

SPEC BUY

Current Price \$0.62
Valuation \$1.10

Ticker: OEC.ASX
Sector: Technical Engineering

Fully Diluted Shares (m)*: 75.5
Market Cap (\$m)*: 46.8
Net Debt / (Cash) (\$m)**: -24.0
Enterprise Value (\$m): 22.8
** Assumes CN conversion into equity*
*** Excl. CN's from debt; incl. Synerject proceeds*

52 wk High/Low: 0.70 0.30
12m Av Daily Vol (m): 0.06

Key Metrics

	16F	17F
EV/EBITDA (x)	7.5	1.9
EV/EBIT (x)	29.9	2.3
P/E (x)	-1,118.1	23.6

Ratios

	15A	16F	17F
ND / Equity**	4.4%	-63.6%	-44.4%
EBITDA Mgn	3.1%	2.7%	6.6%
RoA	3.5%	0.7%	10.5%
RoE	-3.5%	2.6%	10.7%

*** Excludes CN's from debt calculation*

Financials:

	15A	16F	17F
Rep. Rev. (\$m)	15	49	71
Adj. Rev. (\$m)*	59	37	59
Rep. EBITDA (\$m)	-1.7	6.7	6.3
Adj. EBITDA (\$m)*	1.8	1.0	3.9
Rep. NPAT (\$m)	-4.6	4.1	2.0
Adj. NPAT (\$m)*	-0.6	-0.0	2.0

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

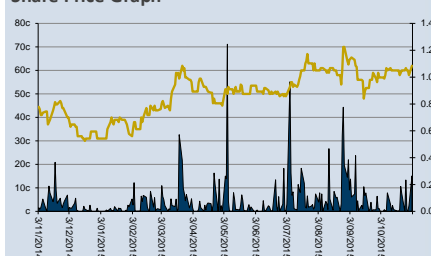
Net Assets (\$m) 21.9 26.9 39.4

Op CF (\$m) -3.4 -2.5 1.4

Per Share Data:

	15A	16F	17F
Adj. EPS (cps)	-1.2	-0.1	2.6
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	35.3	42.8	53.3
CFPS (cps)	-7.3	-3.3	1.9

Share Price Graph



Monday, 2 November 2015

Orbital (OEC)

Sells Synerject stake

Analyst | Ian Christie

Quick Read

The sale of the remaining 30% Synerject stake for \$25m reflects successful value realisation of OEC generated technology. The focus is on replicating this success and considerable funding is available to pursue the most advanced opportunities in the small unmanned aircraft market and in the sale of remote power isolation systems. In our view the current EV does not fully reflect the growth potential. Speculative buy.

View | Positive

Sale of Synerject: OEC has announced the not unexpected sale of its 30% minority stake in the Synerject JV to partner Continental for US\$17.8m (A\$25.0m) cash. The proceeds provide a significant boost to the balance sheet that will allow OEC to focus on and fund growth opportunities, as well as to consider the redemption of the Company's existing Convertible Notes (\$9.1m in issue). The sale agreement preserves the existing cross-licensing of IP, ensuring continuity of supply of key services and components between OEC and Synerject.

Commercialisation of technology: Synerject is the world's largest independent supplier of engine management and fuel systems to the non-auto sector, and was formed in Perth in 1997. It provides a good demonstration of the successful commercialisation of OEC's technology. This is an outcome that the Company intends to replicate, with the UAV and REMSAFE businesses being two current good examples of existing high-growth potential opportunities.

Impact on forecasts: We now factor in four months contribution from the Synerject JV in FY16, but have made no other changes to our underlying forecasts for the group. We also assume a one-off profit equivalent to the sale price less FY15's balance sheet value (\$17.7m) less OEC's share of Synerject year-to-date earnings (~\$1.4m). The investment disappears off the balance sheet and is more than replaced by cash.

Convertible Notes: OEC indicates possible redemption of the CN's (which are costing 10% in interest). However, they are convertible at \$0.40 so we would expect this to trigger full conversion into shares. On this basis the Company's fully diluted market cap is \$46.8m and the enterprise value (EV) is ~\$23m (based on FY15 closing net debt and the Synerject sale proceeds). We continue to see upside to this EV considering the well-funded opportunities in the Aerospace and Mining & Industrial segments.

