



## SpeedCast (SDA.ASX) –Buy

*Harris CapRock, The Only Acquisition That SDA Needs To Get Right, Early Days*

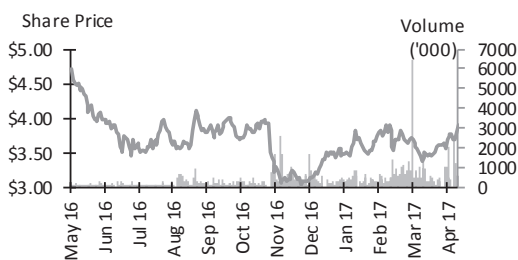
<b>Rating</b>	<b>Buy</b>
Previous	n/a
<b>Price Target (A\$)</b>	<b>A\$ 5.00</b>
Previous	n/a
Risk	High
<b>Share price</b>	<b>A\$ 3.91</b>
ASX code	SDA
52 Week Low-High	\$3.02-4.41

<b>Capital Structure</b>	
Shares on Issue (M)	238.8
<b>Market Cap (A\$M)</b>	<b>933.7</b>
Net Cash (Debt) (A\$M)	-501.1
<b>EV (A\$M)</b>	<b>1434.8</b>
Av Daily Volume ('000)	402

<b>Y/e Jun (US\$M)</b>	<b>2016a</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Sales	218.0	551.2	578.8	602.0
EBITDA \$M	38.3	125.0	138.9	146.9
Op EBIT	21.5	73.1	93.5	101.0
NPAT \$M	11.5	35.9	51.9	58.4
EPS (cents)	8.1	15.0	21.4	23.7
DPS (cents)	4.2	7.5	9.7	11.4
PER x	36.2	19.5	13.7	12.3
Dividend yield (%)	1.4	2.6	3.3	3.9

<b>Board of Directors</b>	
John Mackay	Chairman
Pierre-Jean Beylier	CEO
Michael Berk	Non-Executive Director
Grant Ferguson	Non-Executive Director
Peter Jackson	Non-Executive Director
Michael Malone	Non-Executive Director

### Share Price Graph



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The analyst does not hold SDA securities

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### Investment Highlights:

- SDA is a provider of satellite based telecoms services. Approx 90% of sales are generated from service revenues, with an average contract duration of 2-3 years. We understand service revenue renewals are c.25% per annum (no major renewals in 2017E) and customer churn is approximately 1% per month.
- With the Harris Caprock acquisition, SDA has market leadership in both the energy and maritime verticals. The energy sub-segment is c.45% of SDA service revenue, is a cyclical sector and today is likely near the low point in the earnings cycle. To date, it has yet to show signs of recovery, but anecdotal evidence has some positive overtones. We would expect FY2017E to be a flat year in this vertical market, with an improvement in FY2018E operating performance.
- Approximately, 35% of revenues are generated from the maritime sector (of this 50% relates to cruise segment). Growth is driven from the continuous adoption of Broadband VSAT in shipping. SDA's VSAT internal market opportunity is c.\$270m = 9k vessels x \$2.5k per mth (\$3.5k VSAT less \$1k L-Band/MSS) x 12 mths. SDA have migrated 1k vessels to VSAT (from L-Band/MSS), so far and are a small player in the market with a potential opportunity in the vicinity of 40k-80k vessels.
- Enterprise and Emerging Markets (20% of revenue) includes Govt, telco's, mining, media and aviation. SDA has a robust sales pipeline in Government (led by US and Australia) and telecommunications companies (cellular backhaul solution) and are anticipating growth in these segments. Whilst SDA has started to see a return to growth in mining, it is driven by the fundamentals of the iron ore sector.
- **Earnings Forecast:** Management are looking to organically grow revenue and EBITDA in 2017, largely through its maritime operations (principally the cruise market), diversification in EEM (assisted to some extent by delayed contract wins) and stabilization in the energy sector. We estimate EBITDA to be c.US\$125m = 2H16A US\$21.5m x 2 + US\$60m Harris CapRock + US\$4m acquisitions + 2.5% growth + US\$15m synergies (consensus range US\$120-128m). Synergies in 2018E are expected to be an additional US\$9m. SDA synergies do not include improved pricing bandwidth and we highlight that satellite capacity is growing at +20%, whilst SDA's end-markets are in the single digits (in terms of revenues).

### Recommendation:

- We view SDA positively being a consolidator in a fragmented market. We expect additional acquisition synergies and with organic growth of 5% in 2018E, we are comfortable with a 17.5x PER, generating a 12-month price target of A\$5.00 or +30% upside to the current share price.
- Today SDA has c.US\$375m in net debt and are continuing to look at M&A opportunities that strengthen its customer base and product portfolio. Consolidation in the industry is on-going and far from over. In the next few years, we expect to see a smaller number of larger players.
- Catalysts include: Contract wins, earnings updates and acquisition announcements.