

Codan Limited

Hold

Metal Momentum Drives Earnings Upgrade + Positive Signs for Land Mobile Radio

Technology Hardware & Equipment / Electronic Equipment & Instruments

18 May 2017

Company Update

Ticker	CDA
Stock Price	\$2.35
Target Price	\$2.46
Forecast Capital Return	4.7%
Forecast Dividend Yield	5.6%
Estimated Total Return - 12 Mth Forward	10.3%

Company market data

Market Cap.	\$416.1m
Free Float (%)	48.7
Enterprise Value	\$389.3m
52 Week Range	\$0.99 - \$2.43
Shares Out.	177.1m
Avg. Daily Value	\$0.0m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT - old	21.1	37.5	30.9	31.2
Core NPAT - new	21.1	46.5	32.0	31.7
% Change	0.0	24.3	3.4	1.6
Core EPS dil. (€) - old	11.9	21.1	17.5	17.6
Core EPS dil. (€) - new	11.9	26.3	18.0	17.9
% Change	0.0	24.3	3.4	1.6
DPS (€) - old	6.0	10.5	9.1	9.7
DPS (€) - new	6.0	13.1	9.4	9.8
% Change	0.0	24.9	3.7	1.0

All figures are in AUD unless otherwise specified.

Share price performance

Codan Limited vs. AS52 (rebased index)



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Event

CDA Business Update + FY17 Earnings Guidance Upgrade.

Impact

CDA management has **upgraded FY17 Underlying NPAT guidance by +25% to be "in the region of \$44m"** (vs. previous guidance: \$35m, Moelis est. \$37.5m) following very strong performance during the 4 months ended April 2017, led by sales of the flagship GPZ7000 Metal Detector into Africa.

Key takeaways from the Business Update include:

- **Group Sales of \$191m (+33% vs. pcp.)** including Metal Detection (\$124m, +52% vs. pcp.) and Radio Comms (\$61m, +6% vs. pcp.).
- **Metal Detection sales momentum increases:** Avg. monthly sales rate of ~\$15m/month (Jan-Apr'17) vs. ~\$11m/month (1H17)
- **Further confirmation of the GPZ7000's replacement cycle** with demand driven by product performance not gold surge activity.
- **Recovery in Land Mobile Radio (LMR) sales** post U.S election with the division on track to deliver growth in 2H17 (vs 1H17).
- **LMR on target for 1Q18 launch of new 'Cascade' product** with potential to be a key growth driver in FY18 and beyond.
- **Strong Balance Sheet with \$20m net cash** to support future acquisition or product investment opportunities.

Investment View

While Metal Detection sales are inherently difficult to predict, based on our analysis, we believe the GPZ7000 Metal Detector is only entering the middle phases of its replacement cycle, and therefore may have further to run, albeit we assume a reduced sales rate in future periods.

We anticipate growth within the LMR business in FY18, driven primarily by the launch of the new 'Cascade' product in 1Q18.

However, following share price appreciation of 110% over the past 12 months, in our view CDA's market valuation of ~13x FY18 P/E (~20% discount vs. ASX Small Industrials) now more appropriately reflects the Group's improved earnings quality as a result of the many product and process improvements made over recent years.

We have therefore revised our rating from buy to **HOLD** with a target price of **\$2.46** (prev. \$2.40).

Y/E Jun 30	2016a	2017e	2018e	2019e
EBITDA	41.9	76.2	57.3	57.6
EV/EBITDA	9.3x	5.1x	6.8x	6.8x
Core NPAT	21.1	46.5	32.0	31.7
Core EPS (Diluted) (€)	11.9	26.3	18.0	17.9
P/E	19.7x	8.9x	13.0x	13.1x
EPS growth	65.6%	120.5%	(31.3%)	(0.8%)
DPS (€)	6.0	13.1	9.4	9.8
Yield	2.6%	5.6%	4.0%	4.2%
DPS growth	71.4%	118.5%	(28.4%)	4.9%
Dividend Payout Ratio	50.4%	49.9%	52.0%	55.0%

All figures are in AUD.

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CDA Investment Thesis

In our view, CDA’s market valuation now more appropriately reflects the improved earnings quality & outlook of the Group (*vs. historically volatile periods such as FY13/14*).

Following share price appreciation of 110% over the past 12 months, we have revised our rating from buy to **HOLD** with our price target increased to **\$2.46** (from \$2.40).

