

# CODAN LIMITED

**BUY**

Group shaping up for another strong 2H. Mining Technology enters key deal with Caterpillar.

Technology Hardware &amp; Equipment / Electronic Equipment &amp; Instruments

23 February 2018

## COMPANY UPDATE

|   |        |
|---|--------|
| Ticker                                  | CDA    |
| Stock Price                             | \$2.36 |
| Target Price                            | \$2.72 |
| Forecast Capital Return                 | 15.3%  |
| Forecast Dividend Yield                 | 5.5%   |
| Estimated Total Return - 12 Mth Forward | 20.8%  |

### Company market data

|                  |                 |
|------------------|-----------------|
| Market Cap.      | \$418.4m        |
| Free Float (%)   | 48.6            |
| Enterprise Value | \$399.0m        |
| 52 Week Range    | \$1.99 - \$2.52 |
| Shares Out.      | 177.3m          |

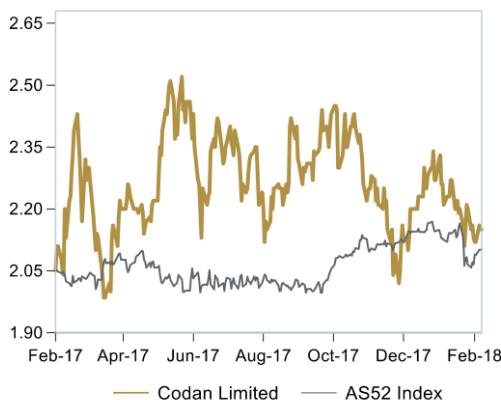
### Estimates changes

|                   | 2017a | 2018e | 2019e |
|-------------------|-------|-------|-------|
| Core NPAT         | 44.7  | 36.0  | 34.2  |
| Core EPS dil. (¢) | 25.2  | 20.1  | 19.1  |
| DPS (¢)           | 13.0  | 10.2  | 10.6  |

All figures are in AUD unless otherwise specified.

### Share price performance

Codan Limited vs. AS52 (rebased index)



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## EVENT

### 1H18 Result

- **NPAT +\$15.8m** (vs. guidance “in the order of \$15m”).
- **Mining Technology:** Entered into a key agreement with Caterpillar (NYSE CAT) to integrate CDA’s technology into CAT’s existing ‘Minestar’ product, providing significant growth opportunities from 1H FY19.
- **Metal Detection:** Sales down 2% on pcp, however momentum has picked up in 2H to date with demand for GPZ7000’s returning to 2H17 levels (~1000 units/month). Pipeline looks strong with ~\$5m in pre-orders for new “Equinox” Coin & Treasure device, and new geographies coming online (including Mexico and Somalia).
- **Radio Communications:** Sales of \$29m were weaker than expected and down -17% on pcp, however a strong pipeline has Management confident of reaching base-level sales (\$65m-\$75m) for the full-year.

## IMPACT

We increase our FY18 NPAT estimate to \$36.0m from \$34.0m, reflecting a stronger 2H given the recent momentum in Metal Detection sales and strong pipeline in Radio Communications highlighted by Management at the result.

## INVESTMENT VIEW

On our revised estimates, CDA trades on an 11.8x FY18 P/E.

We deem this an attractive entry given the outlook for continued solid earnings in coming years, as the benefits of >\$50m of product investment over the last 3 years come to fruition.

Importantly, we anticipate the earnings base of CDA will diversify over coming periods, with Metal Detection’s share of Group revenue falling from 65% in FY17, to 47% in FY20 in our estimates. Looking across the 3 divisions:

- The CAT deal (which we explore further in this note) provides strong evidence of the quality and significant end-market opportunity within CDA’s Mining Technology division.
- Metal Detection continues to diversify its sales with new products & geographies coming online. The depth of the product replacement cycle and sophistication of CDA’s security encryption have been illustrated by the GPZ7000 continuing to record strong sales after ~3yrs on the market.
- Radio Communications looks set for a strong 2H18 and FY19 following positive signals on key products launched in FY18 (Sentry and Cascade).

