

## Payton Planar: Hitting All Cylinders In Spite Of The Pandemic

Oct. 19, 2020 1:37 PM ET4 comments | 8 Likes

by: Lucid Capital

### Summary

- Despite the 5-15% decline in the analog semi industry in H1 of 2020, Payton Planar managed to grow its revenues by 9% and its operating profit by 15%.
- Growth was driven by increased adoption of planar transformers in cloud data centers and solar/wind inverters, compensating for the weakness in EV and industrial applications.
- The adoption of high-density electric circuits, such as SiC (silicon carbide) and GAN (Gallium Nitride), in EVs and 5G base stations create a demand inflection point for planar transformers.
- EVs and AI adoption will continue drive Payton's growth in the long-term.

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### Great Successes Despite COVID-19 Market Turmoil

Since our "Top Idea" article published in 2018 ("Payton Planar – A Hidden Gem Under the Electric Vehicle Hood") (EBR: PAY), in which we noted the importance of planar transformers in Electric Vehicles (EVs), Payton Planar's stock has nearly doubled.

Payton has not only seen its earnings grow by 39% annually over the last five years, but has also seen an increase of 9% in revenue growth and 15% in its operating profit in H1 of 2020, despite the turbulence in the market caused by COVID-19.



## Key financial figures – Payton Planar Magnetics Ltd.

### Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income - unaudited -

Six months ended June

	2020 USD 000	2019 USD 000
Revenues	19,615	18,066
Cost of sales	(11,126)	(10,046)
<b>Gross profit</b>	<b>8,489</b>	<b>8,020</b>
Development costs	(666)	(677)
Selling and marketing expenses	(898)	(1,072)
General and administrative expenses	(1,680)	(1,731)
Other expenses, net	-	(8)
<b>Operating profit</b>	<b>5,245</b>	<b>4,532</b>
Finance income	339	484
Finance expenses	(41)	(100)
Finance income, net	298	384
Share of (losses) profits of equity accounted investee	(17)	12
<b>Profit before income taxes</b>	<b>5,526</b>	<b>4,928</b>
Income taxes	(992)	(900)
<b>Profit for the period</b>	<b>4,534</b>	<b>4,028</b>
<b>Other comprehensive income (loss) items that will not be transferred to profit and loss</b>		
Re-measurement of defined benefit plan	112	(99)
Share of other comprehensive loss of equity accounted investee	(5)	(19)
<b>Total other comprehensive income (loss)</b>	<b>107</b>	<b>(118)</b>
<b>Total comprehensive income for the period</b>	<b>4,641</b>	<b>3,910</b>
<b>Number of shares</b>	<b>17,670,775</b>	<b>17,670,775</b>
<b>Basic earnings per share (in USD)</b>	<b>0.26</b>	<b>0.23</b>

9% growth YoY

15% growth YoY

In fact, Payton continues to surpass its semi-analog peers.

Company Name	EO Total Revenues, 1 Yr. Growth %	EO EBIT, 1 Yr. Growth %
Texas Instruments Incorporated (NasdaqGS:TXN)	(11.70%)	(15.33%)
Analog Devices, Inc. (NasdaqGS:ADI)	(13.73%)	(27.73%)
ON Semiconductor Corporation (NasdaqGS:ON)	(9.96%)	(64.93%)
Microchip Technology Incorporated (NasdaqGS:MCHP)	(5.98%)	21.62%
Maxim Integrated Products, Inc. (NasdaqGS:MXIM)	(2.01%)	2.74%
STMicroelectronics N.V. (Euronext:STM)	(3.96%)	(36.51%)
<b>Payton Planar Magnetics Ltd. (ENXTBR:PAY)</b>	<b>15.35%</b>	<b>9.61%</b>

