

# Cohort

## Order book supports return to growth

Cohort's trading update ahead of its AGM and capital markets day continues to indicate the FY23 trading performance is ahead of the prior year. A continued strong level of order intake supported by UK MOD activity appears to be mitigating some ongoing supply chain delays, mainly affecting EID in Portugal. Our group FY23 estimates remain unchanged. For FY24 we now assume a lower tax rate which lifts our EPS estimate by c 7%. The resulting FY24 P/E of 12.6x looks increasingly undemanding with the lower UK tax assumption boosting our DCF value to 726p per share (from 684p previously).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/21	143.3	17.9	33.6	11.1	14.3	2.3
04/22	137.8	14.7	31.1	12.2	15.4	2.5
04/23e	164.1	17.6	34.2	13.4	14.0	2.8
04/24e	178.2	19.6	38.1	14.7	12.6	3.1

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

## Sailing through the headwinds

Strong order intake has continued with over £70m of new business won since the start of FY23 including the recent £34m [SEA order from the Royal Navy](#), leaving the group order book at over £300m on 20 September 2022 with orders extending to 2030. Order cover for FY23 market consensus sales estimates now stand at 95%. Order activity for the UK MOD has been improving, with MCL in particular benefiting from the shorter lead times for its operational products. Like all companies, Cohort continues to face the post pandemic challenges to its supply chains, as well as inflationary pressures, but in the main appears to be managing these headwinds. The Portuguese subsidiary EID remains the outlier with its already depressed performance suffering further order delays.

## Strengthening defence environment

Management is to spotlight the group's strengthening maritime capabilities and prospects at a capital markets day presentation following the AGM. While no new material will be disclosed, we expect a positive outlook for that significant domain to be underscored. However, current hostilities have underlined the need for increased defence spending by NATO countries on operational equipment and support across all the defence and security domains (air, land, sea, cyber). We expect the overall environment for Cohort's businesses to continue to improve, supporting sustainable profit and cash flow growth from FY24.

## Valuation: Yet to reflect improving outlook

With earnings and cash flows set to benefit from the reduction in future UK corporation tax rates announced last week, Cohort's rating looks increasingly undemanding. As it starts to deliver sustainable growth, we expect increasing recognition of its prospects to allow the rating to expand in what may be an increasingly challenged economic and stock market environment.

AGM statement and  
capital markets day

Aerospace and defence

27 September 2022

**Price** 480p  
**Market cap** £200m

Adjusted net cash (£m) at 30 April 2022 (excludes £10.1m lease liabilities) 11.0

Shares in issue 41.2m

Free float 72%

Code CHRT

Primary exchange AIM

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(10.1)	3.1	(13.5)
Rel (local)	(4.6)	6.7	(8.5)
52-week high/low	630p	450p	

### Business description

Cohort is an AIM-listed defence and security company operating across six divisions: MASS (28% of FY22 sales), SEA (22%), MCL (16%), the 80%-owned Portuguese business EID (6%), the 81%-owned Chess Dynamics based in the UK (12%) and ELAC SONAR in Germany (16%).

### Next events

H123 results December 2022

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## Earnings revisions

We have tweaked our divisional mix slightly to reflect a strengthening performance by MCL offsetting a weaker EID expectation. We expect those trends to continue into FY24 although we anticipate EID will start to recover as both domestic and export order activity starts to improve. Overall our revenue, EBITDA and pre-tax profit estimates remain unchanged in both FY23 and FY24. However, the reduction in UK corporation tax from April 2023 also provides a moderate boost to future earnings expectations, with our FY24 EPS estimate increasing by 6.9%.

**Exhibit 1: Cohort earnings revisions**

Year to April (£m)	2023e	2023e		2024e	2024e	
	Prior	New	% change	Prior	New	% change
<u>Revenues</u>						
MASS	44.5	44.5	0.0	46.8	46.8	0.0
SEA	34.7	34.7	0.0	38.2	38.2	0.0
MCL	24.1	25.7	4.5	26.1	26.1	4.5
EID	11.9	10.8	(9.0)	13.7	13.7	(8.4)
Chess	26.2	26.2	0.0	27.5	27.5	0.0
ELAC SONAR	22.6	22.6	0.0	26.0	26.0	0.0
Intra group sales	0.0	0.0		0.0	0.0	
<b>Total group</b>	<b>164.1</b>	<b>164.1</b>	<b>0.0</b>	<b>178.2</b>	<b>178.2</b>	<b>0.0</b>
<u>EBITDA</u>						
	<b>22.8</b>	<b>22.8</b>	<b>0.0</b>	<b>25.1</b>	<b>25.1</b>	<b>0.0</b>
<u>Adjusted operating profit</u>						
	-	-	-	-	-	-
MASS	9.8	9.8	0.0	10.1	10.1	0.0
SEA	4.3	4.3	0.0	4.6	4.6	0.0
MCL	2.8	3.0	9.0	3.0	3.3	9.0
EID	0.7	0.5	(34.8)	1.5	1.2	(17.5)
Chess	2.6	2.6	0.0	3.0	3.0	0.0
ELAC SONAR	2.7	2.7	0.0	3.1	3.1	0.0
HQ Other and intersegment	(4.5)	(4.5)	0.0	(4.7)	(4.7)	0.0
<b>Adjusted operating profit</b>	<b>18.5</b>	<b>18.5</b>	<b>0.0</b>	<b>20.6</b>	<b>20.6</b>	<b>0.0</b>
<u>Adjusted PBT</u>						
	<b>17.6</b>	<b>17.6</b>	<b>0.0</b>	<b>19.6</b>	<b>19.6</b>	<b>0.0</b>
<u>EPS - adjusted continuing (p)</u>						
	<b>34.2</b>	<b>34.2</b>	<b>0.0</b>	<b>35.6</b>	<b>38.1</b>	<b>6.9</b>
DPS (p)	13.4	13.4	0.0	14.7	14.7	0.0
Adjusted net cash (excl. leases)	7.5	5.0	(33.0)	13.0	11.3	(12.9)