We maintain our **BUY** rating & increase our **target price to \$2.72** (prev: \$2.60), largely reflecting a greater contribution from the Minetec division in FY19+.

| Y/E Jun 30             | 2017a  | 2018e   | 2019e  | 2020e |
|------------------------|--------|---------|--------|-------|
| EBITDA                 | 75.7   | 64.6    | 63.2   | 64.9  |
| EV/EBITDA              | 5.3x   | 6.2x    | 6.3x   | 6.1x  |
| Core NPAT              | 44.7   | 36.0    | 34.2   | 34.8  |
| Core EPS (Diluted) (¢) | 25.2   | 20.1    | 19.1   | 19.4  |
| P/E                    | 9.3x   | 11.8x   | 12.4x  | 12.2x |
| EPS growth             | 111.9% | (20.5%) | (5.0%) | 1.7%  |
| DPS (¢)                | 13.0   | 10.2    | 10.6   | 10.8  |
| Yield                  | 5.5%   | 4.3%    | 4.5%   | 4.6%  |
| DPS growth             | 116.7% | (21.2%) | 3.6%   | 1.7%  |
| Dividend Payout Ratio  | 51.5%  | 51.1%   | 55.7%  | 55.7% |

All figures are in AUD.

## THE RESULT

CDA reported a solid 1H18 result, with NPAT slightly below our estimates largely due to seasonality factors.

Management provided a strong outlook for 2H18, led by a sharp pick-up in Metal Detection sales towards levels experienced in 2H17, and a strong pipeline in Radio Communications.

The result included the announcement of the Mining Technology division entering a key deal with Caterpillar, which should rapidly accelerate the Division's growth outlook.

**Figure 1: 1H Result vs. Moelis Estimates**

|                          | 1H18<br>(Actual) | 1H18<br>(Moelis est.) | Difference  |
|--------------------------|------------------|-----------------------|-------------|
| Metal                    | 63               | 60                    | 3.1         |
| Radio                    | 29               | 37                    | -8.1        |
| Mining                   | 2                | 4                     | -2.1        |
| <b>Revenue</b>           | <b>95</b>        | <b>102</b>            | <b>-7.2</b> |
| Metal                    | 23               | 21                    | 1.6         |
| <i>EBIT Margin</i>       | 36%              | 35%                   | 0.8%        |
| Radio                    | 6                | 10                    | -4.9        |
| <i>EBIT Margin</i>       | 19%              | 28%                   | -9.0%       |
| Mining                   | 0                | 0                     | -0.7        |
| <i>EBIT Margin</i>       | -                | 10%                   | -           |
| Unallocated Expense      | -7               | -10                   | 2.8         |
| <b>Segment EBIT</b>      | <b>21</b>        | <b>22</b>             | <b>-1.2</b> |
| <i>Group EBIT Margin</i> | 22%              | 22%                   | 0.4%        |
| Net Finance Expense      | -1               | 0                     | -0.4        |
| PBT                      | 21               | 22                    | -1.6        |
| Tax                      | -5               | -6                    | 0.9         |
| <b>NPAT</b>              | <b>15.8</b>      | <b>16.5</b>           | <b>-0.7</b> |
| <i>Group NPAT Margin</i> | 17%              | 16%                   | 0.5%        |

Source: Company, Moelis Analysis

- Group NPAT was slightly below Moelis estimates, due largely to a slower than expected 1H in Radio Communications.
- Metal and Mining contributions were broadly in line with our estimates.
- Unallocated expenses were ~\$2.8m lower than our estimates due to variable components within the expense base. We expect this to revert in 2H, with our estimate of unallocated expenses rising to \$11.5m in 2H18 vs 1H18, reflecting the better Group performance expected in 2H.

Changes made to our FY18 estimates are outlined below:

**Figure 2: Moelis Estimate Changes**

|                          | FY18<br>(New) | FY18<br>(Old) | FY18<br>▲   |
|--------------------------|---------------|---------------|-------------|
| Metal                    | 141           | 117           | +24         |
| Radio                    | 67            | 80            | -14         |
| Mining                   | 9             | 11            | -2          |
| <b>Revenue</b>           | <b>217</b>    | <b>208</b>    | <b>+8</b>   |
| Metal                    | 54            | 41            | +13         |
| <i>EBIT Margin</i>       | 38%           | 35%           |             |
| Radio                    | 16            | 23            | -7          |
| <i>EBIT Margin</i>       | 24%           | 29%           |             |
| Mining                   | -1            | 2             | -2          |
| <i>EBIT Margin</i>       | -7%           | 15%           |             |
| Unallocated Expense      | -19           | -20           | +1          |
| <b>Segment EBIT</b>      | <b>51</b>     | <b>46</b>     | <b>+5</b>   |
| <i>Group EBIT Margin</i> | 23%           | 22%           |             |
| Net Finance Expense      | -2            | 0             | -1          |
| PBT                      | 49            | 46            | +3          |
| Tax                      | -13           | -12           | -1          |
| <b>NPAT</b>              | <b>36.0</b>   | <b>34.0</b>   | <b>+2.0</b> |
| <i>Group NPAT Margin</i> | 17%           | 16%           | +30 bps     |