Our change in rating considers:

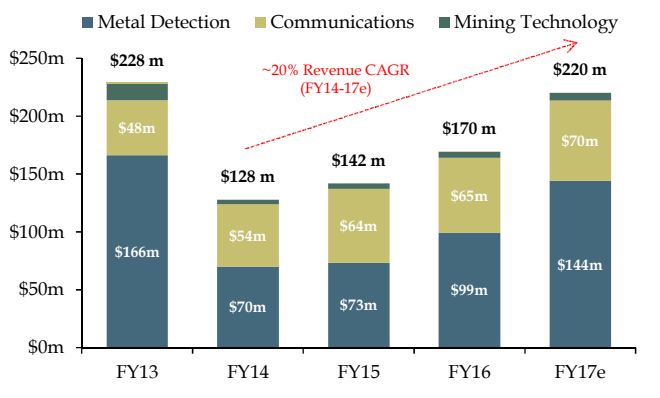
- FY17 an exceptional year, with earnings above what we would estimate as ‘predictable and sustainable’ earnings for the Group.
- The discount on which the company now trades (~20% discount to Small Industrials FY18 P/E multiple) as broadly appropriate given the inherent lack of sales visibility within the Group’s major segment, Metal Detection.

However, we continue to view CDA as an increasingly diversified and de-risked Company that has evolved following four strong years of consistent growth and investment into the product base, protection of IP and global distribution network.

Evidence supporting this view has been set out below:

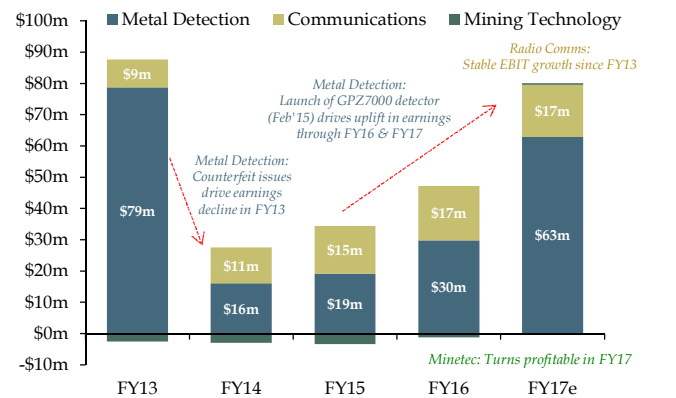
- **Consistent & sustainable underlying group earnings** (see figure 1&2 below)

Figure 1: Revenue (by Division)



Source: Company Reports, Moelis and Company Research

Figure 2: EBIT (by Division, excl. unallocated expenses)



Source: Company Reports, Moelis and Company Research

Refer to our analysis of the GPZ7000 product replacement cycle pg5 "Can the GPZ7000's impressive run continue?"

- **Improved quality of Metal Detection earnings**
 - No counterfeit of flagship GPZ7000 detector (after 2 years on the market) with product replacement cycle likely further to run.
- **~\$16m/year of investment into intellectual property and distribution network** over the past 4 years including more strategic sales staff locations (e.g. Dubai).
- **Growth opportunities for Radio Communications**
 - Land Mobile Radio: Launch of new ‘Cascade’ product (1Q18) to expand CDA’s market share of the lucrative North American LMR market.
 - High Frequency: Expansion into Military 2 segment (developed world armies) + ongoing unstable global environment in Middle East and Africa.
- **Profitable Mining Technology division**
 - Improved commodity outlook may provide a tailwind for CDA’s underground mining tracking technology in FY18.
- **New Defence Electronics division** aiming to leverage existing IP to capitalise on opportunities within the defence sector.
- **~\$20m net cash balance sheet** well-positioned for growth via accretive acquisitions.

Metal Detection: Can the GPZ7000's impressive run continue?

The largest swing factor for CDA's FY17 & FY18 earnings will be the sales momentum of its flagship Metal Detector - the GPZ7000.

Whilst we recognise that Metal Detection demand is inherently difficult to estimate, our research suggests that the GPZ7000 is approaching the middle phases of its replacement cycle, with substantial sales runway remaining (*see replacement cycle analysis below*).

We do however assume a reduction in Metal Detection's annual sales run-rate going forward, as the sales replacement cycle enters a more mature phase. All things considered, we continue to estimate Metal Detection revenues above management's assessment of "predictable & sustainable" levels for the division (i.e. ~\$70m annual run-rate).

