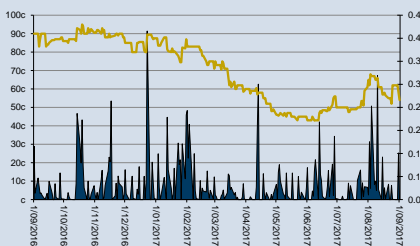


SPEC BUY

Current Price \$0.54
Valuation \$0.75

Ticker:	OEC.ASX		
Sector:	Technical Engineering		
Shares in Issue (m):	77.3		
Market Cap (\$m):	41.7		
Net Debt / (Cash) (\$m):	-9.0		
Enterprise Value (\$m):	32.7		
52 wk High/Low:	0.95	0.43	
12m Av Daily Vol (m):	0.03		
Key Metrics	18F	19F	
EV/EBITDA (x)	40.4	4.0	
EV/EBIT (x)	249.0	4.5	
P/E (x)	-87.6	9.1	
Ratios	17A	18F	19F
ND / Equity	-60.8%	-20.8%	-25.5%
EBITDA Mgn	-19.8%	3.7%	22.1%
RoA	-15.6%	0.6%	28.4%
RoE	-25.1%	-2.5%	21.4%
Financials*:	17A	18F	19F
Revenue (\$m)	14.3	22.0	37.0
EBITDA (\$m)	-2.8	0.8	8.2
NPAT (\$m)	-6.0	-0.5	4.7
Rep. NPAT (\$m)	-11.9	-0.5	4.7
<i>* Underlying unless otherwise stated</i>			
Net Assets (\$m)	19.2	18.7	25.1
Op CF (\$m)	-4.9	-1.7	3.2
Per Share Data:	17A	18F	19F
Adj. EPS (cps)	-7.9	-0.6	5.9
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	25.0	24.2	32.1
CFPS (cps)	-6.3	-2.2	4.0

Share Price Graph



Friday, 1 September 2017

Orbital (OEC)

Looking for a 2H18 uplift

Analysts | Ian Christie, CFA | Daniel Williamson

Quick Read

The FY17 results were as expected after being well flagged last month, and we continue to see the significant opportunity for growth in the UAVE segment. Our earnings forecasts are now strongly weighted to this sector, although we will likely need to wait until 2H18 to get clearer evidence of potential. The share price, post recent falls, more than factors in the high degree of forecasting risk and we upgrade to speculative buy (prior hold) on an unchanged valuation.

Event & Impact | Neutral

Results as flagged: Operating revenue of \$14.3m and a net loss of \$12.3m (inclusive of \$5.2m impairments) confirmed the preliminary FY17 numbers released last month. As noted at the time, these were weaker than expected and due to a temporary revenue interruption in the UAVE segment and very weak market conditions for REMSAFE.

Uplift from UAVE: The market outlook for drones, and the strong relationship and supply agreements with Insitu, provide reasons to remain optimistic for improved performance from this segment. OEC is engaged in additional engineering work at the behest of this client, and it should lead to a ramp up in production and the establishment of a facility in the US in the near term. We are confident in improved earnings from UAVE, the only real question in our mind being that of timing.

Shocked by REMSAFE: A FY17 \$0.7m revenue contribution from the REMSAFE segment on the other hand, after \$5.8m in the prior year, was disappointing and a key reason for the weak overall performance. A declining sales trend and limited visibility led us to significantly pare back forecasts for this segment when we adjusted our numbers last month. The technology may have value, but it is not being realised under the current revenue model.

Improvements from 2H18: Our forecasts are unchanged. We expect ongoing cost reduction to help offset the REMSAFE weakness and, although we only have \$0.8m EBITDA pencilled in for FY18 at this stage, we note a strong weighting to the 2H. There remains a high degree of forecasting risk; it's more a case of "when" not "if" for UAVE's, but a case of "if" for the REMSAFE business. We have very little factored in for the latter in the coming years.

Recommendation

At the release of preliminary results we issued a note downgrading to a hold (see "[Drones to provide the lift](#)", 7 August 2017). Since then the price has whipsawed and is down nearly 20% as we write. Our \$0.75 valuation is unchanged (although now based on a FY19 net earnings multiple) and the current share price now more than factors in the forecasting risk. Accordingly we upgrade to speculative buy.

