



CANADA

FLT CN Outperform

Price (at 17:54, 16 Dec 2017 GMT) C\$0.80

Valuation C\$ 0.97

- DCF (WACC 13.0%, beta 1.5, ERP 7.0%, RFR 2.5%)

12-month target C\$ 1.00

12-month TSR % +25.0

Volatility Index Very High

GICS sector

Technology Hardware & Equipment

Market cap C\$m 98

Market cap US\$m 71

30-day avg turnover C\$m 0.0

Number shares on issue m 123.0

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
Revenue	m	0.0	0.0	6.3	11.8
EBITDA	m	-2.2	-5.0	-4.9	1.5
Recurring profit	m	-2.9	-5.2	-4.9	1.0
Reported profit	m	-2.9	-5.2	-4.9	1.0
Gross cashflow	m	-1.9	-5.2	-4.9	1.2
CFPS	C\$	-0.03	-0.05	-0.04	0.01
CFPS growth	%	nmf	-75.7	16.5	nmf
PGCFPS	x	nmf	nmf	nmf	84.7
EPS rec	C\$	-0.04	-0.05	-0.04	0.01
EPS rec growth	%	nmf	-15.6	15.8	nmf
PER rec	x	nmf	nmf	nmf	99.6
Total DPS	C\$	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-167.9	-0.1	0.0	0.0
ROE	%	-213.7	-0.1	0.0	0.0
EV/EBITDA	x	-29.4	-18.4	-18.8	60.2
Net debt/equity	%	-84.2	-0.1	0.0	-0.1
P/BV	x	52.2	0.0	0.0	0.0

FLT CN vs TSX, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, December 2017
(all figures in CAD unless noted)

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17 December 2017

Macquarie Capital Markets Canada Ltd.

Drone Delivery Canada

Proof of concept

Event

- **FLT announced that Transport Canada (TC) has certified its X1000 Sparrow cargo delivery drone with a payload of 10lb (5kg) under the Compliant UAV Status,** which marks the first time that a cargo delivery drone model has been certified by the Canadian regulator.
- **Compliant UAV status is a mandatory component for obtaining the Special Flight Operations Certificate (SFOC) and one of three regulatory components of the Compliant UAS Operator program that are critical for FLT to achieve beyond-visual-line-of-sight (BVLOS) commercialization.**
- Given that the drone certification status is the most difficult to obtain due to both safety and security concerns, **we consider this to be a good indicator of a supportive regulatory environment which should pave the way for FLT to successfully obtain the balance of approvals in pilots and organizational structure so it can commence commercialization by 1Q18.** More important, we think this paves the way for FLT to test and obtain approval on large payload drones ([LINK](#)) that are critical in justifying the economics of drone delivery.
- **Maintain OP-rating and \$1.00 target.** Compliant UAS status incrementally validates the feasibility of FLT's model and adds increased visibility to its revenue outlook. We continue to consider FLT to be well positioned for the growing trend of drone utilization across North America ([link to thematic](#)) as a pure-play in Canada ([link to initiation](#)).

Impact

- **What we liked:** commercialization outlook remains intact. We expect FLT to obtain ~5–10 BVLOS flight paths from TC, with the recent Moosonee and Moose Factory flight to be among the first patch ([LINK](#)).
- **What we would like to see:** large delivery volumes and/or number of approved flight paths to justify the economics given the current capacity of the X1000, or Compliant UAS status for larger delivery drones such as the Flyox.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: C\$1.00 based on a DCF methodology.
- Catalyst: license grant, new customers, successful test results.

Action and recommendation

- Fundamental to our thesis, rating and target price is the prospect that FLT will be approved by Transport Canada as a Compliant Operator under its Special Flight Operations Certificate for the operation of BVLOS drone delivery and transport services. In the event that regulatory approval is unobtainable or faces unexpected delays, the stock would have questionable value in our view.

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Fig 1 Drone Service Plays and Transportation Comparables

