

Cohort

FY20 trading update

Earnings growth despite COVID impacts

Aerospace & defence

Cohort has released a year-end trading update that reflects the impact of COVID-19 on its activities in the final two months of FY20, usually the busiest period for the group. As a result, management has provided guidance that has led us to reduce our sales and profits estimates by 9% for FY20, with a lower tax charge limiting the impact on EPS to just over 2%. Cohort's best current guidance is for FY21 performance to be in line with FY20. The resultant P/E ratio of 15.4x for FY21, the current year, allows for no enhancement from the expected acquisition of ELAC Nautik in the summer. In our view, the rating remains undemanding.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/18	110.5	15.1	29.1	8.2	18.7	1.5
04/19	121.2	15.9	33.6	9.1	16.2	1.7
04/20e	132.9	16.8	34.9	10.1	15.6	1.9
04/21e	138.0	17.6	35.3	11.1	15.4	2.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

COVID-19 response implemented

As COVID-19 disruption took hold, management sought to protect its employees by applying work from home practices for over 70% of staff and furloughing a few of the most vulnerable. Of the rest still on site, many are working from home when possible. Health and safety protocols have been implemented at manufacturing sites, which all remain operational. In addition, management has a clear focus on cash and cost control. Cohort is still seeking to complete the ELAC Nautik acquisition in June as originally intended, but the deal may face some delay due to COVID-19 disruption. The balance sheet remains healthy with liquidity headroom of £25m extended by the conversion of a £10m accordion facility to a committed one.

Disruption to usually busy final quarter

Until the last two months of the year, trading had tracking in line with management expectations, but Q4 is normally the busiest trading period. The impact of lockdowns in the UK and Portugal has led to the deferral of some orders, in part due to restricted travel, as well as delays to the delivery of some services and products, which has continued into FY21. The order backlog remains high at £186m and covers 60% of reduced FY21 revenue expectations. The pipeline of opportunities also remains. As a result of the disruption, we have lowered our FY20 revenues and operating profit by c 9% and FY21 by c 11%.

Valuation: ELAC potential not reflected in rating

At the EPS level, we expect a lower tax charge to limit our FY20 EPS estimate reduction to around 2.2%, with EPS of around 35p now anticipated in both FY20 and FY21. The P/E ratio for FY21 of 15.4x is before the enhancement expected to be achieved once the ELAC acquisition has completed. Despite the disruption caused by COVID-19, Cohort's rating still appears undemanding.

21 May 2020

Price **545p**
Market cap **£223m**

Net debt (£m) at 30 April 2020 5

Shares in issue 41.0m

Free float 72%

Code CHRT

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	8.8	(19.7)	36.3
Rel (local)	4.4	(0.1)	63.6

52-week high/low 729p 400p

Business description

Cohort is an AIM-listed defence and security company operating across five divisions: MASS (32% of FY19 sales), SEA (32%), MCL (18%), the 80%-owned Portuguese business EID (9%), and the 81%-owned Chess Technologies based in the UK (c five months 9%).

Next events

FY20 results July 2020

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Earnings revisions

Cohort has released a year-end trading update that reflects the impact of COVID-19 on its activities in the final two months of the year. Management now expects the key highlights of the FY20 performance to be:

- Revenue of c £133m (2019: £121.2m).
- Adjusted operating profit of c £18m (2019: £16.2m).
- FY20 adjusted EPS of c 35.0p (2019: 33.6p).
- Net debt at 30 April 2020 of c £5m (30 April 2019: net debt £6.4m).
- A closing order book of c £186m (30 April 2019: £190.9m).

Management also indicated that it expects FY21 trading performance to be in line with FY20, although it is difficult to predict as it depends on the impact of COVID-19.

We have adjusted our forecasts last updated following the H120 results in December 2019 to reflect the current trading update. Our estimates are revised down as shown in Exhibit 1 below.

