

AGM gives another confident update

24 September 2024

In a statement to accompany today's AGM, Cohort reported that, propelled by trading and order intake, notably in the Sensors & Effectors division, H1 25 is expected to be significantly ahead year-on-year, with net margin improvement. In addition, the customary second half positive weighting remains. The Group indicates that, consequently, FY25 revenue and (adj.) operating profit are now expected to be slightly ahead of management prior expectations. This follows a year which recorded "record results" with strength across all metrics, revenue, (adj.) operating profit, order intake and net funds.

The year-end record closing order book was £518.7m, with visibility out to 2037 and an estimated 90% of FY25 consensus estimated revenue covered; this is now at £575m.

Order book at £575m

Post FY24 results the Group has continued to **add contract wins worth over £120m taking the total to £575m** by 20 September. We note defence-related contracts totalling £74.1m in July: for EID a contract worth £27.7m contract, for MCL a £21.4m UK government order, and for Chess the award of three contracts from Rheinmetall Air Defence AG, worth £25.0m.

FY25 revised up

We have revised our FY25 revenue estimate up by 4.5%, from £220m to £230m, also raising (adj.) EBIT by 2.2% to £24.6m (prior £24.0m). In its statement, Cohort comments that the requirements of planned capital spending and working capital to fund order inflow mean that year-end FY25 net funds are expected to be slightly lower than FY24 (ED E: £19.4m). Cohort has continued to deliver on order momentum post-FY24 and adds that the Group remains optimistic of further order prospects.

Shares still underrated

The Group maintains emphasis on organic growth, backed by the strength of order inflow against the backdrop of increased attention to spending on defence, but notes the potential to augment through acquisition. Cohort currently trades on 9.6x FY26E (adj.) EV/EBITDA, 17.6x PE compared to the market cap weighted average of peers on respective multiples of 12.1x and 21.1x¹; at our Fair Value indicative of a FY26 (adj.) EV/EBITDA multiple of 10.5x and 19.2x PE.

At this stage, our Fair Value remains 910p / share.

Company Data

EPIC	CHRT
Price (last close)	832p
52 weeks Hi/Lo	900p/456p
Market cap	£338m
ED Fair Value / share	910p
Proforma net cash	£23.1m

Share Price, p



Source: LSE

Description

Operating in the UK, Germany and Portugal, Cohort Group has two divisions.

Communications and Intelligence

comprises: EID, communications systems for naval and land defence; MASS, advanced digital defence and security; MCL, electronic and surveillance technology supply and support for the UK MOD.

Sensors & Effectors

comprises: Chess, electro-optical tracking and surveillance systems for naval, land defence and security; ELAC SONAR, advanced sonar systems and underwater communications; SEA, technology-based products for the defence and transport markets, and specialist research and training services.

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Summary Financial estimates

Yr to 30 April (£m)	2022	2023	2024	2025E	2026E
Revenue	137.7	182.7	202.5	230.0	240.0
EBIT (adj.)	15.5	19.1	21.1	24.6	27.0
EBITDA (adj)	19.4	23.2	25.7	30.5	32.9
Pre-Tax Profit (adj)	14.7	17.7	19.8	22.6	25.0
EPS (adj, p)	30.9	36.4	42.7	42.8	47.4
Dps (p)	12.2	13.4	14.8	15.5	16.3
Net debt / (cash)	(11.0)	(15.6)	(23.1)	(19.4)	(25.4)
P/E	26.9x	22.9x	19.5x	19.5x	17.6x
EV/EBITDA	16.2x	13.6x	12.2x	10.3x	9.6x
EBIT margin			10.4%	10.7%	11.2%
ED FV P/E		25.0x	21.3x	21.3x	19.2x
ED FV EV/EBITDA		14.9x	13.5x	11.3x	10.5x