Source: Company, Moelis Analysis

- Group NPAT +\$2m, reflecting a stronger 2H in Metal detection.
- Metal Detection EBIT +\$13m (+32%) due to strong sales of GPZ's in 2H FY18 to date, plus new products (Equinox) and geographies (Mexico, Somalia, Brazil) coming online.
- Radio Communications EBIT -\$7m (-30%) due to a weaker than expected 1H. We note a better 2H should lift sales into Managements base line range of \$65-75m for the division.
- Mining Technology remains at effectively break-even for FY18. We anticipate strong growth in FY19, with sales rising by +\$14m to \$23m in our estimates.

## MINETEC ENTERS KEY DEAL WITH CATERPILLAR

Note: We provide an overview of the Minetec product on the following page

CDA has announced that its Mining Technology division, Minetec, has entered into an exclusive deal with Caterpillar (NYSE: CAT) to integrate its underground mining technology solution into CAT's existing 'Minestar' product.

CAT is a global leader in construction & mining equipment. It has a market capitalisation of \$167bn and recorded ~US\$45bn sales in 2017. CAT's network spans 172 dealers across 190 countries. An overview of its Minestar product can be seen in the video link below:  
<https://www.youtube.com/watch?v=0LOIUiMwGCU>

We believe that executing a deal such as this, with a global industry leader in CAT, acts as strong validation of the quality and sophistication of CDA's Mining Technology solutions.

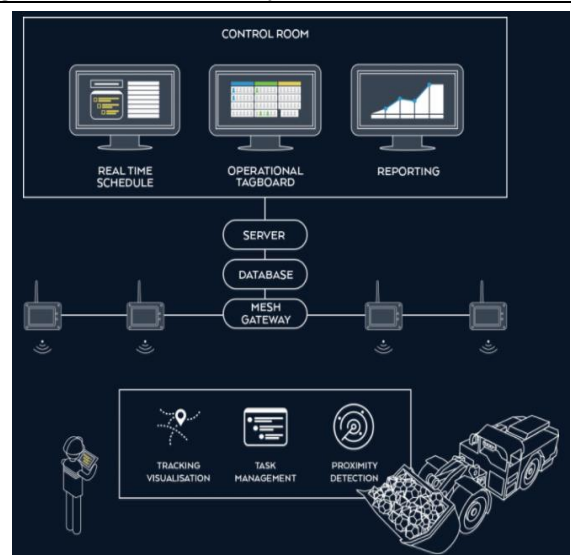
A partnership with CAT presents an opportunity to accelerate the path-to-market for the Minetec product, as well as expand its end-reach via CAT's extensive distribution.

Figure 3: CAT Minestar System



Source: CAT

Figure 4: CDA's Minetec System



Source: CDA

Whilst financial details of the agreement were not specified, Management stated that a profit-share model is likely, whereby CDA and CAT would share in the margin generated by the integrated Minestar product's sale.

The deal is exclusive to both parties, meaning CDA will be focusing its Minetec sales via CAT's distribution, and equally CAT will only be working with CDA for its Minestar integration. We note CAT has first right of refusal to acquire Minetec should it be sold.

As a result of this deal we have upgraded our earnings estimates for the Minetec division. Management has suggested sales are likely to commence in 1H FY19, with the potential for Minetec's sales to reach ~\$30m quite quickly, and gross margin's anticipated to be in the realm of 50-55%.

Figure 5: Minetec - Moelis Estimates Changes

|         | Moelis Estimates (Old) |       |       | Moelis Estimates (New) |       |       |
|---------|------------------------|-------|-------|------------------------|-------|-------|
|         | FY18e                  | FY19e | FY20e | FY18e                  | FY19e | FY20e |
| Revenue | 11                     | 16    | 22    | 9                      | 25    | 43    |
| EBIT    | 2                      | 3     | 7     | -1                     | 5     | 10    |

Source: Company, Moelis Analysis

CDA has spent 6 months leading up to the announcement working with CAT on the integration of the products. The final stage in this process will be to roll out the integrated Minestar product across a live mine setting in WA (scheduled for 2H FY18), in order to eliminate any bugs/issues before taking the product to market ~1H FY19.

