



## Codan Ltd (CDA)

### Metal Detectors Stand Out

#### Event:

- FY18a result; revised earnings and PT.

#### Investment Highlights:

- CDA has announced its FY18a results with highlights including underlying NPAT of \$39.8M, beating twice upgraded guidance (\$38M) and FSBe of \$38.2M.
- Metal Detection was the standout segment with a strong second half showing to finish the year. Geographic diversification and market traction for new products drove higher sales, while margins remained robust.
- Tracking Solutions continues to scale, with the Olympic Dam contributing to growth in both FY18a and FY19e.
- Radio Communications will look for a stronger FY19e, with contract timings the main driver of a pullback in the segment's revenue and result contribution. The business had expected a recovery for Radio Communications in 2H18a, though management has noted an encouraging pipeline and order book as well as the capture of FY18 contracts in early FY19e.
- Special dividend of 4cps accompanies final dividend of 4.5cps: and taken with the interim dividend of 4cps, takes the dividend to 12.5cps, yielding 3.9%.
- The company remains well funded: \$27.7M cash at balance date, with nil debt.
- Improved outlook for FY19e: the company has rebased base business revenue to \$180-200M, which is expected to deliver \$25-30M NPAT; previous base earnings expectation was \$20-25M NPAT. The Metal Detection segment was rebased to \$110M base revenue (previously \$85-95M), while Minetec is expected to generate \$15M revenue in FY19e, and Radio Communications segment revenue will recover to \$65-75M revenue (unchanged). The company will provide a trading update at its AGM in October 2018.

#### Earnings and Valuation:

- We have an increased valuation of \$3.55 per CDA share (previously \$3.40) due to increased earnings. We have revised our FY19e-FY21e earnings forecasts to \$40.2M, \$41.0M, and \$42.3M (previously \$35.5M, \$39.9M, and \$44.5M).
- We have increased our revenue assumption for Metal Detection, and decreased revenue assumptions for both Radio Communications and Tracking Solutions broadly in line with company guidance. We have an increased Metal Detection margin assumption and a decreased Radio Communications margin assumption.

#### Recommendation:

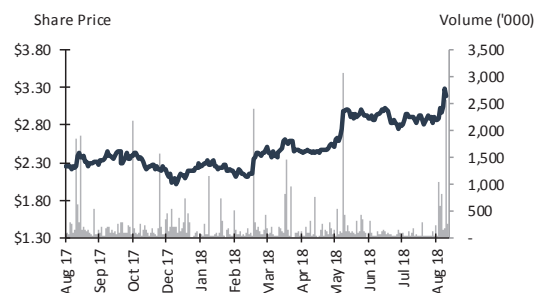
- We maintain coverage of CDA with an unchanged BUY recommendation and a price target of \$3.55 per share (prior \$3.40), in line with increased valuation.
- Catalysts for the share price include: 1) updates on trading conditions, particularly Metal Detection and Caterpillar progress; the company expects to provide a trading update at its AGM in October 2018; 2) further contract wins in Radio Communications and Tracking Solutions.

Recommendation	BUY			
Previous	Buy			
Risk	High			
Price Target	\$3.55			
Previous	\$3.40			
Share Price (A\$)	\$3.19			
ASX Code	CDA			
52 week low - high (A\$)	2.02-3.28			
Capital structure				
Shares on Issue (M)	178.2			
Market Cap (A\$M)	568			
Net Cash/(Debt) (A\$M)	28			
EV (A\$M)	540			
12mth Av Daily Volume ('000)	213			
Y/e Jun US\$	FY18a	FY19e	FY20e	FY21e
Sales \$M	229.9	233.0	221.2	231.3
EBITDA \$M	70.4	70.3	72.0	75.2
NPAT Adj. \$M	39.8	40.2	41.0	42.3
EPS adj c	22.1	22.1	22.3	22.8
PER (x)	14.4	14.4	14.3	14.0
Dividend c	12.5	11.1	11.2	11.4
Div Payout Ratio %	57%	50%	50%	50%
Dividend yield %	3.9%	3.5%	3.5%	3.6%

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	
I M Wall and P M Wall	19.5%
Pinara Group Pty Ltd	14.5%
IOOF Holdings	5.8%

#### Share Price Graph



Matthew Chen, CFA +61 2 9993 8130  
matthew.chen@fostock.com.au  
The analyst does not own CDA securities.  
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own CDA securities.  
Cranport Pty Ltd does not own CDA securities.  
Refer to end of report for details.