



Codan Ltd (CDA)

Metal Detection: As Good As Gold, in Them Thar Hills

Event:

- We initiate coverage on Codan (CDA), with a BUY recommendation and price target of A\$3.20/share.

Investment Highlights:

- Headquartered in Adelaide, South Australia, CDA is an international company that develops rugged and reliable electronics solutions for Government, corporate, NGO and consumer markets globally. Its three divisions comprise: 1) Metal Detection, 2) Radio Communications & 3) Tracking Solutions.
- CDA has not provided guidance but has indicated its base level revenue is c.\$160-180m (vs our \$205m), and base level NPAT is in the range of \$20-25m (vs our \$34.6m). Our forecasts are anticipating stronger than base level sales in the metal detection market, given the momentum in the commodities cycle and solid global economic growth.
- With counterfeit issues behind them, CDA's metal detection sales have been driven by technical innovation. In a recent trading update, CDA indicated that they have made an encouraging start to FY2018e, with the weakest quarter, 1Q coming in at the higher-end of quarterly base level sales and profit range. We are forecasting sales strength to come from CDA's GPZ 7000 product, with the replacement market retail price revenue opportunity of +A\$700m alone, over the next 3-5 years.
- CDA's Radio Comms operations are transforming into a solutions business, from a product business. Development of its new LMR Cascade platform has been in process for 3 years (and continues for another 12-18 months) at a total cost of \$14m. Further, this expands CDA's offering into systems integration and ongoing maintenance / support services.
- CDA has option value in two divisions: 1) Tracking Solutions, and 2) Defence Electronics. Tracking Solutions operations enable autonomous underground mining and productivity improvement; it has strong reference sites and it is searching for a solution to address its lack of scale in the market. Defence Electronics is utilizing spare capacity and is an opportunistic play in this sector.

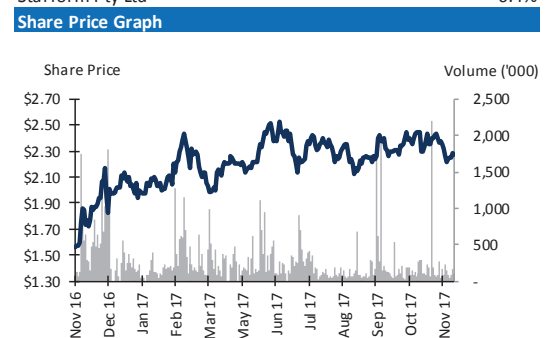
Earnings and Valuation:

- Our risked valuation of CDA is \$3.20 per share.
- In our opinion, the uncertainty in metal detection operations are reflected in CDA's undemanding valuation. CDA has solid growth aspirations, demonstrable IP, global sales reach and optionality in both its Tracking Solutions and its Defence operations. CDA has a strong balance sheet and FCF generation.

Recommendation:

- We initiate on CDA with a BUY recommendation and a valuation of \$3.20 per share.
- Catalysts for the share price include: 1) 1st half results in February, or any pre-announcement, 2) any potential acquisition opportunity that expands CDA's product set or distribution channels; and 3) higher gold price.

Recommendation		BUY			
Previous		n/a			
Risk		High			
Price Target		A\$3.20			
Previous		n/a			
Share Price (A\$)		2.27			
ASX Code		CDA			
52 week low - high (A\$)		1.31-2.56			
Capital structure					
Shares on Issue (M)		180.0			
Market Cap (A\$M)		409			
Net Debt/(Cash) (A\$M)		-21			
EV (A\$M)		387			
12mth Av Daily Volume ('000)		278			
Y/e Jun US\$	FY17A	FY18E	FY19E	FY20E	
Sales \$M	226.1	204.9	216.4	240.5	
EBITDA \$M	75.8	61.4	62.6	68.4	
NPAT Adj. \$M	43.5	34.6	35.2	39.2	
EPS adj c	24.2	19.2	19.4	21.3	
PER (x)	9.4	11.8	11.7	10.6	
Dividend c	13.0	9.6	9.7	10.7	
Div Payout Ratio %	54%	50%	50%	50%	
Dividend yield %	5.7%	4.2%	4.3%	4.7%	
Board					
David Simmons					Chairman
Donald McGurk					CEO
Lt-Gen Peter Leahy					Non-Executive Director
Jim McDowell					Non-Executive Director
Graeme Barclay					Non-Executive Director
Kathy Gramp					Non-Executive Director
Major Shareholders					
IB Wall and PM Wall					19.6%
Brian Burns					7.0%
Starform Pty Ltd					6.4%



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 The analyst owns no shares in CDA.