Figure 3: GPZ7000 Detector



GPZ7000 Metal Detectors sell for ~\$10,000 per unit with high gross margins.

African demand for the product has been very strong during since January 2016.

Source: Company Reports

Below we set out some of the key factors influencing Metal Detection's performance:

1. Sales Volumes - GPZ7000 replacement cycle may have further to run

Many GPZ7000 customers are upgrading from the old GPX model.

Therefore, we derive an estimate of the addressable market for the GPZ7000 can be using a historical analysis of sales from the old GPX model (*see below*):

Figure 4: GPZ7000 Addressable Market (Moelis estimates)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17 (to Apr'17)
Flagship Detector Model	GPX	GPX	GPX	GPX	GPX	GPX	GPX	GPX	GPZ	GPZ
Metal Detection Revenue	\$42m	\$107m	\$107m	\$92m	\$99m	\$166m	\$70m	\$73m	\$99m	\$124m
Estimated Flagship Device Revenue (assumes 60% of division sales)	\$25m	\$64m	\$64m	\$55m	\$59m	\$100m	\$42m	\$44m	\$60m	\$74m
Estimated GPX5000 units sold (assumes ~\$4,500/unit price)	6,000	15,000	15,000	13,000	14,000	24,000	10,000	10,500		
Estimated GPZ7000 units sold (assumes ~\$8-10,000/unit price)									7,500	9,500

*GPX Unit Sales: ~110,000
GPZ Unit Sales: ~18,000
Evidence for continuation of the replacement cycle?*

Total GPX Units Sold (FY08-15)	110,000	← Excludes any counterfeit GPX sales
Discount for GPZ7000 Price Premium (~2x price of GPX)	-50%	
Remaining Addressable Market	55,000	
Discount for GPX Market Saturation	-25%	
Total GPZ7000 Addressable Market	42,000	
Total GPX Units Sold (FY16 - Apr'17)	17,000	
% Through Replacement Cycle	40%	

Source: Company, Moelis Analysis. Notes: Calculates sales during period of Flagship Detector Status (i.e. GPX FY08-FY15, GPZ: FY16-present)

Based on the assessment above, we estimate:

- An addressable market for the GPZ7000 of approximately ~42,000 units
- ~17,000 GPZ units sold to date

This would imply the GPZ7000 is ~40% of the way through its replacement cycle.

2. Sales Rates - Momentum

Management have estimated “predictable and sustainable” underlying sales for the Metal Detection division of between ~\$70m-\$100m per annum which translates into an average monthly sales rate of ~\$7m/month.

This compares to the actual sales rates achieved over the periods below:

- 1H17: \$11m/month
- 4 months to April 2017: \$15m/month

We assume the sales rates recently achieved should slow down, reflecting the replacement cycle entering a more mature phase.

Our estimates assume the following sales run-rates:

- May and Jun’17: ~\$11m/month (25% reduction from 4 months to April 2017 in part reflecting the potential seasonal impact of Ramadan).
- FY18: \$9m/month (+25% above managements estimate of “predictable and sustainable” levels, reflecting ongoing momentum from African demand for the GPZ7000).

We anticipate sales rates to slow as the GPZ7000 enters a more mature phase of the replacement cycle

3. Counterfeit protection

There has been no known counterfeit of the GPZ7000 device after 2yrs on the market, proving the sophistication of the product’s military-grade encryption.

No counterfeit of GPZ7000 after 2yrs on market

4. Geographic Sales Expansion (additional African Regions)

CDA now sells into ~8 African countries, reducing reliance on any one region, and increasing the potential of capturing any gold surge activity on the continent. Certain African countries well known for their gold activity, such as Guinea, have recently begun purchasing GPZ7000 machines.

5. Gold price appreciation

Gold is up ~5% in CY2017 - supporting the economic viability of gold prospecting:

Figure 5: Gold Price



Source: Company, Moelis Analysis

6. Lower unit sales required to generate revenues

Higher price point of the GPZ means much lower units sales are required to generate revenues experienced during previous sales peaks (such as 2013).

7. Establishment of Dubai Sales Office

Dubai has placed CDA closer to its end-customer, improving its market intelligence.

