November 20, 2024

Zacks Small-Cap Research

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Eltek Ltd (NASDAQ: ELTK)

ELTK: Eltek releases 3rd quarter 2024 financial results. The company also provided updates on end market trends and its capacity improvement program. We maintain our price target of $18.00 per share.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe ELTK could be worth **$18.00** per share.

Current Price (11/19/24)	$11.65
Valuation	**$18.00**

OUTLOOK

Eltek Ltd is an established manufacturer of Printed Circuit Boards (PCBs) that is entering a new growth phase due to increases in manufacturing capacity and potential M&A transactions. The company has the potential to grow both revenues and earnings at double-digit growth rates for the foreseeable future if they can execute on their accelerated investment program and maintain technological superiority. The company maintains a strong balance sheet and generates free cash flow. The company's current stock price does not likely reflect the potential level of profitable growth going forward.

SUMMARY DATA

52-Week High	**$22.80**
52-Week Low	**$7.37**
One-Year Return (%)	**34.2**
Beta	**0.33**
Average Daily Volume (sh)	**26,687**
Shares Outstanding (mil)	**6.71**
Market Capitalization ($mil)	**$79.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**8.4**
Insider Ownership (%)	**52**
Annual Dividend (est. 2025)	**$0.26**
Dividend Yield (est. 2025)	**2.25**
5-Yr. Historical Growth Rates	
Sales (%)	**7.7**
Earnings Per Share (%)	**46.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**13.8**
P/E using 2024 Estimate	**13.5**
P/E using 2025 Estimate	**11.5**

Risk Level	**Below Avg**
Type of Stock	**Small-Value**
Industry	**Technology**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	$9.8 A	$9.1 A	$10.3 A	$10.4 A	$39.6 A
2023	$11.5 A	$11.0 A	$11.9 A	$12.3 A	$46.7 A
2024	$11.8 A	$10.5 A	$13.5 A	$13.4 E	$49.2 E
2025					$54.1 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	$0.11 A	$0.13 A	$0.17 A	$0.14 A	$0.55 A
2023	$0.27 A	$0.22 A	$0.36 A	$0.22 A	$1.07 A
2024	$0.27 A	$0.11 A	$0.25 A	$0.24 E	$0.87 E
2025					$1.02 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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WHAT'S NEW



Source: nisteceltek.com

Eltek Reports 3rd Quarter 2024 Results

On November 19, 2024, Eltek announced financial results for the 3rd quarter of 2024 which showed impressive revenue growth. Revenues for the 3rd quarter were $13.5 million compared to $11.9 million in the 3rd quarter of 2023. The 14% increase was due to strong orders from the defense and medical device end-markets. Approximately 65% of revenues are generated from the country of Israel with other revenues coming from North America, the Netherlands, India and other countries.

Gross profit for the 3rd quarter was $3.5 million (26*% gross margin*) compared to $3.7 million (31*% gross margin*) in the prior year period. The gross margin decrease was related to labor shortages in Israel which puts upward pressure on wages. It's also worth noting that in the 3rd quarter of 2023, the company experienced unusually low material costs which produced above average gross margins. The company's goal is to produce gross margins in the range of 26%-29% over the medium to long-term.

Operating profit for the 3rd quarter of 2024 was $1.9 million compared to $2.3 million in the 3rd quarter of 2023. Net income for the quarter was $1.7 million or $0.25 per share compared to net income of $2.2 million or $0.36 per share in the prior year period. EBITDA for the 3rd quarter of 2024 was $2.3 million (*16.9% EBITDA margin)* compared to EBITDA of $2.6 million (22*.0% EBITDA margin*) in the 3rd quarter of 2023. Operating cash flow was $1.65 million and capital expenditures were $1.9 million as the company continued to execute on its Accelerated Investment Plan.

There is approximately $8.0 million remaining to invest on the AIP which will be spent in 2024 and 2025. By the end of 2024, the company plans to open a new 15,000 sq. ft. manufacturing space in its current facility. This will primarily be a state-of-the-art full Solder Mask Application line. After completion of the AIP, total capacity could generate revenues in excess of $60 million.

Cash and short-term bank deposits were $18.1 million as of September 30, 2024 and the company has no outstanding debt. Working capital at the end of the 2nd quarter was $24.0 million. Cash balances were boosted by an equity offering in February 2024 which raised $10.0 million in gross proceeds.

