



Drone Volt

Aerosp. & Defence Equipt. / France

Q4 21: best sales in its history

Earnings/sales releases - 28/01/2022

Drone Volt published its best yearly results in its history, with the delivery of 271 drones and three intelligent cameras. It could have been far better if the Aquiline Drone contract had been carried out as expected. Yet again, the contracts are still intact though postponed, and we expect a strong execution in FY22. Its recent capital increase has enabled Drone Volt to acquire SKYTOOLS, a promising opportunity to strengthen its business.

Fact

- Sales stood at €8,723k, a 49% increase yoy.
- Drone Volt Factory sales represented 42% of total sales and grew 67% yoy.
- Gross margin stood at 33%, 4 points above the FY20 levels.
- Acquisition of SKYTOOLS, a Dutch drone distribution and service company.
- The licence contract with Aquiline Drones generated €1.5m in FY21.
- FY22 is expected to be a milestone for the first hydrogen prototype drone and the first delivery of the LineDrone.

Analysis

Lucrative Drone Volt Factory as main driver

Drone Volt Factory's activities, namely the sales and services associated with its in-house designed and built drones, has generated a record 56% gross margin, higher than its pre-COVID-19 levels. This is an especially strong performance since the pandemic has slowed down its international expansion. It has been more difficult to communicate with its partners HydroQuebec in Canada and Aquiline Drones in the US, headwinds which we expect will decrease throughout the year.

The strong performance of this segment has offset the low gross margins generated by its distribution of drone activities. The margins of distribution have been impacted due to several discounts Drone Volt made to win large bids (i.e. the large drone contract for police forces in Northern Europe). It has resulted in large sales with lower margins. It is part of Drone Volt's strategy to broaden its customer base, to later be able to propose its in-house drone portfolio with higher margins in the long term.

Acquisition of SkyTools

Drone Volt has just acquired SkyTools, a Dutch drone distribution and service company. The business is expected to generate over €1m of sales in FY22 and was bought with cash, thanks to the capital increase that Drone Volt performed in December. Financially, this acquisition will enable cost synergies and additional sales for the group. As Aerialtronics is close to SkyTools' current location, the former will welcome the latter into its offices, which will reduce the cost structure of both entities.

Operationally, SkyTools and Drone Volt are complementary. Not only will this acquisition strengthen Drone Volt's presence in the Netherlands, but it will also enable the company to broaden its customer base and develop its service

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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy Upside: 136%

Target Price (6 months)	€ 0.15
Share Price	€ 0.06
Market Cap. €M	23.3
Price Momentum	NEGATIVE
Extremes 12Months	0.06 ▶ 0.31
Sustainability score	3.9 /10
Credit Risk	CC ↗
Bloomberg	ALDRV FP Equity
Reuters	ALDRV.PA

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PERF	1w	1m	3m	12m
Drone Volt	-2.48%	-1.72%	-53.4%	-74.4%
Aerospace-Defence	-2.11%	2.56%	1.17%	21.8%
STOXX 600	-2.69%	-3.72%	-0.78%	16.7%

Last updated: 13/12/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	-3.14	-29.3	-41.6	14.8
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-12.1	-78.5	-10.1	-1.94
Adjusted EPS (€)	-0.05	-0.01	0.00	0.00
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	5,836	9,972	13,654	18,931
Other margin (%)	29.3	37.4	42.5	50.4
Attributable net profit (€th)	-6,393	4,655	-553	1,565
ROE (after tax) (%)	-47.6	16.6	-1.47	4.13
Gearing (%)	8.95	-31.5	-58.8	-57.8

[Company Valuation](#) - [Company Financials](#)

portfolio. Skytools was only a reseller previously but had interesting services like maintenance and repairs to which Drone Volt was not exposed. In addition, SkyTools has an experienced salesforce and a broad range of customers (notably in the oil industry) which could facilitate the sale of Drone Volt's legacy drones. We believe this will help diversify the customer base of Drone Volt, which is still very exposed to its main American customer/partner.

