



Adacel Technologies Ltd (ADA.ASX)

NASA Simlabs not to be

Event:

- ADA announces unsuccessful in NASA Simlabs bid; Earnings guidance reaffirmed.

Investment Highlights:

- ADA yesterday announced it had been unsuccessful in its bid for the NASA Simlabs III contract. This was very disappointing for the company as we estimate the contract would have been worth approximately A\$19M p.a. in revenues over a period of five years to ADA. It would have been its largest contract.
- While ADA had not materially accounted for chance of winning the contract in its guidance, we believe the market – including ourselves - had factored a higher degree of probability of being successful, given the company's impressive track record in winning new contracts. We believe that the value previously attributed to the potential of winning Sim Labs unwound from the ADA share price post the announcement yesterday.
- Separately the company announced that orders of \$12.0M had been signed to date in the 2H FY18e. These included new contracts such as ONDA (Morocco) and extensions of contracts such as SAIC/FAA and Air Services Australia. 2/3 were Systems and 1/3 Services. Additionally the company had been notified of \$5.6M + \$0.4M option contract with an international customer. We expect this to be signed within the current half and details then announced afterwards.
- ADA reaffirmed guidance of FY18e PBT being 35% above FY17a. We believe the continuing new and extended contract wins in the 2H, on the back of a strong 1H, gives us confidence in the company achieving its target.

Earnings and Valuation:

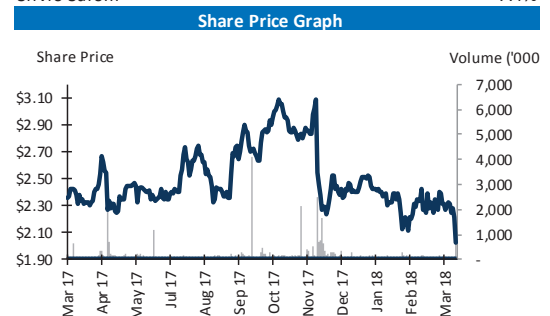
- We have made no changes to our earnings forecasts. We had not factored the NASA Simlabs contract in our projections, while our forecasts remain in-line with that of company guidance.
- We have cut our valuation of ADA to \$2.38 from \$2.50/share. While we did not include NASA in our earnings forecasts, we did attribute a 50% chance of success in our valuation, equivalent to \$0.12/share. We note the shareprice fell \$0.21/share yesterday (albeit in a dismal market), and suspect the market similarly removed the NASA opportunity which it previously included.

Recommendation:

- We maintain ADA as a Buy, and reduce our 12-month price target to \$2.38/share from \$2.50/share, in-line with our revised valuation.
- The loss of NASA is disappointing and we now expect catalysts for the share price include achieving or exceeding guidance; Further Services and Systems contract wins; demonstrated turnaround in Services; and improving cash flow.

Recommendation	Buy			
Previous	Buy			
Price Target	\$2.38			
Previous	\$2.50			
Risk	Medium			
Share price	\$2.03			
ASX code	ADA			
52 Week Low-High	\$1.91-\$3.18			
Valuation	\$2.38			
Methodology	DCF			
Capital Structure				
Shares on Issue (M)	79			
Market Cap (A\$M)	160			
Net Cash/(Debt) (A\$M)	10			
EV (A\$M)	149			
Diluted mkt cap (A\$M)	160			
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	17.3	18.7	18.4	14.1
EV/EBITDA x	16.4	12.7	13.9	10.6
Yield	5.5%	2.1%	1.9%	2.5%

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 Stockbroking 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.