Orbital Corporation

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.54
Valuation (\$)	0.75

Sector	Technical Engineering
Market Cap (\$m)	41.7
Date	1 September 2017

Trading Metrics	FY16A	FY17A	FY18F	FY19F
EV / EBITDA (x)	(7.4)	(11.6)	40.4	4.0
P/E (x)	(5.2)	(6.9)	(87.6)	9.1
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY16A	FY17A	FY18F	FY19F
Reported EPS (cps)	2.7	-15.6	-0.6	5.9
Adjusted EPS (cps)	-10.5	-7.9	-0.6	5.9
Div. per share (cps)	0.0	0.0	0.0	0.0
NTA per share (cps)	46.4	25.0	24.2	32.1
CF per share (cps)	-9.0	-6.3	-2.2	4.0

Profit and Loss (\$m)*	FY16A	FY17A	FY18F	FY19F
Operating Revenue	11.6	14.3	22.0	37.0
EBITDA	(4.4)	(2.8)	0.8	8.2
D&A	(0.6)	(0.6)	(0.7)	(0.9)
EBIT	(4.9)	(3.4)	0.1	7.3
PBT	(4.7)	(3.8)	(0.5)	6.7
NPAT	(5.9)	(6.0)	(0.5)	4.7
Reported Revenue	23.1	17.7	22.0	37.0
Reported EBITDA	3.0	(11.3)	0.8	8.2
Reported NPAT	1.5	(11.9)	(0.5)	4.7

*Continuing ops & normalised unless otherwise stated

Cash Flow (\$m)	FY16A	FY17A	FY18F	FY19F
Receipts	22.7	13.2	22.5	33.9
Payments	(27.6)	(18.0)	(23.6)	(28.1)
Other	(0.2)	(0.0)	(0.6)	(2.6)
Cash from Operations	(5.1)	(4.9)	(1.7)	3.2
Property, Plant & Equip	(0.3)	(0.2)	(6.1)	(0.7)
Payment for Subsidiary	-	-	-	-
Other	23.3	(1.7)	-	-
Cash From Investing	23.1	(1.9)	(6.1)	(0.7)
Issue of Shares	-	-	-	-
Net Borrowing	(0.6)	(0.7)	-	-
Dividends / Other	-	-	-	-
Cash From Financing	(0.6)	(0.7)	-	-
Net Cash Flow	17.4	(7.5)	(7.8)	2.5
Ending Cash	24.9	17.1	9.4	11.9

Balance Sheet (\$m)	FY16A	FY17A	FY18F	FY19F
Cash	24.9	17.1	9.4	11.9
Receivables	6.0	6.5	6.0	9.1
Inventory	4.2	3.3	3.5	3.2
Other	1.4	2.6	2.6	2.6
Current Assets	36.6	29.5	21.5	26.8
Property, Plant & Equip	1.9	1.5	6.9	6.7
Intangibles	5.2	-	-	-
Other NC Assets	5.5	5.5	5.5	5.5
Non-Current Assets	12.6	7.0	12.4	12.2
Total Assets	49.2	36.5	33.9	39.0
Payables	6.5	6.5	4.4	4.7
Progress Claims / Dep	-	-	-	-
Borrowings	8.3	8.1	8.1	8.1
Provisions	0.3	0.6	0.6	(1.1)
Other	2.9	2.1	2.1	2.1
Total Liabilities	17.9	17.3	15.2	13.9
Net Assets	31.3	19.2	18.7	25.1
Ordinary Equity	30.9	31.1	31.1	32.8
Reserves	1.4	1.0	1.0	1.0
Retained Earnings	(1.0)	(12.9)	(13.4)	(8.7)
Total Equity	31.3	19.2	18.7	25.1

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.5%		
PV Free Cash Flow (\$m)	67.5		
Less Net Debt / Plus Cash (\$m)	9.0		
Unpaid Capital (\$m)	-		
Equity Value (\$m)		76.5	0.99

P/E Valuation:			
FY19 P/E multiple	12.0	56.4	0.73
Valuation (\$ per share) - weighted toward P/E			0.75

Profit and Loss (\$m)*	1H17A	2H17A	1H18F	2H18F
Operating Revenue	9.2	5.1	6.8	15.2
EBITDA	(1.1)	(1.7)	(0.8)	1.6
D&A	(0.3)	(0.3)	(0.3)	(0.4)
EBIT	(1.4)	(2.0)	(1.1)	1.2
PBT	(1.7)	(2.1)	(1.4)	0.9
NPAT	(1.8)	(4.3)	(1.4)	0.9
Reported Revenue	11.2	6.5	6.8	15.2
Reported EBITDA	(1.1)	(10.2)	(0.8)	1.6
Reported NPAT	(1.8)	(10.2)	(1.4)	0.9

