



Adacel Technologies Ltd (ADA.ASX)

Fertile half sets up FY18e to be a strong year

Event:

- 1HFY18 result; Earnings changes; Price target change.

Investment Highlights:

- ADA reported an interim FY18 NPAT of \$3.5M in-line with our forecast of \$3.6M**, with PBT up 15% YoY, better than previous company guidance of being flat. While the result met expectations, Systems performed better than we had forecast while Services less so. Dividend was 2cps at 46% payout ratio.
- System sales of \$10.2M were up 169% on the pcp and 73% HoH, well above our estimate of \$4.6M.** Some of the major contributors were the French Guiana ATM contract; initial contribution from Guadeloupe; and new installations including for Sri Lanka, Saudi Arabia, RAAF, and the Mozambique Air Force.
- Services sales of \$15.4M disappointed with growth of -5% YoY and -7% HoH, and below our estimate of \$17.1M.** The previous five halves had shown HoH growth. Management cited unfavourable currency for the decline although we found it difficult to reconcile. Gross margin was consistent, and major contributors included FAA and USAF contracts.
- Operating cash flow was \$3.7M and stripping out tax credit, representing only 34% conversion of profit.** This was due to mostly timing of payments and we expect a better 2H. Cash was \$10.3M.

Earnings and Valuation:

- ADA reaffirmed previous guidance of FY18e PBT being 35% above FY17, or \$10.6M, implying superior performance in the 2H.** We agree, expecting further ramp-up of Systems installations will continue, including contributions from Fiji, Guadeloupe, and Sri Lanka. Services should show some gradual improvement, excluding the impact of loss of part of FAA contract which ceases in April 2018.
- We slightly reduce our FY18e NPAT to \$8.6M from \$8.9M, while our PBT increases to \$10.8M in-line with guidance.** Our FY19e and FY20e forecast are lowered by 9% each to \$8.7M and \$11.4M, mostly on lower EBITDA margin (22% vs 24%) due to more competitive and customised work going forward.
- We have reduced our valuation to \$2.50/share from \$2.81/share, based on lower long term earnings.** We include a 50% chance of success for NASA Simlabs in our valuation. We expect a decision to be made sometime within this half.

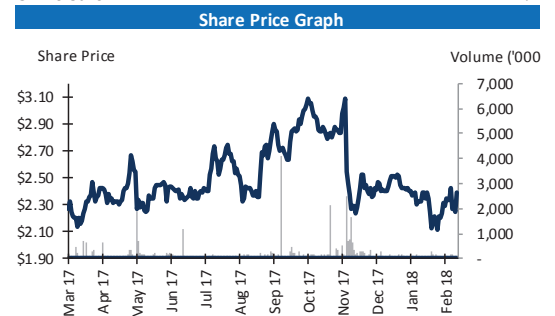
Recommendation:

- We maintain ADA as a Buy, and reduce our 12-month price target to \$2.50/share from \$2.81/share, based on our valuation.**
- Catalyst for the share price include further Services and Systems contract wins; including NASA SimLabs; demonstrated turnaround in Services; and improving cash flow.**

Recommendation	Buy			
Previous	Buy			
Price Target	\$2.50			
Previous	\$2.81			
Risk	Medium			
Share price	\$2.28			
ASX code	ADA			
52 Week Low-High	\$1.91-\$3.18			
Valuation	\$2.50			
Methodology	DCF			
Capital Structure				
Shares on Issue (M)	79			
Market Cap (A\$M)	179			
Net Cash/(Debt) (A\$M)	10			
EV (A\$M)	169			
Diluted mkt cap (A\$M)	179			
12mth Av Daily Volume ('000)	182			
Y/e Jun	2017a	2018e	2019e	2020e
Sales \$M	42.4	54.8	48.5	63.4
EBITDA \$M	8.8	11.4	10.4	13.6
NPAT adj. \$M	9.3	8.6	8.7	11.4
EPS adj c	11.7	10.9	11.0	14.4
DPS c	11.3	4.3	3.9	5.1
PER x	19.5	21.0	20.7	15.8
EV/EBITDA x	18.6	14.4	15.8	12.1
Yield	4.9%	1.9%	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%



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The analyst owns 21,000 ADA shares. Foster Stockbroing and associates (excluding Cranport Pty Ltd) own 21,000 ADA shares. Cranport Pty Ltd owns 28,060 ADA shares.

This report was prepared by Foster Stockbroking.