Source: CapitalIQ

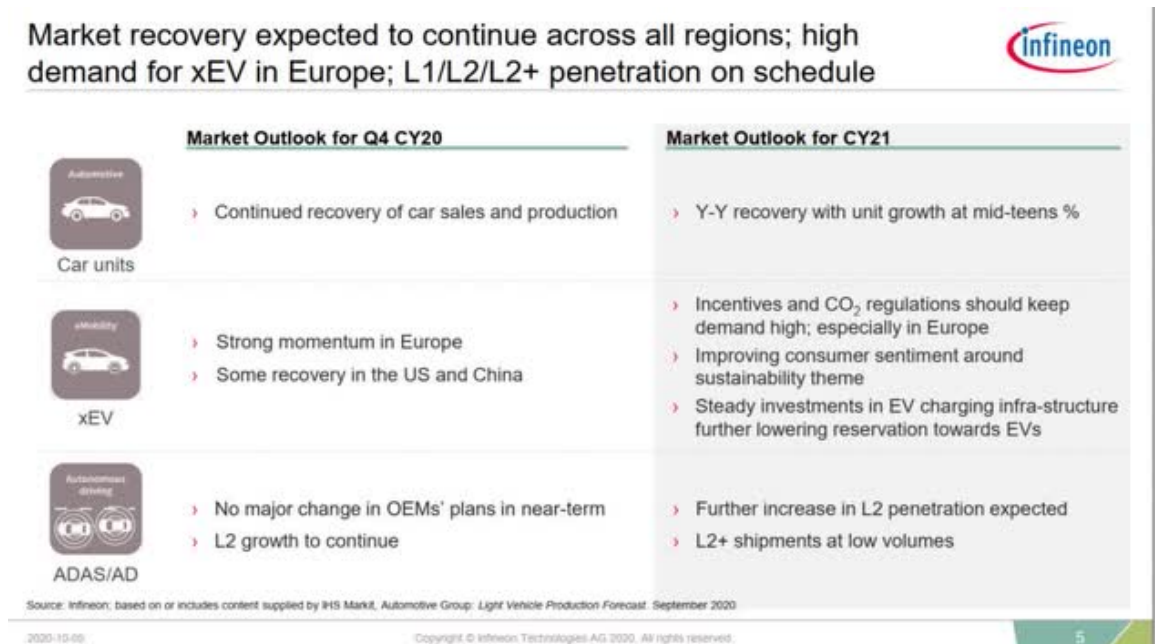
Payton also enjoyed increased adoption of its transformers in cloud data centers (see article “Payton Planar Magnetics - Not Just Under The EV Hood, But Also A Play On Cloud Data Centers”). This more than offset the EV industry’s sluggish growth in 2019 as a result of China subsidies and in H1 of 2020 as a result of the closure of automotive factories caused by COVID-19.

Payton, however, is positioned well on both fronts in the long-term.

## The Comeback of EVs and Planar Transformers After a Lackluster Year for the Automotive Industry

While the lackluster performance of EVs in the last year has left many skeptical as to how planar transformers in the EV sector will perform in the long-run, the industry is already seeing a strong comeback.

Infineon, the largest auto-semi manufacturer, disclosed in mid-September 2020 that there is high demand for EVs and that the market recovery is expected to continue across all regions.