Business Update

- Despite the near-term revenue volatility as a result of customer order patterns, the company indicated it has seen a consistent uptrend in both product orders and requests for quotations during 2024. Recently, the company secured a repeat order worth $1.6 million from a defense client for PCB supply. $1.0 million of this order is due by the end of 2024 and the remainder by the end of 2025.

- The company anticipates sustained high demand in the defense sector for the next 2-3 years due to ongoing geopolitical conflicts around the world.

- Eltek mentioned that production constraints are largely due to workforce shortages and not in physical capacity at its plants. To manage the increased demands for PCBs, the company is actively seeking to boost its workforce by 15% in the short term and an additional 10% after that. The company is seeking to increase its labor force with an additional 50 employees by the end of 2025.

- The company mentioned it anticipates significant challenges as they undertake extensive construction work and integrate additional new production lines and machines. The focus is on ensuring the efficient installation of new equipment while sustaining full production capacity on existing lines. Despite a slight delay of several months in the investment program, progress remains steady with the successful installation of the first of three ordered coating lines during the first quarter of 2024.

- The company indicated it continues to seek a suitable PCB manufacturing company to acquire in the U.S. market to enhance its presence in North America. Also, the company is exploring additional options for expanding production at its plant in Israel to support its growth strategy.

Growth Drivers

The company attributes its success to a multi-pronged approach:

- Innovation: The persistent pursuit of innovation has allowed the company to stay at the forefront of technological advancements, meeting the evolving needs of its defense, aerospace, and medical customers.

- Customer Focus: Building strong, long-lasting relationships with its customers has been a cornerstone of their success. Understanding the unique challenges faced by the defense, aerospace and medical sectors, and their tailored solutions have contributed to customers' success.

- Operational Efficiency: Eltek continues to invest in state-of-the-art manufacturing processes and quality control measures, ensuring the production of reliable and high-performance PCBs.

Market Trends and Outlook

The PCB industry is experiencing mostly positive dynamic shifts which are driven by advancements in technology and evolving market demands. As Eltek primarily operates in the defense, aerospace and medical sectors, the company is well-positioned to capitalize on the following market trends:

- Increasing Demand for Advanced Electronics: The defense and aerospace industries are witnessing a growing need for sophisticated electronic components which drives the demand for high-performance PCBs.

- Emphasis on Reliability and Quality: With critical applications in defense, aerospace and medical devices - reliability and quality are essential. Eltek has consistently delivered PCB solutions that meet the stringent standards of these industries.

- Global Supply Chain Challenges: The industry has faced challenges related to the global supply chain. Eltek has proactively managed these challenges through strategic partnerships and diversified sourcing, ensuring minimal impact on overall operations.

The company has diversified its revenue base by exploring opportunities outside of the traditional defense and medical devices market. For example, Eltek is focused on strengthening collaboration and securing substantial orders for new products with a leading customer whose machinery and technology play a crucial role in the large-scale production of semiconductor chips.

The company is making progress with its $15.0 million Accelerated Investment Program. Customers have financed a portion of this plan which calls for equipment and facilities to increase production

capacity. There is approximately $8.0 million left to spend as the company executes on this program. The company indicated that there could be possible delays as qualified engineers and essential employees are difficult to source at times.

The ongoing situation in Israel, coupled with the continual rise in defense budgets across European nations and the trade tension between the US and China, continue to influence the demand for the company's high-end PCB products.

In addition, the company mentioned that as a result of the security challenges in Israel and the logistical issues of shipments entering the country and the arrival of the supplier technical team to the country, there may be potential delays in executing the accelerated investment program. Some of the equipment to be implemented in the program come from locations outside of Israel and certain suppliers are reluctant to send engineering and installation teams to Israel at this time.

The company continues to actively pursue the acquisition of a PCB manufacturing company in the U.S. Recognizing the strategic importance of the U.S. market, Eltek anticipates substantial growth in the coming years. The underlying motivation behind the *CHIPS and Science Act* and the *Protecting Circuit Boards and Substrates Act* is to repatriate microelectronics and PCB production to America which will foster increased demand for domestic PCB manufacturing.

Valuation and Estimates

The growing market demand persists, and it is anticipated that this trend will continue in upcoming years. The company indicated that the influence of the current conflict in Israel has not been fully manifested in the company's backlog yet. However, the positive impact of increased domestic defense spending is likely to materialize in the second half of 2024 and into 2025.

