

RADA Electronic Industries

Raising forecasts and valuation

New guidance issued

Aerospace & defence

RADA has issued guidance for 2021, which calls for revenues above \$120m (growth of more than 60% year-on-year) and significantly improved profitability. Confidence in the outlook is supported by new order inflows demonstrating RADA's success in obtaining initial orders in major US Army production programs. We are upgrading our 2021 revenue forecasts by 5.6% to \$120.2m and our EPS forecasts by 9.5% to 29.6c. The 2020–24 forecast EPS CAGR of 25.4% supports our new DCF valuation of \$12 (previously \$10). The company also trades at a significant 50% PEG discount to the peer group despite almost double the growth rate.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	28.0	1.1	4.4	0.0	208.4	N/A
12/19	44.3	(1.1)	(2.0)	0.0	N/A	N/A
12/20e	75.9	7.4	17.1	0.0	54.0	N/A
12/21e	120.2	12.9	29.6	0.0	31.1	N/A

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

Strong finish to 2020 improves visibility

On 18 December, RADA announced \$102m of new orders in 2020 and \$23m of new orders in November and December (to date). The majority of orders are for the US Army, namely the IM-SHORAD Stryker program (referenced in our [update note](#) published on 12 November) and the ELBIT/IMI Iron Fist active protection system. RADA's participation in these major multi-year programs increases visibility as it transforms into a supplier for long-term programs rather than on an urgent needs basis.

Forecasts revised up

We are raising our 2021 revenue forecasts to \$120.2m from \$113.8m (up 5.6%), which represents year-on-year estimated growth of 59% in 2021 following 70% growth in 2020. EPS forecasts rise by 9.5% as we are now looking for EBITDA margins of 12.8% from 12.4% previously, reflecting the operationally geared business and management's confidence in improving profitability.

Valuation: Deep discount to peers remains

As noted previously, RADA's valuation compared to the peer group is compelling. With a PEG ratio of 1.2x, RADA still trades at a 50% discount to the peer group despite almost twice their earnings growth. A valuation of \$12 per share would still represent a discount of 36% to the peer group. Using a WACC of 7% and terminal growth rate of 2%, our DCF model also supports a \$12 valuation.

23 December 2020

Price **US\$9.2**

Market cap **US\$400m**

NIS3.25/US\$

Net cash (\$m) at 30 September 2020 23.7

Shares in issue 43.5m

Free float 84.3%

Code RADA

Primary exchange Nasdaq

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 25.3 55.5 85.4

Rel (local) 20.9 39.9 62.0

52-week high/low US\$9.6 US\$2.2

Business description

RADA Electronic Industries develops, manufactures, markets and sells defence electronics to various armed forces and companies worldwide. It offers military avionic systems and land-based tactical radars for defence forces and critical infrastructure protection solutions.

Next events

Full year results March 2021

Analysts

Will Manuel +972 (0)54 978 4802

Andy Chambers +44 (0)20 3681 2525

industrials@edisongroup.com

[Edison profile page](#)

**RADA Electronic Industries is
a research client of Edison
Investment Research Limited**

Strong finish to 2020

On 18 December, RADA announced new orders of \$102m year to date, which represents 70% year-on-year growth. As a reminder, orders are generally fulfilled over a six-month to one-year period, so the strong end to the year provides confidence in the outlook for 2021. In November and the month to 18 December alone, RADA received orders of \$23m. The vast majority of new orders are for software-defined tactical radars and, specifically, serial production for two US government programs. As RADA is a sub-contractor in these major US Army programs, these represent multi-year revenue opportunities for RADA. The two serial programs are:

- IM-SHORAD Stryker: as referenced in our last [update note](#), RADA is participating in the General Dynamics Land Systems and Leonardo DRS \$1.2bn US Army project. RADA states that further production orders are expected in 2021.
- ELBIT/IMI Iron Fist active protection system (APS): the initial order is for 200 radars and RADA expects volumes to grow in 2021 and 2022. RADA will participate in the APS system for the US Army Bradley AFV upgrade program, which has the potential to reach 150 vehicles and 600 radars.