*Continuing ops & normalised unless otherwise stated

Cash Flow (\$m)	1H17A	2H17A	1H18F	2H18F
Receipts	11.6	1.6	6.0	16.5
Payments	(13.6)	(4.4)	(7.5)	(16.1)
Other	(0.1)	0.0	(0.3)	(0.3)
Cash from Operations	(2.1)	(2.7)	(1.8)	0.1
Property, Plant & Equip	(0.1)	(0.1)	(2.0)	(4.1)
Payment for Subsidiary	-	-	-	-
Other	0.4	(2.2)	-	-
Cash From Investing	0.4	(2.3)	(2.0)	(4.1)
Issue of Shares	-	-	-	-
Net Borrowing	-	(0.7)	-	-
Dividends / Other	-	-	-	-
Cash From Financing	-	(0.7)	-	-
Net Cash Flow	(1.8)	(5.7)	(3.8)	(4.0)
Ending Cash	23.4	17.1	13.3	9.4

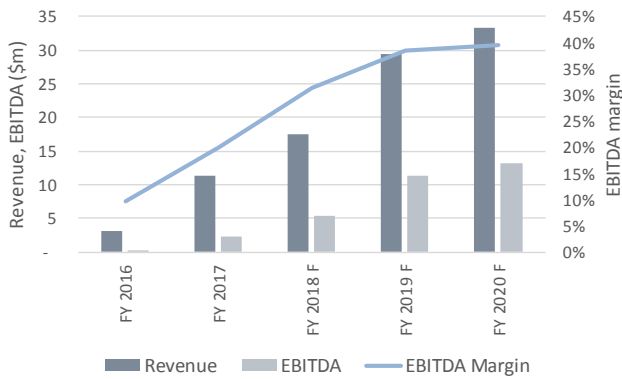
Financial Ratios	FY16A	FY17A	FY18F	FY19F
Growth				
Revenue growth (%)	21.8%	22.5%	54.5%	68.1%
NPAT growth (%)				
Norm. EPS growth (%)	494.5%	-24.9%	-92.2%	-1062.0%
Profitability Ratios				
EBITDA Margin (%)	-37.7%	-19.8%	3.7%	22.1%
EBIT Margin (%)	-42.5%	-23.9%	0.6%	19.8%
PBT Margin (%)	-40.5%	-26.9%	-2.2%	18.1%
NPAT Margin (%)	-53.3%	-44.5%	-2.2%	12.7%
Return on Assets (%)	-15.2%	-15.6%	0.6%	28.4%
Return on Equity (%)	-23.3%	-25.1%	-2.5%	21.4%
ROIC (%)	-18.2%	-15.5%	0.6%	24.1%
Balance Sheet Ratios				
Net Debt (excl. CN's) (ND)	(16.6)	(11.7)	(3.9)	(6.4)
Net Debt (ND) / Equity (%)	-53.1%	-60.8%	-20.8%	-25.5%
ND / ND + Equity (%)	-113.1%	-155.1%	-26.3%	-34.1%
Current Ratio (x)	3.8	3.1	3.3	3.8
Net Interest Cover (x)	1.9	-27.9	0.2	12.0
Cash Flow Ratios				
Free Cash Flow Yield (%)	-17.7%	-12.1%	-18.6%	5.8%
Cash Conversion (x)	1.2	1.7	(2.1)	0.4

Orbital Corporation

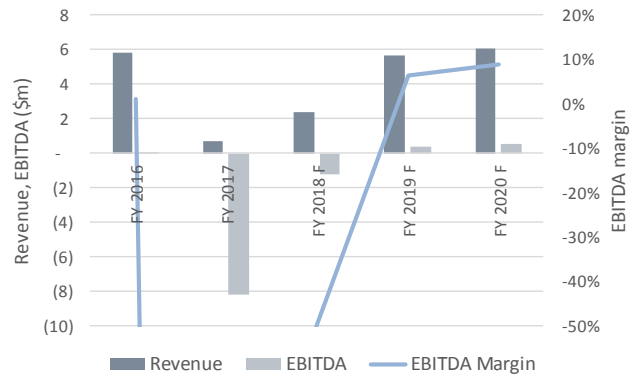
Key Charts

Equities Research

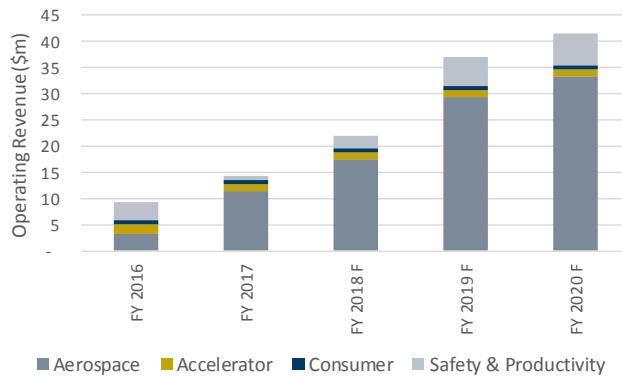
UAV's Forecasts (Aerospace)