We adjust our EPS to account for recent financial results and additional management commentary regarding labor costs in Israel. Our 2024 annual revenue estimate is now $49.2 million, and our EPS estimate is $0.87. We are maintaining our price target of **$18.00.** The stock is currently selling at approximately 13.4x our 2024 EPS estimate.

The global market for flex-rigid PCBs is expected to grow at a CAGR of approximately 10% and reach $7.5 billion by 2025. We expect the company's revenues to grow at solid double-digit rates for at least the next 5 years. We expect gross margins to steadily increase to 28%-29% over the next 2-3 years. EBITDA margins could increase from 16.0% in 2023 to 20.0% in coming years depending on gross margins and levels of SG&A spending going forward.

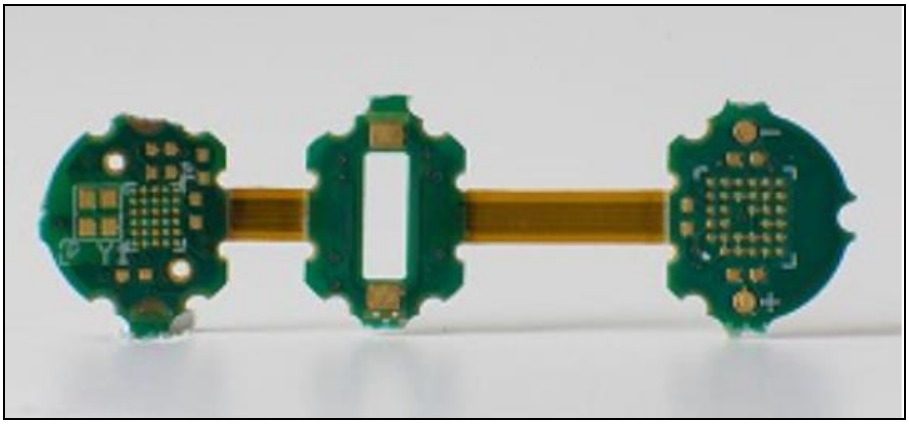
Our primary valuation tool utilizes a Discounted Cash Flow process. Under the scenario described above, our DCF based valuation target is approximately **$18.00** per share. Our target price may be conservative as it does not account for any M&A transactions that would materially increase the company's manufacturing capacity.

The company announced it will initiate a dividend policy starting in 2025 and will be based on an annual distribution of up to 25% of reported net income. Based on 3rd quarter 2024 net income, we estimate that the annualized dividend yield could be in the **2.0%-2.3%** range in 2025.

KEY INVESTMENT POINTS

Source: nisteceltek.com

- Eltek Ltd. (NASDAQ: ELTK) is a leading Israeli based manufacturer of Printed Circuit Boards with a history dating back to 1970 and approximately 1,500 customers.
- There is a current trend of PCB manufacturing moving from low-cost China manufacturing back to Western markets in Europe and the U.S. due to security and intellectual property issues.
- There are high barriers to entry for new participants in the PCB market with an estimated $35-$50 million total investment required and a 4-5 year time frame before commercial production can commence.
- The company currently has an established 100,000 square foot manufacturing facility located in Petach Tikva, Israel. The facility currently has a revenue capacity in the range of $40-$55 million and has the potential to increase up to $55-$65 million in revenues after the company completes a $15 million accelerated capital investment program by the end of 2025.
- Approximately 64% of the company's revenues are derived from the defense and aerospace markets. The company is making a strategic effort to increase its presence in North America.
- The company is led by an experienced management team with expertise in manufacturing, technology and distribution.
- The company has approximately $18.1 million in cash and short-term securities on the balance sheet and no bank debt as of 9/30/24.
- The company was founded in 1970 and went public in 1997. The current market capitalization is approximately $78.7 million.
- We believe ELTK stock is worth **$18.00** based on a conservative discounted cash flow (DCF) calculation and peer multiple comparisons.



Source: nisteceltek.com

OVERVIEW

Source: nisteceltek.com

Eltek (NASDAQ:ELTK) is a leading global provider of complex Rigid and Rigid-Flex Printed Circuit Boards (PCBs). Established in 1970, Eltek is an AS9100, ISO-9100, Nadcap and ITAR & EAR certified high technology printed circuit board manufacturer. Eltek currently has over 300 employees including strong engineering support and 50 years of success in aerospace, defense, medical and industrial markets where it is recognized as a reliable PCB global leader.

