

1H17: Earnings quality and outlook much under-rated – BUY

We maintain a BUY rating with a revised price target of \$5.95 per share. Citadel's Technology business achieved impressive margin development in 1H17, capturing variable upside from within its standing contract book, adding new contracts and reporting an exciting debut for the Kapish acquisition. Our EPS changes are positive across the forecast period, seeing further avenues for expansion across their key verticals including Defence, Health and Government. Our thesis remains one of valuation multiple uplift – Citadel's IP and earnings quality should support valuations more akin to the larger international technology developers it so often beats for work. Closing the gap delivers >2-points of EV/EBITDA.

Key points

1H17 results. Contract additions in 1H supported good Technology earnings growth – EBITDA increasing by 23% to \$13.6m (+11% v Wilsons). Variable upside within the contract book plus swapping in higher margin new work outweighed the impact of the NRAH construction phase rolling off in pcp. Underlying NPAT of \$5.0m increased 9% on a continuing basis (ex-Education).

Forecasts, outlook. Recalibrated top-line expectations having underestimated profitability of contract mix in 1H and account for timing issues. We expect that the 2H17 growth will accelerate v pcp: no NRAH headwind + several real avenues of growth including Monash, Kapish, federal agency contract wins. The 1H EBITDA beat encouraged a modest 2H upgrade for FY17; and Wilsons' normalised EPS changes are favourable across forecast period. DPS forecasts lower – Wilsons updating to account for the gap in our model (40%-50% NPAT).

QLD Health (QH) contract extension. Citadel Health's pathology IT business is locked in for another 3-5 years with negligible variation to the economics. A broader re-tendering process is still ongoing but an early state election in QLD could delay that process. QH would need to appropriate funding for such a large renewal program very shortly. The extension period could be an important opportunity for Citadel to implement other features of the pathology solution and strengthen its position of incumbency, which is in its 24th year.

Valuation. We value Citadel using a DCF framework with a relatively limited visibility horizon (FY23). Beyond that we apply a terminal growth assumption of 2.5%. Our revised price target of \$5.95 per share implies 20.4x FY17e EPS and an EV/EBITDA multiple of ~10.0x. We view the apparent 20% discount to domestic tech-sector valuation (10.8x EV/EBITDA) unjustified given Citadel's higher margins and the repeat nature of its contracted services revenue. BUY.

Risks and catalysts listed on p.8 of this report.

Earnings forecasts					
Year-end June (AUD)	FY15A	FY16A	FY17F	FY18F	FY19F
NPAT rep (\$m)	6.5	8.2	8.3	13.3	15.9
NPAT norm (\$m)	6.7	14.5	13.9	17.3	18.7
Consensus NPAT (\$m)			11.4	15.4	17.8
EPS norm (cps)	16.4	30.0	29.2	36.4	39.2
EPS growth (%)	32.3	82.9	-2.7	24.6	7.9
P/E norm (x)	30.5	16.7	17.1	13.8	12.7
EV/EBITDA (x)	22.2	10.7	8.3	7.1	6.3
FCF yield (%)	2.6	3.1	5.3	7.0	8.6
DPS (cps)	5.8	9.6	11.1	14.0	16.0
Dividend yield (%)	1.2	1.9	2.2	2.8	3.2
Franking (%)	100	100	100	100	100

Source: Company data, Wilsons estimates, S&P Capital IQ

Wilsons Research

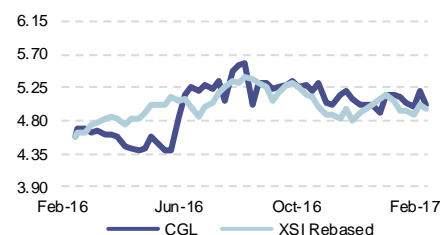
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Recommendation	BUY
12-mth target price (AUD)	\$5.95
Share price @ 20-Feb-17 (AUD)	\$5.00
Forecast 12-mth capital return	19.0%
Forecast 12-mth dividend yield	2.5%
12-mth total shareholder return	21.5%
Market cap	\$239m
Enterprise value	\$228m
Shares on issue	48m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	\$0.1m

