Meggitt – QuickView

3 June 2009

Event	Management present
Company meeting	Andy Mann - IR

Investment summary: Upside potential

The issues are clear – debt, currency and civil aerospace. Management is working to offset the downside and smooth the effects. There are few listed exposures to the aerospace cycle in the UK and this has added to the volatility of the share price. Expectations are that the key metrics will remain stable through the current turmoil as management action and currency gains offset the poor fundamentals. Valuation remains low at 5.8x EV/EBITDA, less than 7x forward P/E and a well covered yield of 5.3% leaving scope for recovery as evidence of delivery builds.

Management action on key issues

Debt is targeted to fall through cash generation with cost control and capex/R&D flexibility if conditions worsen beyond current expectations. Absent disposals or a rights issue (neither planned) progress will be slow but the refinancing hurdle does not fall until 2012. Two-thirds of the business is in the US and the remainder has the US dollar as its functional currency. Translation exposure equates to £1m at the PBT level for each 1¢ move. Transaction exposure is hedged and the company will give further details with the interims on 4 August. A £50m cost reduction programme runs through 2010 and is expected to fully offset the downturn in civil volumes.

An unjust proxy for top down concerns?

Civil aviation (45% of the group) is highly cyclical. The financial effects are borne most heavily by airlines then by prime contractors and to a significantly lesser extent by component suppliers such as Meggitt. The significant maintenance and spares revenues are to some extent counter cyclical. Volumes are much more predictable, pricing tends to be at least stable and margins are significantly higher.

Valuation: Currency driven

Valuation metrics are highly dependent of currency assumptions. Current consensus predicts a minor downturn in earnings in 2010 before the full benefits of the cost reduction programme boost 2011. If achieved this leaves all valuation measures looking low. Scope for further recovery exists as management deliver.

Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/07	878.2	179.0	22.1	8.20	7.4	5.0
12/08	1,162.6	243.3	26.5	8.45	6.2	5.2
12/09e	1,120.6	226.2	24.6	8.45	6.7	5.2
12/10e	1,175.9	206.6	21.4	8.49	7.7	5.2

Price	163.8p
Market Cap	£1,114m

Share price graph

Share details

Code	MGGT
Listing	FULL
Sector	Aerospace
Shares in issue	680.3m

Business

Meggitt is a world leader in aircraft wheels and braking systems focused on Biz Jets and regional aircraft and military airframes. It also has aerospace, defence systems and sensing systems business. Circa two-thirds of the company is US-based.

Bull

- Niche market leader
- High aftermarket exposure
- High and stable margins

Bear

- Balance sheet leverage
- Civil aerospace exposure
- Pension fund

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