



Codan Ltd (CDA)

Tracking Solutions Delivering On Expectations

Event:

- FY18e profit upgrade; Minetec contract win at Olympic Dam.**

Investment Highlights:

- CDA has today announced a \$9.5M contract win at BHP's Olympic Dam.** Through its Minetec segment, CDA will provide an underground fleet management system, which will enable high precision tracking and safety monitoring for its underground operations. Minetec's suite of proprietary products includes SMARTS task management, TRAX precision tracking and wireless comms, and SafeDetect proximity detection.
- Building the Minetec business.** Total contract value is estimated at \$9.5M; the company expects half to be delivered in FY18e and the balance in FY19e.
- Further validation of Minetec option value.** Following on from the Caterpillar deal announced on 22 February of this year, the latest Minetec contract win is further validation of both Minetec's suite of proprietary products, as well as the option value we believed was inherent in the Tracking Solutions segment.
- Second profit upgrade for the year:** CDA has also released a trading update today, and now expect FY18e NPAT 'in the region of \$38M'. This was mostly due to strong metal detector product sales and renewed interest from new product releases. The company had previously guided for at least \$30M FY18e NPAT and noted 2H18 would be stronger than 1H18. Today's profit upgrade exceeds FSBE previous forecast of \$34M FY18e NPAT.
- Strong balance sheet:** CDA has net cash of \$20M at 30 April with nil debt, increasing likelihood of a special dividend in our view.
- Burgeoning value from Tracking Solutions after two contract wins with major players;** CDA's tracking division Minetec has entered into a global licensing, technology development, and marketing agreement with Caterpillar Inc. to expand and develop Caterpillar's Minestar technology solution for underground mining operations.

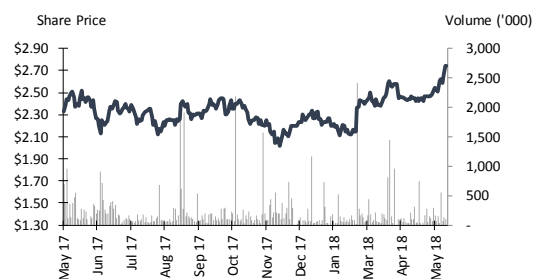
Earnings and Valuation:

- We have an **increased valuation of \$3.40** per CDA share (previously \$3.30), in line with our blended DCF, EV/EBIT valuations.
- We have updated our forecast of **FY18e NPAT to \$38M** (previously \$34M), in line with today's trading update. We continue to **forecast FY19e and FY20e earnings of \$35.5M and \$39.9M**, respectively, noting scope for upside should strong trading conditions for metals detectors continue into FY19e.
- We also see **further scope for upside from future Minetec contract wins as the company looks to grow this segment aggressively.** We had previously incorporated value for Tracking Solutions (FY19e Minetec segment revenue of \$20M, unchanged), which is now pleasingly being ratified by contract wins.

Recommendation:

- We reiterate our **unchanged BUY recommendation for CDA and a price target of \$3.40 per share** (previously \$3.30/sh).
- Catalysts for the share price** include: 1) updates on trading conditions, particularly Metal Detection and Caterpillar progress; 2) further contract wins in Radio Comms and Minetec; and 3) higher gold prices.

Recommendation		BUY			
Previous		Buy			
Risk		High			
Price Target		\$3.40			
Previous		\$3.30			
Share Price (A\$)		\$2.74			
ASX Code		CDA			
52 week low - high (A\$)		2.02-2.74			
Capital structure					
Shares on Issue (M)		178.1			
Market Cap (A\$M)		488			
Net Cash/(Debt) (A\$M)		20			
EV (A\$M)		468			
12mth Av Daily Volume ('000)		214			
Y/e Jun US\$	FY17A	FY18E	FY19E	FY20E	
Sales \$M	226.1	217.4	220.7	242.6	
EBITDA \$M	75.8	66.2	63.0	69.4	
NPAT Adj. \$M	44.9	38.2	35.5	39.9	
EPS adj c	24.2	21.2	19.5	21.7	
PER (x)	11.3	12.9	14.0	12.6	
Dividend c	10.0	10.6	9.8	10.9	
Div Payout Ratio %	41%	50%	50%	50%	
Dividend yield %	3.6%	3.9%	3.6%	4.0%	
Board					
David Simmons				Chairman	
Donald McGurk				CEO	
Lt-Gen Peter Leahy				Non-Executive Director	
Jim McDowell				Non-Executive Director	
Graeme Barclay				Non-Executive Director	
Kathy Gramp				Non-Executive Director	
Major Shareholders					
I M Wall and P M Wall				19.5%	
Pinara Group Pty Ltd				14.5%	
HSBC Custody Nominees				8.2%	
Kynola Pty Ltd				5.5%	
Share Price Graph					



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The analyst does not own CDA securities.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own CDA securities.
Cranport Pty Ltd owns 32,034 CDA shares.

