

1 February 2021

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Orbital Corporation Ltd (OEC)

Aerospace & Defence

BUY

OEC A\$0.92 **TARGET PRICE A\$1.10**

Orbital Corp. Ltd is a developer of technical solutions for a cleaner world. They provide innovation, design, product development and operational improvement services to producers, end users of engines and engine management.

Company Data

Number of shares	77.6
Market Capitalisation	\$ 87.3
Free float (%)	38.8
12-month high/low	\$1.51/\$0.4
Average Daily Turnover (\$m)	N/A
% S&P/ASX200	0.00
DDM Ranking	N/A
% All Ordinaries	0.00

GICS Industry Group Aerospace & Defence

Source: FactSet, Barclay Pearce Capital

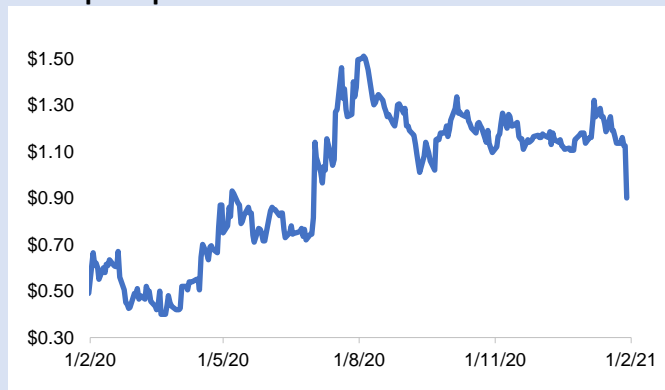
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	33.8	39.1	51.4	67.6
EBITDA (\$M)	1.0	3.0	7.0	13.1
Reported NPAT (\$M)	1.9	0.4	3.2	7.4
Adjusted NPAT (\$M)	1.9	0.6	3.4	7.6
Reported EPS (c)	2.4	0.6	4.1	9.5
Adjusted EPS (c - FD)	2.4	0.8	4.4	9.8
Adjusted EPS growth (%)	-130.8	-66.0	450.0	121.8
Adjusted P/E (x)	47.9	140.6	25.6	11.5
Dividend (c/sh)	-	0.3	2.5	5.7
Gross yield (%)	-	0.5	3.9	9.0
Net yield (%)	-	0.4	2.8	6.3
ROIC (%)	-	-	-	-

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

1H21 Preliminary Results & Revenue Guidance Update

On 1st February 2021, Orbital Corporation Limited (OEC) provided a preliminary results & revenue guidance update for 1H21 with the following highlights:

- OEC announces unaudited preliminary revenue of A\$19 million for the first six months of financial year 2021 ("FY21");
- Revenue for the period was underpinned by output from two engine production lines, in operation under the Company's Long Term Agreement ("LTA") with Insitu Inc., a wholly owned subsidiary of The Boeing Company;
- Production has continued from Orbital UAV's operations in Australia and the USA throughout the Coronavirus pandemic ("COVID-19").

Revenue Guidance

- Orbital UAV has been advised by primary customer Boeing-Insitu that there will be a reduction in the required volumes of one of the two engine models the Company currently has in production because of prevailing market conditions;
- In response, Orbital UAV has revised production targets for the period January to June 2021 and consequently adjusted FY21 full-year revenue guidance to a range between A\$30 million and A\$40 million;
- Orbital UAV has two of five engine model production lines in operation under the Insitu LTA, with the third engine model in development; and
- The Company's third production line will be located at its Western Australia facility and is scheduled for production to commence in the final quarter of FY21.

Earnings changes

For the half year results, OEC is announcing first half revenue of \$19M, an increase of 66% from the prior comparable period. However full year revenue guidance is in a range between \$30M and \$40M, which is 20% below market consensus. Hence, we have made negative earnings revisions of 20% for FY21 and future periods.

Valuation

We are updating our 12-month price target to \$1.10 and retaining our BUY recommendation. The price target is underpinned by our 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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Valuation Methodology

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)