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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	-2.3	-11.5	11.3
Rel return (%)	-2.2	-3.5	2.8

Key changes				
		13-Dec	After	Var %
NPAT:	FY17F	13.1	13.9	6.4%
norm	FY18F	17.1	17.3	1.5%
(\$m)	FY19F	17.7	18.7	5.7%
EPS:	FY17F	27.4	29.2	6.4%
norm	FY18F	35.8	36.4	1.5%
(cps)	FY19F	37.1	39.2	5.7%
DPS:	FY17F	13.0	11.1	-14.6%
(cps)	FY18F	16.0	14.0	-12.3%
	FY19F	19.0	16.0	-15.8%
Price target:		6.00	5.95	-0.8%
Rating:		BUY	BUY	

Price target		
	Valuation	Price target
DCF methodology		
WACC (%)	11.2	
Terminal growth (%)	2.5	
PV of forecast FCFs (\$m)	77.2	
PV of terminal value (\$m)	196.4	
Enterprise value (\$m)	273.7	
Net debt (cash) (\$m)	-11.2	
Equity value (\$m)	284.9	

Price target (\$/share) **5.95**

Interims (\$m)				
Half-year (AUD)	Dec 15	Jun 16	Dec 16	Jun 17
	1HA	2HA	1HA	2HE
Sales revenue	46.4	36.2	43.9	53.5
EBITDA	12.6	8.8	13.6	13.7
EBIT	10.5	5.9	10.6	10.1
Net profit	9.1	5.4	7.2	6.7
Norm EPS	18.8	11.2	15.1	14.1
EBIT/sales (%)	22.6	16.3	24.2	18.9
Dividend (c)	4.8	4.8	4.8	6.3
Franking (%)	100.0	100.0	100.0	100.0

Financial stability			
Year-end June (AUD)	FY16A	FY17F	FY18F
Net debt	-33.3	-11.2	-4.5
Net debt/equity (%)	<0	<0	<0
Net debt/EV (%)	<0	<0	<0
Current ratio (x)	3.5	3.2	3.7
Interest cover (x)	5.2	7.9	12.8
Adj cash int cover (x)	4.6	7.8	12.6
Debt/cash flow (x)	0.1	0.1	0.6
Net debt (cash)/share (\$)	<0	<0	<0
NTA/share (\$)	1.3	1.6	1.8
Book value/share (\$)	1.3	1.5	1.7
Payout ratio (%)	32	38	39
Adj payout ratio (%)	66	36	33

EPS reconciliation (\$m)				
	FY16A		FY17F	
	Rep	Norm	Rep	Norm
Sales revenue	83	83	97	97
EBIT	14.6	21.4	19.4	25.7
Net profit	8.2	14.5	8.3	13.9
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
Profit for EPS	8.2	14.5	8.3	13.9
Diluted shrs (m)	48	48	48	48
Diluted EPS (c)	17.0	30.0	17.4	29.2

Returns				
	FY16A	FY17F	FY18F	FY19F
ROE (%)	24	20	22	20
ROIC (%)	44	31	25	24
Incremental ROE	40	-7	30	9
Incremental ROIC	68	15	13	15

Key assumptions								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Revenue growth (%)		-0.8	45.9	14.3	17.8	10.4	14.4	0.7
EBIT growth (%)		30.0	72.6	131.4	20.3	18.7	8.1	1.8
NPAT growth (%)		20.2	61.9	117.2	-4.2	24.6	7.9	1.2
EPS growth (%)		22.5	32.3	82.9	-2.7	24.6	7.9	1.2
EBIT/sales (%)	8.2	10.8	12.8	25.9	26.4	28.4	26.8	27.2
Tax rate (%)	20.3	20.8	22.2	29.2	28.6	28.4	27.0	27.0
ROA (%)	10.2	10.9	7.3	16.1	18.0	17.9	17.8	17.4
ROE (%)	15.9	16.4	11.7	20.7	18.5	18.4	17.4	16.4