This report was prepared by Foster Stockbroking Pty Ltd.



Codan Ltd (CDA)

Full Year Ended, 30 June

Profit and Loss A\$M	2017a	2018e	2019e	2020e	Financial Metrics	2017a	2018e	2019e	2020e
Sales revenue	226.1	217.4	220.7	242.6	Sales growth %	33%	-4%	2%	10%
Operating Costs	150.3	151.2	157.7	173.2	EPS growth %	nm	-12%	-8%	11%
EBITDA	75.8	66.2	63.0	69.4	EBITDA margin	34%	30%	29%	29%
D&A	14.1	14.7	15.4	16.2	EBIT margin	27%	24%	22%	22%
EBIT	61.7	51.4	47.6	53.2	Gearing (ND/ND+E)	n/a	n/a	n/a	n/a
Net Interest exp / (income)	0.9	0.5	0.3	0.0	Interest Cover (EBIT/net int)	>10	>10	>10	>10
Profit before tax	60.8	50.9	47.4	53.2	Average ROE %	26%	21%	18%	18%
Tax exp / (benefit)	16.0	12.7	11.8	13.3	Average ROA %	19%	15%	13%	14%
Rep. NPAT	44.9	38.2	35.5	39.9	Wtd ave shares diluted (M)	180	180	182	184
Significant items	-1.4	0.0	0.0	0.0					
NPAT attributable reported	43.5	38.2	35.5	39.9					
EPS diluted, cps	24.2	21.2	19.5	21.7					
DPS, cps	10.0	10.6	9.8	10.9					
Cashflow A\$M	2017a	2018e	2019e	2020e	Valuation multiples	2017a	2018e	2019e	2020e
EBITDA	75.8	66.2	63.0	69.4	P/E x	11.3	12.9	14.0	12.6
Change in WC / Other	2.1	-3.0	-5.1	-6.7	EV/EBITDA x	6.2	7.2	7.5	6.7
Tax paid	-1.5	-20.8	-12.1	-12.8	EV/EBIT x	7.0	8.4	9.1	8.2
Share-based expense	0.0	0.0	0.0	0.0	EV/sales x	2.1	2.2	2.2	2.0
Net interest	-0.8	0.5	0.3	0.0	Dividend yield %	3.6%	3.9%	3.6%	4.0%
Operating Cashflow	75.6	42.9	46.1	49.9					
Purchase of PP&E	-4.1	-4.0	-4.0	-4.0	Valuation				
Payments Intangibles	-19.6	-18.3	-18.3	-18.3	FCF Valuation				
Payments For Acquisitions	0.0	0.0	0.0	0.0	Total NPV of FCF				584
Investing Cashflow	-23.7	-22.3	-22.3	-22.3	Less Net Debt/(Cash)				-20
Dividends Paid	-17.7	-19.8	-19.2	-17.8	Equity Value - A\$				604
Proceeds from borrowings	0.0	15.0	0.0	0.0	FCF Valuation, WACC 10.7%				3.35
Repayment of borrowings	-26.9	-5.0	-10.0	0.0	Sum of Parts Valuation	1yr fwd EBIT	EBIT, x	EV	
Financing Cashflow	-44.7	-9.8	-29.2	-17.8	Radio Comms	23	12	279	
Net Cashflow	7.3	10.8	-5.4	9.7	Metal Detection	43	9	389	
					Tracking Solutions	2	25	50	
					Corporate Costs	-20	6	-120	
					Total			599	
					Sum of Parts Valuation, A\$/sh			3.44	
					Valuation, FCF 50%, EV/EBIT 50%			3.40	
Balance Sheet A\$M	2017a	2018e	2019e	2020e	Shares on issue	M			
Cash / (Debt)	21.4	16.4	24.6	35.3	Ordinary shares	178.1			
Current Assets (Excl Cash)	58.9	62.1	63.0	64.9	Performance Rights /Options	2.3			
PPE	12.0	13.5	14.9	16.2	Fully Diluted	180.4			
Intangibles / Other	140.4	158.3	165.2	176.6					
Total Assets	232.7	250.2	267.7	292.9	Substantial shareholders				
Accounts payable	36.6	38.4	39.0	42.9	I M Wall and P M Wall	19.5%			
Other Liabilities	31.1	27.7	26.8	28.2	Pinara Group Pty Ltd	14.5%			
Total Liabilities	67.7	66.1	65.8	71.1	HSBC Custody Nominees	8.2%			
Reserves and capital	105.9	105.9	105.9	105.9	Kynola Pty Ltd	5.5%			
Retained earnings	59.1	78.2	95.9	115.9					
Total Equity	165.0	184.1	201.9	221.8					
Total Equity & Liabilities	232.7	250.2	267.7	292.9					

Source: Foster Stockbroking estimates



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