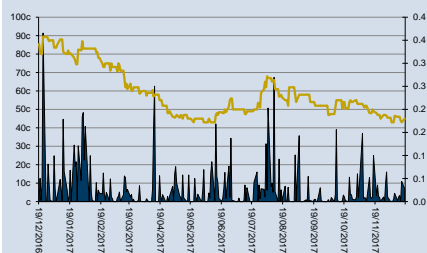


SPEC BUY

Current Price \$0.45
Valuation \$0.75

Ticker:	OEC.ASX		
Sector:	Technical Engineering		
Shares in Issue (m):	77.3		
Market Cap (\$m):	34.8		
Net Debt / (Cash) (\$m):	-9.0		
Enterprise Value (\$m):	25.8		
52 wk High/Low:	0.90	0.43	
12m Av Daily Vol (m):	0.03		
Key Metrics		18F	19F
EV/EBITDA (x)	28.3	3.4	
EV/EBIT (x)	91.5	3.6	
P/E (x)	-106.6	7.8	
Ratios	17A	18F	19F
ND / Equity	-60.8%	-48.9%	-53.5%
EBITDA Mgn	-19.8%	4.5%	24.2%
RoA	-15.6%	1.5%	37.2%
RoE	-25.1%	-1.7%	20.7%
Financials*:	17A	18F	19F
Revenue (\$m)	14.3	20.4	31.4
EBITDA (\$m)	-2.8	0.9	7.6
NPAT (\$m)	-6.0	-0.3	4.6
Rep. NPAT (\$m)	-11.9	-0.3	4.6
<i>* Underlying unless otherwise stated</i>			
Net Assets (\$m)	19.2	18.9	25.1
Op CF (\$m)	-4.9	-1.2	3.4
Per Share Data:	17A	18F	19F
Adj. EPS (cps)	-7.9	-0.4	5.7
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	25.0	24.4	32.1
CFPS (cps)	-6.3	-1.6	4.3

Share Price Graph



Please refer to important disclosures at the end of the report (from page 5)

Monday, 18 December 2017

Orbital (OEC)

Firm focus on UAV's

Analysts | Ian Christie, CFA | Daniel Williamson

Quick Read

With the establishment of a leased (as opposed to owned) facility in the US and the sale of REMSAFE, OEC has been able to firm the focus on the UAV division while maintaining balance sheet strength. We caution that we still expect very weak earnings in 1H18 before a recovery in the 2H, but believe forecasting risk is more than factored into the current share price. We maintain our speculative buy call on an unchanged valuation.

Event & Impact | Positive

Exiting REMSAFE: OEC has divested its interest in REMSAFE for \$2.2m cash, payable over the next 18 months. This is a positive outcome in our view; REMSAFE has not lived up to early expectations, has been an earnings and cash flow drag on the rest of the business, and a distraction for management. Reflecting the division's weak performance and downbeat expectations OEC made a \$5.2m impairment to the goodwill associated with REMSAFE last financial year (having paid a total of \$8.9m for the business since early 2015).

Impact: We had losses forecast for REMSAFE in FY18 and small positive earnings contributions factored in thereafter. However, in absolute dollar terms the earnings impact post sale is not significant (see page 4).

UAV facility in the US: Last week OEC announced the establishment of a UAV facility in Oregon in the US. The facility will be purpose built and in close proximity to key client Insitu-Boeing. The 1,210m² facility will be leased for ~US\$160k p.a. and available from February 2018. This is also a good outcome for OEC in our view; it will be customised for OEC's purposes and save capital through being leased rather than owned (which was our original assumption).

Firm focus on UAV's: Both these news items are positive in our view. They maintain the strength of the balance sheet and allow management to focus on the business division offering the most value and upside. We still expect very weak performance in 1H18, before an improvement in the second half numbers – these will not have the drag from REMSAFE and should benefit from improved sales in the UAV division.

Recommendation

Our valuation of \$0.75 is unchanged. This is well above the current share price, which we believe more than factors in longer-term forecasting risk. Balance sheet strength has been maintained, helping offset the expected near term earnings weakness. We keep our speculative buy recommendation.

