

Cohort

Progressing to plan

The relative de-rating of Cohort against its peers since its interim results in December seems somewhat anomalous. The company looks set to maintain solid progress in FY18, which is now coming to a close. Peers in the UK defence sector have continued to face issues that do not directly read across to Cohort. While the UK defence funding environment remains uncertain at present, there appear to be some indications that a more favourable perspective may be developing following recent events. We maintain our forecasts and our fair value currently stands at 508p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/16	112.6	12.0	25.0	6.0	13.9	1.7
04/17	112.7	14.5	26.6	7.1	13.1	2.0
04/18e	119.0	15.4	29.1	8.2	12.0	2.4
04/19e	128.2	16.1	31.2	9.0	11.2	2.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and tax credits of 2.20p in FY16 and 1.30p in FY17.

FY18 expected to see modest growth

The early part of a calendar year is normally a relatively quiet period for newsflow from Cohort, save for any contract developments, and this has been the case again in the final months of FY18. With a greater than usual bias of profitability towards the second half, the market may have become concerned about delivery for the full year. However, the order coverage of H218 revenues was very high at the time of the interim results, with EID's second half fully covered for example. With the shorter cycle activity lead times at some operations such as MCL, our expectation is that FY18 outlook should be broadly fulfilled.

UK defence constraints

There is a UK defence review in process, and the pace of contracting at the MOD has yet to show any major signs of improvement. However, there have been a few signs of longstanding requirements finally being awarded. From Cohort's perspective, the situation is not thought to have deteriorated, and indeed there are some major renewals anticipated in FY19, as well as potential new business in export markets. In our view, the issues that have led to the de-rating of UK defence peers, and thus the sector, have been largely specific to the companies involved rather than to continuing pressure on budgets. Indeed, there appears to be a growing consensus that an increase in UK defence spending may be warranted, not just by the shortages in frontline and administrative personnel, but also because of varying, and often resurgent threats. Cohort remains comparatively robust.

Valuation: Premium to peers deserved

Cohort continues to develop in line with expectations and yet is trading on a FY19e P/E discount to its UK defence peers of around 20%. In our view, a premium is deserved to reflect sustained growth. Our fair value currently stands at 508p, rising 5% from 483p previously, reflecting some multiple expansion in the peer group ratings as well as a greater likelihood of delivery of DCF expectations.

Year-end update

Aerospace & defence

30 April 2018

Price 348.5p
Market cap £143m

Net cash (£m) at 31 October 2017	5.7
Shares in issue	41.0m
Free float	70%
Code	CHRT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.1)	(3.2)	(18.9)
Rel (local)	(7.3)	(1.2)	(21.7)
52-week high/low	450p	285p	

Business description

Cohort is an AIM-listed defence and security company operating across four divisions: MASS (33% of FY18e sales); SEA (36%); MCL (15%); and the 80%-owned Portuguese business EID (16%).

Next events

FY18 results	3 July 2018
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Exhibit 1: Financial summary

	£m	2016	2017	2018e	2019e
Year end 30 April		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		112.6	112.7	119.0	128.2
Cost of Sales		(79.1)	(73.7)	(83.5)	(90.1)
Gross Profit		33.5	39.0	35.4	38.2
EBITDA		13.0	15.7	16.6	17.4
Operating Profit (before amort. and except).		11.9	14.5	15.4	16.0
Intangible Amortisation		(6.4)	(11.3)	(5.2)	(4.7)
Exceptionals		(0.3)	(2.3)	0.0	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		5.2	1.0	10.2	11.3
Net Interest		0.1	0.0	0.0	0.0
Profit Before Tax (norm)		12.0	14.5	15.4	16.1
Profit Before Tax (FRS 3)		5.3	1.0	10.2	11.3
Tax		0.1	1.1	(1.9)	(2.0)
Profit After Tax (norm)		11.2	12.8	12.7	13.3
Profit After Tax (FRS 3)		5.4	2.1	8.3	9.3
Average Number of Shares Outstanding (m)		40.6	40.4	40.4	40.4
EPS - fully diluted (p)		26.7	31.0	28.9	30.8
EPS - normalised (p)		27.2	31.5	29.1	31.2
EPS - (IFRS) (p)		12.7	9.1	18.5	21.5
Dividend per share (p)		6.0	7.1	8.2	9.0
Gross Margin (%)		29.8	34.6	29.8	29.8
EBITDA Margin (%)		11.5	13.9	14.0	13.6
Operating Margin (before GW and except.) (%)		10.6	12.9	12.9	12.5
BALANCE SHEET					
Fixed Assets		59.7	60.6	55.1	50.1
Intangible Assets		49.5	50.6	45.4	40.7
Tangible Assets		10.2	9.9	9.7	9.4
Investments		0.0	0.0	0.0	0.0
Current Assets		54.0	56.3	62.1	74.9
Stocks		2.0	5.3	6.5	7.3
Debtors		27.3	37.8	39.3	42.3
Cash		23.1	12.0	15.0	24.0
Other		1.6	1.2	1.3	1.3
Current Liabilities		(40.1)	(39.7)	(35.7)	(36.5)
Creditors		(36.8)	(36.1)	(35.7)	(36.5)
Short term borrowings		(3.3)	(3.5)	0.0	0.0
Long Term Liabilities		(2.7)	(3.2)	(8.5)	(9.9)
Long term borrowings		(0.0)	(0.0)	(5.3)	(6.7)
Other long term liabilities		(2.7)	(3.2)	(3.2)	(3.2)
Net Assets		70.8	74.0	73.0	78.6
CASH FLOW					
Operating Cash Flow		8.5	2.4	14.0	14.9
Net Interest		0.1	0.0	0.0	0.0
Tax		(1.8)	(1.7)	(2.7)	(2.8)
Capex		(1.0)	(0.9)	(1.0)	(1.1)
Acquisitions/disposals		(0.7)	(9.1)	0.0	0.0
Financing		(3.2)	0.5	(6.1)	0.0
Dividends		(2.2)	(2.5)	(3.0)	(3.4)
Net Cash Flow		(0.3)	(11.4)	1.2	7.6
Opening net debt/(cash)		(19.7)	(19.8)	(8.5)	(9.7)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.5	0.0	0.0	(0.0)
Closing net debt/(cash)		(19.8)	(8.5)	(9.7)	(17.3)

Source: Company reports, Edison Investment Research estimates

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