**Minetec Product Overview**

Minetec is an underground mine map positioning system, capable of precisely tracking people and assets within an underground mine site in real-time.

The Minetec system acts like a high-precision GPS network underground, displaying in real time the precise locations of mobile equipment and personnel against a 3-D map of the mine.

This information can be displayed in a remote control room, or on a tablet mounted within a vehicle anywhere in the mine.

The technology is currently deployed in ~10 operating mines, with customers including Rio Tinto, Newcrest, Oz Minerals and Saracen Minerals.

The product uses the CSIRO-developed “WASP” technology of which CDA has exclusive licence for mining purposes. The WASP algorithm provides highly accurate distance measurements using the ‘Time of Arrival’ (to a fraction of a nanosecond) of beacon signals that are periodically transmitted by nodes placed around the mine.

Minetec promotional video → <https://www.youtube.com/watch?v=CjxD2q3q1s8>

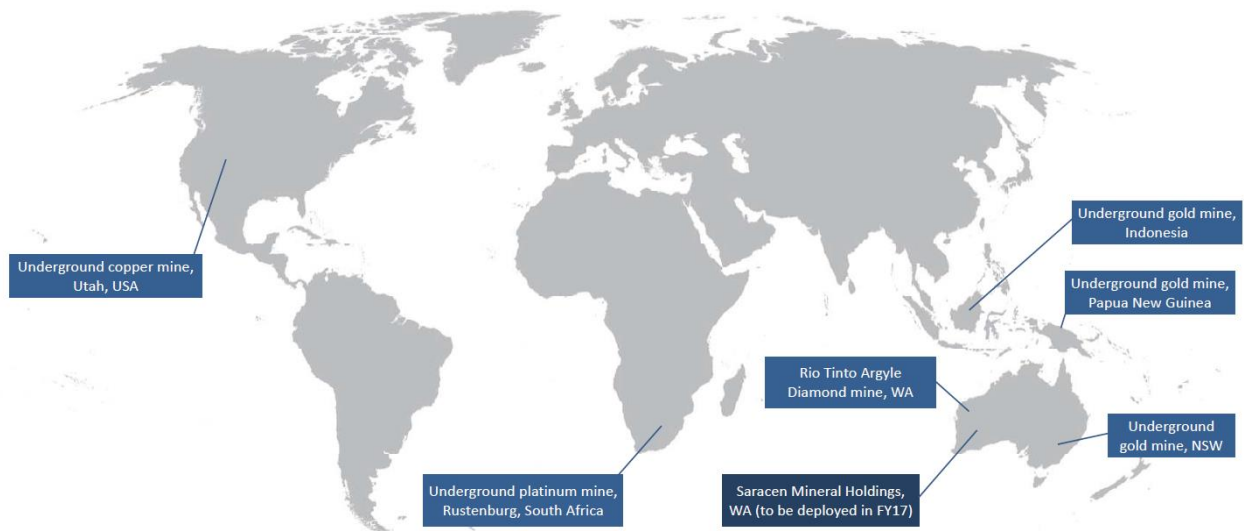
**Key Features**

CDA management believe the product has market leading accuracy (accurate to ~3cm, vs. next closest competitor at ~3 metres) and has superior data streaming capability (~100mb/second) which allows for higher quality video and connection into the mine sites existing comms network.

**Successes to date**

- Currently deployed in ~10 mine sites of operators including Rio Tinto, Newcrest and Saracen.
- +35% increase in month-on-month mine productivity post installation at WA underground gold mine.

**Figure 6: Minetec’s Operating mines (as at FY16)**



Source: CDA FY16 Presentation

## METAL DETECTION

**Figure 7: Metal Detection vs. Group Revenue**

|                        | FY17a      | 1H18a     | 2H18       | FY18e      |
|------------------------|------------|-----------|------------|------------|
| <b>Metal Detection</b> | <b>148</b> | <b>63</b> | <b>78</b>  | <b>141</b> |
| Radio Communications   | 71         | 29        | 38         | 67         |
| Mining Technology      | 7          | 2         | 7          | 9          |
| <b>Group Revenue</b>   | <b>226</b> | <b>95</b> | <b>122</b> | <b>217</b> |

Source: Company, Moelis Analysis

Our FY18 estimates of Metal Detection revenues have increased +21% to \$141m based on:

- Evidence of seasonality skew already seen in Jan/Feb'18 with sales of GPZ7000 returning towards ~1000 units/month, reflecting similar levels to that experienced in 2H17.
- Contribution of new products & parts such as the new 'Equinox' device (launched 2H18) which is anticipated to significantly disrupt incumbent Coin & Treasure detectors.
- Contribution of new geographies with Mexico and Somalia coming online in 2H18.

