

SPEC BUY

Current Price \$0.65
Valuation \$1.10

Ticker: OEC.ASX
Sector: Technical Engineering

Fully Diluted Shares (m)*: 74.8
Market Cap (\$m)*: 48.6
Net Debt (\$m)**: 1.0
Enterprise Value (\$m): 49.6
** Assumes CN conversion into equity*
*** Excludes CN's from debt calculation*

52 wk High/Low: 0.70 0.19
12m Av Daily Vol (m): 0.06

Key Metrics

	16F	17F
EV/EBITDA (x)	8.1	3.9
EV/EBIT (x)	9.9	4.2
P/E (x)	22.3	8.2

Ratios

	15A	16F	17F
ND / Equity**	4.4%	19.0%	5.9%
EBITDA Mgn	3.1%	4.3%	7.1%
RoA	3.5%	7.4%	15.0%
RoE	-3.5%	12.3%	22.8%

*** Excludes CN's from debt calculation*

Financials:

	15A	16F	17F
Rep. Rev. (\$m)	15	43	71
Adj. Rev. (\$m)*	59	95	119
Rep. EBITDA (\$m)	-1.7	1.1	6.6
Adj. EBITDA (\$m)*	1.8	4.0	8.5
Rep. NPAT (\$m)	-4.6	2.2	5.9
Adj. NPAT (\$m)*	-0.7	2.9	7.4

** Adj. reflects one-offs & OEC's share of assoc., subsid.*

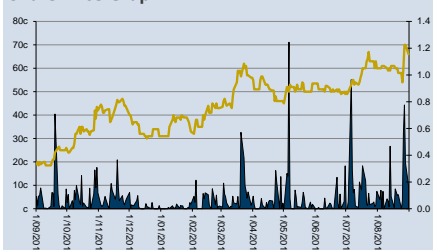
Net Assets (\$m) 21.9 24.4 40.9

Op CF (\$m) -3.4 -1.2 1.2

Per Share Data:

	15A	16F	17F
Adj. EPS (cps)	-1.2	2.9	7.9
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	35.3	38.5	56.8
CFPS (cps)	-7.3	-1.6	1.6

Share Price Graph



Monday, 31 August 2015

Orbital (OEC)

Set up for growth

Analyst | Ian Christie

Quick Read

OEC enters FY16 as a rebranded and reorganised business that is keenly focused on commercialising its significant IP. Propulsion system supply into the small unmanned aircraft market and the sale of remote power isolation systems are the two growth options most advanced, however we expect the rebranded Accelerator segment will incubate additional growth options for the future. Speculative buy call maintained.

View | Positive

FY15 earnings: OEC announced a FY15 loss of \$4.8m, impacted by costs associated with the divestment of the LPG businesses (\$4.1m) and an increased R&D expense. Prior to these expenses, net profit was largely in line with our expectations. Excluding the Convertible Notes, which we assume will be converted, net debt was \$1.0m. Per share calculations in our analysis are all based on fully diluted shares.

It's all about the future: Our focus is less on historic financials, and more on the future, where we expect major changes on the back of a refocused, rebranded business that is aiming to commercialise the significant IP within the business in the coming years. The sale of the LPG businesses was part of this process, and OEC commences FY16 with a business structured along the following lines:

- **Aerospace:** OEC is a market leader for heavy fuel small unmanned aerial engine systems, and has signed a propulsion system supply agreement with the world's largest SUAS operator, Boeing subsidiary Insitu. Very positively, OEC recently announced the first order from Insitu worth US\$9.7m. We expect this to lead to a longer-term production contract and the establishment of facilities in the U.S.
- **Mining & Industrial:** This segment currently consists of the recently acquired REMSAFE business (OEC 61.5%), which has won significant orders from the majors in the Pilbara and from Anglo American in South Africa. OEC expects expansion into new areas and geographies and is targeting annual sales >\$100m.
- **Accelerator:** The Company's aggressive growth strategy involves assessing and developing new high value businesses that leverage off OEC's engineering expertise. We believe this will transform the old consulting segment into one that is focused on commercialising new ideas and driving future development beyond the existing growth options in Aerospace and Mining & Industrial.
- **Consumer:** OEC is divesting the LPG businesses and the focus will shift from sedate royalty streams to the development and sale of higher value products.
- **Synerject:** We expect a continued steady contribution from this JV, although note that the board is looking at opportunities to realise the value of OEC's 30% interest.

