won will then further accelerate the firm's journey to profitability.

At the same time, a successful delivery and payment in the Chinese customs contract during early 2016 will also be critical in signaling CybAero's readiness to successfully settle an order of multiple systems, which is key looking forward to the upcoming first deliveries to AVIC. Given the size of AVIC's contract and its importance in terms of both future orders, cash flow and prestige, the first deliveries to this client will be a further key milestone for the firm during the upcoming quarters. If major hiccups or delays occur due to issues with production, testing, export approval or customer handover, this might have a short- or even mid-term impact on the share. This impact will in turn depend on how big any such problems might be, whether and how big of an external financing need they might create and whether these will be addressed through equity or debt financing, or a combination.

Given the situation and future dynamics described, we see a good potential and position for CybAero in the market. At the same time, our valuation indicates that a substantial growth of the firm is already priced in the stock for now. There is however still a significant upside possible in the mid-term - if the firm manages to deliver on the existing expectations and additionally closes and executes on a number of bigger contracts, especially in the size class of AVIC, in the coming 2-3 years.

Summary Redeye Rating

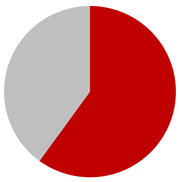
The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

You can always see our latest rating, valuation and investment case description on beta.redeye.se (free membership required)

Rating changes in the report

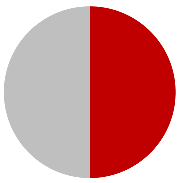
No changes

Management 6.0p



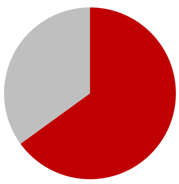
CybAero has an experienced and competent management team. Most of the C-level team have however joined rather recently, so it will have to be finally proven that the team works. The firm also has strong and relevant profiles in the board, which have been with the firm for several years on average. The firm could improve its rating by communicating specific financial and operational goals, and by constantly improving its communication with the stock market. In addition, the performance based pay for management is not optimal, with one option program being rather short-term and the CEO and chairman being paid via invoice.

Ownership 5.0p



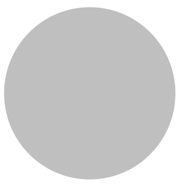
Most of the board members have shares in the firm, and the CEO has a significant stake. The firm recently attracted several international institutional investors and a US-based fund, which now owns over 10% of the firm, also strategically well aligned with the firm and has 2 representatives in the board.

Profit outlook 6.5p



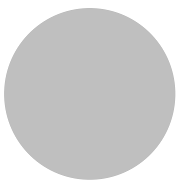
It lies in the nature of CybAero's products that the average customer will have a rather long decision and order process, will order several systems at the same time, and use them over 10-15 years. This will likely generate a rather predictable, stable order pipeline and later a recurring stream of aftersales revenues for the firm. CybAero has however only recently closed its first long-term customer contract, and is scaling up its sales and production processes. Once serial sales and production are rolling and the firm has proven its ability to satisfy its customers' expectations, this rating will therefore be increased.

Profitability 0.0p



The company has developed its products during the last years, and just now received its first major customer orders. As a result, profitability will likely not be a relevant issue to discuss before 2017 or even 2018.

Financial strength 0.0p



CybAero's financial situation is currently very much based on especially the first deliveries towards the big AVIC order, and the delivery to and payment from the Chinese customs delivery - which has been delayed several times. Future financial stability will therefore depend on executing on these first orders, but also diversifying the client base in the near-term future. Future orders and their delivery and payment terms will also show whether there is a financing need for working capital in the mid-term future or not.

REDEYE

Income statement	2014	2015	2016E	2017E	2018E
Net sales	47	5	200	299	376
Total operating costs	-69	-66	-198	-285	-321
EBITDA	**-22**	**-61**	**3**	**14**	**55**
Depreciation	0	0	0	0	0
Amortization	-11	-11	-19	-19	-20
Impairment charges	0	0	0	0	0
EBIT	**-34**	**-72**	**-16**	**-5**	**35**
Share in profits	0	0	0	0	0
Net financial items	-1	-2	-2	-1	-1
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	**-34**	**-74**	**-18**	**-7**	**34**
Tax	0	0	0	0	-8
Net earnings	**-34**	**-74**	**-18**	**-7**	**27**