Profit and loss (\$m)								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Sales revenue	50.0	49.6	72.3	82.7	97.4	107.5	123.0	123.8
EBITDA	4.9	6.1	10.3	21.4	27.3	32.3	36.3	37.1
Depn & amort	0.8	0.7	1.2	5.0	6.6	6.7	7.2	7.4
EBIT	4.1	5.4	9.1	16.4	20.8	25.6	29.1	29.7
Net interest expense	-0.2	-0.2	-0.1	3.1	2.6	2.0	2.0	1.8
Tax	0.9	1.2	2.0	3.9	5.2	6.7	7.3	7.5
Minorities/pref divs	0.0	0.0	0.0	0.7	3.3	3.6	3.9	4.2
Equity accounted NPAT	0.0	1.4	1.8	1.3	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	3.4	5.8	8.9	10.0	9.7	13.3	15.9	16.1
Abns/exts/signif	0.0	-1.7	-2.4	-1.8	-1.4	0.0	0.0	0.0
Reported net profit	3.4	4.1	6.5	8.2	8.3	13.3	15.9	16.1

Cash flow (\$m)								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
EBITDA	4.9	6.1	10.3	21.4	27.3	32.3	36.3	37.1
Interest & tax	-0.2	-1.1	-1.8	-4.3	-8.0	-8.7	-9.3	-9.4
Working cap/other	-1.5	1.6	-1.6	-6.7	-4.9	-4.9	-4.1	-4.4
Operating cash flow	3.3	6.6	6.9	10.4	14.5	18.7	22.9	23.3
Maintenance capex	-0.6	-1.4	-0.8	-2.9	-1.7	-2.1	-2.4	-2.7
Free cash flow	2.7	5.3	6.1	7.5	12.8	16.7	20.5	20.6
Dividends paid	-1.3	-1.3	-4.1	-4.9	-4.5	-5.4	-6.7	-7.7
Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Invest/disposals	0.0	0.0	-9.1	-1.5	-28.2	-18.0	0.0	0.0
Other inv flows	1.1	3.1	-1.9	-1.1	-1.7	0.0	0.0	0.0
Cash flow pre-financing	2.6	7.1	-8.9	0.0	-21.7	-6.8	13.8	12.9
Funded by equity	0.0	0.0	25.0	0.1	0.0	0.0	0.0	0.0
Funded by debt	-1.9	-0.6	1.4	-1.9	10.0	15.0	0.0	0.0
Funded by cash	-0.6	-6.5	-17.5	1.9	11.7	-8.2	-13.8	-12.9

Balance sheet summary (\$m)								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Cash	13.0	19.3	37.2	34.6	21.9	30.1	44.0	56.9
Current receivables	11.2	12.1	21.3	12.5	15.0	23.0	30.0	37.0
Current inventories	0.4	1.5	1.8	1.1	4.0	4.6	6.0	8.0
Net PPE	0.9	1.7	2.6	6.0	6.0	7.2	6.3	5.6
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles/capitalised	13.8	13.7	59.9	59.3	76.8	89.0	85.1	81.2
Other	1.1	1.2	3.8	3.3	5.0	5.0	5.0	5.0
Total assets	40.3	49.4	126.7	116.7	128.8	159.0	176.4	193.7
Current payables	14.5	14.4	21.9	9.9	11.0	12.0	12.0	12.0
Total debt	0.6	0.1	1.5	1.3	10.6	25.6	25.6	25.6
Other liabilities	3.6	9.5	46.4	41.0	33.3	34.3	35.3	36.3
Total liabilities	18.7	24.1	69.7	52.2	55.0	71.9	72.9	74.0
Minorities/convertibles	0.0	0.0	0.0	3.6	4.3	4.3	4.3	4.3
Shareholder equity	21.6	25.3	57.0	64.6	73.8	87.1	103.5	119.7
Total funds employed	22.2	25.4	58.4	65.8	84.5	112.7	129.1	145.3

Citadel Group – 1H17 results

Results analysis

Table 1: Citadel's 1H17 results vs pcp and Wilsons' estimates

(\$ in mn)	1H16a	1H17a	%chg	Wilsons	%chg	Var (abs\$)	%var
Technology	41.4	44.1	7%	51.4	24%	(7.3)	-14%
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	72%	(0.9)	-24%
EBIT	8.8	10.6	20%	8.4	-5%	2.2	27%
Net interest	1.5	1.3	-18%	1.8	18%	(0.5)	-30%
PBT	7.3	9.4	28%	6.6	-10%	2.8	42%
Tax	2.7	2.6	-2%	1.9	-30%	0.7	39%
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%
Normalised NPAT	8.2	7.2	-13%	8.1	-13%	(0.9)	-11%
Normalised EPS	18.8	15.1	-20%	16.9	-11%	(1.9)	-11%
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	14.3%	11.3%		11.3%			

FY17 Guidance

nil

Source: Citadel, Wilsons' estimates

INCOME STATEMENT

Citadel reported 1H17 on a continuing operations basis following the exit of the Education business. Technology segment increased revenues by 7% to \$43.8m. Growth was achieved notwithstanding an unfavourable pcp comparison with \$12.2m in NRAH construction contract revenue not repeating. Revenue was also impacted by the timing of payments – not having received payment for some work already delivered, which will be recognised in Q3. The key drivers of revenue growth were incremental organic contributions from the standing contract book, the consolidation of filosofh-e, the start-up phase of the Monash contract and the acquisition of Kapish.

Citadel reported \$13.6m EBITDA which was a 23% increase on the pcp, reflecting the incremental profitability developed within contracts; in addition to new work. Cash earnings were ahead of our forecast of \$12.3m, having adjusted our estimate for the discontinuation of Education (previously forecast a loss of \$0.6m).

Reported, underlying NPAT of \$5.0m increased 9% on a continuing operations basis. We assess normalised NPAT of \$7.2m having added back post-tax impact of the amortisation of intangibles and the post-tax discount unwinding expense relating to the acquisitions of PJA Solutions and Kapish.

CASH FLOW AND BALANCE SHEET

Operating cash flow was weak at \$0.5m and well below our forecast. The timing of tax payments, outstanding cash collections and working capital investments in the Monash and federal agency contracts explained the result. We are expecting a rebound in the 2H and for Citadel to report operating cash flow of ~\$14.5m in FY17 compared to \$10.4m in FY16. The net cash position was \$8.3m, down from \$33m at FY16, with investments including Kapish (\$10.2m) and the second tranche of the PJA consideration (\$10.2m).



Earnings outlook

- **Recalibrated top line.** Disclosure is very limited on specific contract economics, hence the perennial challenge in estimating the profitability of Citadel's Technology Segment. Maintaining a degree of visibility on top-line momentum is a significant issue for the stock. We expect that the 2H17 pcp comp will be cleaner, without the NRAH headwind and several real avenues of growth developing well: namely Monash, Kapish, ADF.
- **EBITDA beat encourages modest 2H upgrade.** 1H performance was ahead of our forecast. We are now forecasting \$27.3m in FY17e (previously \$26.5m).
- **DPS forecasts lower.** We have updated to account for the gap in our 1H DPS forecast. We have set a payout ratio of ~40% normalised NPAT. Note that Citadel's policy is 40-50% of NPAT (or NPATA, depending on capital requirement and outlook).
- **E-Health pipeline estimated at \$20m.** Management said that business development activities have identified new opportunities to leverage the R&D investments in eHealth product development (remote monitoring, homecare and other cloud-enabled solutions).

