

QinetiQ Group

Pre-close confounds the doubters

QinetiQ's pre-close statement continued to show the group's confidence in the outlook and highlighted that despite fears of UK defence slowdown, order intake was strong in Q2 and revenue under contract is as expected at this stage. With growth in Global Products also confirmed, supported by a combination of organic growth and the contribution from the Target Systems acquisition, both divisions are set to advance. We are therefore maintaining our forecasts and are encouraged by the progress in the group's strategic objectives, which have seen orders placed across the core UK business, as well as home markets in the US and Australia.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	755.7	108.6	16.3	5.7	14.3	2.4
03/17	783.1	116.1	18.1	6.0	12.9	2.6
03/18e	831.4	110.3	16.9	6.4	13.8	2.7
03/19e	850.6	118.4	18.1	6.7	12.9	2.9

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

QinetiQ's statement confirmed the outlook, with progress and orders received in both the EMEA Services and Global Products divisions supporting expectations. Despite external concerns regarding UK defence spending, we view it as positive that the group saw stronger order intake in Q2, building on the positive starting position of the business and supporting expected revenue under contract for the year, a better indicator of in-year performance. Likewise, with Global Products trading as expected and the full impact of the Target Systems acquisition set to come through, growth is conformed in both divisions.

QinetiQ is proving that it can continue to adapt to the changing demands of the industry and governments, both at home in the core UK market, but also increasingly abroad. With the transformation programme continuing apace and strategic sales programmes in place, we believe that QinetiQ is well placed to generate a medium-term growth acceleration despite well flagged headwinds. Having visited the stand at the recent DSEI show, we witnessed first-hand the interest and buzz surrounding the business and the changes being implemented providing further confidence in the transformation.

Pre-close trading update

Aerospace & defence

29 September 2017

Price **233.40p**

Market cap **£1,317m**

Net cash (£m) at 31 March 2017 221.9

Shares in issue 564.3m

Free float 96%

Code QQ

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

QinetiQ provides technical support services to customers in the global aerospace, defence and security markets. The group operates through two divisions: EMEA Services (78% of FY17 sales) and Global Products (22% of FY17 sales).

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