Exhibit 1: Cohort earnings estimates revisions

Year to April (£m)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
MASS	43.4	38.2	(12.1)	46.5	39.7	(14.6)
SEA	38.5	32.6	(15.4)	40.4	33.2	(17.8)
MCL	22.1	19.3	(12.7)	23.3	19.9	(14.4)
EID	19.6	17.9	(8.8)	20.2	18.4	(8.8)
Chess	22.0	25.0	13.6	23.5	26.8	13.6
Total group sales	145.7	132.9	(8.8)	153.9	138.0	(10.3)
EBITDA	22.0	20.1	(8.7)	23.3	20.8	(10.6)
MASS	8.5	7.4	(12.1)	9.1	7.7	(14.6)
SEA	5.4	4.5	(15.4)	5.6	4.6	(17.8)
MCL	2.1	1.9	(12.7)	2.2	1.9	(14.4)
EID	3.5	3.2	(8.8)	3.6	3.3	(8.8)
Chess	3.2	3.6	13.6	3.3	3.7	13.6
HQ Other and intersegment	(3.0)	(2.8)	(6.7)	(3.0)	(2.8)	(6.7)
Adjusted operating profit	19.7	17.9	(9.1)	20.8	18.5	(11.1)
Adjusted PBT	18.6	16.8	(9.5)	19.9	17.6	(11.5)
EPS - adjusted continuing (p)	35.7	34.9	(2.2)	39.2	35.3	(9.8)
DPS (p)	10.1	10.1	0.0	11.1	11.1	0.0
Net cash / (debt)	(6.8)	(5.3)	(21.5)	5.0	(5.0)	nm

Source: Edison Investment Research

Exhibit 2: Financial summary

	£m	2018	2019e	2020e	2021e
Year end 30 April		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		110.5	121.2	132.9	138.0
Cost of Sales		(70.9)	(78.1)	(85.7)	(89.0)
Gross Profit		39.7	43.0	47.2	49.0
EBITDA		16.3	17.3	20.1	20.8
Operating Profit (before amort. and except.)		15.2	16.2	17.9	18.5
Intangible Amortisation		(5.3)	(9.5)	(8.0)	(7.5)
Exceptionals		0.3	(0.7)	0.0	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		10.3	5.9	9.9	11.0
Net Interest		(0.1)	(0.3)	(1.0)	(0.9)
Profit Before Tax (norm)		15.1	15.9	16.8	17.6
Profit Before Tax (FRS 3)		10.2	5.7	8.8	10.1
Tax		(2.1)	(0.6)	(0.4)	(1.8)
Profit After Tax (norm)		12.2	13.3	15.1	15.0
Profit After Tax (FRS 3)		8.1	5.1	8.5	8.3
Average Number of Shares Outstanding (m)		40.7	40.7	40.8	40.8
EPS - fully diluted (p)		28.7	33.4	34.7	35.1
EPS - normalised (p)		29.1	33.6	34.9	35.3
EPS - (IFRS) (p)		19.0	13.4	19.0	19.2
Dividend per share (p)		8.2	9.1	10.1	11.1
Gross Margin (%)		35.9	35.5	35.5	35.5
EBITDA Margin (%)		14.8	14.3	15.1	15.1
Operating Margin (before GW and except.) (%)		13.8	13.3	13.4	13.4
BALANCE SHEET					
Fixed Assets		54.9	72.9	65.0	57.5
Intangible Assets		45.3	61.9	54.0	46.4
Tangible Assets		9.6	11.0	11.0	11.1
Investments		0.0	0.0	0.0	0.0
Current Assets		61.5	75.6	82.4	91.6
Stocks		5.9	13.5	16.1	17.5
Debtors		34.7	42.7	46.8	49.7
Cash		20.5	18.8	18.8	23.8
Other		0.5	0.6	0.7	0.7
Current Liabilities		(39.6)	(36.2)	(35.8)	(34.6)
Creditors		(30.4)	(36.1)	(35.8)	(34.6)
Short term borrowings		(9.2)	(0.1)	0.0	0.0
Long Term Liabilities		(1.9)	(35.3)	(30.2)	(29.4)
Long term borrowings		0.0	(25.1)	(24.1)	(28.8)
Other long term liabilities		(1.9)	(10.1)	(6.1)	(0.6)
Net Assets		75.0	77.0	81.3	85.1
CASH FLOW					
Operating Cash Flow		16.2	11.5	9.0	15.0
Net Interest		(0.1)	(0.3)	(1.0)	(0.9)
Tax		(2.9)	(2.6)	(1.7)	(2.6)
Capex		(0.7)	(2.1)	(1.3)	(1.4)
Acquisitions/disposals		(6.0)	(21.0)	0.0	(5.5)
Financing		(0.8)	0.1	0.0	0.0
Dividends		(3.0)	(3.5)	(3.8)	(4.3)
Other		0.0	0.0	0.0	0.0
Net Cash Flow		2.6	(17.8)	1.1	0.3
Opening net debt/(cash)		(8.5)	(11.3)	6.4	5.3
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.2	0.0	0.0	0.0
Closing net debt/(cash)		(11.3)	6.4	5.3	5.0

Source: Company data, Edison Investment Research

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