8. New product offerings including entry-level detectors and spare parts

Group Earnings Estimates

Our revised earnings estimates for the Group have been set out below:

Figure 6: CDA Group Earnings (Moelis Estimates, \$m's)

	1H16	2H16	FY16	1H17	2H17	FY17	1H18	2H18	FY18
<i>Metal Detection</i>	34	66	99	65	79	144	56	52	108
<i>Radio Communications</i>	29	36	65	35	35	70	39	39	79
<i>Mining Technology</i>	2	3	5	4	3	7	5	3	9
Revenue	65	105	170	104	117	220	101	94	195
<i>Metal Detection</i>	9	20	29	28	34	63	21	18	39
<i>Radio Communications</i>	7	15	21	10	7	17	10	10	20
<i>Mining Technology</i>	(1.3)	0.1	(1.2)	0.4	0.1	0.5	1.2	0.8	2.0
<i>Unallocated Expenses</i>	(6)	(12)	(19)	(8)	(9)	(18)	0	0	0
Profit Before Tax	8	23	31	30	32	62	32	29	61
<i>Tax</i>	(6)	(5)	(11)	(7)	(8)	(16)	(6)	(5)	(11)
Underlying NPAT	7.0	15.0	21.1	22.3	24.2	46.5	17.2	14.8	32.0
EPS	12cps			26cps			18cps		
DPS	6.0 cps			13.1 cps			9.4 cps		
Net Cash (Debt)			(12.6)	0.4		27.1	17.7		23.0

Source: Company, Moelis Analysis

Key Takeaways

- *FY17 NPAT of \$46.5m sits ~6% vs. management guidance, most likely reflecting Moelis assumptions of Metal Detection sales remaining above 'predictable and sustainable' levels quoted by management.*
- *Operating Leverage of Metal Detection: FY17 Revenue +20% YoY vs. NPBT + 112%. Largely fixed divisional cost base has allowed high margin product sales to drop through to the bottom line.*
- *Radio Communications looks set to deliver a better 2H17 than previously estimated. Strong momentum in LMR is a good sign ahead of new 'Cascade' product launch in 1Q18.*
- *Mining Technology estimated to make its first annual profit of ~\$0.3m (vs. \$1.2m loss in FY16).*
- *+\$27m Net Cash Position as at 30 June 2017 however we note that a large FY17 tax bill will be paid in 1H18, therefore we predict net cash of ~\$18m on hand as at 31 December 2017.*

Divisional Outlook

(1) Metal Detection (Minelab) ~65% of Moelis estimated FY17 revenue

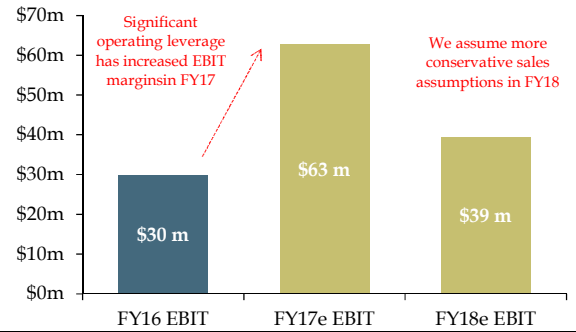
Our key earnings estimates for the metal detection division have been set out below:

Figure 7: Metal Detection Revenue (Moelis est., \$m's)

	FY16	1H17	2H17	FY17	1H18	2H18	FY18
Revenue (Metal Detection)	99	65	79	144	56	52	108
EBIT (Radio Comms)	30	28	34	63	21	18	39

Source: Company Report, Moelis Analysis

Figure 8: Metal Detection EBIT (Moelis est.)



Source: Company Report, Moelis Analysis

Key Takeaways

- In 10 months to April'17, CDA has achieved a Metal Detection sales run rate of ~\$12m/month. Our forecasts assume:
 - May and June'17: ~\$11m per month (in part reflecting the impact of Ramadan).
 - FY18: ~\$9m per month.
- The Division's EBIT Margins have expanded in FY17 (~42% vs. FY16: 30%) as a result of:
 - Operating leverage given large fixed cost component of the division
 - Large weighting towards higher margin GPZ7000 sales.
- In our view, the earnings quality of the Metal Detection division has improved over recent years due to a range of business improvements and investments which we have outlined on page 6 of this report (*'Key factors influencing Metal Detection's ongoing performance*