Balance	2014	2015	2016E	2017E	2018E
Assets					
Current assets					
Cash in banks	24	28	22	0	7
Receivables	50	48	46	69	85
Inventories	5	2	15	22	28
Other current assets	1	16	1	1	1
Current assets	**81**	**94**	**85**	**92**	**121**
Fixed assets					
Tangible assets	1	3	4	6	8
Associated comp.	0	0	0	0	0
Investments	0	4	4	4	4
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	40	46	47	50	49
O non-current assets	0	0	0	0	0
Total fixed assets	**42**	**54**	**55**	**60**	**61**
Deferred tax assets	0	0	0	0	0
Total (assets)	**123**	**148**	**140**	**152**	**182**
Liabilities					
Current liabilities					
Short-term debt	1	0	0	8	0
Accounts payable	1	1	34	40	56
O current liabilities	28	24	1	1	1
Current liabilities	**30**	**25**	**35**	**49**	**57**
Long-term debt	0	0	0	5	0
O long-term liabilities	1	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	**31**	**25**	**35**	**54**	**57**
Deferred tax liab	0	0	0	0	0
Provisions	0	4	4	4	4
Shareholders' equity	93	119	101	94	121
Minority interest (BS)	0	0	0	0	0
Minority & equity	**93**	**119**	**101**	**94**	**121**
Total liab & SE	**123**	**148**	**140**	**152**	**182**

Free cash flow	2014	2015	2016E	2017E	2018E
Net sales	47	5	200	299	376
Total operating costs	-69	-66	-198	-285	-321
Depreciations total	-11	-11	-19	-19	-20
EBIT	**-34**	**-72**	**-16**	**-5**	**35**
Taxes on EBIT	0	0	0	0	-8
NOPLAT	**-34**	**-72**	**-16**	**-5**	**27**
Depreciation	11	11	19	19	20
Gross cash flow	**-22**	**-61**	**3**	**14**	**48**
Change in WC	-30	-13	14	-25	-6
Gross CAPEX	-25	-23	-21	-24	-22
Free cash flow	**-77**	**-97**	**-3**	**-34**	**20**

Capital structure	2014	2015	2016E	2017E	2018E
Equity ratio	75%	80%	72%	62%	66%
Debt/equity ratio	1%	0%	0%	14%	0%
Net debt	-23	-27	-22	13	-7
Capital employed	70	91	78	107	114
Capital turnover rate	0.4	0.0	1.4	2.0	2.1

Growth	2014	2015	2016E	2017E	2018E
Sales growth	92%	-90%	4,066%	49%	26%
EPS growth (adj)	-16%	43%	-84%	-63%	-503%

DCF valuation		Cash flow, MSEK	
WACC (%)	16.2 %	NPV FCF (2016-2018)	-16
		NPV FCF (2019-2024)	128
		NPV FCF (2025-)	216
		Non-operating assets	28
		Interest-bearing debt	0
		Fair value estimate MSEK	355
Assumptions 2016-2022 (%)			
Average sales growth	23.2 %	**Fair value e. per share, SEK**	**11.1**
EBIT margin	6.0 %	Share price, SEK	7.9

Profitability	2014	2015	2016E	2017E	2018E
ROE	-65%	-70%	-16%	-7%	25%
ROCE	-52%	-68%	-15%	-5%	31%
ROIC	-128%	-104%	-18%	-7%	25%
EBITDA margin	-48%	-1271%	1%	5%	15%
EBIT margin	-72%	-1507%	-8%	-2%	9%
Net margin	-73%	-1539%	-9%	-2%	7%

Data per share	2014	2015	2016E	2017E	2018E
EPS	-2.47	-3.53	-0.56	-0.21	0.83
EPS adj	-2.47	-3.53	-0.56	-0.21	0.83
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-1.33	-0.94	-0.70	0.41	-0.21
Total shares	17.16	29.25	31.99	31.99	31.99

Valuation	2014	2015	2016E	2017E	2018E
EV	406.2	286.9	228.8	264.1	244.4
P/E	-10.1	-3.0	-14.0	-38.1	9.5
P/E diluted	-10.1	-3.0	-14.0	-38.1	9.5
P/Sales	7.4	46.9	1.3	0.8	0.7
EV/Sales	8.7	59.7	1.1	0.9	0.6
EV/EBITDA	-18.2	-4.7	83.3	18.8	4.4
EV/EBIT	-12.1	-4.0	-14.0	-48.9	7.0
P/BV	4.6	2.6	2.5	2.7	2.1

Share performance		Growth/year	14/16e
1 month	-2.5 %	Net sales	106.9 %
3 month	-25.9 %	Operating profit adj	-30.4 %
12 month	-65.3 %	EPS, just	-52.4 %
Since start of the year	-27.0 %	Equity	4.4 %

