



Adacel Ltd (ADA.ASX)

Interim soft but 2nd half to be stronger on back of award wins

Event:

- Interim result review.

Investment Highlights:

- ADA's interim FY17a NPAT was \$3.7M, below our estimate of \$4.1M and company guidance of \$4.0M-\$4.3M.** This was due mostly to weaker System sales than forecast, being down 62% YoY. Services sales were up 10% YoY in-line with our expectations.
- However, the company expects a stronger 2H and has maintained full year guidance of >10% growth in PBT.** While markets are usually sceptical of 2H turnarounds and rightly so, in ADA's case we believe it is genuine, given the lumpy nature and erratic timing of awards of Systems sales, which has in the past demonstrated swings in performance between the halves.
- Additionally the company has disclosed a significant number of System orders awarded late in the 1H,** including the Colombian Air Force; US Navy; Leidos; Air Navigation Services Aruba; Hungaro Control, Leonardo, and Aeroporti di Roma. Services orders were also awarded to DSNF France, SAIC, University of Oklahoma, NavPortugal, and the United States Air Force. This increases our confidence of an improved 2H.
- Focus more on annual performance, less on halves.** While there will be swings especially in the performance of Systems between halves, we are unchanged in our view on the trend outlook for ADA. We still anticipate the company to grow revenues in-line with that of the air traffic management (ATM) market of 11.7% CAGR for the next few years.
- Key opportunities.** We see market opportunities for ADA over the next 18 months including ATM for DSNF French Territories Martinique and Guadeloupe; NASA; ATM upgrades in Asia-Pacific; FAA demand for simulators to train new air traffic controllers; universities with FAA certification; and US Navy planned simulation purchases.

Earnings and Valuation:

- We have revised our FY17e NPAT up 8% to \$8.8M (previously \$8.2M), due to a lower forecast effective tax rate of 26%, which more than offsets an 8% reduction in revenue forecasts, due to weaker System sales.** We expect 2H NPAT to lift to \$5.1M, driven mostly by a significant rebound in systems sales.
- For FY18e we have only marginally reduced NPAT by -2% to \$8.8M (previously \$8.9M) based on lower Systems sales.**

Recommendation:

- We maintain our Buy recommendation on ADA and slightly reduce our 12-month price target to \$2.74/share (previously \$2.79) based on our valuation.**
- Catalysts for the share price include:** 1) Increasing sales and earnings; 2) New customers; 3) Retention and enhancement of existing contracts; and 4) New products.

Recommendation	Buy			
Previous	Buy			
Price Target	\$2.74			
Previous	\$2.79			
Risk	Medium			
Share price	\$2.42			
ASX code	ADA			
52 Week Low-High	\$2.04-\$3.55			
Valuation	\$2.54 now; \$2.74 in 12 mths			
Methodology	DCF			
Capital Structure				
Shares on Issue (M)	79			
Market Cap (A\$M)	192			
Net Cash/(Debt) (A\$M)	14.9			
EV (A\$M)	177			
Diluted mkt cap (A\$M)	192			
12mth Av Daily Volume ('000)	266			
Y/e Jun	FY16a	FY17e	FY18e	FY19e
Sales \$M	47.9	48.4	54.1	60.4
EBITDA \$M	11.9	12.8	13.9	15.6
NPAT Adj. \$M	7.6	8.8	8.8	9.8
EPS adj c	9.6	11.1	11.1	12.4
DPS c	3.0	4.1	4.5	5.1
PER x	25.4	21.8	22.0	19.6
EV/EBITDA x	14.9	13.8	12.7	11.4
Yield	1.2%	1.8%	1.8%	2.0%

Board of Directors

Peter Landos	Non-Executive Chairman
Julian Beale	Non-Executive Director
David Smith	Non-Executive Director
Silvio Salom	Non-Executive Director

Substantial Shareholders

Thorney Holdings	32.4%
Silvio Salom	9.9%
David Wallace Smith	7.1%

Share Price Graph



Analyst: Mark Fichera +61 2 9993 8162
mark.fichera@fostock.com.au
 The analyst owns 21,000 ADA shares.

This report was prepared by Foster Stockbroking.