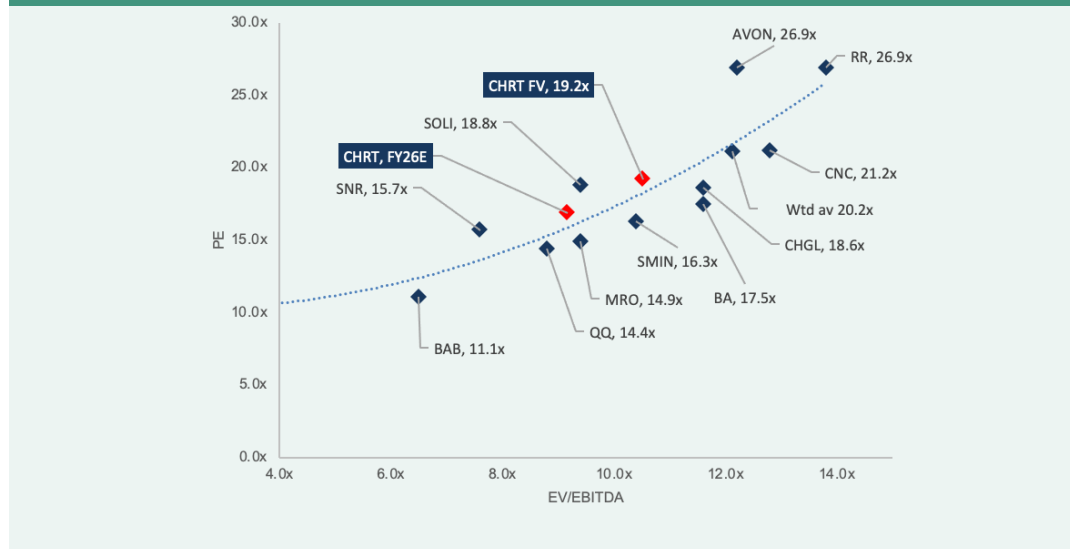
Source: Company data, Equity Development estimates. ¹ Koyfin data, FY plus one year's estimates. FV: Fair Value.

Valuation update

Below we update the comparative positioning of Cohort, at current valuation and at ED Fair Value, alongside a sample of peers in the UK defence and military equipment sector: Amedeo Air Force Plus, Avon Protection plc, Babcock International, BAE Systems plc, Chemring Group, Concurrent Technologies plc, Melrose Industries plc, QinetiQ Group plc, Rolls-Royce Holdings, Senior plc, Smiths Group plc and Solid State plc. The valuation metrics, illustrated below, are:

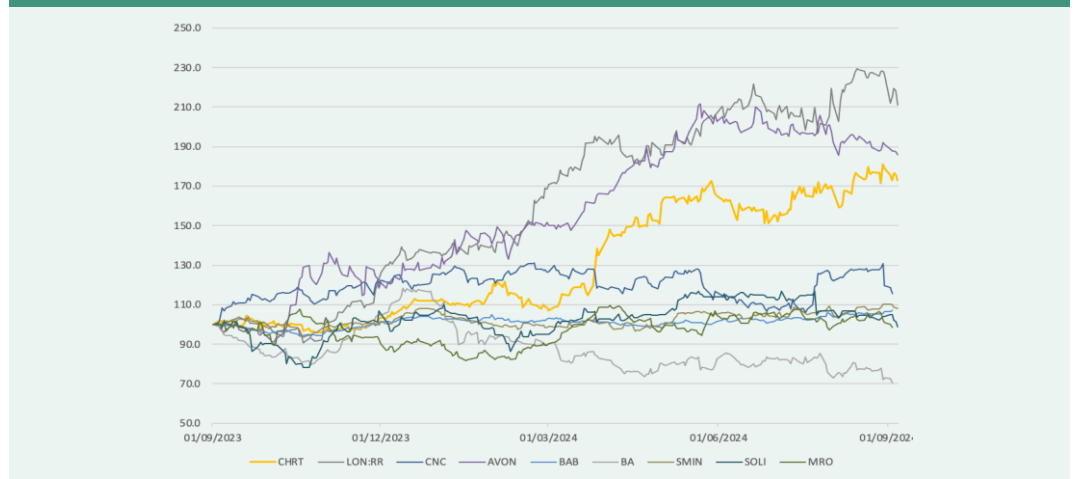
- Cohort FY26 EV/EBITDA, 9.6x, PE, 17.6x.
- Peer group market cap weighted average EV/EBITDA 12.1x, PE 21.2x (source: Koyfin).
- ED Fair Value-implied FY26 EV/EBITDA of 10.5x and PE of 19.2x.
- **Our read-across to FY26 (adj.) EBITDA (£32.9m) peer group market cap-weighted multiples indicates a Fair Value of 910p / share.**

Comparative valuation: PE and EV/EBITDA multiples



Source: Equity Development estimates, Koyfin. 18.09.2024.

Share price performance, Cohort vs peers, year to date rebased @ 100.0



Source: Google Finance.