(2) Radio Communications ~ 30% of Moelis estimated FY17E revenue

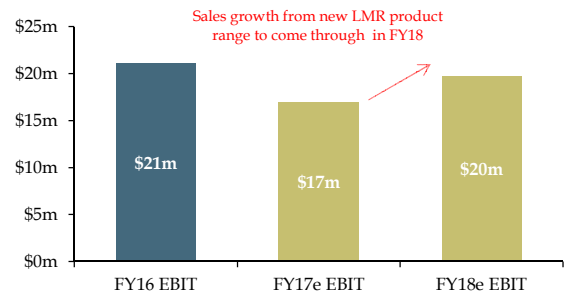
Our earnings estimates for the metal detection division have been set out below:

Figure 9: Radio Comms Earnings (Moelis est., \$m's)

	FY16	1H17	2H17	FY17	1H18	2H18	FY18
High Frequency	43	26	21	48	22	22	44
Land Mobile Radio	22	9	13	22	17	17	34
Revenue (Radio Comms)	65	35	35	70	39	39	79
High Frequency	12	7	5	13	6	6	11
Land Mobile Radio	6	1	3	3	4	4	8
EBIT (Radio Comms)	17	10	7	17	10	10	20

Source: Name of Source

Figure 10: Radio Communications EBIT (Moelis est.)



Source: Name of Source

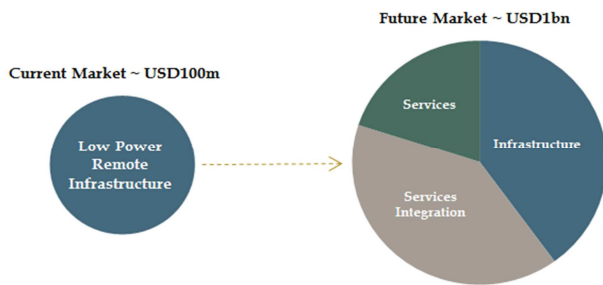
Key Takeaways

- Revenue up 6% in 10 months to April'17 (vs. pcp.)
- Encouragingly, LMR is having a strong 2H17 (due in part to the completion of the U.S. presidential election) despite still selling its 'older' product soon to be superseded by the launch of the 'Cascade' product in 1Q18.

Land Mobile Radio (LMR) ~ 35% of FY17E radio communication revenue

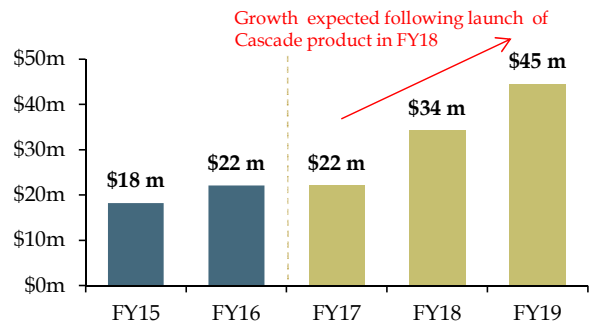
- LMR remains key area of potential growth for the Group.
- A \$5m investment is being undertaken in FY17 to fast track the development of the Company's new 'Cascade' product aimed at expanding market share in the ~\$1bn North American LMR Market (currently dominated by Motorola).
- CDA will target relatively small opportunities in the market (i.e. smaller towns and remote cities), offering a lower-cost alternative to the competing incumbent product.
- Cascade is aimed at positioning CDA as a 'one top shop' for LMR customers, by offering a more holistic network solution (including systems integration and ongoing support services as well as just the equipment itself).

Figure 11: Land Mobile Radio (potential market size with Cascade Offering)



Source: Company Reports

Figure 12: Land Mobile Radio Sales (Moelis est.)



Source: Company reports, Moelis Analysis

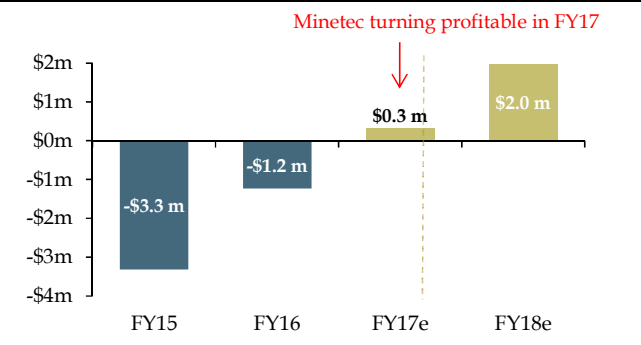
High Frequency (HF) Radio Division ~ 65% of FY17E radio comms revenue

- CDA's intent is to become a more complete communications solutions provider and expand into sectors such as the Military 2 market (developing world military). Recent events supporting this strategy include:
 - 1H17 launch of the Sentry range of tactical radios for the global Military market.
 - Jan'17 acquisition of a Military Tactical Antenna range from a UAE telecom provider, extending the scope of product & service offerings.