Recommendation

Our previous P/E multiple valued Synerject's earnings contribution which will now disappear. However, as the value is reflected on the balance sheet as cash we believe an EV/EBITDA calculation is more appropriate. Taking into account our DCF calculation, we maintain a blended valuation of \$1.10 (see overleaf). Speculative buy.

Orbital Corporation

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.62
Valuation (\$)	1.10

Sector	Technical Engineering
Market Cap, assuming CN's converted (\$m)	46.8
Date	2 November 2015

Trading Metrics	FY14A	FY15A	FY16F	FY17F
EV / EBITDA (x)	4.6	4.2	7.5	1.9
EV / EBIT (x)	6.9	5.8	29.9	2.3
P/E (x)	25.5	(51.3)	(1,118.1)	23.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY14A	FY15A	FY16F	FY17F
Reported EPS (cps)	3.4	-10.0	5.5	2.6
Adjusted EPS (cps)	2.4	-1.2	-0.1	2.6
Div. per share (cps)	0.0	0.0	0.0	0.0
NTA per share (cps)	42.5	35.3	42.8	53.3
CF per share (cps)	-3.9	-7.3	-3.3	1.9

Profit and Loss (\$m)*	FY14A	FY15A	FY16F	FY17F
Revenue	57.3	59.0	36.6	59.2
EBITDA	1.6	1.8	1.0	3.9
D&A	(0.5)	(0.5)	(0.7)	(0.6)
EBIT	1.1	1.3	0.3	3.3
PBT	0.7	0.4	(0.8)	2.7
NPAT	1.2	(0.6)	(0.0)	2.0
Reported Revenue	11.0	14.8	49.0	70.6
Reported EBITDA	(1.6)	(1.7)	6.7	6.3
Reported NPAT (Attributable)	1.7	(4.6)	4.1	2.0

*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)	(43.0)	(62.5)
Other	0.1	(0.0)	(2.5)	(2.1)
Cash from Operations	(1.9)	(3.4)	(2.5)	1.4
Property, Plant & Equip	(0.4)	(0.2)	(4.2)	(0.4)
Payment for Subsidiary	-	(4.7)	-	-
Other	1.2	1.8	24.2	-
Cash From Investing	0.9	(3.2)	19.9	(0.4)
Issue of Shares	-	9.1	-	-
Net Borrowing	(0.4)	(0.5)	-	-
Dividends / Other	-	-	(0.3)	(0.6)
Cash From Financing	(0.4)	8.6	(0.3)	(0.6)
Net Cash Flow	(1.5)	2.1	17.2	0.4
Ending Cash	5.4	7.5	24.7	25.1

Balance Sheet (\$m)	FY14A	FY15A	FY16F	FY17F
Cash	5.4	6.6	24.7	25.1
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	36.4	42.5
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	5.6	5.6
Non-Current Assets	21.8	31.2	16.9	16.7
Total Assets	37.7	47.5	53.2	59.2
Payables	3.7	4.5	5.8	8.8
Progress Claims / Dep	0.3	-	-	-
Borrowings	8.3	17.2	16.7	7.1
Provisions	0.5	0.5	0.5	0.5
Other	3.8	3.4	3.4	3.4
Total Liabilities	16.6	25.6	26.4	19.8
Net Assets	21.0	21.9	26.9	39.4
Ordinary Equity	19.6	21.2	22.1	32.6
Reserves	(0.6)	3.3	3.3	3.3
Retained Earnings	2.0	(2.6)	1.5	3.5
Total Equity	21.0	21.9	26.9	39.4

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.2%		
PV Free Cash Flow (\$m)		76.1	
Less Net Debt / Plus Cash (\$m)		24.0	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		100.2	1.33
EV/EBITDA Valuation:			
FY17 EV/EBITDA multiple	7.5	53.5	0.71
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