Exhibit 1: 2021 estimates revised upwards

	Revenue (\$m)			EBITDA (\$m)			EPS (c)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2020e	75.9	75.9	0	9.6	9.6	0	17.05	17.05	0
2021e	113.8	120.2	5.6	14.2	15.4	8.5	27.07	29.63	9.5

Source: Edison Investment Research

Exhibit 2: Financial summary

	\$m	2018	2019	2020e	2021e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS					
Revenue		28.0	44.3	75.9	120.2
Cost of Sales		(17.8)	(28.4)	(47.8)	(74.6)
Gross Profit		10.2	15.9	28.1	45.7
EBITDA		1.8	0.3	9.6	15.4
Operating Profit (before amort. and except.)		1.0	(1.0)	7.4	12.4
Intangible Amortisation		0.0	0.0	(0.5)	0.0
Exceptionals		(0.9)	(1.1)	(2.1)	(2.4)
Other		0.0	0.0	0.0	0.0
Operating Profit		0.1	(2.1)	4.9	10.0
Net Interest		0.1	(0.1)	0.5	0.5
Profit Before Tax (norm)		1.1	(1.1)	7.4	12.9
Profit Before Tax (US GAAP)		0.2	(2.2)	5.3	10.5
Tax		0.0	0.0	0.0	0.0
Profit After Tax (norm)		1.1	(1.1)	7.4	12.9
Profit After Tax (US GAAP)		0.2	(2.2)	5.3	10.5
Average Number of Shares Outstanding (m)		33.2	38.1	43.4	43.5
EPS - normalised (c)		4.41	(2.01)	17.05	29.63
EPS - normalised fully diluted		4.34	(1.97)	16.70	29.03
EPS - (US GAAP) (c)		1.71	(5.02)	12.30	24.11
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		36.4	36.0	37.0	38.0
EBITDA Margin (%)		6.3	0.8	12.7	12.8
Operating Margin (before GW and except.) (%)		3.4	-2.2	9.8	10.3
BALANCE SHEET					
Fixed Assets		4.6	16.8	18.6	20.7
Intangible Assets		0.0	0.0	0.0	0.0
Tangible Assets		4.6	9.1	11.0	13.0
Right of use asset		0.0	7.7	7.7	7.7
Investments		0.0	0.0	0.0	0.0
Current Assets		48.1	46.6	78.1	95.9
Stocks		11.2	17.2	30.3	36.1
Debtors		13.6	13.5	20.1	28.4
Cash		21.2	14.1	25.3	28.4
Other		2.1	1.8	2.2	3.0
Current Liabilities		(10.2)	(13.4)	(15.9)	(22.9)
Creditors		(10.2)	(13.4)	(15.9)	(22.9)
Short term borrowings		0.0	0.0	0.0	0.0
Long Term Liabilities		(0.7)	(8.5)	(8.5)	(8.5)
Long term borrowings		0.0	0.0	0.0	0.0
Lease liabilities		0.0	(7.7)	(7.7)	(7.7)
Other long term liabilities		(0.7)	(0.8)	(0.8)	(0.8)
Net Assets		41.9	41.4	72.3	85.1
CASH FLOW					
Operating Cash Flow		(3.7)	(3.6)	(7.6)	7.7
Net Interest		(0.2)	0.1	(0.1)	0.5
Tax		0.0	0.0	0.0	0.0
Capex		(0.9)	(4.1)	(4.6)	(5.1)
Acquisitions/disposals		0.0	(0.5)	0.0	0.0
Financing		13.1	1.5	23.5	0.0
Dividends		0.0	0.0	0.0	0.0
Other		0.2	(0.5)	0.0	0.0
Net Cash Flow		8.5	(7.1)	11.2	3.1
Opening net debt/(cash)		(12.7)	(21.2)	(14.1)	(25.3)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		(21.2)	(14.1)	(25.3)	(28.4)

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by RADA Electronic Industries and prepared and issued by Edison, in consideration of a fee payable by RADA Electronic Industries. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia