

Ultra Electronics

Poised for the Trump effect

Ultra's trading statement covering the period to 27 April 2017 was released ahead of today's AGM. It indicates that trading is in line with management expectations. The US budgetary process is in full swing, with the Continuing Resolution (CR) due to expire shortly, which has been a constraint on US defence spending during the period. The already indicated bias of trading towards H217 is still expected to deliver unchanged prospects for modest growth for the year as a whole. Ultra's shares have continued to perform well year to date (+8.2%), closing in on our fair value of 2,257p. The positive re-rating appears justified by the improving defence outlook globally.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	726.3	112.4	123.9	46.1	16.9	2.2
12/16	785.8	120.1	134.6	47.8	15.6	2.3
12/17e	812.8	121.4	134.7	49.5	15.6	2.4
12/18e	852.8	130.2	144.5	52.0	14.5	2.5

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

Ultra generates around half of its revenues in North America, primarily from US defence and security markets. As a reminder, for defence suppliers a CR in the US means that no new contracts can be initiated. Existing contracts can still be funded or renewed, although even here some constraint may be experienced due to a more cautious stance by buyers. It is operated for prescribed periods where a budget settlement has not been reached, and it can be extended. US defence investment spending (outlay) was down 0.5% in Q117. Congress is trying to agree a budget settlement at present, but any improvement will not likely manifest itself until H217. Hence, the increased weighting of trading expectations for Ultra to the second half. We expect greater clarity by the interim results on 7 August 2017.

The Fiscal Year 2018 Presidential Budget Request (PBR) for Defense is also expected in May. We expect this should confirm an improving outlook for US defence spending in the medium term, consistent with the global trend for increased expenditure. In addition, a more aligned Congress may avoid the CR issue from October, assuming budgets for FY18 are agreed more rapidly.

AGM trading update

Aerospace & defence

28 April 2017

Price **2,095p**

Market cap **£1,479m**

US\$1.29/£

Net debt (£m) at 31 December 2017 256.7

Shares in issue 70.6

Free float 99%

Code ULE

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

Ultra Electronics is a global aerospace and defence electronics company, with operations across three divisions: Aerospace & Infrastructure (26% of 2016 sales); Communications & Security (33%); and Maritime & Land (41%).

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