Summary financial data

P&L					
Year to 30 April (£m)	FY22	FY23	FY24	FY25E	FY26E
Communications & Intelligence	68.4	86.2	82.9	90.0	98.0
Sensors & Effectors	69.4	96.5	119.6	140.0	142.0
Inter-segment	(0.0)	0.0	0.0	0.0	0.0
Revenue	137.7	182.7	202.5	230.0	240.0
Gross	56.6	64.9	76.3	95.5	99.6
<i>Margin</i>	41.1%	35.5%	37.7%	41.5%	41.5%
COGS	(81.1)	(117.9)	(126.3)	(134.6)	(140.4)
Underlying op-ex	(41.1)	(45.8)	(55.1)	(70.9)	(72.6)
Amortisation intangibles	(6.9)	(3.7)	(3.1)	(1.0)	0.0
R&D credits	1.0	0.9	2.9	1.0	1.0
Forex	0.7	(1.1)	0.3	0.0	0.0
One-off charges	0.7	0.0	0.0	0.0	0.0
EBIT Reported	11.1	15.3	21.2	24.6	28.0
EBIT Adjusted	15.5	19.1	21.1	24.6	27.0
<i>EBIT (adj.) mrg</i>	11.3%	10.4%	10.4%	10.7%	11.2%
Amortisation Intangibles	(6.9)	(3.7)	(3.1)	(1.0)	0.0
Depreciation PPE	(2.2)	(2.4)	(2.6)	(4.0)	(4.0)
Depreciation RoU	(1.7)	(1.8)	(2.0)	(2.0)	(2.0)
EBITDA Reported	21.8	23.1	28.9	31.5	33.9
EBITDA Adjusted	19.4	23.2	25.7	30.5	32.9
<i>Margin</i>	14.1%	12.7%	12.7%	13.3%	13.7%
Financial income	0.0	0.1	0.5	0.5	0.5
Financial expense	(0.9)	(1.5)	(1.9)	(2.5)	(2.5)
PBT Reported	10.2	13.9	19.8	22.6	26.0
PBT Adjusted	14.7	17.7	19.8	22.6	25.0
Tax	(1.5)	(2.7)	(4.5)	(5.4)	(6.0)
Reported tax rate	15.1%	19.2%	22.9%	24.0%	23.0%
<i>Tax rate % adjusted</i>	10.5%	15.1%	22.9%	24.0%	23.9%
PAT Reported	8.7	11.3	15.3	17.2	20.0
PAT Adjusted	13.1	15.1	15.2	17.4	19.2
Basic wtd. Av. shares (m)	40.8	40.7	40.4	40.4	40.4
Diluted wtd. av. shares (m)	41.0	40.8	40.6	40.6	40.6
EPS Reported Basic (p)	22.5	27.9	37.9	42.5	49.5
EPS Reported Diluted (p)	22.4	27.9	37.7	42.3	49.3
EPS Adjusted Basic (p)	31.1	36.5	42.9	43.0	47.6
EPS Adjusted Diluted (p)	30.9	36.4	42.7	42.8	47.4

Source: Company data, Equity Development estimates.

Summary financial data

Cashflow					
Year to 30 April (£m)	FY22	FY23	FY24	FY25E	FY26E
PAT rptd	8.7	11.3	15.3	17.2	20.0
Tax	1.5	2.7	4.5	5.4	6.0
Depreciation	3.9	4.2	4.6	6.0	6.0
Amortisation	6.9	3.7	3.1	1.0	0.0
Finance net	0.9	1.3	1.4	2.0	2.0
Derivatives/forex	(0.7)	1.1	(0.3)	(0.3)	(0.3)
Share-based payments	0.6	1.5	1.1	0.0	0.0
Provisions	0.1	0.7	2.2	0.0	0.0
Operating Cash Flow	21.8	26.4	31.9	31.2	33.6
(Increase)/Decrease inventories	(9.9)	(8.6)	(1.4)	0.5	(1.4)
(Increase)/Decrease in receivables	10.5	3.0	(24.7)	(1.3)	(4.8)
Increase/(Decrease) in payables	0.0	(3.0)	23.8	13.6	5.4
Movement in working capital	0.7	(8.5)	(2.3)	12.8	(0.8)
Cash generated by operations	22.5	17.9	29.6	44.1	32.8
Interest paid	(0.9)	(1.2)	(1.9)	(3.3)	(3.5)
Tax (paid)/received	(2.1)	(0.1)	(4.7)	(5.4)	(6.0)
Net cash from operations	19.5	16.5	23.0	35.4	23.4
Investing activities					
Interest received	0.0	0.1	0.5	0.5	0.5
PPE	(2.0)	(5.2)	(6.7)	(10.0)	(5.0)
Acquisition	(0.4)	(1.0)	0.0	(3.0)	0.0
Net cash used in investing	(2.4)	(6.1)	(6.2)	(12.5)	(4.5)
Net OpFCF	17.2	10.4	16.9	22.9	18.9
Financing activities					
Share issue	0.6	1.0	0.7	0.0	0.0
Dividends	(4.7)	(5.1)	(5.6)	(6.3)	(6.6)
Purchase own shares	(2.9)	(0.6)	(1.9)	0.0	0.0
Settlement of own shares	0.3	0.1	0.8	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Repayments	(0.1)	(4.0)	(9.0)	0.0	0.0
Lease repayments	(1.9)	(2.0)	(1.9)	(1.8)	(1.8)
Net cash from financing	(8.7)	(10.6)	(16.9)	(8.1)	(8.4)
Net increase in cash / equivalents	8.4	(0.2)	(0.1)	14.8	10.5
Forex	(0.4)	1.2	(1.7)	0.0	0.0
Cash at beginning of year	32.3	40.4	41.5	39.7	54.5
Cash at year end	40.4	41.5	39.7	54.5	65.0
Net debt / (cash)	(11.0)	(15.6)	(23.1)	(19.4)	(25.4)