Lower demand than expected from Aquiline Drones

Though Drone Volt had record sales this year, it had the potential to perform even better. The 600 Hercules 2 contract with Aquiline Drones has only slightly improved in Q4, as Q3 associated drone deliveries amounted to 204 and the year ended with 211 deliveries. We were expecting over 400 deliveries by the end of FY21. This weaker than expected performance is due to Aquiline Drones investing heavily in structuring its drone eco-system, and having limited cash left to complete the contract in due time. Drone Volt has the components and some of the drones corresponding to this contract in its inventory. Though it is negative for its working capital, it suggests that it is ready to accelerate the deliveries rapidly once Aquiline Drones gives them the green light, with no potential supply-chain risks.

Nevertheless, Drone Volt has managed to generate strong sales without the Aquiline Drones contract (Q4 21 sales stood at €2.4m vs Q3 21 sales at €2.7m). It shows that the company has managed to decrease its exposure to its American partner by broadening its source of customers. A positive trend which we believe SkyTools will emphasise.

FY22: a new era for Drone Volt

We believe FY22 will be a year of both growth and innovation. We are expecting the first prototype of a hydrogen fuelled drone thanks to a partnership with Roth2, which would be used on larger drones and would give them more flight time without recharging. In addition, we are also expecting the delivery of the first LineDrone, which could be a trigger for both sales and profitability, as we believe the drone could cost over €300k.

The ongoing contracts are also expected to advance. We are not expecting deliveries of the 400H2 left for Aquiline Drones in the first half of the year but, when the latter has cash on board, the deliveries could be made rapidly. With this contract alone, Drone Volt would beat its yearly record of drone deliveries. The new Hungarian contract is on its way, with two deliveries in December and a high single-digit number of drones expected to be delivered in Q1 22. We doubt it will reach the 75 H20 milestone this year, but it will be a driver for sales. Lastly, we believe the mega-contract with Aquiline Drones which was composed of 500 H20 and 200 H10 is not likely to happen in the short term.

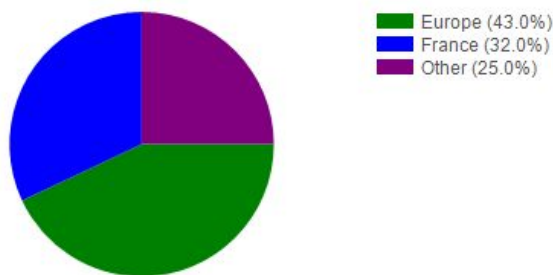
An interesting opportunity to bet on Drone Volt

Drone Volt has released a warrant that is currently trading on the markets for investors willing to have an exposure to Drone Volt cheaply. The warrant can convert into a share at a price of €0.11 any time in the next five years (the Drone Volt stock is currently trading at €0.06). As the dilutive instruments are on hold, we see limited risks of seeing the stock price decrease further. However, there are catalysts that could catapult the stock price above this strike, which could lead to consequent gains for investors willing to take the risk. In the event of Aquiline Drones having enough cash to complete its orders, Drone Volt's sales could increase drastically, as the 400 H2 left alone could represent an additional €1.5m rapidly. (The warrant ISIN: FR0014007951 is currently trading at €0.02.)

■ Impact

Our estimates were too bullish for the number of units of H2 that Drone Volt would deliver in Q4. This difference is the reason why our sales estimates are above the recent quarter's results. Due to the delay in the Aquiline Drones' major contract, we will have to delay some of the revenue recognition in the future years, hence lowering our FCF and target price. Though we are confident that FY22 will be another record year, we will have to lower our estimates. The promise by the company to not use any dilutive instruments for the next 11 months should also stabilise the price and leave room for upside. The proposed subscription bond could be an interesting instrument for exposure to the company. We maintain our positive view on the stock.

Sales by Geography



Consolidated P&L Accounts

	12/20A	12/21E	12/22E
Sales	€th 5,836	9,972	13,654
Change in sales	% -17.9	70.9	36.9
Change in staff costs	% -5.12	5.40	17.0
EBITDA	€th -2,065	-524	1,016
EBITDA(R) margin	% -35.4	-5.25	7.44
Depreciation	€th		
Underlying operating profit	€th -4,189	-3,576	-1,043
Operating profit (EBIT)	€th -8,181	-2,875	-1,336
Net financial expense	€th -673	-341	-266
of which related to pensions	€th	0.00	0.00
Exceptional items & other	€th	6,500	
Corporate tax	€th 2,209	802	400
Equity associates	€th		
Minority interests	€th 252	569	650
Adjusted attributable net profit	€th -6,393	-1,845	-553
NOPAT	€th -2,932	-2,503	-730