Recommendation

Our forecasts are little changed, and the de-risking as a result of the Insitu order sees a slight uplift in our blended valuation to \$1.10 (prior \$1.05). Speculative buy maintained.

Orbital Corporation

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.65
Valuation (\$)	1.10

Sector	Technical Engineering
Market Cap, assuming CN's converted (\$m)	48.6
Date	31 August 2015

Trading Metrics	FY14A	FY15A	FY16F	FY17F
EV / EBITDA (x)	20.1	18.2	8.1	3.9
EV / EBIT (x)	29.8	25.3	9.9	4.2
P/E (x)	26.7	(53.8)	22.3	8.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY14A	FY15A	FY16F	FY17F
Reported EPS (cps)	3.4	-10.0	2.9	7.9
Adjusted EPS (cps)	2.4	-1.2	2.9	7.9
Div. per share (cps)	0.0	0.0	0.0	0.0
NTA per share (cps)	42.5	35.3	38.5	56.8
CF per share (cps)	-3.9	-7.3	-1.6	1.6

Profit and Loss (\$m)*	FY14A	FY15A	FY16F	FY17F
Revenue	57.3	59.0	94.7	119.1
EBITDA	1.6	1.8	4.0	8.5
D&A	(0.5)	(0.5)	(0.7)	(0.6)
EBIT	1.1	1.3	3.3	7.8
PBT	0.7	0.4	1.7	6.5
NPAT	1.2	(0.6)	2.2	5.9
Reported Revenue	11.0	14.8	43.1	70.6
Reported EBITDA	(1.6)	(1.7)	1.1	6.6
Reported NPAT (Attributable)	1.7	(4.6)	2.2	5.9

* Continuing ops & normalised; includes share of REMSAFE & Synerject at all lines, unless otherwise stated

Cash Flow (\$m)	FY14A	FY15A	FY16F	FY17F
Receipts	20.8	19.0	43.0	66.1
Payments	(22.8)	(22.4)	(42.7)	(62.2)
Other	0.1	(0.0)	(1.6)	(2.7)
Cash from Operations	(1.9)	(3.4)	(1.2)	1.2
Property, Plant & Equip	(0.4)	(0.2)	(4.2)	(0.4)
Payment for Subsidiary	-	(4.7)	-	-
Other	1.2	1.8	1.2	2.1
Cash From Investing	0.9	(3.2)	(3.0)	1.7
Issue of Shares	-	9.1	-	-
Net Borrowing	(0.4)	(0.5)	5.0	-
Dividends / Other	-	-	(0.3)	(0.6)
Cash From Financing	(0.4)	8.6	4.7	(0.6)
Net Cash Flow	(1.5)	2.1	0.5	2.2
Ending Cash	5.4	7.5	8.0	10.2

Balance Sheet (\$m)	FY14A	FY15A	FY16F	FY17F
Cash	5.4	6.6	8.0	10.2
Receivables	5.8	7.0	7.1	11.6
Inventory	3.3	0.4	2.3	3.5
Other	1.3	2.3	2.3	2.3
Current Assets	15.8	16.3	19.6	27.6
Property, Plant & Equip	2.8	2.3	6.0	5.9
Intangibles	-	5.5	5.2	5.2
Other NC Assets	19.0	23.4	25.4	27.5
Non-Current Assets	21.8	31.2	36.7	38.6
Total Assets	37.7	47.5	56.3	66.1
Payables	3.7	4.5	5.8	8.8
Progress Claims / Dep	0.3	-	-	-
Borrowings	8.3	17.2	22.2	12.6
Provisions	0.5	0.5	0.5	0.5
Other	3.8	3.4	3.4	3.4
Total Liabilities	16.6	25.6	31.8	25.3
Net Assets	21.0	21.9	24.4	40.9
Ordinary Equity	19.6	21.2	21.6	32.1
Reserves	(0.6)	3.3	3.3	3.3
Retained Earnings	2.0	(2.6)	(0.4)	5.5
Total Equity	21.0	21.9	24.4	40.9

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.2%		
PV Free Cash Flow (\$m)		98.0	
Less Net Debt / Plus Cash (\$m)	(1.0)		
Unpaid Capital (\$m)	-		
Equity Value (\$m)		97.0	1.30
PE Valuation:			
FY17 PE multiple	12.0	70.8	0.95
Valuation (\$ per share) - blend of DCF and PE			1.10

