



Codan Ltd (CDA)

Strong first half, profit upgrade

Event:

- **Upgraded FY18e profit guidance.**

Investment Highlights:

- **CDA has guided for 1H FY18e profit to be in the order of \$15M.** CDA has not previously provided guidance but had indicated base level FY18e revenue of \$160-180M (FSBe \$205M), and base level FY18e NPAT in the range of \$20-25M (FSBe \$34.6M). The upgraded profit guidance is especially encouraging given Q1 is typically the softest quarter for CDA.
- **Additionally, the company has guided for full year profit of at least \$30M, up from a base range of \$20-25M.** The company expects results for 2H FY18e to be stronger than 1H FY18e, in line with historical seasonality observed in the business; that is, the company expects at least \$15 million profit in 2H FY18e.
- **Significant new product launch early CY18e:** The Equinox coin and treasure detector is ready for launch imminently, in time for stronger 2H gold detecting season. Equinox offers simultaneous multi frequency scanning to improve detection significantly. Currently generating significant dealer interest, we expect the launch of this new product will sustain the business' strong current momentum into 2H FY18e.
- **Business conditions remain strong and carried through 2Q.** We believe the profit upgrade has been driven by continued sales strength in the updated GPZ 7000 product, as well as benefits flowing from the Radio Comms win late FY17a.
- **We continue to hold the view CDA has option value in two divisions: 1) Tracking Solutions, and 2) Defence Electronics.** Tracking Solutions operations enable autonomous underground mining and highly accurate tracking. CDA has successfully demonstrated productivity gains in operational mines and is looking to gain greater traction and scale. Defence Electronics remains a longer term option (FY19e) for increased supply of radio and sensor equipment.

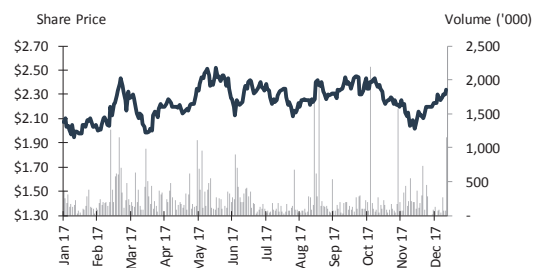
Earnings and Valuation:

- **We have an unchanged risked valuation of \$3.20 per CDA share.**
- **We have not made revisions to our FY18e forecasts** at this stage noting the profit upgrade and expectations for an even stronger 2H FY18e trading gives more confidence that CDA will achieve FSBe forecast of \$34.6M FY18e NPAT.
- **We continue to hold the view the uncertainty in metal detection operations is reflected in CDA's undemanding valuation.** The company has a strong and evolving product suite, demonstrable IP, global dealer network, and optionality in both its Tracking Solutions and its Defence operations.

Recommendation:

- **We maintain coverage of CDA with an unchanged BUY recommendation and a valuation of \$3.20 per share.**
- **Catalysts for the share price include:** 1) 1H FY18e results; 2) updates on trading conditions and product launch; 3) potential acquisition opportunities that expands CDA's product set or distribution channels; and 4) higher gold prices.

Recommendation	BUY			
Previous	Buy			
Risk	High			
Price Target	\$3.20			
Previous	\$3.20			
Share Price (A\$)	\$2.34			
ASX Code	CDA			
52 week low - high (A\$)	1.95-2.52			
Capital structure				
Shares on Issue (M)	178.1			
Market Cap (A\$M)	417			
Net Debt/(Cash) (A\$M)	-21			
EV (A\$M)	395			
12mth Av Daily Volume ('000)	238			
Y/e Jun US\$	FY17A	FY18E	FY19E	FY20E
Sales \$M	226.1	204.9	216.4	240.5
EBITDA \$M	75.8	61.4	62.6	68.4
NPAT Adj. \$M	44.9	34.6	35.2	39.2
EPS adj c	24.2	19.2	19.4	21.3
PER (x)	9.1	11.4	11.4	10.3
Dividend c	13.0	9.6	9.7	10.7
Div Payout Ratio %	54%	50%	50%	50%
Dividend yield %	5.6%	4.1%	4.1%	4.6%
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%
Starform Pty Ltd				13.8%
HSBC Custody Nominees				8.2%
Kynola Pty Ltd				6.9%
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.
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This report was prepared by Foster Stockbroking Pty Ltd.