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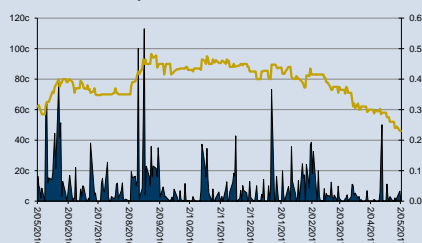
Financial Advisers | Stockbroking & Research | Special Situations Financing
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SPEC BUY

Current Price \$0.46
Valuation \$0.90

Ticker:	OEC.ASX		
Sector:	Technical Engineering		
Shares in Issue (m):	77.3		
Market Cap (\$m):	35.6		
Net Debt / (Cash) (\$m):	-15.9		
Enterprise Value (\$m):	19.7		
52 wk High/Low:	0.97	0.46	
12m Av Daily Vol (m):	0.05		
Key Metrics			
	17F	18F	
EV/EBITDA (x)	36.4	11.2	
EV/EBIT (x)	120.4	15.9	
P/E (x)	n/a	43.0	
Ratios			
	16A	17F	18F
ND / Equity	-53.1%	-59.4%	-39.5%
EBITDA Mgn	-37.7%	2.9%	5.4%
RoA	-15.2%	0.8%	5.4%
RoE	-23.3%	-1.4%	2.8%
Financials*:			
	16A	17F	18F
Revenue (\$m)	11.6	20.4	35.5
EBITDA (\$m)	-4.4	0.6	1.9
NPAT (\$m)	-5.9	-0.4	0.9
Rep. NPAT (\$m)	1.5	-0.4	0.9
<i>* Underlying unless otherwise stated</i>			
Net Assets (\$m)	31.3	30.6	31.5
Op CF (\$m)	-5.1	0.7	0.2
Per Share Data:			
	16A	17F	18F
Adj. EPS (cps)	-10.5	-0.5	1.1
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	46.4	33.3	34.0
CFPS (cps)	-9.0	0.8	0.2

Share Price Graph



Tuesday, 2 May 2017

Orbital (OEC)

Price falls overdone

Analyst | Ian Christie, CFA

Quick Read

Share price falls (down 47% YTD) are overdone in our view; an EV of \$20m is undemanding for a Company with attractive technologies validated by global clients. We have a degree of confidence in UAV forecasts given a 3-year deal with Insitu worth at least US\$33m and, despite considerable forecasting uncertainty for REMSAFE, we believe the technology is compelling (sales have been made to the iron ore majors in the Pilbara and Anglo in South Africa). It could be argued the UAV business alone underpins the current share price and accordingly we upgrade from a hold call to speculative buy.

Event & Impact | Neutral

Recommendation review: Strong share price gains in 2016 have been reversed this year to date, with disappointing earnings triggering a 47% price decline. Despite a positive view on the long term potential for OEC's technologies, we have maintained a hold call through this period as we have felt share price gains were unlikely while near term earnings were so weak. However, with a market cap of \$36m and an EV of \$20m, we are now at a point where this call needs reviewing.

Mixed visibility: Boeing subsidiary Insitu recently inked a deal with OEC, worth US\$33-91m over 3 years, for the manufacture and supply of UAV propulsion systems. Although Insitu has since lost out on a large prospective order with the US Department of Defence it remains a leading global player in the space, providing a degree of visibility and comfort around our UAV segment forecasts. The Safety and Productivity segment (REMSAFE) on the other hand has exhibited a declining sales trend over recent periods and has very limited visibility. We have far less confidence in our forecasts for this segment, despite Company expectations for improving earnings.

Share price support: In 1H17 the UAV segment delivered EBIT of \$1.4m, and we forecast \$3.0m EBIT for the full year. Standalone this would support the group's current EV of \$20m, especially given likely segment earnings growth in FY18 based on the Insitu agreement. Offsetting this, REMSAFE is currently unprofitable (\$1.8m loss in 1H17) and there are corporate overheads to consider (\$2.0m last half). However, the latter is largely fixed, and the former should improve over time – we still believe the REMSAFE system is a compelling proposition from both a safety and productivity perspective.

Recommendation

Our blended valuation of \$0.90 takes into account a higher DCF valuation and a lower near term earnings capitalisation (see overleaf). The share price has fallen below the bottom end of this valuation range and we feel an EV of \$20m is undemanding for a Company with attractive technologies validated by global clients. Share price falls are overdone and we upgrade our recommendation from hold to speculative buy.