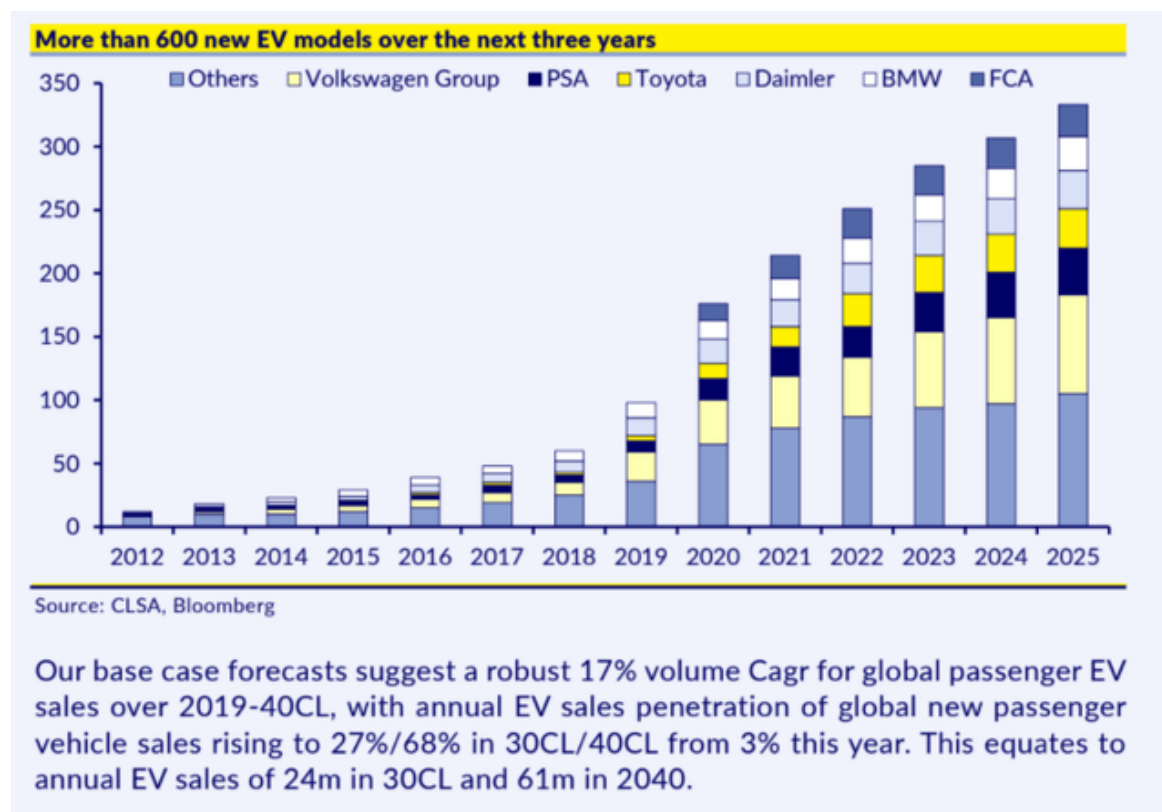


Source: Infineon Investors Deck

NXP Semiconductors, another auto-semi behemoth, pre-announced its Q3 2020 results saying that, “Relative to the mid-point of our guidance, we experienced material improvement in demand across all end markets, but particularly in the Automotive and Mobile end markets. Additionally, demand improved in both our direct and distribution channels.”

EVs are now becoming a hot sector for investors with an upsurge in stocks like TSLA, NIO, and numerous other SPACs. Even Amazon announced that it plans to have 10,000 EVs on the road by 2022 and 100,000 by 2030. A flood of EV models are set to be launched in the coming three years, each year with a higher density battery, positioning

Payton's transformers' high efficiency, low-weight, small-scale and ultra-reliability to benefit immensely. Payton's transformers are already set to be used in top European car manufactures and significant portion of the Tier-1 Chinese EV players.



## Positioned for Long-Term Success

While Payton has previously been hesitant to be fully transparent in the capital market and to engage with investors, this year has proven to be a breakthrough for the company and its stakeholders. Payton's willingness to increase transparency has created heightened interest from Tel Aviv investors to hold shares of the company. Payton also published an investor deck, which is available on the Tel Aviv stock exchange website.

As of Q3 of 2020 the management adopted a dividend policy (distributing at least 40% of its net income). The management is also working to increase the liquidity of the stock at Euronext (Euronext: Pay BB).

In its recent investor deck, Payton explains that the adoption of SiC (like provided by CREE) and GAN (from players like SOITEC) is a major driver for its transformers.

## Supporting Trends

- Miniaturization/higher power density - Need for smaller and higher efficient products
- Increased switching frequency - allowing products size reduction
- High frequency semiconductors (SiC, GaN)- To allow high frequency power supply, all components need to be able to handle high efficiency
- Green Energy/ electrification/efficiency - environmental trends
- The need for customization and fast reaction drive tailored solutions and not off the shelf

In fact, Payton's transformers are already part of the reference designs for the SiC automotive applications and for cloud servers/switches. A few examples can be found on Payton's website:

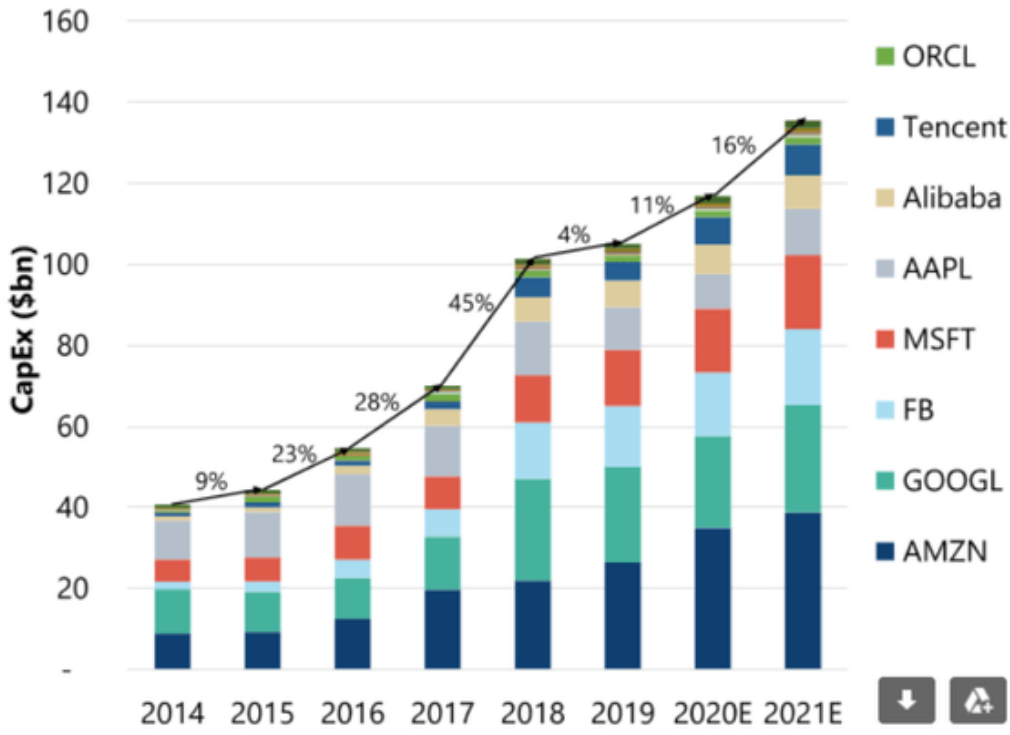
- Infineon – Infineon 800W DC-DC ZVS full-bridge solution for server and industrial SMPS systems
- Texas Instruments (OTC:TI) – 400V – 12V/500W High Frequency Resonant Converter Reference Design Using High Voltage GaN Devices
- Wolfspeed (CREE) - Wolfspeed SiC Power solutions for EV Charging - 20kW Off board fast charger system



Since the increased adoption of cloud computing due to COVID-19, the cloud service providers are thriving and so too are their CAPEX plans. Given the expected acceleration of the cloud industry, CAPEX trends are expected to continue to grow in 2021-2022.