We view the return in elevated sales of the GPZ7000 as further evidence of the depth of the product replacement cycle. We now estimate the GPZ7000 is approx. half-way through its replacement cycle.

**Figure 8: GPZ7000 Replacement Cycle**

|                                    | FY08   | FY09   | FY10   | FY11   | FY12   | FY13   | FY14   | FY15    | FY16  | FY17   | 1H18e  |
|------------------------------------|--|--------|--------|--------|--------|--------|--------|---------|-------|--------|--------|
| <b>Flagship Detector Model</b>     | GPX  | GPX    | GPX    | GPX    | GPX    | GPX    | GPX    | GPX     | GPZ   | GPZ    | GPZ    |
| <b>Total Metal Detection Sales</b> | \$42m  | \$107m | \$107m | \$92m  | \$99m  | \$166m | \$70m  | \$73m   | \$99m | \$148m | \$63m  |
| <b>Flagship detector sales</b>     | \$23m  | \$59m  | \$59m  | \$51m  | \$54m  | \$91m  | \$38m  | \$40m   | \$55m | \$81m  | \$29m  |
| <b>Total GPX units sold</b>        | 5,500  | 20,000 | 35,000 | 45,000 | 60,000 | 80,000 | 90,000 | 100,000 |       |        |        |
| <b>Total GPZ7000 units sold</b>    |  |        |        |        |        |        |        | 1,000   | 9,000 | 20,000 | 24,000 |
|                                    | Estimated addressable market for GPZ<br>(assuming 50% of total GPX unit sales) |        |        |        |        |        |        | 50,000  |       |        |        |
|                                    | GPZ Units Sold (FY15 - 1H18)   |        |        |        |        |        |        | 24,000  |       |        |        |
|                                    | % through replacement cycle  |        |        |        |        |        |        | 48%     |       |        |        |

Source: Company, Moelis Analysis

We remain confident in the outlook for CDA's Metal Detection division longer-term due to:

- **No. 1 market share in handheld Metal Detection (>\$400m p.a. market)**
- **High technological barriers to entry (world leading IP protected by patents)**
- **High geographical sales/distribution barriers to entry (danger factor/ political instability)**
- **Highly sophisticated counterfeit protection (military-grade software encryption)**
- **World's best gold detector (GPZ7000) only mid-way through replacement cycle**
- **Growing contribution from other products (gold, coin/treasure, countermine)**
- **Expanding sales regions (reducing geographical concentration risk)**
- **Supportive gold price (>\$1,300/ounce)**

| Profit and Loss (\$m)       | 2016a        | 2017a        | 2018e        | 2019e        | 2020e        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>              | <b>169.5</b> | <b>226.1</b> | <b>216.4</b> | <b>223.3</b> | <b>243.0</b> |
| <i>Growth</i>               | 17.8%        | 33.4%        | (4.3%)       | 3.2%         | 8.8%         |
| <b>EBITDA</b>               | <b>41.9</b>  | <b>75.7</b>  | <b>64.6</b>  | <b>63.2</b>  | <b>64.9</b>  |
| <i>Growth</i>               | 40.2%        | 80.4%        | (14.6%)      | (2.1%)       | 2.6%         |
| Dep'n & Amort               | (12.7)       | (14.1)       | (14.2)       | (16.4)       | (17.5)       |
| <b>EBIT</b>                 | <b>29.2</b>  | <b>61.6</b>  | <b>50.4</b>  | <b>46.8</b>  | <b>47.4</b>  |
| <i>Growth</i>               | 51.1%        | 110.7%       | (18.2%)      | (7.1%)       | 1.2%         |
| Net Interest Expense        | (1.7)        | (0.9)        | (1.5)        | (0.5)        | (0.2)        |
| <b>Profit Before Tax</b>    | <b>27.5</b>  | <b>60.7</b>  | <b>48.9</b>  | <b>46.3</b>  | <b>47.2</b>  |
| Tax                         | (6.4)        | (16.0)       | (12.9)       | (12.1)       | (12.4)       |
| <i>Tax Rate (%)</i>         | 23.3%        | 26.3%        | 26.3%        | 26.1%        | 26.2%        |
| Minorities                  | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>NPAT (Underlying)</b>    | <b>21.1</b>  | <b>44.7</b>  | <b>36.0</b>  | <b>34.2</b>  | <b>34.8</b>  |
| <i>Growth</i>               | 65.7%        | 112.0%       | (19.5%)      | (5.0%)       | 1.7%         |
| One-Off Items               | (5.6)        | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>NPAT (Reported)</b>      | <b>15.5</b>  | <b>44.7</b>  | <b>36.0</b>  | <b>34.2</b>  | <b>34.8</b>  |
| <b>EPS (Underlying) (€)</b> | <b>11.9</b>  | <b>25.2</b>  | <b>20.1</b>  | <b>19.1</b>  | <b>19.4</b>  |
| <i>Growth</i>               | 65.6%        | 111.9%       | (20.5%)      | (5.0%)       | 1.7%         |