Source: Company data, Equity Development estimates.

Summary financial data

Balance sheet						
Year to 30 April (£m)	FY22	FY23	FY24	FY25E	FY26E	
Fixed Assets						
Goodwill	50.1	50.1	50.1	53.1	53.1	
Intangible assets	9.6	6.0	2.8	1.8	1.8	
RoU assets	9.6	8.5	7.8	5.9	3.9	
PPE net	12.3	15.3	19.4	25.4	26.4	
Deferred tax, other	1.4	1.6	2.5	2.5	2.5	
Sum Fixed Assets	83.1	81.5	82.7	88.8	87.8	
Current Assets						
Inventories	22.8	32.0	33.3	32.8	34.2	
Trade receivables	56.2	55.6	79.4	80.7	85.5	
Derivatives, tax	0.8	2.2	1.9	2.2	2.4	
Cash, Equivalents	40.4	51.0	55.2	54.5	65.0	
Sum Current Assets	120.1	140.8	169.8	170.1	187.1	
Total Assets	203.2	222.3	252.5	258.9	274.9	
Current Liabilities						
Trade payables	(54.0)	(55.9)	(81.0)	(94.5)	(99.9)	
Derivatives, tax	(0.9)	(5.3)	(2.5)	(2.9)	(3.2)	
Leases	(1.5)	(1.7)	(1.8)	(1.8)	(1.8)	
Borrowings	(29.4)	(9.5)	(15.5)	(18.5)	(23.0)	
Provisions	(8.9)	(8.7)	(8.9)	(10.4)	(11.0)	
Other payables	(1.4)	0.0	0.0	0.0	0.0	
Sum Current Liabilities	(96.0)	(81.1)	(109.7)	(128.1)	(139.0)	
Total Assets less Current Liabilities	107.2	141.3	142.8	130.8	135.9	
Long-term Liabilities						
Deferred tax	(1.4)	(1.5)	(0.9)	(1.1)	(1.2)	
Leases	(8.6)	(7.5)	(6.7)	(4.9)	(3.1)	
Borrowings	(0.0)	(25.8)	(16.5)	(16.5)	(16.5)	
Provisions	(1.1)	(1.4)	(3.2)	(3.7)	(4.0)	
Retirement benefit	(6.8)	(5.3)	(5.6)	(5.6)	(5.6)	
Other	0.0	0.0	0.0	0.0	0.0	
Sum Long-term liabilities	(18.0)	(41.5)	(33.0)	(31.9)	(30.4)	
Total liabilities	(114.0)	(122.5)	(142.7)	(160.0)	(169.3)	
Net Assets	89.2	99.8	109.8	98.9	105.5	
Capital & Reserves						
Share Capital	4.1	4.1	4.2	4.2	4.2	
Share Premium	30.5	31.5	32.2	10.4	3.6	
Own shares	(3.3)	(3.6)	(4.6)	(4.6)	(4.6)	
Share option reserve	1.0	2.1	2.9	2.9	2.9	
Other	(1.4)	0.0	0.0	0.0	0.0	
Retained earnings	53.1	62.9	74.1	85.0	98.4	
Equity	84.0	97.0	108.7	97.8	104.4	
Non-controlling interests	5.2	2.8	1.2	1.0	1.1	
Net debt / (cash)	(11.0)	(15.6)	(23.1)	(19.4)	(25.4)	

Source: Company data, Equity Development estimates.



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