

Avon Rubber

M69 aircrew mask systems success

Avon has announced that it has been awarded a sole source contract to supply the US Department of Defense (DoD) with M69 Joint Service Aircrew Mask Systems for Strategic Aircraft with a maximum value of \$92.7m over up to seven years. As flagged at the FY18 results, it is a significant contract for Avon Protection's military activities and should make an initial revenue contribution in FY19 once the first order is received in the near future. Using our estimates, Avon is trading on a FY20 P/E of 14.6x, a justifiable premium to its aerospace and defence peer group given its above average margins and improving growth prospects.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/17	159.2	25.9**	83.3**	12.3	15.1	1.0
09/18	165.5	27.2	76.5	16.0	16.5	1.3
09/19e	176.3	29.8	78.6	20.8	16.0	1.6
09/20e	187.0	32.8	86.3	27.1	14.6	2.2

Note: *PBT and EPS are normalised, fully diluted and excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Restated for AEF disposal.

The award of the supply contract for M69 mask systems comes after a collaborative development programme with the DoD. The award is an IDIQ (indefinite delivery/indefinite quantity) contract with an initial term of five years and two one-year extension options. The contract is to supply up to 30,349 mask systems together with related accessories and spares on a firm fixed price basis, with engineering support provided over the life of the contract on a cost plus basis.

Management expects to receive the first order under this contract before the end of this month and to commence delivery before the year end. It had been highlighted by management as a potential new contract award and thus is already included in expectations, but nevertheless this provides a strong start to calendar 2019.

The company also indicates that it continues to pursue a number of military opportunities with both the DOD and other customers worldwide. The award suggests that the anticipated uptick in global defence spending is starting to bear fruit for Avon especially in the US.

DoD contract award

Aerospace and defence

7 January 2019

Price 1,260p

Market cap £391m

\$1.26/£

Net cash (£m) at 30 September 2018 46.5

Shares in issue 31.0m

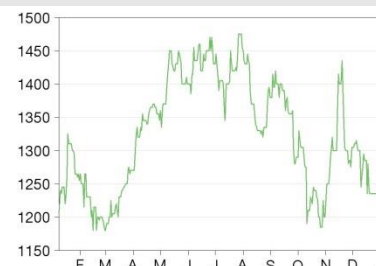
Free float 96%

Code AVON

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

Avon Rubber designs, develops and manufactures products in the protection (70% of 2018 sales) and dairy (30%) sectors. Its major contracts are with national security organisations such as the US DoD. Over 70% of 2018 sales are from the US.

Analyst

Andy Chambers +44 (0)20 3681 2525

industrials@edisongroup.com

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