Orbital Corporation

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.45
Valuation (\$)	0.75

Sector	Technical Engineering
Market Cap (\$m)	34.8
Date	18 December 2017

Trading Metrics	FY16A	FY17A	FY18F	FY19F
EV / EBITDA (x)	(5.8)	(9.1)	28.3	3.4
P/E (x)	(4.3)	(5.7)	(106.6)	7.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY16A	FY17A	FY18F	FY19F
Reported EPS (cps)	2.7	-15.6	-0.4	5.7
Adjusted EPS (cps)	-10.5	-7.9	-0.4	5.7
Div. per share (cps)	0.0	0.0	0.0	0.0
NTA per share (cps)	46.4	25.0	24.4	32.1
CF per share (cps)	-9.0	-6.3	-1.6	4.3

Profit and Loss (\$m)*	FY16A	FY17A	FY18F	FY19F
Operating Revenue	11.6	14.3	20.4	31.4
EBITDA	(4.4)	(2.8)	0.9	7.6
D&A	(0.6)	(0.6)	(0.6)	(0.5)
EBIT	(4.9)	(3.4)	0.3	7.1
PBT	(4.7)	(3.8)	(0.3)	6.5
NPAT	(5.9)	(6.0)	(0.3)	4.6
Reported Revenue	23.1	17.7	20.4	31.4
Reported EBITDA	3.0	(11.3)	0.9	7.6
Reported NPAT	1.5	(11.9)	(0.3)	4.6

*Continuing ops & normalised unless otherwise stated

Cash Flow (\$m)	FY16A	FY17A	FY18F	FY19F
Receipts	22.7	13.2	21.3	29.2
Payments	(27.6)	(18.0)	(21.9)	(23.3)
Other	(0.2)	(0.0)	(0.6)	(2.6)
Cash from Operations	(5.1)	(4.9)	(1.2)	3.4
Property, Plant & Equip	(0.3)	(0.2)	(1.9)	(0.6)
Acquisitions / Divestments	-	-	0.8	1.5
Other	23.3	(1.7)	-	-
Cash From Investing	23.1	(1.9)	(1.2)	0.8
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)	(2.4)	4.2
Ending Cash	24.9	17.1	14.7	18.9

Balance Sheet (\$m)	FY16A	FY17A	FY18F	FY19F
Cash	24.9	17.1	14.7	18.9
Receivables	6.0	6.5	5.6	7.7
Inventory	4.2	3.3	3.2	2.6
Other	1.4	2.6	2.6	2.6
Current Assets	36.6	29.5	26.1	31.9
Property, Plant & Equip	1.9	1.5	2.1	0.7
Intangibles	5.2	-	-	-
Other NC Assets	5.5	5.5	5.5	5.5
Non-Current Assets	12.6	7.0	7.6	6.3
Total Assets	49.2	36.5	33.7	38.1
Payables	6.5	6.5	4.0	3.9
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	14.8	13.0
Net Assets	31.3	19.2	18.9	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)	(13.2)	(8.7)
Total Equity	31.3	19.2	18.9	25.1

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.5%		
PV Free Cash Flow (\$m)	72.2		
Less Net Debt / Plus Cash (\$m)	9.0		
Unpaid Capital (\$m)	-		
Equity Value (\$m)		81.2	1.05

P/E Valuation:			
FY19 P/E multiple	12.0	54.6	0.71
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	13.6
EBITDA	(1.1)	(1.7)	(0.8)	1.7
D&A	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	(1.4)	(2.0)	(1.1)	1.3
PBT	(1.7)	(2.1)	(1.4)	1.0
NPAT	(1.8)	(4.3)	(1.4)	1.0
Reported Revenue	11.2	6.5	6.8	13.6
Reported EBITDA	(1.1)	(10.2)	(0.8)	1.7
Reported NPAT	(1.8)	(10.2)	(1.4)	1.0

*Continuing ops & normalised unless otherwise stated

Cash Flow (\$m)	1H17A	2H17A	1H18F	2H18F
Receipts	11.6	1.6	6.0	15.3
Payments	(13.6)	(4.4)	(7.5)	(14.4)
Other	(0.1)	0.0	(0.3)	(0.3)
Cash from Operations	(2.1)	(2.7)	(1.8)	0.6
Property, Plant & Equip	(0.1)	(0.1)	(1.0)	(0.9)
Acquisitions / Divestments	-	-	0.8	-
Other	0.4	(2.2)	-	-
Cash From Investing	0.4	(2.3)	(0.3)	(0.9)
Issue of Shares	-	-	-	-
Net Borrowing	-	(0.7)	-	-
Dividends / Other	-	-	-	-
Cash From Financing	-	(0.7)	-	-
Net Cash Flow	(1.8)	(5.7)	(2.1)	(0.4)
Ending Cash	23.4	17.1	15.1	14.7

