

Saab

Prize fighter

Saab shares continue to go from strength to strength. Q117 results confirm the company is on track to achieve above targeted organic sales development in the near term. Order intake remains positive and prospects for the new and upgraded versions of the Gripen fighter aircraft remain strong, aided by the improving trends in defence spending. The shares are trading once again at record levels, and the rating requires a continuing conversion of the pipeline into firm activity.

Strong start to 2017

A positive book to bill ratio during Q117 drove the order book up to SEK109.4bn at the end of the quarter. The strong order intake during the period of SEK9.7bn was driven by two large orders; one for the second GlobalEye AEW (Airborne Early Warning) system, the other an anti-ship missile contract for the Dynamics activity. SEK20.1bn of the order backlog at Q117 is deliverable in the remainder of the year which gives a strong underpinning to FY17 sales estimates, with a further similar amount booked for delivery in FY18. Organic revenue growth of 8% was driven mainly by activity in the Gripen, A26 submarine and GlobalEye programmes. Despite continued high level of investment, notably in the T-X lead-in trainer aircraft programme for the US, operating margins rose to 6.6% from 4.3% in Q116. This was accompanied by an improvement in EBIT margin in all of the divisions except Kockums which experienced a slight decline. Cash flow was positive during the quarter with net debt falling to SEK0.87bn at Q117 (from SEK1.84bn at FY16).

Defence prospects increasingly positive

News that coincided with Q1 results came from Bulgaria, where the interim defence minister indicated that the country is to start negotiations to buy eight new Gripen aircraft. With many other campaigns also active, and when combined with improved prospect for defence spending globally, Saab remains well positioned to attain its medium-term 5% sales growth target, and should exceed this in the current year. Management guidance is for operating margins to improve compared to FY16, making progress towards its 10% goal.

Valuation: Premium rating achieved

The return to growth for Saab is now being confirmed, justifying the strong performance of the stock seen over the last few years. The delivery of the anticipated levels of profitability would still leave the rating extended, and we would not be surprised if Saab's shares now faced a period of consolidation.

Consensus estimates

Year end	Revenue (SEKm)	PBT (SEKm)	EPS (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/15	27,186	1,731	12.8	5.0	33.3	1.2
12/16	28,631	1,611	10.6	5.3	40.2	1.2
12/17e	30,908	2,233	15.9	6.2	26.7	1.5
12/18e	33,328	2,754	19.2	6.9	22.2	1.6

Source: Bloomberg

Aerospace & Defence

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Price SEK426
Market cap SEK45bn

Share price graph



Share details

Code SAAB-B
Listing NASDAQ OMX
Shares in issue 106.5m

Business description

Saab is a Sweden-based international provider of military defence and civil security equipment, systems and services. It is divided into six divisions: Aeronautics; Dynamics; Electronic Defence Systems; Security & Defence Solutions (SDS); Support & Services; and Industrial Products & Services.

Bull

- Strong backlog supports growth targets, and defence spending turning up globally.
- Customer-facing structure leads to further overhead savings from shared services.
- Broad range of products in key demand areas.

Bear

- Defence budgets remain constrained, with high levels of competition.
- High level of R&D investment, early stage long-term contracts and new product introductions constrain margins.
- Trading at an all-time high, with a rating that makes no allowance for mishaps.

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