The company manufactures and supplies technologically advanced custom-made circuitry solutions for use in sophisticated and compact electronic products. The company offers specialized services and are a solution provider in the PCB business, primarily in Israel, Europe, North America and Asia. PCBs are platforms that conduct an electric current among active and passive microelectronics components, microprocessors, memories, resistors and capacitors and are integral parts of the products produced by high technology industries. Eltek's focus is on short run quick-turnaround, prototype, pre-production and low to medium volume runs of high-end PCB products for high growth, advanced electronics applications, mainly flex-rigid PCBs.

The company designs and develops innovative manufacturing solutions pursuant to complex interconnect requirements of original equipment manufacturers (OEMs) and provides customers with a wide range of custom designed PCBs, including complex rigid, double-sided and multi-layer PCBs as well as flexible circuitry (flex and flex-rigid boards) made of several types of high-performance base material. To complement the quick-turnaround, prototype, pre-production and low to medium volume production capabilities and to provide customers with a single source service, the company also acts as an agent for the importation of PCBs from Southeast Asia when customers require high volume production runs.

The company recently commenced a $15 million capital improvement plan which is expected to substantially increase manufacturing capacity and create a more efficient manufacturing process.

The company has approximately $18.3 million in cash on the balance sheet and no bank debt as of 6/30/24.



Source: nisteceltek.com

PRODUCT DESCRIPTIONS

Eltek develops and manufactures a variety of advanced Printed Circuit Boards. The primary products include rigid PCBs, flex-rigid PCBs, and flex PCBs.

Rigid PCBs - Rigid PCBs are a core product of the industry and can be found in virtually every electronic device. The layer count of these products generally ranges from two and 30 layers, although some PCBs are composed of 42 layers. Approximately 30% of the company's production is Flex-Rigid PCBs.

Flexible PCBs - Flexible boards are thin, lightweight circuits used to interconnect other circuit boards and electronic devices within electronic equipment. Approximately 5% of the company's production is Flex-Rigid PCBs.

Flex-Rigid PCSs - Flex-rigid boards are composed of rigid parts and flexible layers. They generally range from two to 30 layers. Flex-rigid boards provide solutions for electronic systems that impose space and shape restrictions and for systems in which reliability of connectivity is crucial. These products are often found in military applications (primarily avionics), medical and measurement equipment and the automotive industry, among other uses. Approximately 65% of the company's production is Flex-Rigid PCBs.

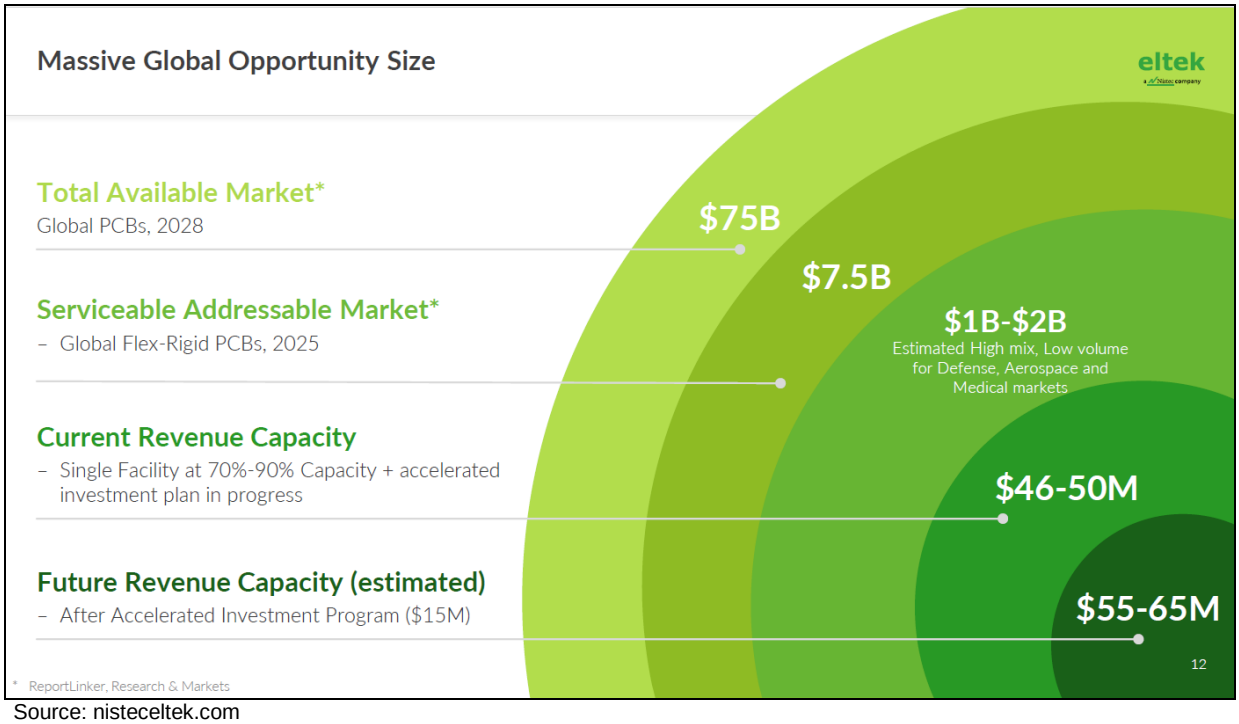
Other products produced by Eltek include High-Density Interconnect PCBs and Teflon/Hybrid PCBs.