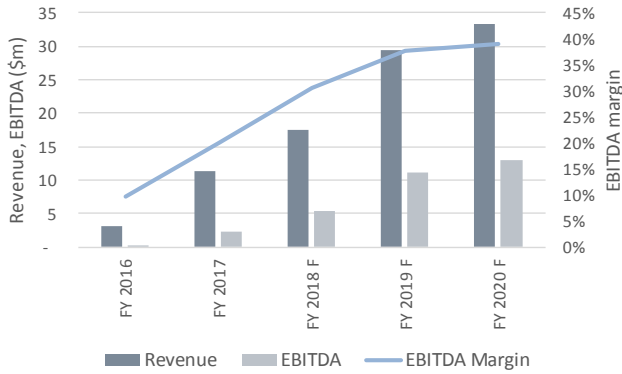
Financial Ratios	FY16A	FY17A	FY18F	FY19F
Growth				
Revenue growth (%)	21.8%	22.5%	43.3%	53.7%
NPAT growth (%)				
Norm. EPS growth (%)	494.5%	-24.9%	-94.6%	-1460.1%
Profitability Ratios				
EBITDA Margin (%)	-37.7%	-19.8%	4.5%	24.2%
EBIT Margin (%)	-42.5%	-23.9%	1.4%	22.7%
PBT Margin (%)	-40.5%	-26.9%	-1.6%	20.7%
NPAT Margin (%)	-53.3%	-44.5%	-1.6%	14.5%
Return on Assets (%)	-15.2%	-15.6%	1.5%	37.2%
Return on Equity (%)	-23.3%	-25.1%	-1.7%	20.7%
ROIC (%)	-18.2%	-15.5%	1.4%	32.8%
Balance Sheet Ratios				
Net Debt (excl. CN's) (ND)	(16.6)	(11.7)	(9.2)	(13.4)
Net Debt (ND) / Equity (%)	-53.1%	-60.8%	-48.9%	-53.5%
ND / ND + Equity (%)	-113.1%	-155.1%	-95.7%	-115.2%
Current Ratio (x)	3.8	3.1	4.2	5.2
Net Interest Cover (x)	1.9	-27.9	0.5	11.7
Cash Flow Ratios				
Free Cash Flow Yield (%)	-21.2%	-14.5%	-7.0%	11.8%
Cash Conversion (x)	1.2	1.7	(1.4)	0.4

Orbital Corporation

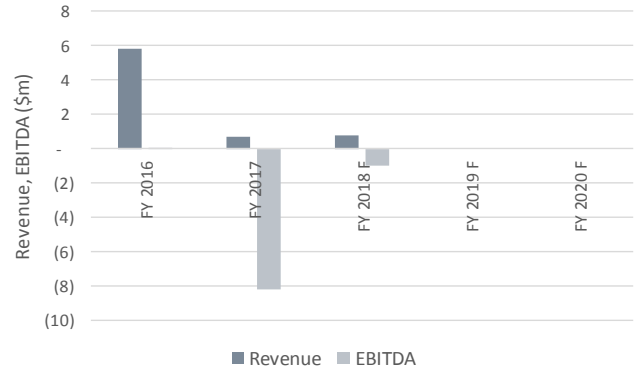
Key Charts

Equities Research

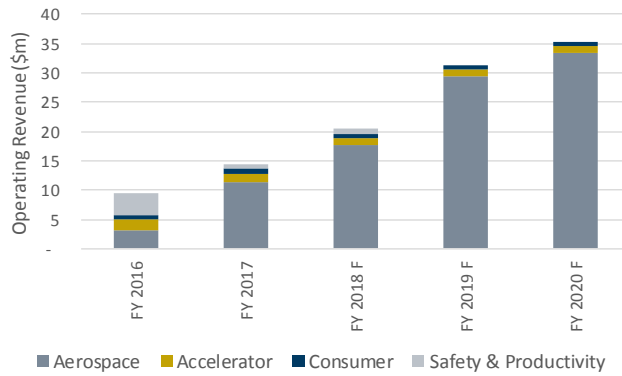
UAV's (Aerospace)



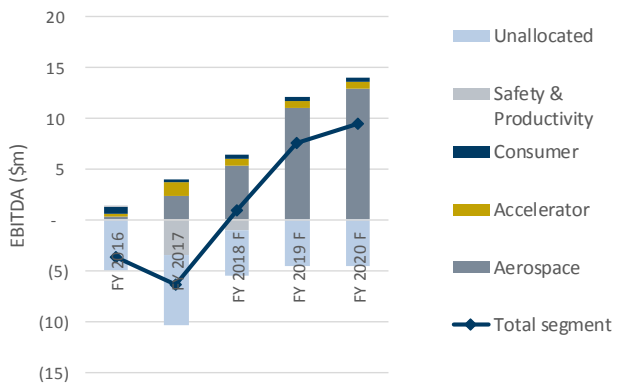
REMSAFE (Safety & Productivity)