16-Dec-17												EV/Revenue		PER	
Company	Ticker	Macquarie Analyst	Stock Rating	Price (FX Local)	% of 52-wk High	Target Price	Return to Target	Mkt Cap. (US'Mn)	Ent Value (US'Mn)	30-Day ADTV (US'Mn)	2017E	2018E	2017E	2018E	
CDA	Drone Delivery CA	FLT	Zhang	OP	\$0.80	97.6%	\$1.00	25.0%	91	85	0.3	nmf	nmf	nmf	nmf
US	Alphabet	GOOGL	Schachter	OP	\$1,072.00	99.3%	\$1,175.00	9.6%	741,915	638,467	1,550.8	7.4x	5.9x	33.4x	26.9x
US	Amazon	AMZN	Schachter	OP	\$1,179.14	97.2%	\$1,300.00	10.2%	568,195	587,071	4,132.0	3.3x	2.4x	260.8x	108.8x
US	Facebook	FB	Schachter	OP	\$180.18	97.8%	\$205.00	13.8%	525,842	487,553	2,889.9	12.1x	8.6x	30.4x	26.6x
CH	Alibaba	BABA	Huang	OP	\$173.55	90.5%	\$245.00	41.2%	444,488	435,370	3,829.7	17.9x	11.6x	48.9x	33.1x
CH	JD.com	JD	Huang	OP	\$40.32	82.3%	\$51.00	26.5%	57,591	56,169	672.0	1.0x	0.8x	76.8x	41.6x
CH	Hikvision	002415	Chang	OP	CNY 37.95	86.9%	CNY 57.00	50.2%	53,069	52,050	255.6	8.0x	5.9x	37.7x	23.5x
JP	Rakuten	4755	Gibson	N	¥ 1,025	72.8%	¥ 1,165	13.7%	13,047	335	82.5	2.0x	1.8x	15.4x	17.9x
KR	CJ Logistics	000120	Cho	OP	Kw152000	76.0%	Kw230000	51.3%	3,184	5,224	5.2	0.6x	0.6x	30.3x	22.1x
UK	JustEat	JE	Liao	OP	£7.72	93.3%	£8.54	10.6%	6,992	6,774	29.7	10.0x	7.9x	48.1x	29.8x
CDA	Deveron UAS	DVR	NC	NR	\$0.30	53.6%	-	-	5	4	0.0	n/a	n/a	n/a	n/a
CDA	Kraken Sonar	PNG	NC	NR	\$0.18	78.3%	-	-	13	12	0.0	n/a	n/a	n/a	n/a
CDA	Global UAV	UAV	NC	NR	\$0.09	58.6%	-	-	6	6	0.1	n/a	n/a	n/a	n/a
FR	Groupe Gorge SA	GOE	NC	NR	€ 16.94	68.3%	-	-	269	347	0.4	nmf	0.9x	nmf	60.5x
DE	Deutsche Post AG	DPW	NC	NR	€ 40.37	98.7%	-	-	57,642	62,011	128.8	0.8x	0.8x	16.4x	16.4x
AU	Aquabotix	UUV	NC	NR	AUD 0.10	43.5%	-	-	10	6	0.0	n/a	n/a	n/a	n/a
Global Drone Services Average						79.8%		25.2%				6.3x	4.3x	59.8x	37.0x
CN	CN Rail	CNR	Gupta	N	\$103.35	95.1%	\$107.00	3.5%	60,163	68,296	149.2	6.7x	6.3x	20.4x	19.0x
CN	CP Rail	CP	Gupta	OP	\$230.05	99.0%	\$245.00	6.5%	25,979	32,328	91.2	6.3x	5.9x	20.2x	17.8x
US	Forward Air	FWRD	Clement	N	\$57.30	95.5%	\$48.00	(16.2%)	1,706	1,735	8.2	1.3x	1.1x	26.9x	23.8x
CN	CargoJet	CJT	NC	NR	\$56.37	98.9%	-	-	584	863	1.1	2.9x	2.9x	28.5x	23.3x
US	UPS	UPS	NC	NR	\$118.00	94.3%	-	-	101,684	116,163	349.9	1.7x	1.7x	18.7x	18.1x
US	FedEx	FDX	NC	NR	\$240.05	98.6%	-	-	64,369	76,022	322.2	1.2x	1.1x	18.0x	15.8x
US	Expeditors Intl.	EXPD	NC	NR	\$64.44	97.6%	-	-	11,451	10,421	81.0	1.5x	1.4x	25.7x	24.7x
EU	Deutsche Post	DPW	NC	NR	\$40.37	98.7%	-	-	57,642	62,011	128.8	0.8x	0.8x	16.4x	16.4x
JP	Yusen Logistic	9370	NC	NR	¥ 1,492	98.5%	-	-	559	913	4.2	nmf	0.2x	nmf	26.2x
JP	Yamato Holdings	9064	NC	NR	¥ 2,318	89.7%	-	-	8,461	8,407	46.4	nmf	0.6x	nmf	25.8x
JP	Nippon Express	9062	NC	NR	¥ 7,300	94.9%	-	-	6,465	8,361	21.2	nmf	0.5x	nmf	15.4x
CH	Sinotrans Air	600270	NC	NR	CNY 16.74	81.2%	-	-	2,297	1,637	15.2	nmf	1.7x	12.6x	12.9x
Global Logistic Services Average						85.3%		4.8%				3.3x	2.3x	26.3x	23.8x

Source: Company Data, Bloomberg, Thomson, Macquarie Research, December 2017; Data for non-covered stocks is sourced from Bloomberg.