Table 2: Changes to Wilsons' forecasts

Earnings revisions				
Y/E: 30 Jun		FY17e	FY18e	FY19e
Sales revenue - Before	\$m	111.4	123.8	138.0
Sales revenue - After	\$m	97.4	107.5	123.0
- Change	%	-12.6%	-13.2%	-10.9%
EBITDA - Before	\$m	26.5	32.3	35.2
EBITDA - After	\$m	27.3	32.3	36.3
- Change	%	3.1%	0.0%	3.2%
NPAT (normalised) - Before	\$m	13.1	17.1	17.5
NPAT (normalised) - After	\$m	13.9	17.3	18.7
- Change	%	6.3%	1.4%	6.9%
EPS (normalised) - Before	cps	27.4	35.8	37.1
EPS (normalised) - After	cps	29.2	36.4	39.2
- Change	%	6.5%	1.6%	5.8%
DPS - Before	cps	13.0	16.0	19.0
DPS - After	cps	11.1	14.0	16.0
- Change	%	-14.6%	-12.3%	-15.8%

Source: Wilsons' estimates



Table 3: Revised forecast detail FY15-20e

	FY15a	1H	2H	FY16a	1H	2H	FY17e	FY18e	FY19e	FY20e
Sales revenue	72.3	46.7	36.0	82.7	43.9	53.5	97.4	107.5	123.0	123.8
Technology	61.1	41.4	33.5	74.9	43.9	53.5	97.4	107.5	123.0	123.8
Education	11.2	5.3	2.5	7.8	-	-	-	-	-	-
COGS	49.9	26.8	21.4	48.3	25.9	31.6	57.4	61.8	70.1	70.6
Gross profit	22.5	19.9	14.5	34.4	18.0	21.9	39.9	45.7	52.9	53.2
Operating expenses	12.2	7.3	5.7	13.0	4.4	8.2	12.6	13.4	16.6	16.1
EBITDA	10.3	12.6	8.8	21.4	13.6	13.7	27.3	32.3	36.3	37.1
Technology	14.8	13.7	12.2	25.9	16.2	16.3	32.5	44.0	48.2	49.0
Education	8.9	1.6	(0.6)	1.0	-	-	-	-	-	-
Corporate, other	1.2	(2.7)	(2.8)	(5.5)	(2.6)	(2.6)	(5.2)	(5.5)	(5.6)	(5.7)
D&A	1.2	2.1	2.9	5.0	3.0	3.6	6.5	6.7	7.2	7.4
EBIT	9.1	10.5	5.9	16.4	10.6	10.1	20.8	25.6	29.1	29.7
Net interest	(0.1)	1.5	1.6	3.1	1.3	1.4	2.6	2.0	2.0	1.8
Minorities	-	-	0.7	0.7	1.7	1.6	3.3	3.6	3.9	4.2
Equity profit from associates	1.8	0.9	0.3	1.3	-	-	-	-	-	-
Tax	2.0	3.1	0.8	3.9	2.7	2.5	5.3	6.7	7.3	7.5
Adjustments	2.4	1.3	0.5	1.8	3.6	1.6	5.1	2.1	1.0	0.1
Reported NPAT	6.5	5.6	2.7	8.2	1.4	3.1	4.5	11.3	14.9	16.0
Reported EPS	15.2	11.5	5.5	17.0	7.7	9.7	17.4	28.0	33.4	33.9
Normalised NPAT	6.7	9.1	5.4	14.5	7.2	6.7	13.9	17.3	18.7	18.9
Normalised EPS (cps)	16.4	18.8	11.2	30.0	15.1	14.1	29.2	36.4	39.2	39.7
Operating cash flow	6.9	9.0	1.4	10.4	0.5	14.0	14.5	18.7	22.9	23.3
Revenue grow th		58%	-16%	14%	-6%	49%	18%	10%	14%	1%
Earnings grow th										
EBITDA		515%	7%	108%	8%	55%	28%	18%	12%	2%
Core NPAT		576%	1%	117%	-21%	25%	-4%	25%	8%	1%
Core EPS		409%	-12%	83%	-20%	27%	-3%	25%	8%	1%
Margins										
Gross		43%	40%	42%	41%	41%	41%	42%	43%	43%
EBITDA		27%	25%	26%	31%	26%	28%	30%	30%	30%
Core NPAT		20%	15%	18%	16%	13%	14%	16%	15%	15%

Source: Wilsons' estimates

Valuation, recommendation

Valuation. We value Citadel using a DCF framework with a relatively limited horizon (FY23). Beyond that year we apply a terminal growth assumption of 2.5%. Our revised price target of \$5.95 per share implies 20.4x FY17e EPS and an EV/EBITDA multiple of ~10.0x. We view the apparent 20% discount to domestic sector valuation (10.8x EV/EBITDA) unjustified given Citadel's higher margins and the repeat nature of its contracted services revenue.