Source: Edison Investment Research estimates

Lower future cash tax payments also boost our capped DCF valuation, which stands at 726p per share following these revisions. The sensitivity of our DCF model to WACC and terminal growth rates is shown in Exhibit 2 below.

**Exhibit 2: Cohort capped DCF valuation sensitivity to WACC and terminal growth (p/share)**

WACC	6.0%	6.5%	7.0%	7.2%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
<u>Terminal growth rate</u>										
0%	888	811	744	<b>726</b>	687	637	593	554	519	488
1%	895	817	750	731	693	642	598	558	523	491
2%	903	824	756	737	698	647	602	562	527	495
3%	910	830	762	743	703	652	607	567	531	499

Source: Edison Investment Research

**Exhibit 3: Financial summary**

	£m	2021	2022	2023e	2024e
Year end 30 April		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		143.3	137.8	164.1	178.2
Cost of Sales		(90.0)	(81.2)	(96.7)	(105.0)
Gross Profit		53.4	56.6	67.4	73.2
EBITDA		22.1	19.4	22.8	25.1
Operating Profit (before amort. and except.)		18.6	15.5	18.5	20.6
Intangible Amortisation		(10.1)	(6.9)	(3.1)	(2.9)
Exceptionals		(0.7)	2.4	0.0	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		7.8	11.1	15.4	17.7
Net Interest		(0.8)	(0.9)	(0.9)	(1.0)
Profit Before Tax (norm)		17.9	14.7	17.6	19.6
Profit Before Tax (FRS 3)		7.1	10.2	14.5	16.7
Tax		(1.6)	(1.5)	(2.5)	(2.9)
Profit After Tax (norm)		13.8	12.2	14.2	15.9
Profit After Tax (FRS 3)		5.5	8.7	11.9	13.8
Average Number of Shares Outstanding (m)		40.8	40.8	41.2	41.2
EPS - fully diluted (p)		33.3	30.9	34.0	37.9
EPS - normalised (p)		33.6	31.1	34.2	38.1
EPS - (IFRS) (p)		13.4	22.5	28.7	33.0
Dividend per share (p)		11.1	12.2	13.4	14.7
Gross Margin (%)		37.2	41.1	41.1	41.1
EBITDA Margin (%)		15.4	14.1	13.9	14.1
Operating Margin (before GW and except.) (%)		13.0	11.3	11.2	11.6
<b>BALANCE SHEET</b>					
Fixed Assets		78.4	81.7	80.7	79.4
Intangible Assets		58.8	59.8	57.9	55.0
Tangible Assets		12.5	12.3	13.2	14.8
Right of Use assets		7.1	9.6	9.6	9.6
Investments		0.0	0.0	0.0	0.0
Current Assets		112.5	121.5	134.6	148.0
Stocks		12.9	22.8	26.3	27.9
Debtors		66.0	56.2	65.6	71.3
Cash		32.3	40.4	40.4	46.4
Other		1.4	2.2	2.3	2.4
Current Liabilities		(56.6)	(94.5)	(64.8)	(69.6)
Creditors		(56.6)	(65.1)	(64.8)	(69.6)
Short term borrowings		(0.1)	(29.4)	0.0	0.0
Long Term Liabilities		(49.2)	(19.5)	(54.8)	(54.5)
Long term borrowings		(29.8)	(0.0)	(35.4)	(35.1)
Lease liabilities		(7.6)	(10.1)	(10.1)	(10.1)
Other long term liabilities		(11.9)	(9.3)	(9.3)	(9.3)
Net Assets		85.1	89.2	95.6	103.3
<b>CASH FLOW</b>					
Operating Cash Flow		21.1	22.9	8.1	21.1
Net Interest		(0.8)	(0.9)	(0.9)	(1.0)
Tax		(4.1)	(2.5)	(3.3)	(3.7)
Capex		(1.2)	(2.0)	(3.3)	(4.5)
Acquisitions/disposals		(3.3)	(2.3)	(1.4)	0.0
Financing		(0.3)	(2.1)	0.0	0.0
Dividends		(4.2)	(4.7)	(5.2)	(5.7)
Other		0.0	0.0	0.0	0.0
Net Cash Flow		7.2	8.5	(6.0)	6.3
Opening net debt/(cash)		4.7	(2.5)	(11.0)	(5.0)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		(0.0)	0.0	0.0	0.0
Closing net debt/(cash) (excluding leases)		(2.5)	(11.0)	(5.0)	(11.3)
Net debt/(cash) (including leases)		5.1	(0.9)	5.1	(1.2)

Source: Company reports, Edison Investment Research estimates

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