| Balance Sheet (\$m)         | 2016a        | 2017a        | 2018e        | 2019e        | 2020e        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash                        | 14.3         | 21.4         | 12.1         | 12.1         | 12.1         |
| Inventory                   | 28.5         | 31.0         | 30.4         | 33.8         | 37.0         |
| Current Receivables         | 19.1         | 20.6         | 26.3         | 29.2         | 32.0         |
| PPE                         | 10.8         | 12.0         | 13.3         | 14.1         | 15.2         |
| Intangibles                 | 133.0        | 140.4        | 148.0        | 151.9        | 156.5        |
| Other                       | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Assets</b>         | <b>212.5</b> | <b>232.7</b> | <b>237.4</b> | <b>248.4</b> | <b>260.0</b> |
| Current Payables            | 30.4         | 36.6         | 31.6         | 31.2         | 34.2         |
| ST Debt                     | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| LT Debt                     | 26.9         | 0.0          | 24.2         | 21.1         | 12.9         |
| Provisions                  | 7.2          | 7.7          | 9.9          | 9.8          | 10.7         |
| Other                       | 32.6         | 52.8         | 36.5         | 36.1         | 39.1         |
| <b>Total Liabilities</b>    | <b>73.5</b>  | <b>67.7</b>  | <b>77.9</b>  | <b>74.3</b>  | <b>69.9</b>  |
| <b>Net Assets</b>           | <b>138.9</b> | <b>165.0</b> | <b>159.5</b> | <b>174.2</b> | <b>190.1</b> |
| Equity & Reserves           | 109.2        | 105.9        | 84.1         | 83.4         | 83.6         |
| Retained Profits            | 29.7         | 59.1         | 75.4         | 90.8         | 106.5        |
| <b>Shareholders' Equity</b> | <b>138.9</b> | <b>165.0</b> | <b>159.5</b> | <b>174.2</b> | <b>190.1</b> |
| Minorities                  | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Equity</b>         | <b>138.9</b> | <b>165.0</b> | <b>159.5</b> | <b>174.2</b> | <b>190.1</b> |

| Cashflow (\$m)             | 2016a         | 2017a         | 2018e         | 2019e         | 2020e         |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| EBITDA                     | 41.9          | 75.7          | 64.6          | 63.2          | 64.9          |
| Net Interest               | (2.0)         | (0.8)         | (1.5)         | (0.5)         | (0.2)         |
| Tax                        | (0.1)         | (1.5)         | (24.2)        | (12.1)        | (12.4)        |
| Δ in Working Capital       | 9.4           | 2.2           | (10.1)        | (6.7)         | (3.0)         |
| Other                      | (1.1)         | 14.4          | (9.0)         | (0.1)         | 0.9           |
| <b>Operating Cash Flow</b> | <b>48.2</b>   | <b>89.9</b>   | <b>19.8</b>   | <b>43.9</b>   | <b>50.2</b>   |
| <i>Growth</i>              | 57.2%         | 86.5%         | (78.0%)       | 121.9%        | 14.4%         |
| Capex                      | (18.4)        | (23.7)        | (23.0)        | (21.2)        | (23.1)        |
| Acquisitions               | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Divestments                | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Other                      | 0.3           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Investing Cash Flow</b> | <b>(18.1)</b> | <b>(23.7)</b> | <b>(23.0)</b> | <b>(21.2)</b> | <b>(23.1)</b> |
| Equity Raised              | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Dividends Paid             | (7.1)         | (17.7)        | (21.0)        | (19.5)        | (18.9)        |
| Net Borrowings             | (15.5)        | (26.9)        | 15.0          | (3.1)         | (8.2)         |
| Other                      | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Financing Cash Flow</b> | <b>(22.6)</b> | <b>(44.7)</b> | <b>(6.0)</b>  | <b>(22.7)</b> | <b>(27.1)</b> |
| FX / Non Cash Items        | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Change in Cash</b>      | <b>7.5</b>    | <b>21.6</b>   | <b>(9.2)</b>  | <b>0.0</b>    | <b>0.0</b>    |
| <b>Free Cash Flow</b>      | <b>29.5</b>   | <b>51.9</b>   | <b>(3.3)</b>  | <b>22.7</b>   | <b>27.1</b>   |