Chart 1 - US and China Capex Trends

Click to enlarge

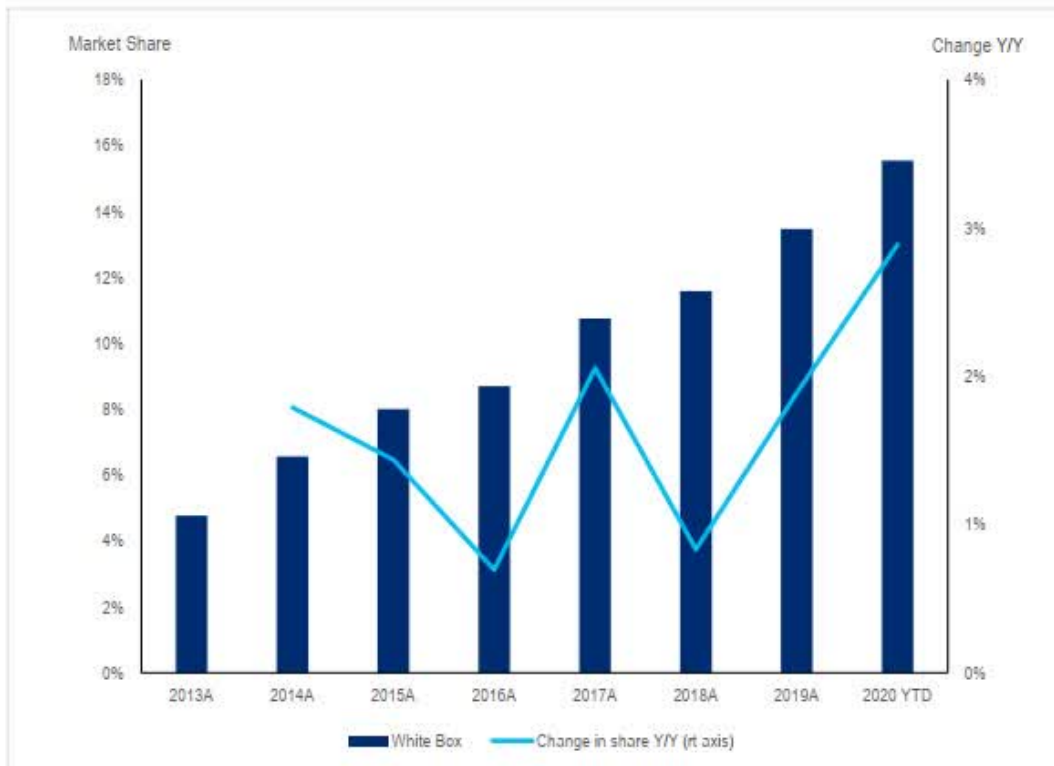


Source: Company data, Jefferies, Factset

This CAPEX trend bodes well for Payton’s largest customer, Quanta Computer, one of the largest white box ODMs who supplies white box switches to prominent names from the graph above.

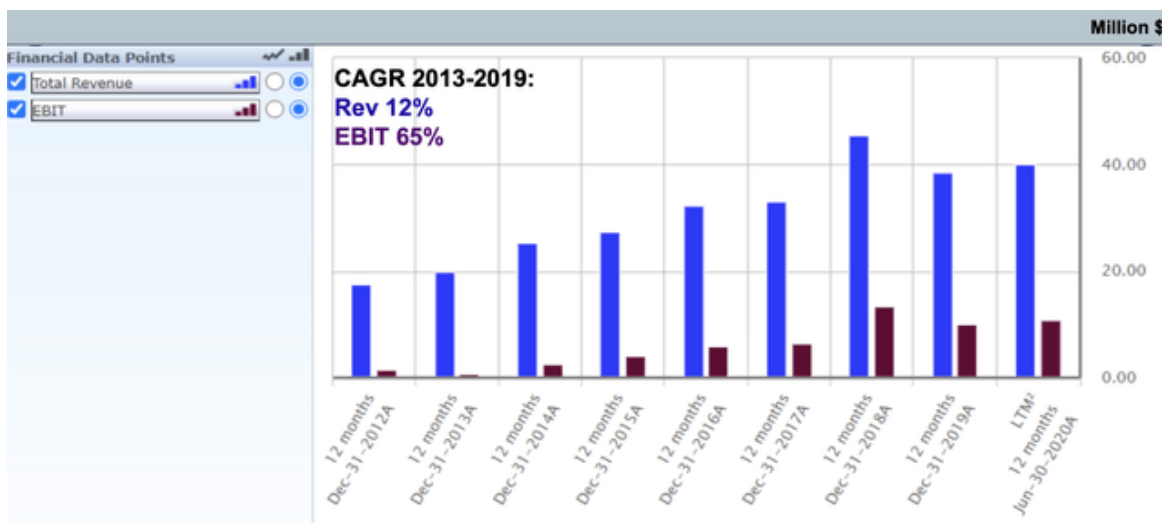
In fact, on October 16, 2020 Citi published research showing that white box switches continues to gain share over branded ones.