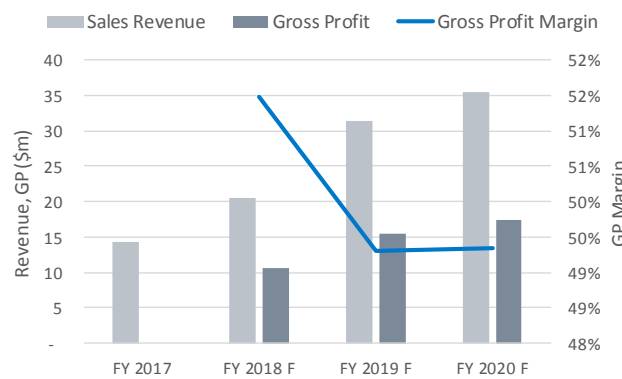
Segment Revenue



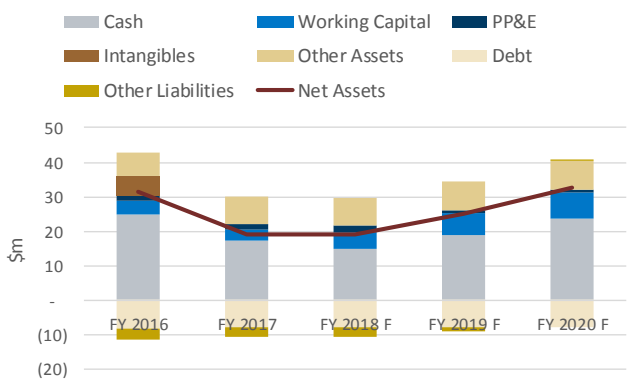
Segment Earnings



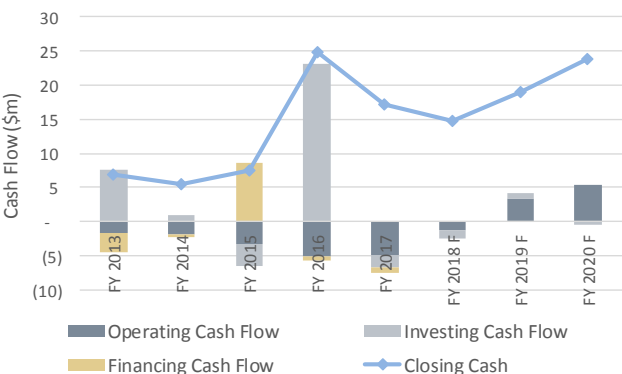
GP Margins



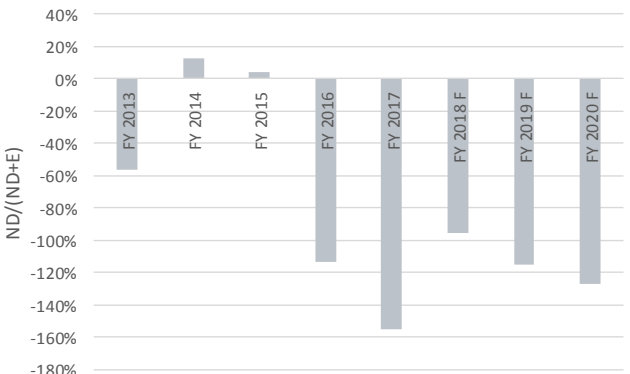
Balance Sheet



Cash Flow



Gearing (excludes Convertible Notes in historical periods)



Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised	FY16	FY17	FY18F			FY19F		
	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	11.6	14.3	22.0	20.4	-7%	37.0	31.4	-15%
EBITDA (\$m)	-4.4	-2.8	0.8	0.9	12%	8.2	7.6	-7%
EBITDA margin	-37.7%	-19.8%	3.7%	4.5%		22.1%	24.2%	
Rep. NPAT(\$m)	-6.2	-6.3	-0.5	-0.3	n/a	4.7	4.6	-3%
NPAT margin	-53.3%	-44.5%	-2.2%	-1.6%		12.7%	14.5%	
NPAT (\$m)	1.5	-11.9	-0.5	-0.3	n/a	4.7	4.6	-3%
EPS (cps)	-10.5	-7.9	-0.6	-0.4	n/a	5.9	5.7	-3%

Source: Argonaut forecasts

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