

SPIRENT COMMUNICATIONS PLC (LON:SPT)

Smarter Connectivity

MARKET LEADING POSITION

Spirent Communications is a world leader in providing products and services for test and measurement of communications systems across fixed and mobile voice, data and video applications and networks.

In this report we argue that the company is positioned for increased earnings growth in the coming years, based on the success of the recent cost-base reduction program, and the company's strategic alignment to the major growth drivers in the market place.

OUTLINE OF THE BUSINESS—GROWTH DRIVERS

Spirent operates through three divisions:

Networks and Security provides automated performance and security test systems for development of new devices, networks and applications

Lifecycle Service Assurance provides active test and analytics solutions for service optimising network performance and customer experience.

Connected Devices provides automated test systems for the development of connected devices.

Across the business, a key differentiator for Spirent is the provision of active monitoring of network traffic, through the VisionWorks platform. This is applicable to virtual networks or traditional networks. The automation of testing is a crucial aspect, as this allows customers to reduce their engineering overhead.

In terms of wider end-market developments, the company is aligned to growth trends such as 400G Ethernet, 5G wireless, and the Internet of Things.

FINANCIALS

We are forecasting continued growth in underlying operating profit for Spirent in 2017e and 2018e, 18% and 11% respectively. Our chart and commentary on p2 provide some detail of the drivers.

The balance sheet position is strong, with \$115m of net cash at Dec 31 2017e (our forecast).

In valuation terms, the shares now trade on 11.9x EV/OperatingProfit for 2018e, which we believe offers upside if the operating profit growth continues as we expect.

y/e Dec 31, \$m	2015	2016	2017E	2018E
Revenue	477.1	457.9	460	480
Adj. Op. Profit	42.1	46.5	55.0	61.0
EV/Op.Profit	17.3	15.7	13.2	11.9
Adj. EPS (¢)	5.0	5.3	6.4	7.6
Net cash	102.0	96.1	115	125
Source: Capital Network				

TELECOMMUNICATIONS EQUIPMENT

08/01/2018

SHARE PRICE

▲ **104p**

52 WEEK LOW

▲ **89.5p**

MARKET CAP

▲ **£636.2m**

52 WEEK HIGH

▲ **130.25p**

NET CASH

▲ **\$110.2m**

NAV

▲ **\$337.1m**

MAJOR SHAREHOLDERS

- 1) Ameriprise Financial: 15.2%
- 2) Prudential plc: 10.1%
- 3) AXA Investment: 7.8%

Shares in Issue	611.8m
Avg Volume Daily	634,714
Primary index	FTSE AS
EPIC	LON:SPT
Next Key Announcement	FY 2017 prelims, expected Feb 2018
Sector	Telecommunications

SHARE PRICE CHART



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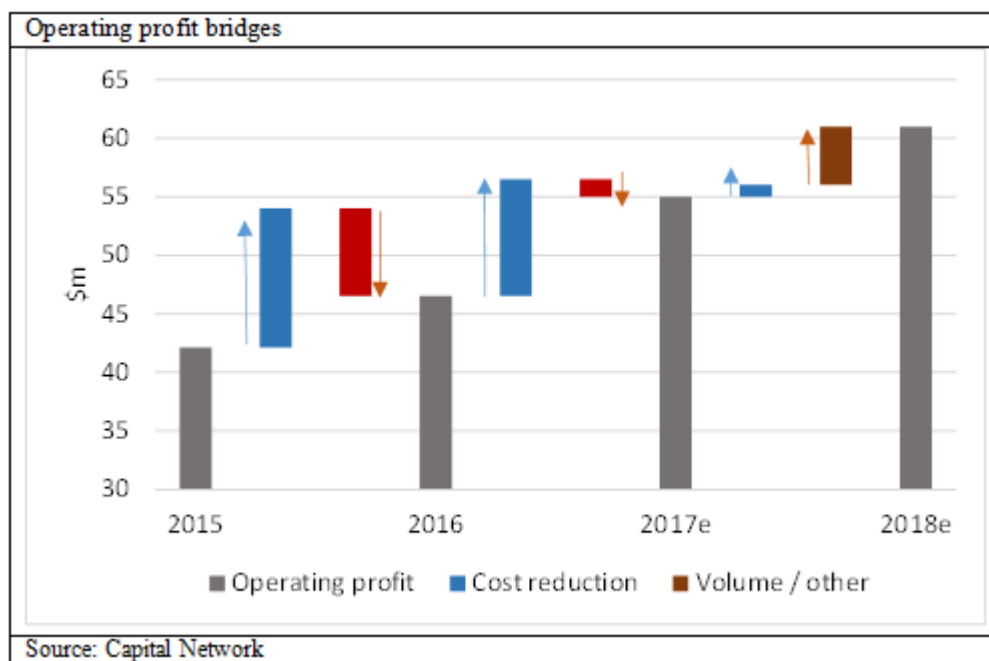
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	Networks and Security	Lifecycle Service Assurance	Connected Devices	Group
Market	\$1,170m	\$805m	\$550m	\$2,525m
Market growth trend	10%	7%	-3%	6%
Revenue	\$262m	\$99m	\$97m	\$458m
Market share	22%	12%	18%	18%
Source: Company data				

The above table shows the growth trends and market shares for Spirent in each of the three divisions. The growth trend is measured as the average annual growth 2013-2016.

During 2015-2017e the group's revenue has declined, due to the market pressures in the Connected Devices sector (mobile handset testing declining) and due to Spirent exiting some legacy product lines in order to focus on the strategic growth priorities. Operating profit has nonetheless been increased over this period.

The chart below shows the operating profit bridge for 2015-2018. During 2016 and 2017e the operating profit growth has come from cost savings. We believe that 2018 represents the inflection point where volume growth becomes the profit driver rather than cost reductions. This is driven by the growth drivers we've highlighted – active monitoring of networks, 400G Ethernet, IoT, virtual networks, 5G mobile.



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