Source: nisteceltek.com

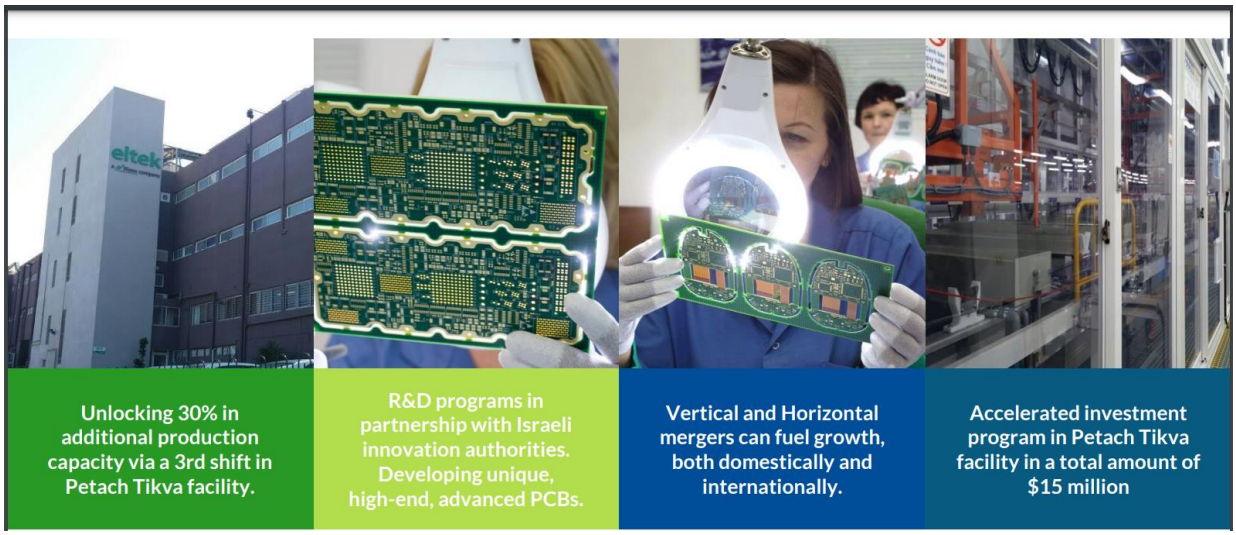
ADDRESSABLE MARKET

The global PCB market is expected to grow to $75.0 billion by 2027 which is a CAGR of almost 5.0%. The majority of that market is low margin rigid PCBs. The higher margin flex-rigid PCB market is expected to grow to $7.5 billion by 2025 which is the current focus of Eltek.



Source: nisteceltek.com

The company currently has revenue capacity of approximately $46-$50 million when operating at 70%-90% utilization and considering the first phase of its capital investment plan at its Petach Tikva facility. After the company's $15 million accelerated investment is completed, the company's total revenue capacity could be over $55 million.



Source: nisteceltek.com

RISKS

- Key customers account for a significant portion of company revenues and the loss of a key customer would have an adverse impact on business and financial results. In the 1st half of 2024, a group of affiliated companies accounted for 12.2% of total revenues and another group of affiliated companies accounted for 16.0%.

- The company is dependent on a select number of suppliers for timely delivery of key raw materials and the loss of one or more of these suppliers or delays in supply of these raw materials would adversely affect manufacturing capabilities. As the majority of PCB manufacturing is centered in Southeast Asia, raw material suppliers may focus their attention and give higher priority to manufacturers in those areas.