Profit and Loss (\$m)*	1H14A	2H14A	1H15A	2H15A
Revenue				
EBITDA				
D&A				
EBIT				
PBT				
NPAT				
Reported Revenue				
Reported EBITDA				
Reported NPAT (Attributable)				

* Prior reporting periods not comparable due to removal of discontinued ops

Cash Flow (\$m)	1H14A	2H14A	1H15A	2H15A
Receipts	10.1	10.7	11.9	7.1
Payments	(12.5)	(10.3)	(12.1)	(10.3)
Other	0.0	0.1	(0.0)	0.0
Cash from Operations	(2.3)	0.4	(0.2)	(3.2)
Property, Plant & Equip	(0.1)	(0.3)	(0.1)	(0.2)
Payment for Subsidiary	-	-	-	(4.7)
Other	0.2	1.1	1.1	0.8
Cash From Investing	0.1	0.8	1.0	(4.2)
Issue of Shares	-	-	(0.8)	9.9
Net Borrowing	(0.0)	(0.4)	(0.0)	(0.5)
Dividends / Other	-	-	-	-
Cash From Financing	(0.0)	(0.4)	(0.8)	9.4
Net Cash Flow	(2.3)	0.8	0.1	2.0
Ending Cash	4.6	5.4	5.5	7.5

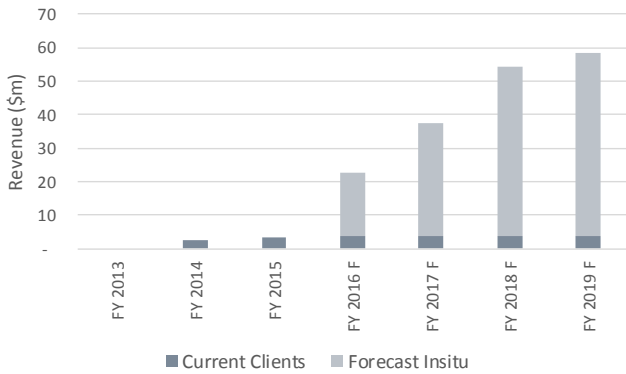
Financial Ratios	FY14A	FY15A	FY16F	FY17F
Growth				
Revenue growth (%)		41.1%	351.2%	63.8%
NPAT growth (%)				
Norm. EPS growth (%)		-149.6%	-341.0%	171.2%
Profitability Ratios				
EBITDA Margin (%)	2.8%	3.1%	4.3%	7.1%
EBIT Margin (%)	1.9%	2.2%	3.5%	6.6%
PBT Margin (%)	1.3%	0.7%	1.8%	5.4%
NPAT Margin (%)	2.1%	-1.3%	3.0%	6.2%
Return on Assets (%)	6.8%	3.5%	7.4%	15.0%
Return on Equity (%)	6.0%	-3.5%	12.3%	22.8%
ROIC (%)	8.7%	4.9%	6.4%	12.2%
Balance Sheet Ratios				
Net Debt (excl. CN's) (ND)	2.9	1.0	4.6	2.4
Net Debt (ND) / Equity (%)	13.9%	4.4%	19.0%	5.9%
ND / ND + Equity (%)	12.2%	4.2%	15.9%	5.6%
Current Ratio (x)	2.1	2.0	2.3	2.4
Net Interest Cover (x)	-5.7	-2.6	0.2	4.4
Cash Flow Ratios				
Free Cash Flow Yield (%)	-7.1%	-27.0%	-11.2%	1.5%
Cash Conversion (x)	(1.2)	(1.9)	(0.3)	0.1