Orbital Corporation

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.46
Valuation (\$)	0.90

Sector	Technical Engineering
Market Cap (\$m)	35.6
Date	2 May 2017

Trading Metrics	FY16A	FY17F	FY18F	FY19F
EV / EBITDA (x)	(4.5)	36.4	11.2	2.8
P/E (x)	(4.4)	(84.6)	43.0	8.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY16A	FY17F	FY18F	FY19F
Reported EPS (cps)	2.7	-0.5	1.1	5.6
Adjusted EPS (cps)	-10.5	-0.5	1.1	5.6
Div. per share (cps)	0.0	0.0	0.0	0.0
NTPA per share (cps)	46.4	33.3	34.0	41.6
CF per share (cps)	-9.0	0.8	0.2	3.3

Profit and Loss (\$m)*	FY16A	FY17F	FY18F	FY19F
Revenue	11.63	20.45	35.51	57.78
EBITDA	(4.38)	0.59	1.92	7.66
D&A	(0.56)	(0.41)	(0.57)	(0.89)
EBIT	(4.94)	0.18	1.35	6.78
PBT	(4.71)	(0.44)	1.24	6.55
NPAT Attributable	(5.88)	(0.44)	0.87	4.58
Reported EBITDA	3.03	0.59	1.92	7.66
Reported NPAT	1.53	(0.44)	0.87	4.58

* Continuing ops & normalised

Cash Flow (\$m)	FY16A	FY17F	FY18F	FY19F
Receipts	22.69	22.78	34.72	54.12
Payments	(27.62)	(21.10)	(34.08)	(49.21)
Other	(0.15)	(1.01)	(0.48)	(2.19)
Cash from Operations	(5.08)	0.66	0.16	2.72
Property, Plant & Equip	(0.28)	(0.57)	(5.89)	(0.57)
Payment for Subsidiary	-	-	-	-
Other	23.34	-	-	-
Cash From Investing	23.05	(0.57)	(5.89)	(0.57)
Issue of Shares	-	0.20	-	-
Net Borrowing	(0.60)	-	-	-
Dividends / Other	-	-	-	-
Cash From Financing	(0.60)	0.20	-	-
Net Cash Flow	17.37	0.29	(5.74)	2.15
Ending Cash	24.87	25.45	19.71	21.86

Balance Sheet (\$m)	FY16A	FY17F	FY18F	FY19F
Cash	24.87	25.45	19.71	21.86
Receivables	6.01	5.04	5.84	9.50
Inventory	4.25	2.91	3.68	5.49
Other	1.43	1.02	1.02	1.02
Current Assets	36.56	34.42	30.26	37.88
Property, Plant & Equip	1.93	1.78	7.11	6.79
Intangibles	5.22	5.22	5.22	5.22
Other NC Assets	5.48	5.48	5.48	5.48
Non-Current Assets	12.63	12.48	17.81	17.49
Total Assets	49.19	46.90	48.06	55.37
Payables	6.45	5.23	5.52	8.24
Progress Claims / Dep	-	-	-	-
Borrowings	8.28	8.28	8.28	8.28
Provisions	0.28	0.26	0.26	(1.46)
Other	2.90	2.49	2.49	2.49
Total Liabilities	17.92	16.26	16.55	17.54
Net Assets	31.27	30.65	31.52	37.82
Ordinary Equity	30.87	31.11	31.11	32.83
Reserves	1.37	0.95	0.95	0.95
Retained Earnings	(0.97)	(1.41)	(0.54)	4.05
Total Equity	31.27	30.65	31.52	37.82

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.5%		
PV Free Cash Flow (\$m)	88.6		
Less Net Debt / Plus Cash (\$m)	15.9		
Unpaid Capital (\$m)	-		
Equity Value (\$m)		104.4	1.28
EV/EBITDA Valuation:			
FY18 EV/EBITDA multiple	15.0	44.7	0.55
Valuation (\$ per share) - blend of DCF and PE			0.90

Profit and Loss (\$m)*	1H16A	2H16A	1H17A	2H17F
Revenue	7.11	4.52	9.17	11.27
EBITDA	(2.64)	(1.74)	(1.12)	1.71
D&A	(0.28)	(0.28)	(0.30)	(0.12)
EBIT	(2.92)	(2.02)	(1.42)	1.59
PBT	(2.33)	(2.38)	(1.69)	1.24
NPAT	(1.21)	(4.66)	(1.75)	1.31
Reported EBITDA	1.22	1.81	(1.12)	1.71
Reported NPAT	1.49	0.04	(1.75)	1.31