- Mr. Yitzhak Nissan, individually and through Nistec Golan, is a controlling shareholder of the company and his voting interest may conflict with the interests of other shareholders. Mr. Nissan, Chairman of the Board and the controlling shareholder of Nistec Golan, beneficially owns 52.0% of Eltek's outstanding ordinary shares. Mr. Nissan and Nistec Golan have the ability to exercise a significant influence over business and affairs and generally have the power to determine all matters submitted to a shareholder vote.

MANAGEMENT

Eli Yaffe
Chief Executive Officer

Mr. Yaffe joined Eltek as CEO in July 2018. Prior to this, Mr. Yaffe served as the CEO of Carmel Forge Ltd. (Aerospace), and before that was CEO of Urdan Industries Ltd. (Defense). Mr. Yaffe holds a B.Sc. degree from the Technion-Israel Institute of Technology, M.Sc. in Mechanical Engineering from Tel Aviv University, and an MBA in Finance & Marketing from Bar-Ilan University.

Ron Freund
VP Finance, and CFO

Mr. Freund joined Eltek in January 2022. Mr. Freund is a senior finance executive with more than thirty years of financial, operational and management experience. Prior to joining Eltek, Mr. Freund held various leadership and senior executive finance positions. Ron was a Senior Partner at Ernst & Young Israel and holds a B.A. degree in Accounting and Economics from the Hebrew University, Jerusalem.

Tomer Segev
VP Sales and Marketing

Tomer Segev joined Eltek as VP Sales & Marketing in June 2024. Tomer has more than 20 years of experience with executive positions of sales & marketing, business management and business development in various leading global technology companies. Tomer has B.Sc in Physics and Materials Engineering from the Technion and MBA from the Kellogg Recanati Executive MBA program.

Itzik Zemach
VP Operations

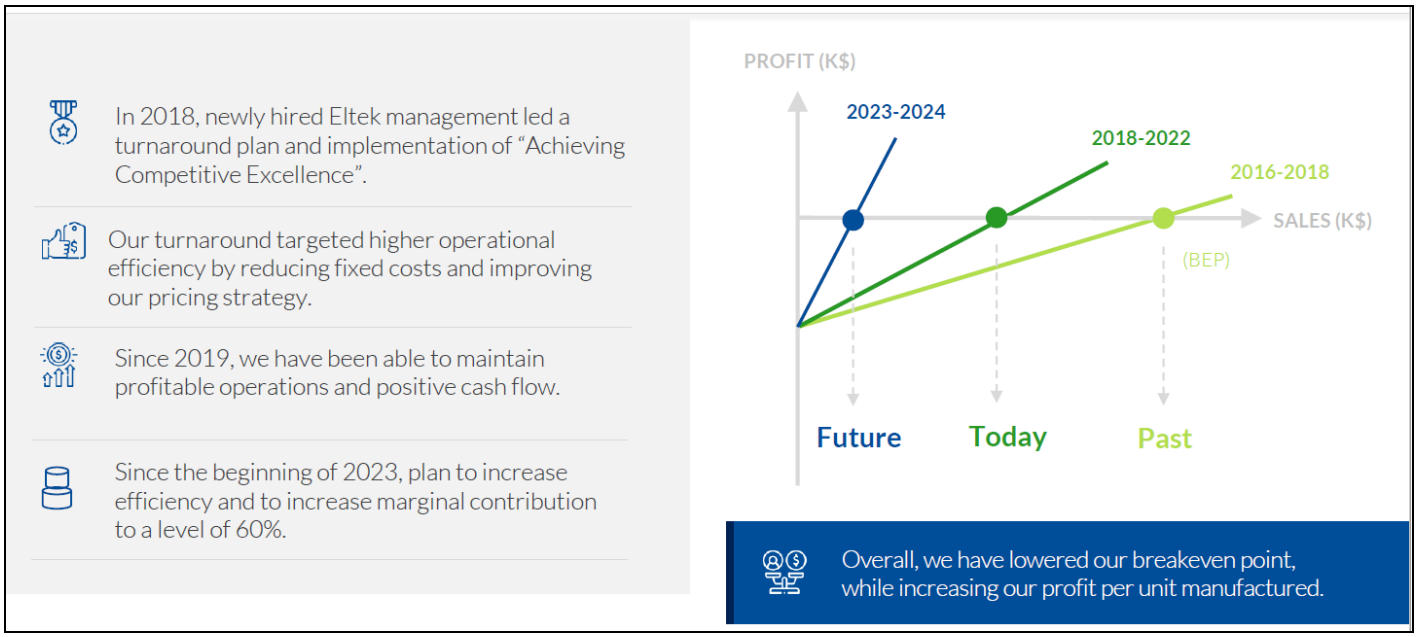
Mr. Zemach Joined Eltek in September 2018 as VP of operations. Prior, Mr. Zemach served as the Plant Manager at "Kahane Group" for 6 years, leading all supply-chain processes, and has spent over 15 years in the electronic parts manufacturing industry. Mr. Zemach holds a B.Sc. degree in Electronic Engineering from Ariel University and an MBA in IT from Bar Ilan University.