| Valuation Summary             |             |
|-------------------------------|-------------|
| Current Mkt Capitalisation    | 418.4       |
| Shares on Issue               | 177.3       |
| Last Price                    | 2.36        |
| <b>12 Mth Target Price</b>    | <b>2.72</b> |
| Total Estimated 12 Mth Return | 20.8%       |
| 12 Mth Fwd Capital Return     | 15.3%       |
| 12 Mth Fwd Dividend Yield     | 5.5%        |

| Valuation Ratios             | 2016a        | 2017a       | 2018e        | 2019e        | 2020e        |
|------------------------------|--------------|-------------|--------------|--------------|--------------|
| <b>EPS (Underlying) (€)</b>  | <b>11.9</b>  | <b>25.2</b> | <b>20.1</b>  | <b>19.1</b>  | <b>19.4</b>  |
| <i>Growth</i>                | 65.6%        | 111.9%      | (20.5%)      | (5.0%)       | 1.7%         |
| <b>P/E (x)</b>               | <b>19.8x</b> | <b>9.3x</b> | <b>11.8x</b> | <b>12.4x</b> | <b>12.2x</b> |
| Small Industrials (ex Fin's) | 17.7x        | 18.3x       | 16.2x        | 14.9x        | 18.3x        |
| Premium / (Discount)         | 12.1%        | (48.8%)     | (27.4%)      | (16.7%)      | (33.3%)      |
| <b>EV/EBITDA (x)</b>         | <b>9.5x</b>  | <b>5.3x</b> | <b>6.2x</b>  | <b>6.3x</b>  | <b>6.1x</b>  |
| Small Industrials (ex Fin's) | 19.5x        | 14.3x       | 11.6x        | 10.4x        | 9.7x         |
| Premium / (Discount)         | (51.1%)      | (63.1%)     | (46.6%)      | (39.3%)      | (36.4%)      |
| <b>DPS (€)</b>               | <b>6.0</b>   | <b>13.0</b> | <b>10.2</b>  | <b>10.6</b>  | <b>10.8</b>  |
| <i>Growth</i>                | 71.4%        | 116.7%      | (21.2%)      | 3.6%         | 1.7%         |
| Yield (%)                    | 2.5%         | 5.5%        | 4.3%         | 4.5%         | 4.6%         |
| Payout Ratio (%)             | 50.4%        | 51.5%       | 51.1%        | 55.7%        | 55.7%        |
| Franking (%)                 | 100.0%       | 100.0%      | 100.0%       | 100.0%       | 100.0%       |
| NTA                          | 5.9          | 24.6        | 11.5         | 22.3         | 33.6         |
| NTA/Share (\$)               | 0.03         | 0.14        | 0.06         | 0.12         | 0.19         |

| Performance Ratios        | 2016a | 2017a   | 2018e | 2019e | 2020e |
|---------------------------|-------|---------|-------|-------|-------|
| ROA                       | 9.9%  | 19.2%   | 15.2% | 13.8% | 13.4% |
| ROE                       | 15.2% | 27.1%   | 22.6% | 19.7% | 18.3% |
| ROIC                      | 14.8% | 31.6%   | 21.6% | 18.9% | 18.3% |
| Net Debt (Cash) (\$m)     | 12.6  | (21.4)  | 12.1  | 9.0   | 0.8   |
| Net Debt/EBITDA (x)       | 0.3x  | (0.3x)  | 0.2x  | 0.1x  | 0.0x  |
| ND/(ND + Equity) (%)      | 8.3%  | (14.9%) | 7.1%  | 4.9%  | 0.4%  |
| Interest Cover (x)        | 23.1x | 84.6x   | 37.1x | 63.0x | 92.5x |
| Working Capital           | 15.2  | (1.0)   | 18.1  | 24.9  | 27.0  |
| Working Capital/Sales (%) | 8.9%  | (0.5%)  | 8.4%  | 11.1% | 11.1% |