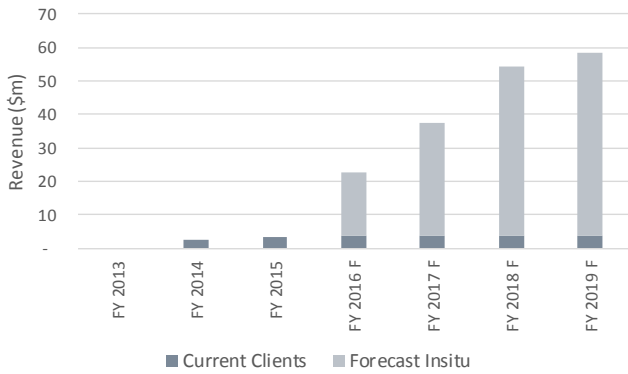
Financial Ratios	FY14A	FY15A	FY16F	FY17F
Growth				
Revenue growth (%)		41.1%	351.2%	63.8%
NPAT growth (%)				
Norm. EPS growth (%)		-149.6%	-95.4%	-4829.1%
Profitability Ratios				
EBITDA Margin (%)	2.8%	3.1%	2.7%	6.6%
EBIT Margin (%)	1.9%	2.2%	0.7%	5.6%
PBT Margin (%)	1.3%	0.7%	-2.2%	4.5%
NPAT Margin (%)	2.1%	-1.3%	1.7%	6.0%
Return on Assets (%)	6.8%	3.5%	0.7%	10.5%
Return on Equity (%)	6.0%	-3.5%	2.6%	10.7%
ROIC (%)	8.7%	4.9%	1.3%	9.6%
Balance Sheet Ratios				
Net Debt (excl. CN's) (ND)	2.9	1.0	(17.1)	(17.5)
Net Debt (ND) / Equity (%)	13.9%	4.4%	-63.6%	-44.4%
ND / ND + Equity (%)	12.2%	4.2%	-174.8%	-79.8%
Current Ratio (x)	2.1	2.0	4.2	3.6
Net Interest Cover (x)	-5.7	-2.6	5.7	9.3
Cash Flow Ratios				
Free Cash Flow Yield (%)	-7.5%	-28.4%	-14.4%	2.1%
Cash Conversion (x)	(1.2)	(1.9)	(2.5)	0.4

