



**STOCKS
DOWN UNDER**

30 MAY 2022

ASX Top 200 Stocks Down Under

🗣️ *The brain is a muscle that can move the world.* 🗣️

- Stephen King (b. 1947), horror and supernatural fiction author

ASX

EXCHANGE CENTRE

BRAINCHIP

Now is its time

BRAINCHIP

Now is its time

Stocks Down Under rating: ★★☆☆

ASX: BRN

Market cap: A\$1.8BN

52-week range: A\$0.36 / A\$2.34

Share price: A\$1.085

Few ASX companies have attracted as much attention in recent years as BrainChip (ASX: BRN). For the past few years, it has been developing its Akida computer chip, which function the same way the human brain does. BrainChip's share price is down from its all-time highs, but well ahead of where it was pre-Corona Crash – more than forty times in fact. But its most exciting time might be just around the corner.

Share price chart



Source: Tradingview

Mimicking the human brain

BrainChip's Akida chips are neuromorphic processors, which means they function the same way the human brain does, in that they process so-called spikes instead of conventional computer data. Compared to existing Artificial Intelligence (AI) solutions, Akida requires much lower (if any) bandwidth, less power and they process on-chip instead of relying on data centres, also known as the Cloud. This allows for incremental learning - i.e. learning new tasks continuously without learning about old ones - and all without a continuous Internet connection.

Akida has significant potential across a wide range of applications, including internet-of-things (IoT) devices, drones, robotics, medical diagnostics and self-driving cars, just to name a few. In essence, Akida is useful for anything with a data sensor that requires on-chip decision-making capabilities, like an Electric Vehicle. Growth in AI enabled edge devices is growing by 17% CAGR annually and will reach US\$70bn by 2025. The global neuromorphic computing market is growing too and will reach US\$34.6bn by 2029.

Do yourself a favour and check out the research that our parent company Pitt Street Research has done on BrainChip [HERE](#).

S&P/ASX 200...here we come

The company generated investor excitement throughout COVID-19 as it continued to develop the chips and took necessary steps towards eventual commercial sales including quality control, patent application filing, further testing and agreements with potential customers.

In recent months, notable deals have included a licensing agreement with Japanese company MegaChips to use BrainChip's IP to develop next-generation AI solutions and a deal with Mercedes-Benz to use Akida in its concept Vision EQXX electric vehicles.

From a share price of 3 cents during the Corona Crash, BRN rose to 65 cents in September 2020. It traded between 40 and 60 cents for just over a year before going on another run, reaching an all-time high of \$2.13 in early January after having traded at \$2.32 intraday. It fell to 96 cents after Russia invaded Ukraine, but is currently sitting around \$1.10. The stock managed to break into the ASX 300 in March 2021, but has not yet been able to crack the ASX 200. However, given its current market cap and trading volumes, we believe it won't be long before BRN will be included into the S&P/ASX 200.

Given all the validation and qualification work that new customers need to do before Akida can be put into commercial production, it could be some time yet before we see relevant products utilising Akida to be available to consumers. Nevertheless, BrainChip shareholders have every reason to be confident about what the company's future looks like and that they are in the right space at the right time. Investors also have reason to feel safe about its IP protection, with nine current patents and a further 21 applications pending.

It's not cheap, but we don't see it going down much

We last covered BrainChip in Stocks Down Under back in mid-2020. Despite rating it four stars, we weren't sure it would become a multi-bagger without major commercial deals – outright sales of Akida chips, license income, royalties or a combination thereof. Still, we thought it was on the right track and indeed, we were correct. But investors have re-rated the company even better than we expected, to a market capitalisation of \$2bn.

At current levels, you could easily make the case that BrainChip is over-valued given its closest ASX-listed peer, Weebit Nano (ASX: WBT), has a market capitalisation of just ~\$450m. Furthermore, Weebit achieved its inaugural commercial deal in the last year 2021 – not off the back of an MoU or a trial, but a licensing deal to use the technology in an existing product on the market. So, is BRN too expensive right now? We'd argue that WBT is currently way too cheap.

And big valuations for AI companies are not unheard of. For instance, Canadian AI chip designer Untether AI was reportedly valued over US\$5bn during its last funding round in July last year and it is at a similar stage as BrainChip. And there have been M&A deals in this space, most notably Intel bought Israel-based start-up Habana Labs for US\$2bn in 2019. The move was intended to keep up with Nvidia (NDQ: NVDA), a leading player in GPU's (Graphic Processing Units), which are increasingly used in Machine Learning Applications. Although it is not our base case that BrainChip will be acquired, we think it is not beyond the realm of possibility. And, in any event, BrainChip today is getting close to where Habana Labs was at the time and this makes its current valuation appear more realistic.

Furthermore, the Habana-Intel deal was completed in 2019 and you might argue the deal would have been higher during the 2020-21 bull market. Of course, once BrainChip's commercial deal with MegaChips starts to generate recurring revenues, i.e. royalty income, that will represent the company's coming of age.

As with all equities, an investment in BrainChip is not without risk. But considering the progress it has made to date, its patent protection and tremendous future potential, its four stars from us. But we admit, it may struggle to grow substantially higher from its current market capitalisation until additional commercial deals and partnerships are announced.

Full disclosure: Your Stocks Down Under team owns stock in this company.

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