

7 October 2020

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Electro Optic Systems Holdings Limited

Industrials

BUY

EOS A\$5.55
TARGET PRICE A\$6.64

Electro Optic Systems Holdings Ltd is an Australian technology company. It develops and produces electro-optic technologies for the aerospace market. The group's reportable segments are Communication, Defence and Space. It generates maximum revenue from the Defence segment. The Defence segment develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers.

Company Data

Number of shares	149.4M
Market Capitalisation	\$829.3M
Free float (%)	73.2
12-month high/low	\$10.53/\$2.98
Average Daily Turnover (\$m)	22.6674
% S&P/ASX200	0.05%
DDM Ranking	32
% All Ordinaries	NA
GICS Industry Group	Capital Goods

Source: FactSet, Barclay Pearce Capital

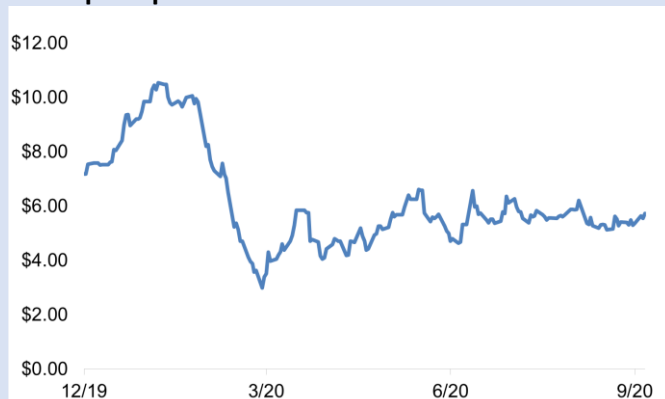
Earnings Summary (AUD)

Year end December	2019A	2020F	2021F	2022F
Revenue (\$M)	166.0	232.9	343.7	503.6
EBITDA (\$M)	26.0	30.8	51.3	89.5
Reported NPAT (\$M)	18.1	14.6	30.2	57.2
Adjusted NPAT (\$M)	21.0	21.1	31.7	58.7
Adjusted EPS (c - FD)	19.5	15.4	21.3	39.5
Adjusted EPS growth (%)	N/A	-21.1	38.5	85.4
Adjusted P/E (x)	28.5	36.1	26.0	14.0
Dividend (c/sh)	0.0	0.0	0.0	0.0
Gross yield (%)	0.0	0.0	0.0	0.0
Net yield (%)	0.0	0.0	0.0	0.0
ROIC (%)	12.1	8.8	14.3	20.1

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Updated FY21 Outlook

On 30 September 2020 Electro Optic Systems (OES) announced their updated FY21 outlook following the completion of Commonwealth Government Contract negotiations:

- Valued at over \$94M, contract finalisation will boost jobs and create opportunities for small businesses;
- Authorises the flow of \$28.5M of cash flow to EOS in Q4 of 2020 that will assist in securing the EOS Australia supply chain consisting of 146 SMEs and over 1100 employees;
- The rest of the funds are expected to be received in FY2021; and
- 251 RWS systems will be integrated on to Bushmaster and Hawkei protected mobility vehicles.

On 31 August 2020, Electro Optic Systems (OES) released their results presentation with the following highlights:

- FY2020 Guidance EBIT of \$20-\$30M and an underlying EBIT Margin of 10%;
- Backlog reflects committed contracts that are not yet fulfilled of up to \$570;
- Largely consists of large defence products underpinned by a number of key contracts and is also expected to grow strongly as EM solutions sells into NATO Allies and NA;
- Risked Pipeline (Un-Risked Pipeline) of \$3.1bn (\$12.9bn); and
- Risk Weighted pipeline due for award in next 36 months.

Earnings changes

The market is currently expecting only 35% revenue growth in FY2020 and 48% in FY2021.

Today's announcement from EOS suggests that these may be too low. Based on the recent guidance and order backlog and pipeline given in August we now anticipate earnings revisions of the order of +4%.

We are initiating research coverage on EOS with a 12-month price target of \$6.64 and with a BUY recommendation. The price target is underpinned by our DDM valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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