(3) Mining Technology ~ 5% of Moelis estimated FY17E revenue

Our earnings estimates for the metal detection division have been set out below:

Figure 13: Mining Technology EBIT (Moelis est.)



Source: Company, Moelis Analysis

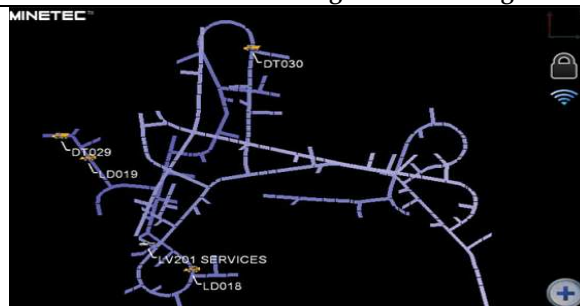
Key Takeaways

- The division will make a small profit in FY17 (vs. \$1.2m loss in FY16), a result of improving sales + cost outs realised during FY16,
- Improved commodity conditions should act as a tailwind for Minetec technology in FY18 by encouraging mining companies to invest in mine capex.
- During FY17, Minetec’s technology was successfully installed in an underground gold mine in WA, with the customer using the technology extensively throughout the site.

What is Minetec’s Tracking Solutions Technology?

- A live underground map positioning system, providing high precision tracking of people and machinery within the mine (& without satellite use).
- Provides sub metre accuracy, far superior to conventional methods such as GPS and Wi-Fi-based tracking
- Based on the CSIRO developed WASP (Wireless Ad hoc System for Positioning) tracking technology, which CDA previously won the licence to commercialise.
- Minetec has developed its own proprietary mining task management system (called SMARTS) which works in conjunction with WASP, to produce data that can help drive safety and productivity improvements in the mine proximity detection and collision avoidance and outputs that can help drive decision making.
- Deployed in 9 operating mines, with customers including Rio Tinto, Newcrest, Oz Minerals and Saracen Minerals.
- Distribution strategy includes partnering with mining services companies to expand reach.

Figure 14: Minetec's 'SMARTs' Underground Tracking Technology



Source: Company, Moelis Analysis

(4) New 'Defence Electronics' Division

While material revenue opportunities may not appear before FY19, Codan's new division will attempt to capitalise on:

- High value, multi-year programs including Land 400, the offshore patrol boats and the air warfare destroyers.
- Recent announcements including the \$50bn submarines contract won by French company DCNS, due to be built in Adelaide.
- Government support for innovation to create domestic jobs, potentially providing CDA with a competitive advantage over incumbent international defence solution providers;
- Restricted competition due to limited domestic engineering capability, a result of falling defence spend in recent years; and
- CDA's lower counterparty risk vs. smaller private competitors given its strong balance sheet and well-established position in the market.

CDA's favourable group earnings outlook, coupled with its strong net cash position, supports any type of investment the Group may wish to make within this division, or any other existing division over the short to medium term.

Figure 15: DCNS Submarine concept design



Source: Company, Moelis Analysis

Profit and Loss (\$m)	2015a	2016a	2017e	2018e	2019e
Revenue	143.9	169.5	220.4	195.3	207.6
<i>Growth</i>	8.8%	17.8%	30.0%	(11.4%)	6.3%
EBITDA	29.9	41.9	76.2	57.3	57.6
<i>Growth</i>	35.4%	40.2%	81.8%	(24.8%)	0.5%
Dep'n & Amort	(10.6)	(12.7)	(13.8)	(15.0)	(15.0)
EBIT	19.3	29.2	62.4	42.3	42.5
<i>Growth</i>	48.2%	51.1%	113.7%	(32.2%)	0.5%
Net Interest Expense	(2.5)	(1.7)	(0.4)	0.3	0.3
Profit Before Tax	16.8	27.5	62.1	42.6	42.9
Tax	(4.1)	(6.4)	(15.5)	(10.7)	(11.1)
<i>Tax Rate (%)</i>	24.4%	23.3%	25.0%	25.0%	26.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	12.7	21.1	46.5	32.0	31.7
<i>Growth</i>	49.9%	65.7%	120.6%	(31.3%)	(0.8%)
One-Off Items	(0.3)	(5.6)	0.0	0.0	0.0
NPAT (Reported)	12.4	15.5	46.5	32.0	31.7
EPS (Underlying) (€)	7.2	11.9	26.3	18.0	17.9
<i>Growth</i>	44.4%	65.6%	120.5%	(31.3%)	(0.8%)

Balance Sheet (\$m)	2015a	2016a	2017e	2018e	2019e
Cash	7.2	14.3	27.1	23.0	33.2
Inventory	31.3	28.5	37.5	33.2	35.3
Current Receivables	20.4	19.1	17.6	21.5	22.8
PPE	16.0	10.8	11.0	11.0	11.1
Intangibles	131.7	133.0	141.0	143.6	147.2
Other	0.0	0.0	0.0	0.0	0.0
Total Assets	208.7	212.5	241.0	239.1	256.4
Current Payables	25.2	30.4	36.4	33.2	35.3
ST Debt	0.0	0.0	0.0	0.0	0.0
LT Debt	42.5	26.9	0.0	0.0	0.0
Provisions	7.3	7.2	10.5	9.4	10.0
Other	25.2	32.6	38.5	35.4	37.5
Total Liabilities	80.3	73.5	55.9	51.6	54.3
Net Assets	128.4	138.9	185.1	187.5	202.1
Equity & Reserves	103.5	109.2	132.1	119.1	119.5
Retained Profits	24.9	29.7	53.0	68.4	82.6
Shareholders' Equity	128.4	138.9	185.1	187.5	202.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	128.4	138.9	185.1	187.5	202.1

Cashflow (\$m)	2015a	2016a	2017e	2018e	2019e
EBITDA	29.9	41.9	76.2	57.3	57.6
Net Interest	(2.4)	(2.0)	(0.4)	0.3	0.3
Tax	(0.6)	(0.1)	(7.4)	(18.7)	(11.1)
Δ in Working Capital	3.5	9.4	(1.6)	(2.8)	(1.4)
Other	0.3	(1.1)	3.4	(1.1)	0.6
Operating Cash Flow	30.7	48.2	70.2	35.0	46.0
<i>Growth</i>	168.5%	57.2%	45.5%	(50.1%)	31.3%
Capex	(18.8)	(18.4)	(22.0)	(17.6)	(18.7)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestments	5.4	0.0	0.0	0.0	0.0
Other	0.0	0.3	0.0	0.0	0.0
Investing Cash Flow	(13.4)	(18.1)	(22.0)	(17.6)	(18.7)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(5.3)	(7.1)	(17.7)	(21.5)	(17.1)
Net Borrowings	(17.9)	(15.5)	(17.6)	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	(23.2)	(22.6)	(35.3)	(21.5)	(17.1)
FX / Non Cash Items	0.1	0.0	0.0	0.0	0.0
Change in Cash	(5.9)	7.5	12.8	(4.1)	10.2
Free Cash Flow	11.9	29.5	48.1	17.4	27.3

Valuation Summary	
Current Mkt Capitalisation	416.1
Shares on Issue	177.1
Last Price	2.35
12 Mth Target Price	2.46
Total Estimated 12 Mth Return	10.3%
12 Mth Fwd Capital Return	4.7%
12 Mth Fwd Dividend Yield	5.6%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (€)	7.2	11.9	26.3	18.0	17.9
<i>Growth</i>	44.4%	65.6%	120.5%	(31.3%)	(0.8%)
P/E (x)	32.7x	19.7x	8.9x	13.0x	13.1x
Small Industrials (ex Fin's)	0.0x	16.9x	16.9x	15.0x	13.7x
Premium / (Discount)	nm	16.5%	(47.1%)	(13.1%)	(3.9%)
EV/EBITDA (x)	13.0x	9.3x	5.1x	6.8x	6.8x
Small Industrials (ex Fin's)	0.0x	16.8x	18.5x	10.7x	9.5x
Premium / (Discount)	nm	(44.6%)	(72.4%)	(36.4%)	(29.1%)
DPS (€)	3.5	6.0	13.1	9.4	9.8
<i>Growth</i>	16.7%	71.4%	118.5%	(28.4%)	4.9%
Yield (%)	1.5%	2.6%	5.6%	4.0%	4.2%
Payout Ratio (%)	48.7%	50.4%	49.9%	52.0%	55.0%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%
NTA	(3.3)	5.9	44.2	43.9	54.9
NTA/Share (\$)	(0.02)	0.03	0.25	0.25	0.31