**Figure 2. White box DC switch market share (annual)**



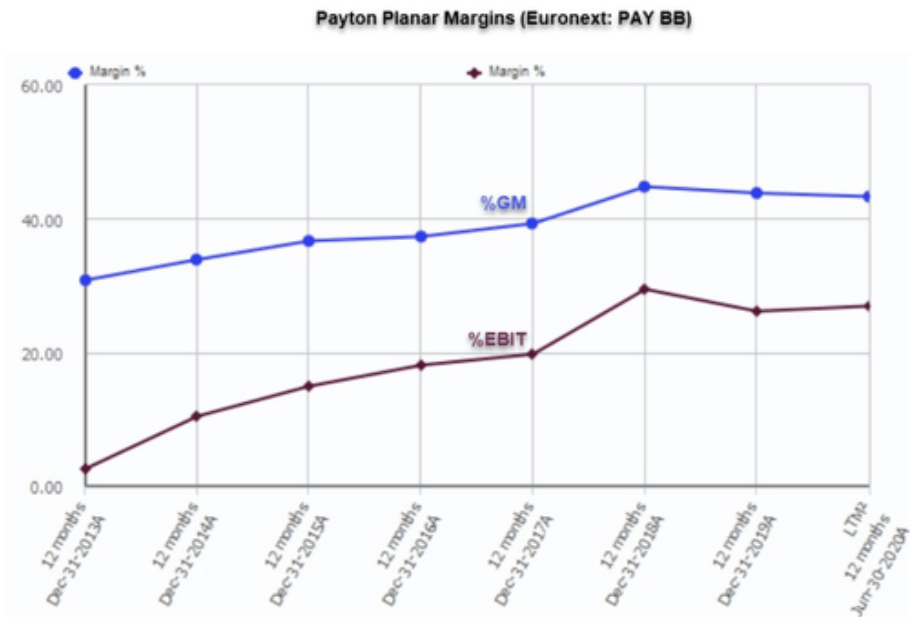
Source: Dell Oro, Citi Research

To summarize, Payton continues to enjoy the demand for high-density, high frequency electrical devices. This long trend drove 12% annual organic revenue growth and 65% annual EBIT growth since 2013.



Paytons revenues and EBIT 2013-2020, source CapitalIQ

Payton’s strong competitive position is reflected in its improving margins.



## Highly Compelling Valuation

Payton is traded in the Euronext at a market cap of \$139 million. Considering the \$39 million of cash and cash equivalent with no debt, enterprise value (EV) is \$100 million. Payton has been able to convert all of its net income to cash flow, due to its capital light model. In fact, in the last 12 months, amid one of the most difficult macro backdrops - Payton has generated \$9 million FCF (\$1 million less than the record 2018). Assuming Payton can grow its FCF at 12% a year, it is traded at bargain EV/FCF of 9.5 for 2021 and 8 for 2022. These ratios are extremely conservative given the historical 56% EBIT growth rate and the inflection points in AI, EVs and the expected recovery in Payton's other end markets.

One may ask why the valuation is so low. We believe it is likely the low profile taken by its management, who believe that Payton's results are speaking louder than any IR efforts.

**Disclosure:** I am/we are long PAYTON. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

**Editor's Note:** This article discusses one or more securities that do not trade on a major U.S. exchange. Please be aware of the risks associated with these stocks.

## Comments (4)

### EskiMo\_

Great article, really like your research.

I also own the stock and think the most important reason for the discount is the liquidity of the exchange. The stock is quoted on the least liquid part of Euronext Brussels - the fixing market. The stock only trades at 11.30 am and 4.30 pm. In that sense,



I guess the stock is uninvestible for most institutional investors. Part of the discount would disappear if they would appoint a market maker in the stock and move it to a more liquid market like the market with continuous trading.

21 Oct 2020, 05:43 AM

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### **World On Time**

#### **Premium**

@EskiMo\_ did purchase thru Euronext or thru the company. Looking for long term investment opportunities and this fits the bill.

22 Oct 2020, 04:11 AM

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### **John Beardslee**

It's also traded on the Israeli market, if that helps.

28 Oct 2020, 02:00 PM

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### **RQBS**

Great article, and truly a hidden gem!

I am also Long on Payton Planar, and as I see it the large discount clearly stems from the low liquidity and no IR efforts.

Both go hand in hand, and I believe the publishing of the investor presentation and increased press releases/IR activity would clearly catalyze discount reduction.

The way I see it it has low downside given the low valuation, large net cash position and continues to perform, while I see potential significant upside in a discount unlocking event.

Greetings

20 Oct 2020, 04:40 AM

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