Table 4: DCF valuation summary

Valuation		The Inputs	
PV of FCFF (\$M) =	63.3	Forecast period	FY17-23e
PV of Terminal Value (\$M) =	232.9	Risk-free rate	4.5%
Enterprise value (\$M)	296.2	Risk premium	6.0%
- Net debt (cash) (\$M)	(11.2)	Beta	1.1
Equity value (\$M) =	284.9	Target D/E	14%
Shares on issue	47.9		
New issuance and options	-	WACC	10.2%
Fully diluted shares	47.9	Tg	2.5%
Value of Equity per share =		\$5.95	

Source: *Wilson*s

Table 5: Domestic and international technology solutions developer valuations

Data as at: 20/02/2017														
Company Name	Ticker	Currency	Year-end	Mkt cap (m)	EV/EBITDA			P/E (norm.)			EBITDA margin			
					FY	FY+1	FY+2	FY	FY+1	FY+2	FY	FY+1	FY+2	
Domestic developers														
Altium Limited	ASX:ALU	USD	30-Jun	1,085	34.1x	20.5x	16.9x	49.6x	27.1x	22.3x	31%	33%	35%	
Hansen Technologies Ltd	ASX:HSN	AUD	30-Jun	609	17.5x	13.8x	12.8x	29.3x	23.1x	20.7x	26%	28%	28%	
CSG Limited	ASX:CSV	AUD	30-Jun	221	9.9x	12.5x	10.8x	13.1x	9.3x	7.6x	20%	13%	13%	
Integrated Research Limited	ASX:IRI	AUD	30-Jun	461	22.3x	12.5x	10.4x	37.0x	25.0x	20.1x	25%	40%	40%	
Infomedia Ltd.	ASX:IFM	AUD	30-Jun	228	14.7x	9.2x	8.4x	29.0x	18.7x	16.7x	22%	33%	34%	
Melbourne IT Limited	ASX:MLB	AUD	31-Dec	202	11.0x	7.5x	6.1x	29.6x	17.1x	12.6x	13%	15%	17%	
Data#3 Limited	ASX:DTL	AUD	30-Jun	270	6.8x	5.2x	4.8x	23.2x	18.0x	16.3x	2%	3%	3%	
Objective Corporation Limited	ASX:OCL	AUD	30-Jun	199	23.2x	NM	NM	52.8x	0.0x	0.0x	13%	NM	NM	
DWS Limited	ASX:DWS	AUD	30-Jun	219	7.5x	7.0x	6.7x	14.6x	12.1x	11.4x	17%	18%	18%	
SMS Management & Technology Ltd.	ASX:SMX	AUD	30-Jun	85	5.5x	8.8x	6.4x	9.6x	13.8x	9.8x	5%	3%	5%	
Senetas Corp. Ltd.	ASX:SEN	AUD	30-Jun	100	18.6x	18.0x	13.0x	23.4x	27.8x	17.8x	27%	28%	33%	
Group Average					15.5x	11.5x	9.6x	28.3x	17.4x	14.1x	18%	21%	23%	
Group Median					14.7x	10.8x	9.4x	29.0x	18.0x	16.3x	20%	23%	23%	
International developers														
athenahealth, Inc.	Nasdaq:ATHN	USD	31-Dec	4,701	36.9x	12.9x	11.2x	236.3x	48.2x	39.3x	10%	24%	24%	
Allscripts Healthcare Solutions, Inc.	Nasdaq:MDRX	USD	31-Dec	2,293	24.4x	10.3x	9.5x	NM	19.8x	17.2x	10%	21%	21%	
Computer Programs and Systems, Inc.	Nasdaq:CPSI	USD	31-Dec	357	18.0x	9.8x	9.0x	70.1x	15.1x	13.9x	10%	19%	19%	
Quality Systems, Inc.	Nasdaq:QSI	USD	31-Mar	973	15.6x	9.2x	9.0x	36.1x	19.2x	18.5x	12%	19%	19%	
Cerner Corporation	Nasdaq:CERN	USD	31-Dec	18,514	12.4x	9.5x	8.7x	32.2x	22.5x	20.4x	28%	33%	34%	
Medidata Solutions, Inc.	Nasdaq:MDSO	USD	31-Dec	3,231	45.0x	22.1x	17.9x	137.7x	45.1x	36.9x	14%	24%	25%	
Accenture plc	NYSE:AcN	USD	31-Aug	75,481	13.0x	12.3x	11.5x	29.6x	20.6x	18.9x	17%	17%	17%	
Cap Gemini S.A.	ENXTPA:CAP	EUR	31-Dec	13,638	10.1x	8.6x	8.0x	20.9x	13.9x	12.8x	12%	14%	14%	
PCI Holdings, Inc.	TSE:3918	JPY	30-Sep	10,525	10.2x	NM	NM	26.2x	0.0x	0.0x	7%	NM	NM	
ULS Group, Inc.	JASDAQ:3798	JPY	31-Mar	8,082	5.6x	NM	NM	16.1x	13.5x	12.4x	17%	0%	0%	
Fujitsu Limited	TSE:6702	JPY	31-Mar	1,347,594	6.7x	7.0x	5.9x	17.1x	15.1x	11.3x	7%	7%	9%	
Lockheed Martin Corporation	NYSE:LMT	USD	31-Dec	77,036	14.3x	12.8x	12.2x	26.5x	21.0x	18.9x	13%	14%	14%	
Group Average					17.7x	11.4x	10.3x	59.0x	21.2x	18.4x	13%	17%	18%	
Group Median					13.7x	10.0x	9.2x	29.6x	19.5x	17.9x	12%	19%	19%	
The Citadel Group Limited	ASX:CGL	AUD	30-Jun	239	10.7x	8.3x	7.1x	16.7x	17.1x	13.8x	28%	30%	30%	

