

ASX: OEC

Announcement Update

4 May 2023

BUY

Share Price	\$0.16
Price Target	\$0.45

Overview:

52-Week Range	\$0.14 - \$0.33
OEC Shares on Issue	117.0m
Listed Options (\$35c, 07 Feb 2026)	17.5m
Unlisted Options	430.5k
Market Capitalisation	\$18.1m
Cash (31 Dec 2022)	\$4.1m
Enterprise Value	\$22.5m

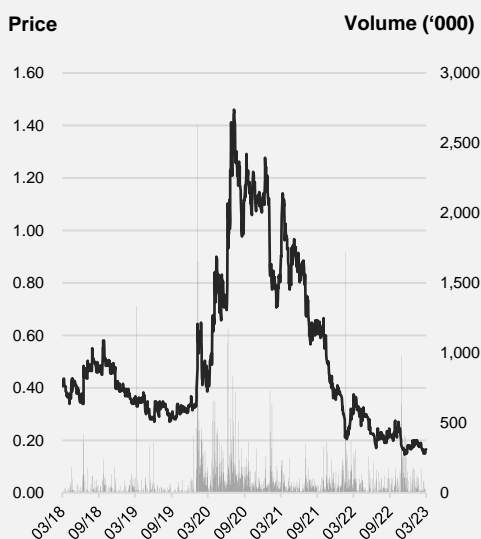
Substantial Shareholders:

ICM Limited	29.9%
First Sentier Investors IM Ltd	11.9%
Annapurna Pty Ltd	2.6%
Morgan Stanley	2.0%

Board & Management:

John Welborn	Non-Executive Chair
Todd Alder	MD & CEO
Steve Gallagher	Non-Executive Director
Kyle Abbott	Non-Executive Director
Thomas Spencer	CFO & Company Secretary

5-year Share Price History:



Orbital Corporation Ltd

Orbital Signs \$3m Contract with Anduril Industries

Orbital awarded rapid development contract to support Anduril's future military drone programs

- Initial contract value of **\$3m** with prototype **delivery due by Jan-24**.
- Orbital will begin development of a new and larger engine configuration for Anduril's future propulsion requirements.
- Subject to successfully delivering this initial contract, Orbital will engage in further contract negotiations to take the prototype engines into flight and production ready propulsion systems.
- Anduril is one of the fastest growing defence companies in the world
- Given Anduril's successful track record, this has the potential to develop into a major revenue stream for many years to come.

Further contract wins likely

This new contract is a strong endorsement of Orbital's technology and capabilities, and further supports our investment thesis that OEC is on the way to becoming the de facto industry standard for military drone engine systems.

We see further contract wins as likely over the coming years, with Textron, AeroVironment, General Atomics Aeronautical, L3 Harris, and Shield AI all strong contenders for potential new and expanded mandates with Orbital.

Orbital Financial Summary & Valuation

Following the announcement, our financial projections remain unchanged. Our initial forecasts were based on the assumption of Orbital securing future contracts, and as such, OEC's valuation and price target will remain in line with the research published on April 4th, 2023.

Our forecasts are aligned with short-term management guidance with FY23 showing a return to EBITDA profitability, and medium-term aspirations of \$60m+ revenue in FY27. Given the recent Anduril announcement, we see a significant de-risking of the short-and-medium-term estimates.

Based on our DCF valuation we have derived a base case valuation of \$0.45 per share and an upside scenario of \$0.82 per share. Over the next year we expect Orbital to move into profitability and thereafter show impressive growth in both revenues and profit as the Orbital UAV engines become the de facto standard for allied forces.

Valuation Multiples	2023E	2024E	2025E	2026E	2027E
EV/Sales	1.3x	0.9x	0.7x	0.5x	0.4x
EV/EBITDA	51.5x	8.2x	8.2x	3.3x	1.8x
EV/EBITA	NM	9.5x	9.7x	3.5x	1.9x
P/E (NPATA)	NM	9.2x	9.4x	2.7x	1.3x
P/E (@ Target)	NM	26.7x	27.4x	7.8x	3.9x

Anduril Industries, the Defence Technology Innovator

Founded in 2017 by Palmer Luckey, and backed by Andreessen Horowitz and Peter Thiel, Anduril Industries (“Anduril”) specialises in the design and development of AI-enabled tactical operating systems, autonomous air and naval drones, and force protection solutions for allied defence forces. Mr. Luckey was the original founder of Oculus VR, which was acquired by Facebook for US\$ 2 billion in 2014.

Anduril’s flagship solution, Lattice OS combines advanced AI with large data sets to provide real time strategic insights and decision-making capabilities for its operators and various unmanned systems, including its counter unmanned systems (CUxs), Ghost sUAS, and Dive-LD AUV (autonomous underwater vehicle). Since founding, Anduril has signed several key contracts with the US, UK, and Australian Governments and is now valued at ~US\$8.5 billion¹.

In January 2022, Anduril secured a ~US\$1 billion Indefinite Delivery Indefinite Quantity (IDIQ) contract with the U.S. Special Operations Command (SOCOM) to support counter unmanned systems as a Systems Integration Partner (SIP). Under the deal, Anduril is expected to deploy its CUxS systems both within and outside of the US, with the contract expected to be completed by 2032. Engines typically comprise 10% of the value of a UAV, so Orbital’s participation in this contract is potentially material.

