

Nektan

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Successful fund-raising to fuel growth

Nektan is an innovative B2B mobile gaming platform provider, gaining positive momentum in Europe and the US. However, the business is still early stage, with £13.3m FY17 revenues accompanied by continued EBITDA losses. During 2017, Nektan secured a £2.5m loan from management and raised £1.76m via a placing and subscription of new shares. Depending on performance, we believe further fund-raising is possible. The dilution from the 2017 fund-raising has been mitigated by positive sentiment over subsequent management share purchases, as well as a new investor. In our view, profitable revenue growth and a move to positive EBITDA are necessary for a re-rating.

Management supports loan and fund-raising

In December 2017, Nektan raised £1.76m via the placing and subscription of new shares at 21p, supported by existing shareholders and management. The new shares comprise 18.9% of the enlarged share capital and net proceeds will be used for investment into the platform and growth opportunities in the US and Asia. This follows a £2.3m fund-raising in December 2016. During 2017, Nektan also agreed a £2.5m unsecured loan facility (10% interest, from management) and favourably amended the warrant issuance terms related to its £10m convertible loan note.

Increased pipeline and narrowing losses

Nektan's Q218 net gaming revenues (NGR) grew sequentially by 21.9% to £4.7m, which represents a 41.6% y-o-y increase. The company now operates 94 brands with 51 partners, with a strong pipeline for H218. Encouragingly, the newly launched Evolve Lite (pure B2B) generated £47k in the quarter and its first global contract is due to go live in Q318. Nektan is still early stage and, despite numerous cost-savings, FY17 EBITDA loss was still £3.4m (from £5.7m in FY16). We believe EBITDA breakeven is possible towards the end of FY18, as the company continues to scale across different geographies. Net debt at June 2017 was £10.0m.

Valuation: EBITDA losses; 1.7x 2017 EV/sales

The stock has fallen tenfold since its 2014 IPO, due to slower than expected revenue and EBITDA progression, as well as continued dilution from warrants and share placements. In addition, numerous management changes have added to uncertainty. However, the recent fund-raise has provided working capital and the company is now better placed to pursue growth. In our view, a move into profitability would be a catalyst for a re-rating. There are currently no consensus estimates.

Headline financials

Year end (June)	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/16	5.9	(10.5)	(44.8)	0.0	NA	NA
06/17	13.3	(6.2)	(21.8)	0.0	NA	NA

Source: Bloomberg, company accounts

Price 29p
Market cap £13m

Share price graph



Share details

Code	NKTN
Listing	AIM
Shares in issue	44.4m

Business description

Nektan is an international B2B mobile gaming content developer and platform provider. Formed in 2011, it develops and operates mobile games in the regulated interactive real money gaming space. Its Respin subsidiary provides US casinos with mobile-based, in-venue technology and products.

Bull

- Innovative proprietary platform (Evolve) is gaining momentum across Europe and the US. In addition, Evolve Lite (pure B2B) is live and has won its first global contract.
- Significant potential for growth in the US market, in both land-based casinos and freemium.
- Speed to market is a key differentiating factor and profitability is expected as the company scales.

Bear

- Nektan is a loss-making, early-stage business. Net debt is relatively high and further fund-raising in 2018 is possible.
- Significant management changes, including the resignation of the CEO in 2017.
- Nektan has a number of B2B competitors that are larger and better funded.

Analysts

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