SUMMARY

We believe Eltek has the potential to significantly grow its addressable market through organic growth and increases in manufacturing capacity. The management team is highly experienced in all aspects of PCB development, manufacturing, and distribution.

The company's growth pillars include effective business planning which involves appropriate price actions, product rationalization and a strong balance sheet. Steps to improve operational efficiency include adopting Achieve Competitive Excellence (ACE), which is similar to a 6-Sigma program. The company uses big data technology for PCB engineering and plans to expand capacity at its current facility. Market expansion is also a key component of its growth plans with a focus on increasing the penetration of U.S. markets. Currently, only about 20% of total revenues come from North America. The company is also on the lookout for potential capacity additions through targeted mergers or acquisitions.

We believe Eltek has the potential to grow both revenues and earnings at double-digit growth rates for the foreseeable future if they are able to execute on their investment program and maintain technological superiority. The company will also likely increase manufacturing capacity through focused acquisitions.



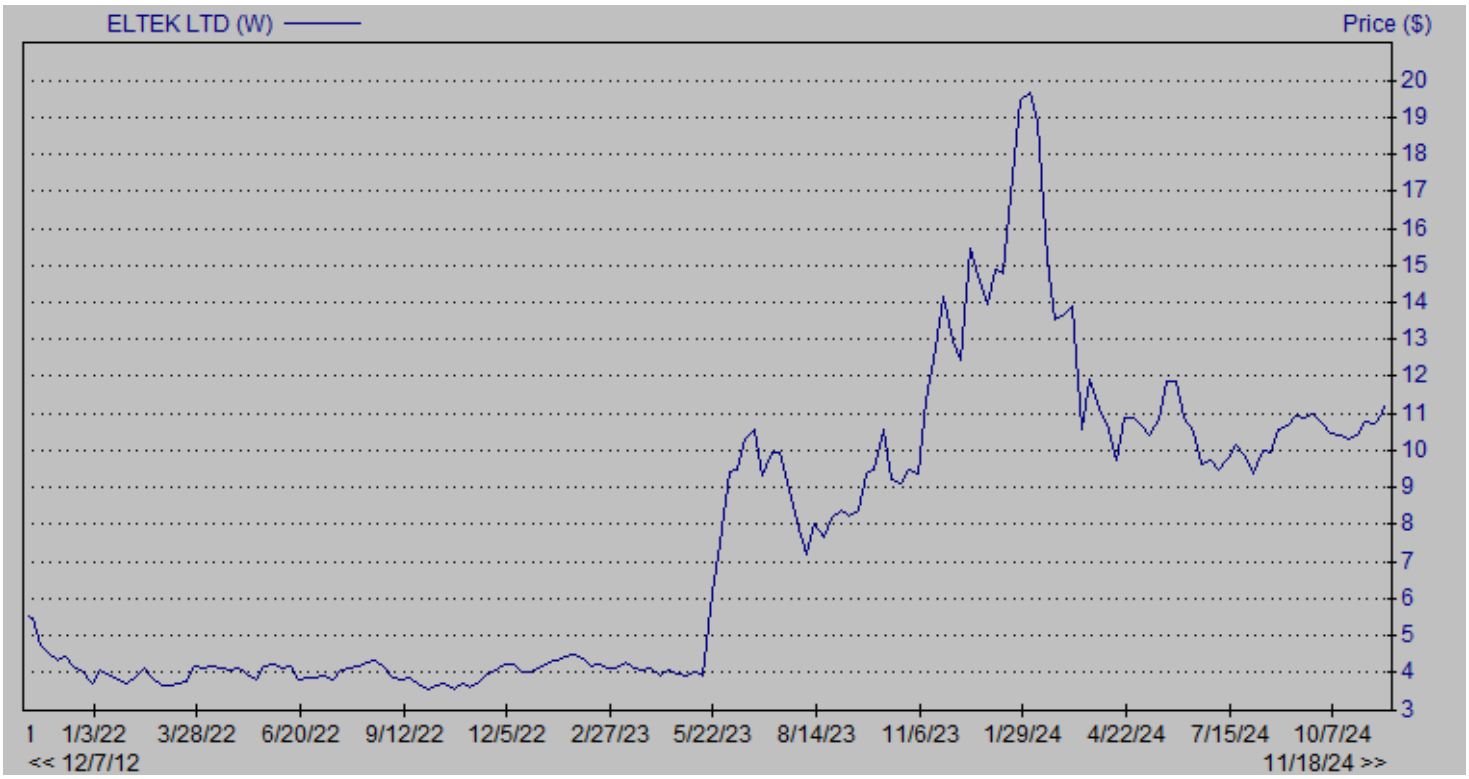
Source: Eltek investor presentation

PROJECTED INCOME STATEMENT

Income Statement	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Net Sales	**39,650,000**	**46,695,000**	**49,198,890**	**54,118,779**	**58,989,469**
Growth	*17.2%*	*17.8%*	*5.4%*	*10.0%*	*9.0%*
Cost of Goods Sold	**29,839,000**	**32,276,000**	**35,691,072**	**38,177,804**	**41,023,912**
%	*75.3%*	*69.1%*	*72.5%*	*70.5%*	*69.5%*
Depreciation & Amort	**1,541,000**	**1,317,000**	**1,529,000**	**1,529,000**	**1,529,000**
Gross Profit	**8,270,000**	**13,102,000**	**11,978,818**	**14,411,975**	**16,436,557**
Margin	*20.9%*	*28.1%*	*24.3%*	*26.6%*	*27.9%*