Orbital Corporation

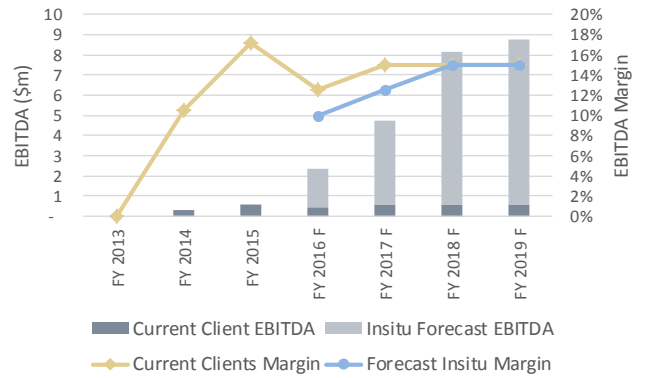
Key Charts

Equities Research

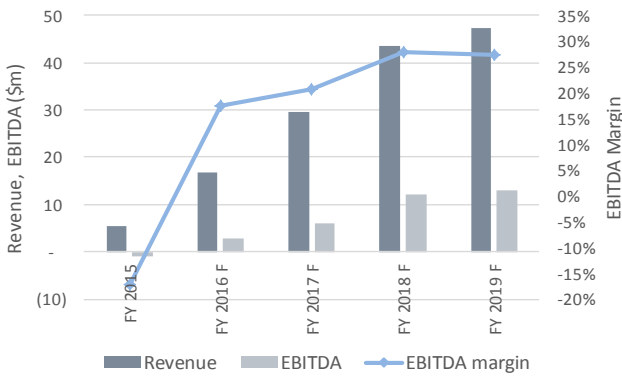
Aerospace Revenue Forecasts



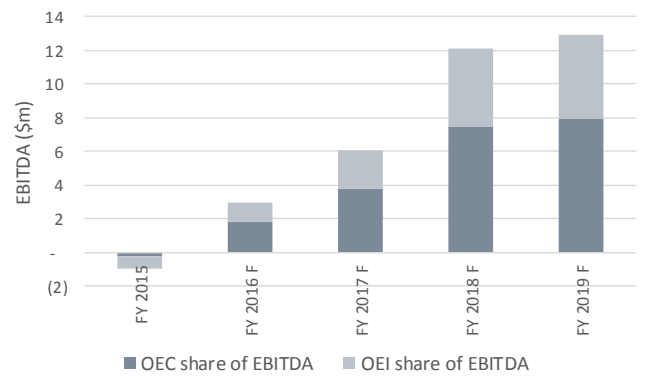
Aerospace EBITDA Forecasts



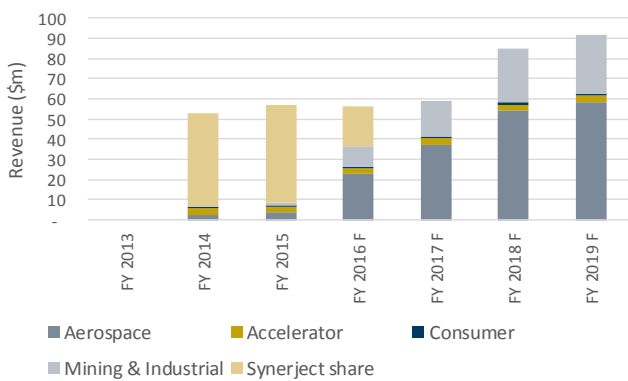
Mining & Industrial Earnings Forecasts (100% basis)



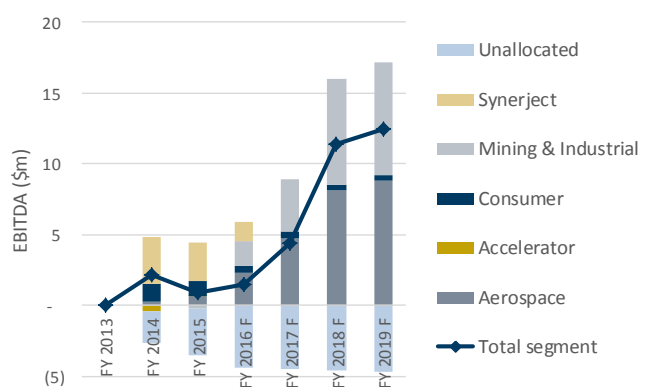
Mining & Industrial Forecast Share of Earnings



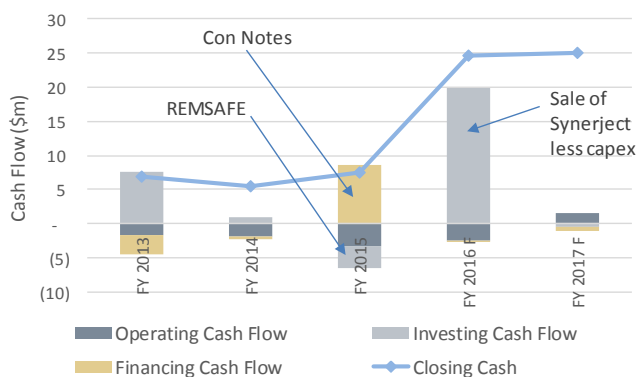
Segment Revenue Forecasts



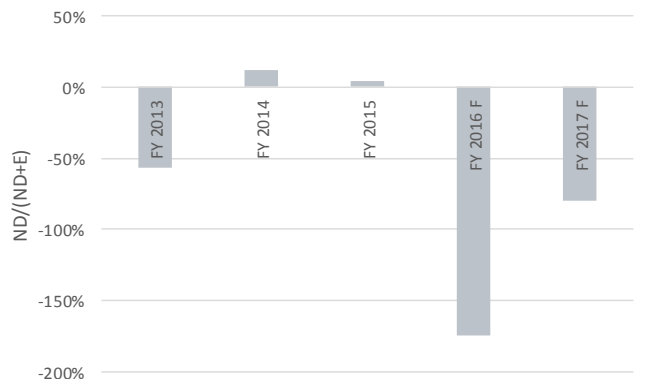
Segment Earnings Forecasts



Cash Flow



Gearing (excludes Convertible Notes)



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