Cashflow Statement

	12/20A	12/21E	12/22E
EBITDA	€th -2,065	-524	1,016
Change in WCR	€th 1,685	245	-62.0
Actual div. received from equity holdi...	€th 0.00	0.00	0.00
Paid taxes	€th 2,209	802	400
Exceptional items	€th		
Other operating cash flows	€th -991	-286	-225
Total operating cash flows	€th 838	238	1,128
Capital expenditure	€th -1,810	-1,995	-1,955
Total investment flows	€th -8,992	5,505	-1,955
Net interest expense	€th -673	-341	-266
Dividends (parent company)	€th		
Dividends to minorities interests	€th 0.00	0.00	0.00
New shareholders' equity	€th 8,590	14,978	0.00
Total financial flows	€th 13,967	11,337	1,734
Change in cash position	€th 5,812	17,081	907
Free cash flow (pre div.)	€th -1,645	-2,098	-1,093

Per Share Data

	12/20A	12/21E	12/22E
No. of shares net of treas. stock (year...)	Th 198,523	364,151	364,151
Number of diluted shares (average)	Th 131,321	282,454	365,268
Benchmark EPS	€ -0.05	-0.01	0.00
Restated NAV per share	€		
Net dividend per share	€ 0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 0.21	35%	● KUKA
NAV/SOTP per share	€ 0.20	20%	
EV/Ebitda	€ 0.13	20%	
P/E	€ 0.03	10%	
Dividend Yield	€ 0.00	10%	
P/Book	€ 0.13	5%	
TARGET PRICE	€ 0.15	100%	

NAV/SOTP Calculation

Balance Sheet

	12/20A	12/21E	12/22E
Goodwill	€th 152	150	149
Total intangible	€th 5,477	5,376	5,554
Tangible fixed assets	€th 743	1,130	1,268
Financial fixed assets	€th		
WCR	€th 1,360	1,115	1,177
Other assets	€th 7,656	7,120	6,622
Total assets (net of short term liab.)	€th 19,985	20,849	21,035
Ordinary shareholders' equity	€th 17,640	38,405	36,999
Quasi Equity & Preferred	€th		
Minority interests	€th -129	-100	-99.0
Provisions for pensions	€th	0.00	0.00
Other provisions for risks and liabilities	€th 244	281	323
Total provisions for risks and liabilities	€th 244	281	323
Tax liabilities	€th 0.00	0.00	0.00
Other liabilities	€th 4,141	4,555	5,011
Net debt (cash)	€th -1,911	-22,292	-21,199
Total liab. and shareholders' equity	€th 19,985	20,849	21,035

Capital Employed

	12/20A	12/21E	12/22E
Capital employed after depreciation	€th 7,580	7,621	7,999

Profits & Risks Ratios

	12/20A	12/21E	12/22E
ROE (after tax)	% -47.6	16.6	-1.47
ROCE	% -38.7	-32.8	-9.13
Gearing (at book value)	% 8.95	-31.5	-58.8
Adj. Net debt/EBITDA(R)	x 0.93	42.6	-20.9
Interest cover (x)	x -6.22	-10.5	-3.91

Valuation Ratios

	12/20A	12/21E	12/22E
Reference P/E (benchmark)	x -3.14	-29.3	-41.6
Free cash flow yield	% -5.41	-3.01	-4.76
P/Book	x 1.72	1.82	0.62
Dividend yield	% 0.00	0.00	0.00

EV Calculation

	12/20A	12/21E	12/22E
Market cap	€th 30,389	69,801	22,942
+ Provisions	€th 244	281	323
+ Unrecognised actuarial losses/(gains)	€th 0.00	0.00	0.00
+ Net debt at year end	€th -2,172	-22,566	-21,486
+ Leases debt equivalent	€th 0.00	0.00	0.00
- Financial fixed assets (fair value)	€th 3,898	6,712	12,305
+ Minority interests (fair value)	€th 387	300	297
= EV	€th 24,949	41,104	-10,230
EV/EBITDA(R)	x -12.1	-78.5	-10.1
EV/Sales	x 4.28	4.12	-0.75

Analyst : Romain Pierredon, Changes to Forecasts : 13/12/2021.