SG&A Expenses	**5,207,000**	**5,722,000**	**6,043,200**	**6,224,496**	**6,411,231**
% of sales	*13.1%*	*12.3%*	*12.3%*	*11.5%*	*10.9%*
Research & Development	**92,000**	**85,000**	**96,000**	**96,960**	**97,930**
% of sales	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Other	**0**	**0**	**0**	**0**	**0**
% of sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Amortization	**0**	**0**	**0**	**0**	**0**
% of sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income	**2,971,000**	**7,295,000**	**5,839,618**	**8,090,519**	**9,927,397**
Margin	*7.5%*	*15.6%*	*11.9%*	*14.9%*	*16.8%*
EBITDA	**4,512,000**	**8,612,000**	**7,368,618**	**9,619,519**	**11,456,397**
Margin	*11.4%*	*18.4%*	*15.0%*	*17.8%*	*19.4%*
Other Expenses/(Income)	**(887,000)**	**(542,000)**	**(1,113,000)**	**(216,986)**	**(270,126)**
%	*-2.2%*	*-1.2%*	*-2.3%*	*-0.4%*	*-0.5%*
EBIT	**3,858,000**	**7,837,000**	**6,952,618**	**8,307,505**	**10,197,523**
%	*9.7%*	*16.8%*	*14.1%*	*15.4%*	*17.3%*
Total Interest Exp (net)	**0**	**120,000**	**0**	**0**	**0**
%	*0.0%*	*0.3%*	*0.0%*	*0.0%*	*0.0%*
Net Profit Before Tax	**3,858,000**	**7,717,000**	**6,952,618**	**8,307,505**	**10,197,523**
%	*9.7%*	*16.5%*	*14.1%*	*15.4%*	*17.3%*
Income Tax	**664,000**	**1,364,000**	**1,118,859**	**1,470,428**	**1,804,962**
% Effective Rate	*17.2%*	*17.7%*	*16.1%*	*17.7%*	*17.7%*
% Cash Tax Rate	*17.2%*	*17.7%*	*16.1%*	*17.7%*	*17.7%*
Minority Interests or Preferred Stock	**0**	**0**	**0**	**0**	**0**
Net Profit	**3,194,000**	**6,353,000**	**5,833,759**	**6,837,077**	**8,392,561**
%	*8.1%*	*13.6%*	*11.9%*	*12.6%*	*14.2%*
Non-recurring income (expense)					
Average Diluted Shares Outstanding	5,848,000	5,956,000	6,697,750	6,697,750	6,697,750
Reported FD EPS					
Zacks Cash EPS	**0.55**	**1.07**	**0.87**	**1.02**	**1.25**
Zacks EPS	**0.55**	**1.07**	**0.87**	**1.02**	**1.25**

Source: Zacks analyst estimates

HISTORICAL STOCK PRICE



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