Shareholder structure %	Capital	Votes
Subversive Capital	11.2 %	11.2 %
Avanza Pension	7.7 %	7.7 %
Boston State Street Bank & Trust Com.	4.9 %	4.9 %
Rambas AB	3.0 %	3.0 %
Nordnet Pensionsförsäkring	2.2 %	2.2 %
Mikael Hult	1.9 %	1.9 %
Amer Al-Khalili	1.4 %	1.4 %
Henrik Lewander	1.4 %	1.4 %
JP Morgan Bank Luxembourg	0.7 %	0.7 %
Nqi Netfonds ASA	0.7 %	0.7 %

Share information	
Reuters code	cba.st
List	First North
Share price	7.9
Total shares, million	32.0
Market Cap, MSEK	251.2

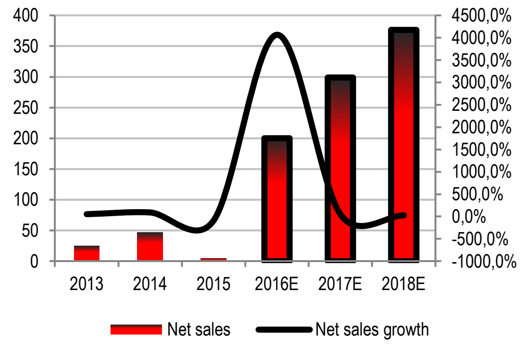
Management & board	
CEO	Mikael Hult
CFO	Ulrika Andersson (interim)
IR	Ina Nehr
Chairman	Claes Drougge

Financial information

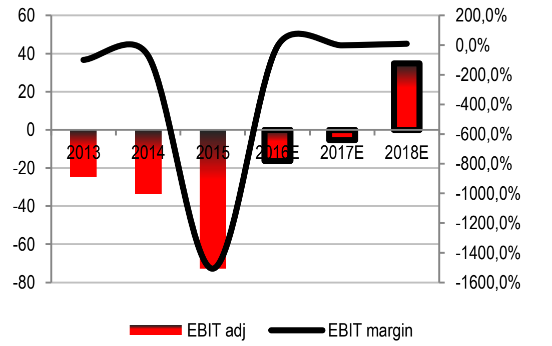
Analysts	Redeye AB
Alexander Sattelmaier	Mäster Samuelsgatan 42, 10tr
alexander.sattelmaier@redeye.se	111 57 Stockholm

REDEYE

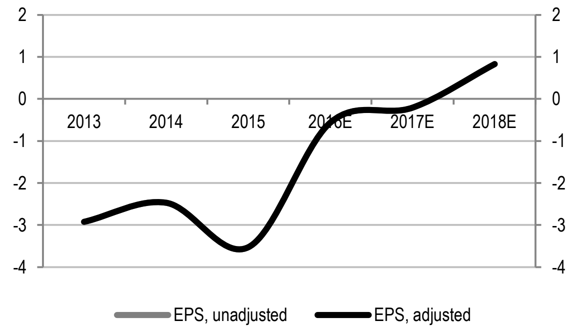
Revenue & Growth (%)



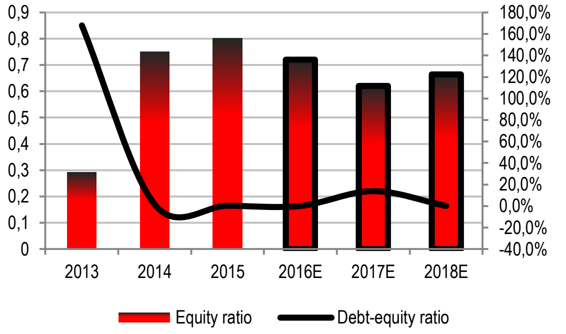
EBIT (adjusted) & Margin (%)



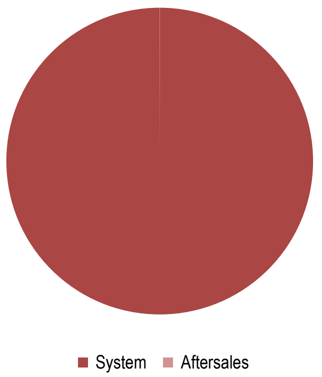
Earnings per share



Equity & debt-equity ratio (%)



Sales division



Geographical areas

Conflict of interests

Alexander Sattelmaier owns shares in the company : Yes

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Company description

CybAero develops, produces and sells unmanned helicopter systems. These systems can be equipped with different sensors for military, civil and commercial use cases. Having its roots in university R&D projects starting 1992, the firm was founded 2003 and is headquartered in Linköping, Sweden. Today, CybAero has over 60 employees and collaborations with major international players especially in the defense and civil services supplier segments.

DISCLAIMER

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Redeye Rating (2016-03-02)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	35	41	18	7	16
3,5p - 7,0p	67	53	84	31	37
0,0p - 3,0p	5	13	5	69	54
Company N	107	107	107	107	107

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