In August 2022, the Australian Government signed a \$140 million contract with Anduril to build three AUV (“Ghost Shark”) prototypes in Sydney over the coming year. Following the completion of the prototypes, the AUV’s are expected to be used for intelligence gathering, reconnaissance, and will be capable of carrying both lethal and non-lethal payloads up to 6,000 metres below sea level.

Additionally, as part of the U.S. Government’s US\$2 billion aid package to Ukraine, Anduril has supplied its ALTIUS 600 drone, and is currently seeing active combat and surveillance use by the Ukrainian Defence Force.

MoU & Palmer Luckey’s recent visit to Australia

This contract award is a continuation of a partnership that was first announced in May 2022 with an MOU covering exploratory engine development discussions. Then in September 2022 Orbital was contracted to provide an engine concept study for Anduril. The recent Anduril announcement follows Mr. Luckey’s recent visit to Australia for talks with defence officials².

National Defence Strategic Review – Opportunities for Orbital

In April 2023, the Australian Defence Force released its strategic review, which highlighted the newly adopted *integrated force* doctrine, that emphasises the need to rebalance Australia’s defence capabilities by focussing investment into long-range strike options, unnamed air and sea systems, and cyber warfare. This shift away from traditional defence capabilities into long range unmanned strike capabilities demonstrates the global trend in defence that is providing a strong tailwind for Orbital.

¹. <https://blog.anduril.com/anduril-raises-1-48-billion-in-series-e-funding-ac8c7299d182>

². <https://www.afr.com/politics/federal/why-this-tech-guru-fears-china-has-a-military-edge-20230403-p5cxlg>

Orbital Financial Summary & Valuation

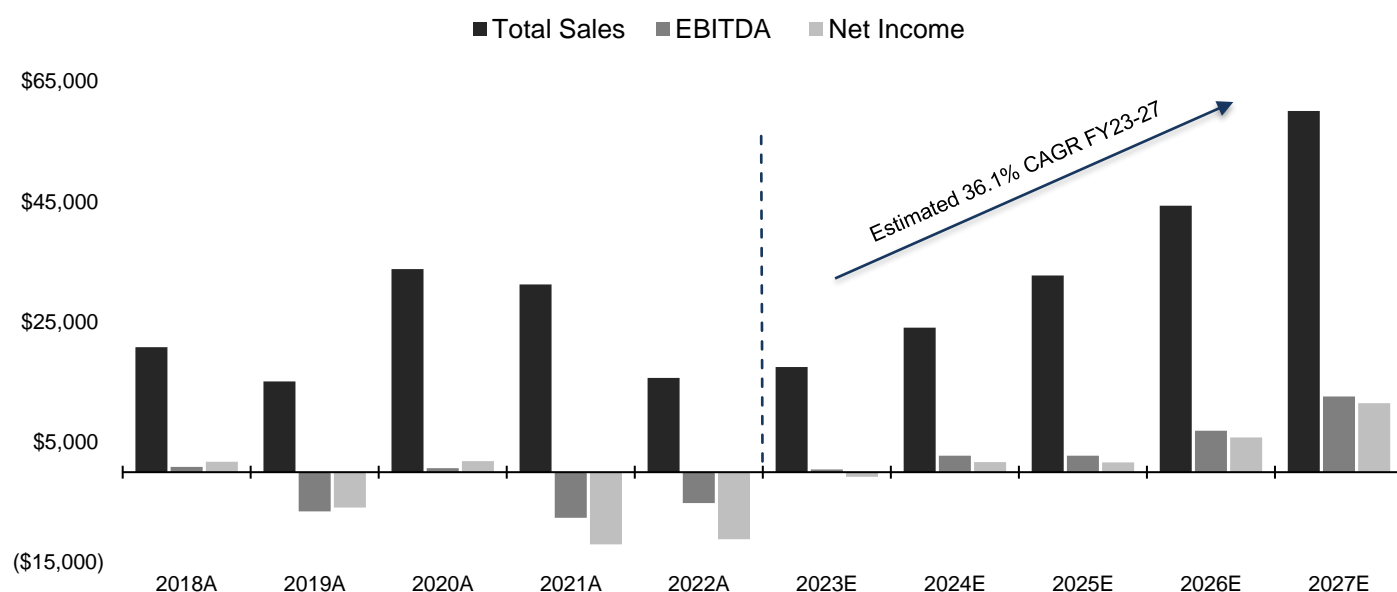
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Based on our DCF valuation we have derived a base case valuation of \$0.45 per share and an upside scenario of \$0.82 per share. Our valuation assumes a 15% WACC and a 2.5% terminal growth rate, and sensitivities of $\pm 2.0\%$.

Exhibit 1: Headline Financial Projections – Base Scenario

	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Total Sales	31,202	15,695	17,506	24,022	32,721	44,344	60,062
Total Income	31,202	18,238	23,306	27,022	32,721	44,344	60,062
EBITDA	(9,163)	(6,142)	(74)	2,378	2,333	6,440	12,166
Net Income	(11,982)	(11,158)	(754)	1,693	1,648	5,756	11,482
Operating Cash Flow	(1,690)	(4,094)	2,850	3,433	1,449	5,355	10,798
Cash Balance	3,116	2,363	3,132	2,699	2,968	7,142	16,760

Exhibit 2: Illustrative Sales, EBITDA, and Net Income Chart – Base Scenario



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