* Continuing ops & normalised

Cash Flow (\$m)	1H16A	2H16A	1H17A	2H17F
Receipts	12.64	10.05	11.55	11.23
Payments	(14.72)	(12.90)	(13.64)	(7.47)
Other	(0.12)	(0.03)	(0.05)	(0.96)
Cash from Operations	(2.20)	(2.88)	(2.13)	2.80
Property, Plant & Equip	(0.06)	(0.23)	(0.07)	(0.50)
Payment for Subsidiary	-	-	-	-
Other	24.18	(0.84)	0.44	(0.44)
Cash From Investing	24.12	(1.07)	0.37	(0.94)
Issue of Shares	-	-	-	0.20
Net Borrowing	-	(0.60)	-	-
Dividends / Other	-	-	-	-
Cash From Financing	-	(0.60)	-	0.20
Net Cash Flow	21.92	(4.55)	(1.76)	2.05
Ending Cash	28.57	24.87	23.40	25.45

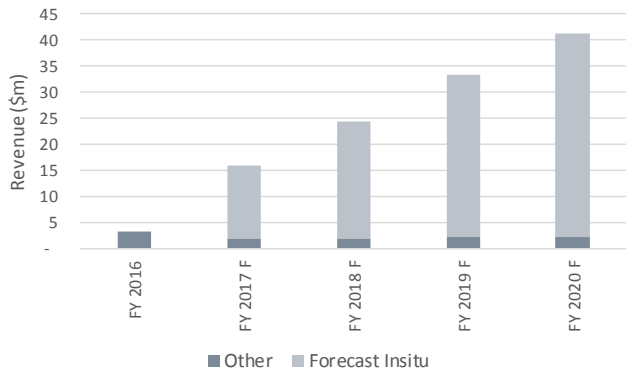
Financial Ratios	FY16A	FY17F	FY18F	FY19F
Growth				
Revenue growth (%)	21.8%	75.8%	73.7%	62.7%
NPAT growth (%)				
Norm. EPS growth (%)	494.5%	-94.8%	-296.8%	426.9%
Profitability Ratios				
EBITDA Margin (%)	-37.7%	2.9%	5.4%	13.3%
EBIT Margin (%)	-42.5%	0.9%	3.8%	11.7%
PBT Margin (%)	-40.5%	-2.2%	3.5%	11.3%
NPAT Margin (%)	-53.3%	-2.2%	2.5%	7.9%
Return on Assets (%)	-15.2%	0.8%	5.4%	21.9%
Return on Equity (%)	-23.3%	-1.4%	2.8%	13.2%
ROIC (%)	-18.2%	0.7%	4.9%	19.7%
Balance Sheet Ratios				
Net Debt (excl. CN's) (ND)	(16.6)	(18.2)	(12.5)	(14.6)
Net Debt (ND) / Equity (%)	-53.1%	-59.4%	-39.5%	-38.6%
ND / ND + Equity (%)	-113.1%	-146.1%	-65.4%	-62.9%
Current Ratio (x)	3.8	4.6	3.9	3.6
Net Interest Cover (x)	1.9	0.3	12.1	29.9
Cash Flow Ratios				
Free Cash Flow Yield (%)	-20.8%	0.3%	-15.3%	5.7%
Cash Conversion (x)	1.2	1.1	0.1	0.4

Orbital Corporation

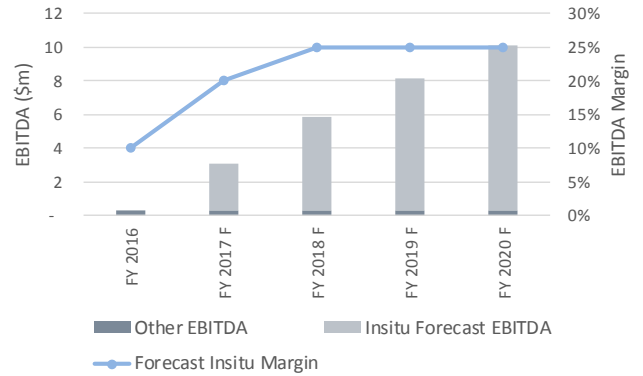
Key Charts

Equities Research

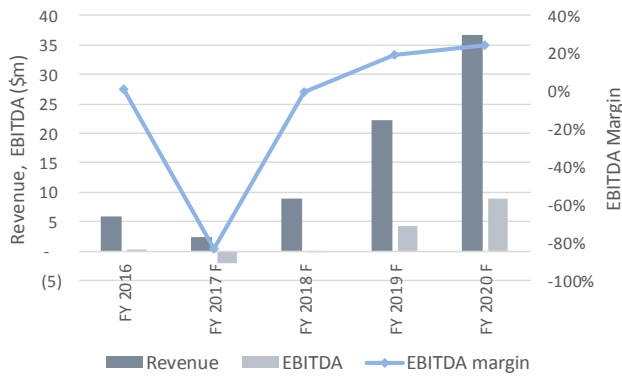
UAV's Revenue Forecasts



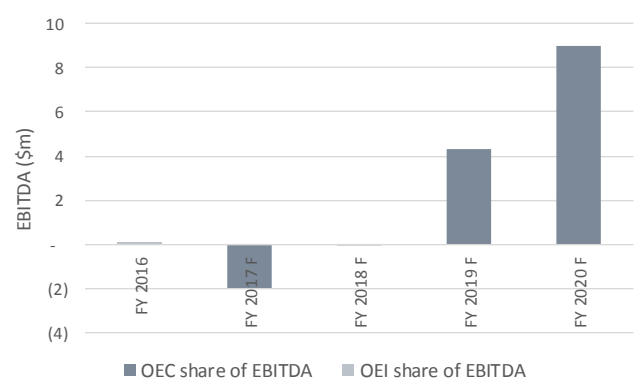
UAV's EBITDA Forecasts



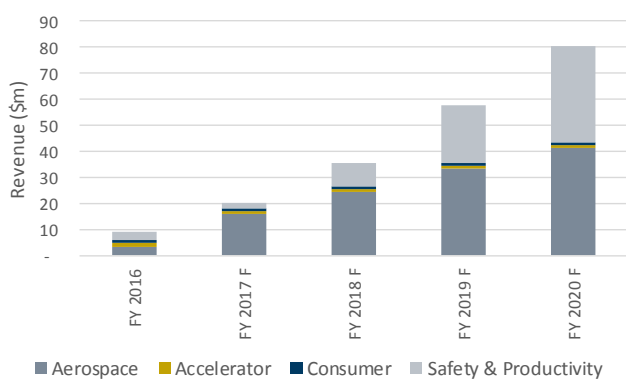
Safety & Productivity Earnings Forecasts (100% basis)



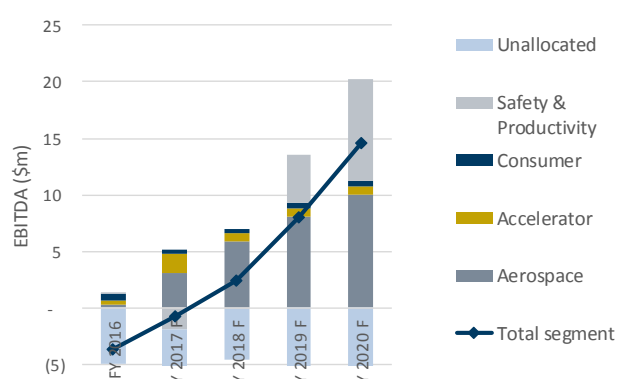
Safety & Productivity OEC Forecast Share of Earnings (100% w.e.f. FY17)



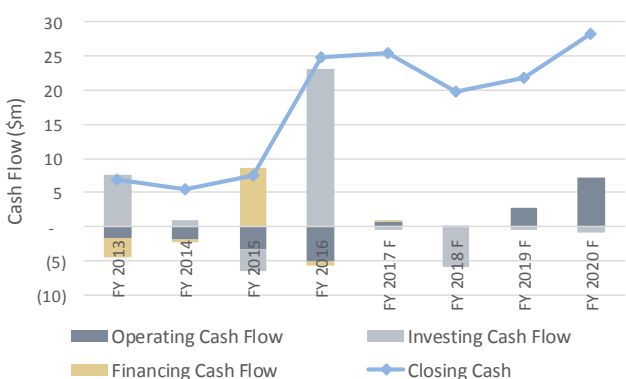
Segment Revenue Forecasts



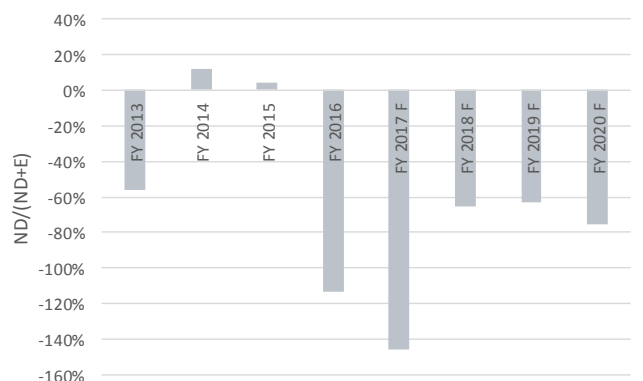
Segment Earnings Forecasts



Cash Flow



Gearing (excludes Convertible Notes in historical periods)



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