Fig 2 Summary Financials

Financial Statements		1Q18E	2Q18E	3Q18E	4Q18E		2017E	2018E	2019E	2020E	
Revenue	t	-	-	-	-	Revenue	t	-	6,275	11,768	23,835
EBITDA (adj)	t	(237)	(574)	(468)	(930)	EBITDA (adj)	t	(4,976)	(4,865)	1,520	7,816
EBIT	t	(240)	(1,249)	(472)	(955)	EBIT	t	(5,243)	(4,927)	1,347	7,410
Net income (rep)	t	(242)	(1,251)	(474)	(957)	Net income (rep)	t	(5,246)	(4,927)	983	5,409
EPS (adj)		(0.00)	(0.01)	(0.01)	(0.01)	EPS (adj)		(0.05)	(0.04)	0.01	0.04
Revenue Growth YoY	%	nmf	nmf	nmf	nmf	Revenue Growth YoY	%	nmf	nmf	nmf	nmf
EBITDA (adj) Growth	%	nmf	nmf	nmf	nmf	EBITDA (adj) Growth	%	nmf	nmf	nmf	nmf
Net income (adj) Growth	%	nmf	nmf	nmf	nmf	Net income (adj) Growth	%	nmf	nmf	nmf	nmf
EBITDA Margin	%	nmf	nmf	nmf	nmf	EBITDA Margin	%	nmf	nmf	nmf	nmf
Balance Sheet						Balance Sheet					
Total Assets	t	455	2,649	1,981	1,737	Total Assets	t	6,757	4,007	13,079	30,368
Total Liabilities	t	378	325	131	369	Total Liabilities	t	117	350	663	4,767
Total S/H Equity	t	77	2,324	1,850	1,368	Total S/H Equity	t	6,640	3,657	12,416	25,601
Book Value/Share		\$0.00	\$0.03	\$0.02	\$0.02	Book Value/Share		\$0.06	\$0.03	\$0.10	\$0.21
ROA		nmf	nmf	nmf	nmf	ROA		nmf	nmf	nmf	nmf
ROE		nmf	nmf	nmf	nmf	ROE		nmf	nmf	nmf	nmf
Net Debt	t	(252)	(2,317)	(1,495)	(1,153)	Net Debt	t	(5,759)	(2,998)	(11,264)	(22,637)
Net Debt/EBITDA		0.3x	1.0x	0.8x	0.3x	Net Debt/EBITDA		0.3x	0.2x	-1.9x	-0.7x
Cash Flow Statement						Cash Flow Statement					
Adj Op. Cash Flow	t	(171)	(552)	(812)	(772)	Adj Op. Cash Flow	t	(5,022)	(2,447)	9,218	14,566
Capex	t	(5)	(22)	(9)	-	Capex	t	(3)	(314)	(588)	(1,192)
Free Cash Flow	t	(174)	(571)	(818)	(770)	Free Cash Flow	t	(5,021)	(2,761)	8,629	13,374
FCF/Share		(\$0.00)	(\$0.01)	(\$0.01)	(\$0.01)	FCF/Share		(\$0.05)	(\$0.02)	\$0.07	\$0.11
Valuation Analysis		1Q18E	2Q18E	3Q18E	4Q18E		2017E	2018E	2019E	2020E	
Price		\$0.45	\$0.45	\$0.45	\$0.45	Price		\$0.45	\$0.45	\$0.45	\$0.45
Shares	t	59,781	89,291	89,291	89,291	Shares	t	109,739	122,419	122,419	122,419
Market Cap	t	26,901	40,181	40,181	40,181	Market Cap	t	49,382	55,089	55,089	55,089
Net Debt	t	(252)	(2,317)	(1,495)	(1,153)	Net Debt	t	(5,759)	(2,998)	(11,264)	(22,637)
EV	t	26,649	37,864	38,686	39,028	EV	t	43,624	52,091	43,825	32,451
EV/EBITDA	%	nmf	nmf	nmf	nmf	EV/EBITDA	%	nmf	-10.7x	28.8x	4.2x
P/E	%	nmf	nmf	nmf	nmf	P/E	%	nmf	-11.2x	56.0x	10.2x
FCF Yield	%	nmf	nmf	nmf	nmf	FCF Yield	%	nmf	-0.1x	0.2x	0.2x

Source: Company report, Macquarie Research, December 2017

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions					
<p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell)– return >5% below Russell 3000 index return</p>	<p>Volatility index definition* This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / <i>efpowa</i>* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>					
Recommendation proportions – For quarter ending 30 September 2017							
	AU/NZ	Asia	RSA	USA	CA	EUR	
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Neutral	37.50%	28.16%	43.02%	47.52%	30.00%	39.51%	(for global coverage by Macquarie, 2.68% of stocks followed are investment banking clients)
Underperform	12.12%	15.62%	16.28%	6.27%	6.15%	18.88%	(for global coverage by Macquarie, 1.08% of stocks followed are investment banking clients)

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Date	Stock Code (BBG code)	Recommendation	Target Price
11-Oct-2017	FLT CN	Outperform	C\$1.00

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