Source: *Capital IQ, Wilson*s



The Citadel Group (CGL)

Business description

The business of The Citadel Group Limited (CGL) is the development, marketing, contracting, implementation and support of integrated knowledge management and business software. Citadel operates at the premium end of this market with respect to both its technology offering and clientele. Core clients are those that seek to capture and manage sensitive data in complex environments such as defence, immigration, health, education and government. These are a key verticals in which Citadel today demonstrates its national security and personal privacy credentials. Complexity takes many forms including logistics, geography, linguistic, technological and the challenge of integrating solutions with supporting infrastructure.

Investment thesis

Citadel differentiates itself from other enterprise systems/software developers by providing an end-to-end service which starts by helping clients define the desired application through to the development and implementation of the hardware and software. Many of Citadel's contracts translate into lengthy relationships with a high proportion of recurring revenue under a managed service model. Citadel's business model offers clients a complete solution managed by one company, with a premium applied to trusted incumbency.

Our core thesis is that Citadel's valuation multiples can re-rate over the next 12-18 months as the market recognises and values the link between these differentiation points and earnings quality.

Revenue drivers

- Technology – managed services contracts with an average ~4.6-year duration
- New contract wins

Margin drivers

- Cross-sales across the customer base and business units
- New contracts

Key issues/catalysts

- New contracts
- Divestment of education business
- Increased visibility into PJA Solutions driving a re-rating

Risk to view

- Contract losses
- Regulatory change in education segment

Balance sheet

- Forecasting net cash of \$11.2m at end FY17

Board

- Kevin McCann, Independent Chairman
- Dr Miles Jakeman, Exec Director and Deputy Chair
- Mark McConnell, Executive Director
- Ms Deena Shiff, Non-Executive Director
- Lt General Peter Leahy, Non-Executive Director

Management

- Darren Stanley, CEO
- Mark McConnell
- Dr Miles Jakeman
- R. Andrew Burns, CFO

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Disclaimers and disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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