

Ultra Electronics

Trading update

Encouraging order book development

Ahead of its AGM Ultra has released a first quarter trading update that indicates no change to management expectations. The company still expects to make modest progress on a constant currency basis, although it will face FX headwinds. Encouragingly, despite the adverse exchange rate movement the order backlog at the end of the quarter stood at £933m, some 2% higher than at the start of FY18. An increased weighting to the second half of cash and earnings performance is still expected. The shares trade on a relatively low P/E against many UK peers, but the discount should start to diminish if operational execution continues as planned.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	785.8	120.1	134.6	47.8	10.4	3.4
12/17	775.4	110.0	116.7	49.6	9.0	3.5
12/18e	743.6	100.4	106.1	52.0	13.2	3.7
12/19e	767.1	103.1	115.9	54.6	12.1	3.9

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

Notwithstanding the news of the launching of an SFO inquiry last week, the company appears to be trading as expected. The US defence budget was signed on 23 March 2018 lifting the constraints of the Continuing Resolution. With the FY19 budget requests showing healthy increases, and the continuing tensions in the world, prospects for a more favourable spending environment appear to be improving. Even domestically the defence review currently underway may be a catalyst for more favourable funding levels.

The share buyback has started at a healthy pace with almost 3m shares bought for cancellation at a cost of £41.1m. If the entire cash return is made around current levels the number of shares bought back will be larger than those issued against the aborted Sparton purchase, effectively making the overall effect of the two share transactions earnings enhancing.

The incoming CEO, Simon Pryce, formerly at BBA Aviation takes over at an interesting time in Ultra's development. If he can reassure the market confidence that has been dented by events over the last six months, we would expect a significant re-rating of the shares. Interim results will be released on 6 August 2018.

Aerospace & defence

27 April 2018

Price 1,405p

Market cap £1,055m

US\$1.39/£1

Net debt (£m) at 31 December 2017 74.5

Shares in issue 75.1

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 2017 sales); Communications & Security (31%); and Maritime & Land (43%).

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