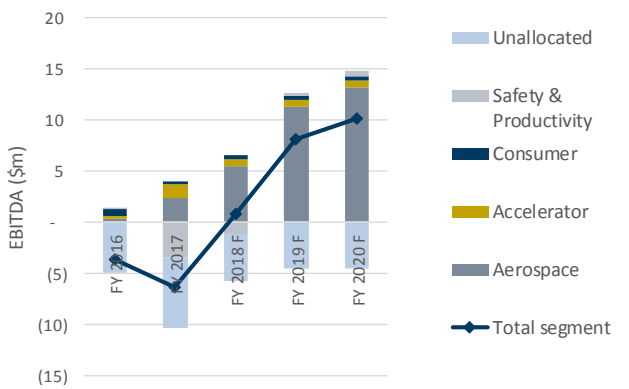
REMSAFE Forecasts (Safety & Productivity)



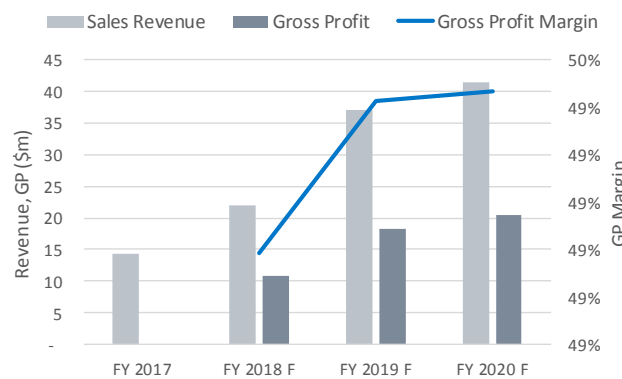
Segment Revenue Forecasts



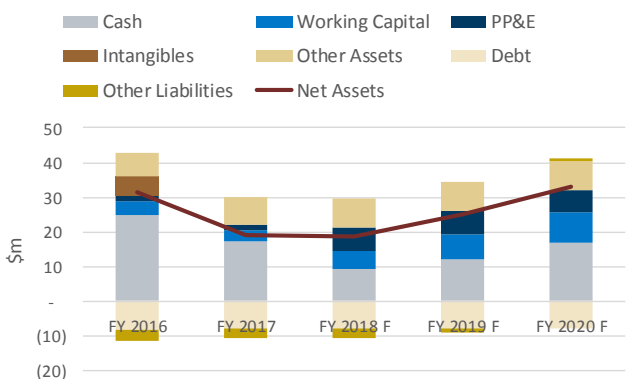
Segment Earnings Forecasts



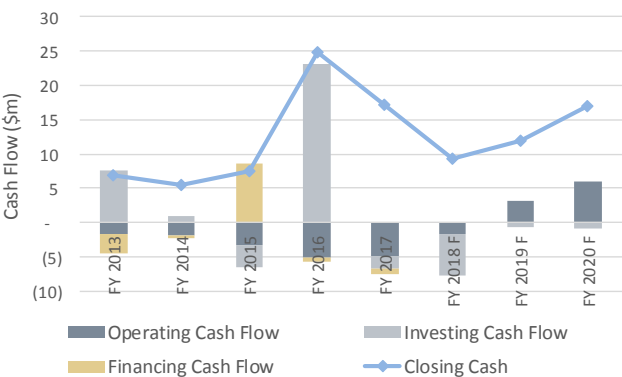
GP Margins



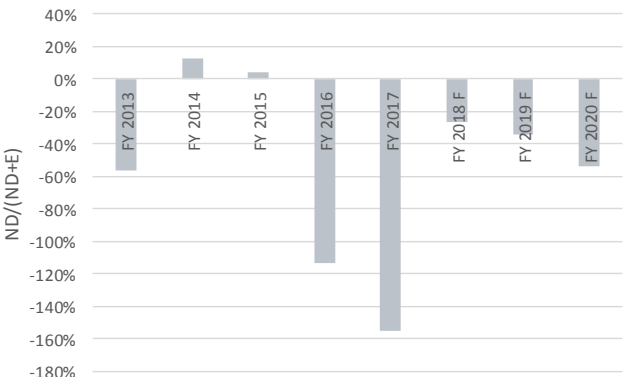
Balance Sheet



Cash Flow



Gearing (excludes Convertible Notes in historical periods)



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