Orbital Corporation

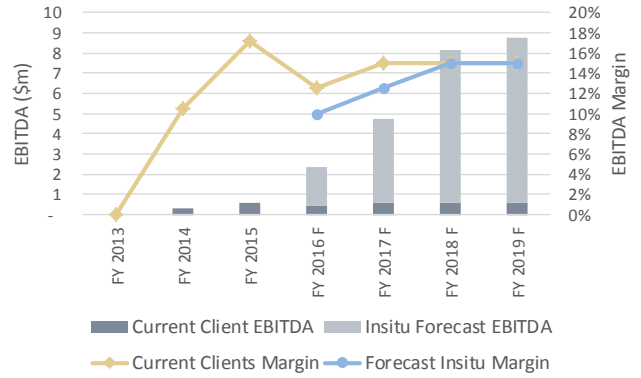
Key Charts

Equities Research

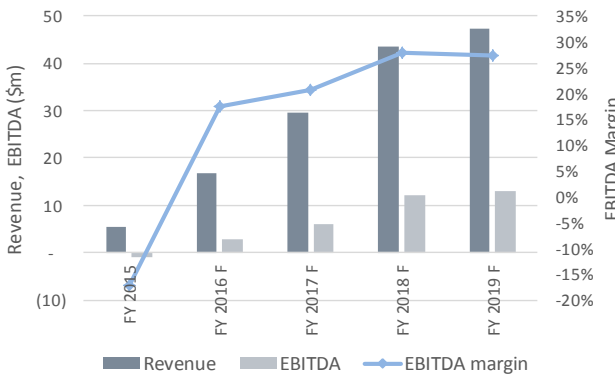
Aerospace Revenue Forecasts



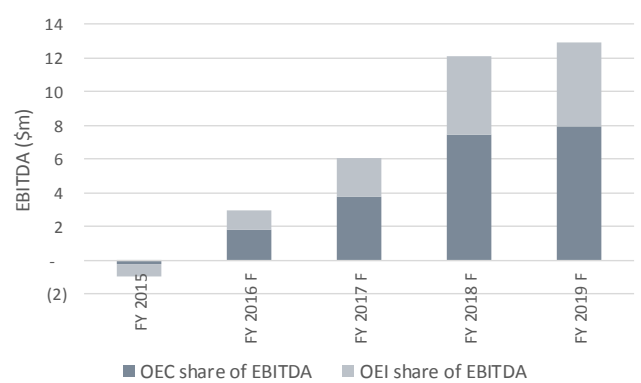
Aerospace EBITDA Forecasts



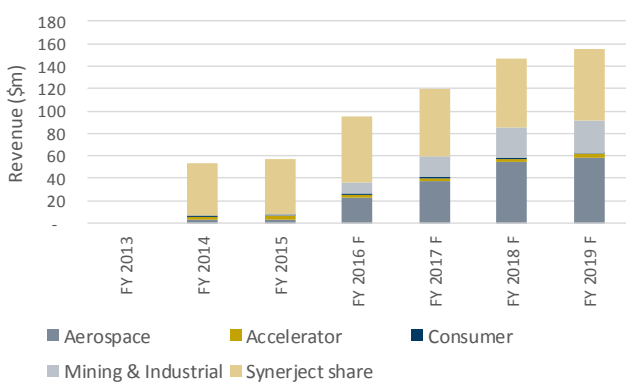
Mining & Industrial Earnings Forecasts (100% basis)



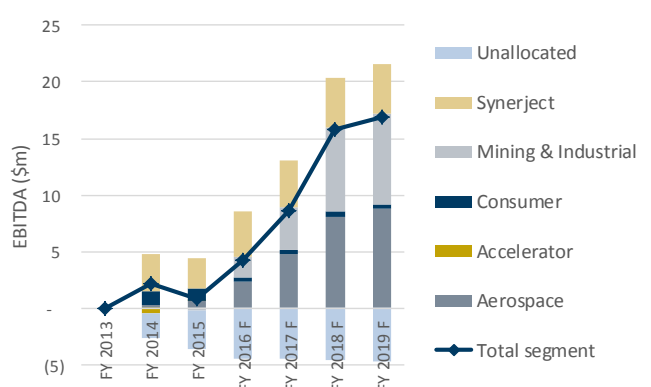
Mining & Industrial Forecast Share of Earnings



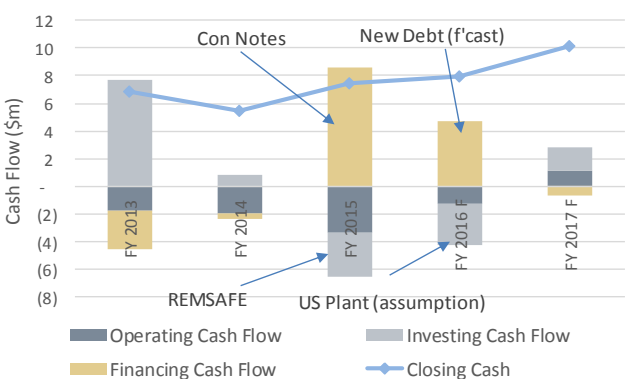
Segment Revenue Forecasts



Segment Earnings Forecasts



Cash Flow



Gearing (excludes Convertible Notes)



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