

# QinetiQ Group

Progressing as expected

Q3 trading update

Aerospace & defence

**QinetiQ's strategy is focused on delivering efficiencies for the UK MOD and investing for medium-term growth. The Q3 trading statement reassures that underlying trading is in line with expectations and FY18 guidance is maintained.**

12 February 2018

**Price** 198p  
**Market cap** £1.12bn

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	755.7	108.6	16.3	5.7	12.1	2.9
03/17	783.1	116.1	18.1	6.0	10.9	3.0
03/18e	823.9	111.9	17.1	6.4	11.6	3.2
03/19e	838.4	110.2	16.9	6.8	11.7	3.4

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

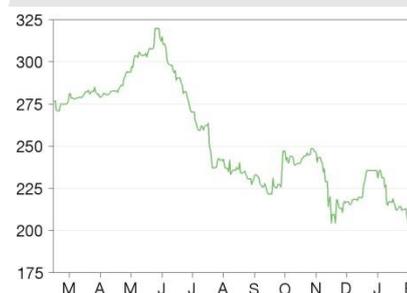
Net cash (£m) at 30 September 2017	194.7
Shares in issue	564.9m
Free float	96%
Code	QQ
Primary exchange	LSE
Secondary exchange	N/A

As we noted at the H118 results, QinetiQ is actively embracing the UK defence environment to help the MOD achieve the cost savings that it needs. The Q3 statement highlights some of the modernisation developments under the amended Long-Term Partnering Agreement (LTPA) contract. These include the first flights of new aircraft and a £9m order to modernise and develop Electro Magnetic Open Sea Ranges. Innovation is at the core of QinetiQ's operations, with the signature of the first weapon system contract under the Strategic Enterprise framework.

QinetiQ is clearly focused on developing its International business, widening its geographic reach to its addressable markets. Today, QinetiQ considers the UK, US and Australia as its home markets. In Q3, the company won a US\$8m TALON robot contract from the US and an additional A\$16m for airborne maritime surveillance in Australia. Beyond the home markets, QinetiQ signed its first aerial target contract in the Middle East for £3m and we expect the company's presence in the region to grow. As a long-term aspiration, management believes that the international business could grow to be worth 50% of the group from 26% today.

QinetiQ is adapting successfully to the changing demands of the global defence industry and is capable of delivering medium-term growth. As previously indicated, the company will cease cash pension deficit recovery payments of c £10.5m following the triennial actuarial review, which showed a surplus of £140.5m. The increased cash this allocates back to strategic development should further enhance shareholder value. Preliminary results will be announced on 24 May 2018.

## 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).

## Analysts

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