



The Citadel Group (CGL)

1H17: Solid technology segment EBITDA beat; well set-up over forecast period

Announcement highlights

Table 1: Citadel's 1H17 results versus pcg and Wilsons' estimates

(\$ in mn)	1H16a	1H17a	%chg	Wilsons	%chg	Var (abs\$)	%var
Technology Revenue	41.4	44.1	7%	51.4	24%	(7.3)	-14%
EBITDA	11.1	13.6	23%	12.3	11%	1.3	11%
D&A	2.3	3.0	31%	3.9	71%	(0.9)	-23%
EBIT	8.8	10.6	20%	8.4	-5%	2.2	26%
Net interest	1.5	1.3	-18%	1.8	20%	(0.6)	-32%
PBT	7.3	9.4	28%	6.6	-10%	2.8	42%
Tax	2.7	2.6	-2%	1.9	-29%	0.7	38%
Minorities	-	1.7	n/a	0.9		0.8	
Associates	0.9	-	n/a	-		-	
Reported NPAT	5.6	3.7	-34%	3.8	-32%	(0.1)	-3%
Core NPAT	4.6	5.0	9%	5.5	21%	(0.5)	-10%
Core EPS	11.5	10.5	-9%	11.6	1%	(1.1)	-10%
Operating cash flow	9.0	0.5	-95%	7.0	-22%	(6.5)	-93%
	1H16a	1H17a		Wilsons			
Gross margin	40.4%	50.1%		42.6%			
EBITDA margin	26.8%	30.8%		23.9%			
Core NPAT	11.1%	11.3%		10.8%			

Conference call TODAY:

Time: 10:30am (SYD)

Number: 1800 590 693

Passcode: 720257

FY17 Guidance

nil

Source: Citadel, Wilsons

Wilson's Research

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Wilsons' view

Initial analysis

- **1H Technology EBITDA of \$13.6m (+23%) is the key to result and outlook.** Citadel seems well placed to meet/beat our FY17e group EBITDA forecast of \$26.5m. The acquisition of Kapish, the consolidation of filosofh-e and delivery of Monash contract earnings offset the roll-off of the NRAH project. Expecting 2H benefits from new Federal Agency contract wins, scaling benefits (cloud) in Kapish and other incremental contract wins flagged during 1H17.
- **Cash flow weak.** Operating cash was well down from last year with weaker receipts from customers and the timing of tax payments.
- **Underlying NPAT.** 1H17 \$5.0m was ~\$0.5m below our forecast on higher minority interest share of NPAT.
- **Interim dividend of 4.8cps** was flat on last year and lower than our forecast of 6.5cps.

Earnings implications

- We are currently expecting normalised NPAT of ~\$13.1m in FY17e and ~14% CAGR in EBITDA over FY18-19.
- Forecasts in review mode.

Investment view

- Our last published price target was \$6.00 per share. Current rating is BUY.



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Recommendation structure and other definitions

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