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	6.1%	9.9%	19.3%	13.4%	12.4%
ROE	9.9%	15.2%	25.1%	17.1%	15.7%
ROIC	8.9%	14.8%	29.6%	19.3%	18.6%
Net Debt (Cash) (\$m)	35.4	12.6	(27.1)	(23.0)	(33.2)
Net Debt/EBITDA (x)	1.2x	0.3x	(0.4x)	(0.4x)	(0.6x)
ND/(ND + Equity) (%)	21.6%	8.3%	(17.2%)	(14.0%)	(19.7%)
Interest Cover (x)	11.2x	23.1x	86.4x	190.0x	170.3x
Working Capital	21.9	15.2	13.4	17.3	18.1
Working Capital/Sales (%)	15.2%	8.9%	6.1%	8.9%	8.7%

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share (\$)	0.07	0.17	0.27	0.10	0.15
Price/FCPS (x)	35.1x	14.1x	8.7x	23.9x	15.3x
Free Cash Flow Yield (%)	2.9%	7.1%	11.6%	4.2%	6.6%
Gross Cash Conversion	112.9%	119.2%	102.6%	93.8%	99.2%
Capex/Sales (%)	(13.1%)	(10.9%)	(10.0%)	(9.0%)	(9.0%)
Capex/Depreciation (x)	1.8x	1.4x	1.6x	1.2x	1.2x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	20.8%	24.7%	34.6%	29.3%	27.7%
EBIT	13.4%	17.2%	28.3%	21.7%	20.5%
NPAT	8.9%	12.4%	21.1%	16.4%	15.3%

Valuation Methodology	
WACC (%)	10.4%
Discounted Cash Flow Valuation	2.32
Sum-of-the-Parts Valuation	0.000
Average Valuation	2.32
12 Mth Target Price	2.46

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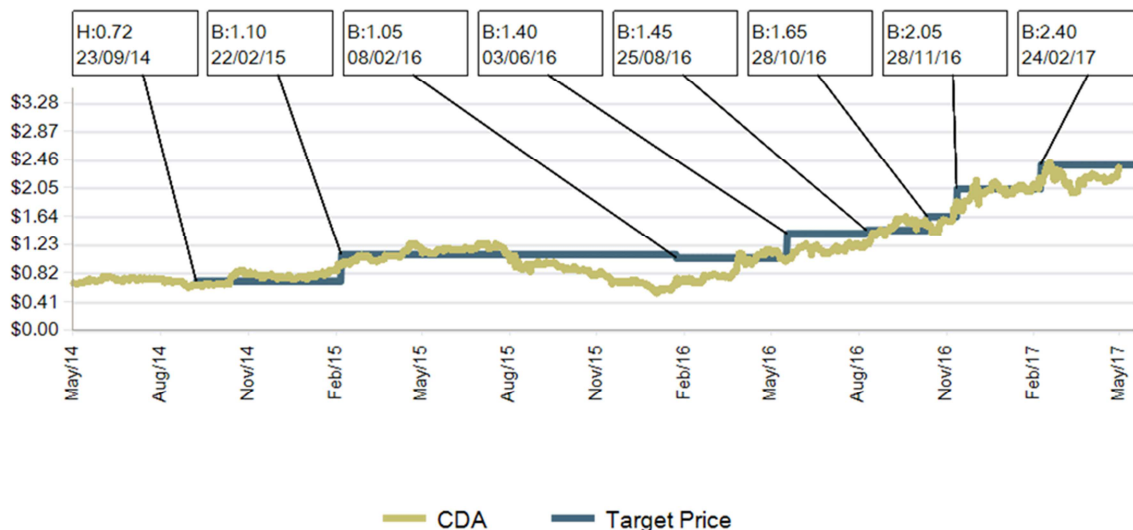
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