



Adacel Technologies Ltd (ADA.ASX)

Time passes by

Event:

- AGM commentary and guidance; Earnings and price target changes.

Investment Highlights:

- ADA provided earnings guidance for FY18e at its AGM.** The company expects PBT to be up 35% YoY, equating to a figure of \$10.6M, which was below both our own projection of \$13.2M and that of market consensus of \$14.4M. ADA expects 1HFY18e PBT to be flat on pcp, implying a 1H:2H split of approximately \$4.2M:\$6.4M for FY18e
- The reason for difference between the company's guidance and what we and the market was expecting was mostly due to timing delays to awarded contracts.** Examples of some of these included previously awarded Central America and Sri Lankan contracts which have only recently been finalised, making for lower contribution in FY18e than we had expected.
- While the delays frustratingly echo the delays experienced in FY17, we believe a key difference is that most of the lag in in FY18e pertains to already awarded work, whereas in the prior fiscal year it encompassed delays in actual contract being awarded.** While this means little in alleviating the pain of shortfall in earnings expectations, it does provide some degree of confidence in earnings improving in 2HFY18e.
- Further unnerving the market, the company also announced it had lost a component of simulators field support contract with the FAA, which it claims will have immaterial impact on FY18e earnings.** However we estimate a loss of US\$7M in revenue from this component in FY19e. This has been partially mitigated to an extent to the previously announced win of a 20% increase in ATOP/Leidos Services contract, worth an extra \$2.4M p.a.

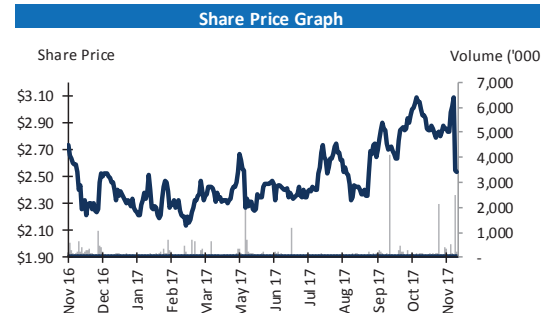
Earnings and Valuation:

- We have downgraded our earnings forecasts on the back of the deferral of contract contribution for FY18 and loss of the FAA field support contract.** We have cut our FY18e and FY19e NPAT forecasts by -19% and -16% to \$8.9M and \$9.6M. We forecast PBT of \$10.6M for FY18e which is in-line with that implied by company guidance.
- Our valuation of ADA has fallen to \$2.81/share from \$3.02/share, based on the reduction in earnings due to deferral of finalisations and the loss of the FAA field support work.** We still factor a 50% success factor for the NASA simlabs contract, for which we expect to a decision to be made in January 2018.

Recommendation:

- We maintain our Buy recommendation on ADA, but cut our 12 month price target to \$2.81/share from \$3.02/share, based on our revised valuation.**
- The AGM commentary by ADA is no doubt disappointing both in regards to timing expectations and the loss of the field support contact. However the sharp fall in share price makes ADA still attractive despite our cut in valuation.
- We expect an improving 2HFY18e to be a catalyst in the near term, as well as if the company succeeds in winning the NASA Simlabs contract.

Recommendation		Buy		
Previous		Buy		
Price Target		\$2.81		
Previous		\$3.02		
Risk		Medium		
Share price		\$2.46		
ASX code		ADA		
52 Week Low-High		\$1.91-\$3.18		
Valuation		\$2.81/share		
Methodology		DCF		
Capital Structure				
Shares on Issue (M)		79		
Market Cap (A\$M)		195		
Net Cash/(Debt) (A\$M) Jun FY17e		16		
EV (A\$M)		179		
Diluted mkt cap (A\$M)		195		
12mth Av Daily Volume ('000)		188		
Y/e Jun	2017a	2018e	2019e	2020e
Sales \$M	42.4	53.3	48.6	63.3
EBITDA \$M	8.8	11.2	11.8	15.3
NPAT Adj. \$M	9.3	8.9	9.6	12.4
EPS adj c	11.7	11.2	12.1	15.7
DPS c	11.3	4.5	4.2	5.5
PER x	21.0	22.0	20.4	15.7
EV/EBITDA x	20.2	16.0	15.2	11.7
Yield	4.6%	1.8%	1.7%	2.2%
Board of Directors				
Peter Landos		Non-Executive Chairman		
David Smith		Non-Executive Director		
Silvio Salom		Non-Executive Director		
Michael McConnell		Non-Executive Director		
Substantial Shareholders				
Thorney Holdings		32.4%		
Silvio Salom		7.4%		



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.