| Cash Flow Metrics        | 2016a       | 2017a       | 2018e         | 2019e       | 2020e       |
|--------------------------|-------------|-------------|---------------|-------------|-------------|
| <b>FCF/Share (\$)</b>    | <b>0.17</b> | <b>0.29</b> | <b>(0.02)</b> | <b>0.13</b> | <b>0.15</b> |
| Price/FCPS (x)           | 14.2x       | 8.1x        | nm            | 18.5x       | 15.4x       |
| Free Cash Flow Yield (%) | 7.1%        | 12.4%       | (0.8%)        | 5.4%        | 6.5%        |
| Gross Cash Conversion    | 119.2%      | 103.1%      | 70.5%         | 89.7%       | 97.1%       |
| Capex/Sales (%)          | (10.9%)     | (10.5%)     | (10.6%)       | (9.5%)      | (9.5%)      |
| Capex/Depreciation (x)   | 1.4x        | 1.7x        | 1.6x          | 1.3x        | 1.3x        |

| Margins | 2016a | 2017a | 2018e | 2019e | 2020e |
|---------|-------|-------|-------|-------|-------|
| EBITDA  | 24.7% | 33.5% | 29.8% | 28.3% | 26.7% |
| EBIT    | 17.2% | 27.2% | 23.3% | 21.0% | 19.5% |
| NPAT    | 12.4% | 19.8% | 16.6% | 15.3% | 14.3% |

| Valuation Methodology          |             |
|--------------------------------|-------------|
| WACC (%)                       | 10.2%       |
| Discounted Cash Flow Valuation | 2.56        |
| Sum-of-the-Parts Valuation     | 0.000       |
| Average Valuation              | 2.56        |
| <b>12 Mth Target Price</b>     | <b>2.72</b> |

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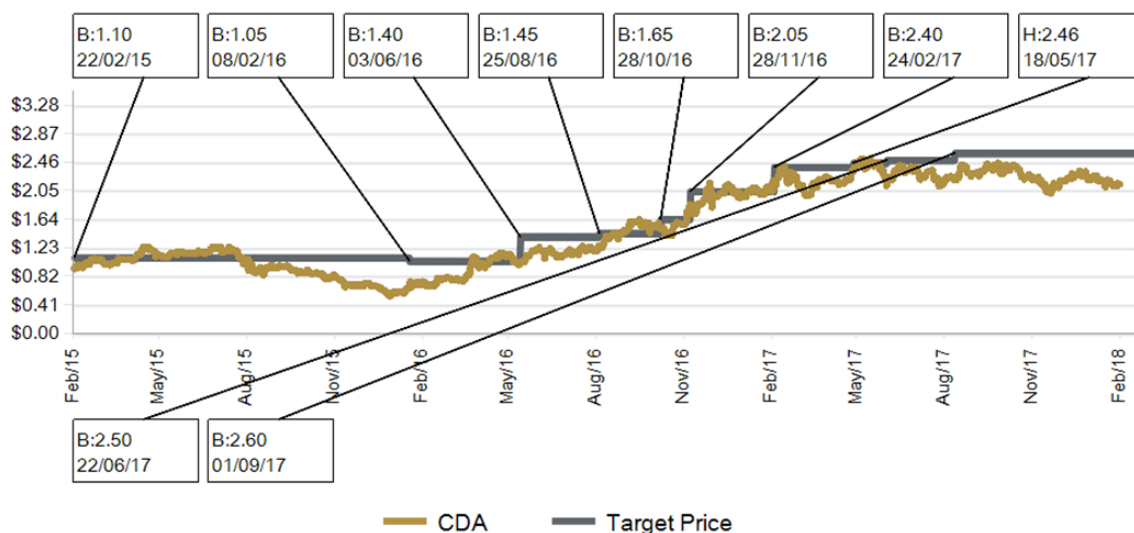
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**Distribution of Ratings as at 23 February 2018**

| SELL | HOLD  | BUY   |
|------|-------|-------|
| 1.7% | 27.6% | 69.0% |

**Rating and Price Target History: Codan Limited (CDA) as of 22/02/2018**


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