



# Quickstep Holdings Limited

## September quarter activities and cash flow

293 F-35 JSF parts delivered (243 fuselage and 50 VTF parts). This represents +14% increase YoY, but a 27% decline relative to the June 2017 quarter. Importantly, management is maintaining full year JSF volumes at +1,500 parts, with production targeted to ramp up in the second half of FY18E.

Six (6) Lockheed Martin C-130J shipsets delivered (vs 8 in the prior quarter and 7 in the pcq).

In other programs, production of parts using Qure technology for portable X-ray manufacturer Micro-X Limited (ASX: MX1) continued, following commencement of production for the contract in 3Q FY17. Production of the final set of parts for Thales Hawkei started and will be completed in 2H FY18. This contract for glass-fibre panels is non-core to QHL's strategy. Commercialisation of the Quickstep Production System (QPS) continued, with the front fender project for a European original equipment manufacturer (OEM) completing phase one of the project to demonstrate the effectiveness of Qure as a substitute for traditional autoclave technology.

Sales revenue was \$12.4m with 1Q cash receipts from customers of \$15.3m benefitting from advance payments; operating cash flow (backing out A\$180k in government grants/tax incentives) was effectively cash neutral.

QHL drew down \$1m from the A\$3m Efic Export Contract Loan, taking the total drawdown at 30 September 2017 to \$2.5m.

The September year-end cash position of \$4.3m was \$600k up on the end-June quarter cash balance of A\$3.7m.

QHL did not provide revenue or profit guidance for FY18E. Management states however that they plan to increase focus on the aerospace and defence sector over the next 12-24 months whilst looking at cost reduction strategies.

*We believe that the benefits of the business reorganisation and cost cutting initiatives announced in August 2017 – the OneQuickstep change program – will assist margin expansion, particularly from the second half of FY18E. We forecast that the group will be cash positive in FY19E, with cash flows increasing in FY20/21E on the back of a significant ramp-up in JSF parts sales.*

**Recommendation: BUY (Higher Risk).**

### Key Financials

Year-end June	FY17A	FY18E	FY19E	FY20E	FY21E
Aerospace (US\$m)	37	43	59	69	70
Automotive (US\$m)	1	1	1	2	5
Other (US\$m)	1	1	14	25	25
Total sales (US\$m)	39	45	74	96	101
AUD/USD exchange rate	0.75	0.78	0.78	0.78	0.78
Total revenue (A\$m)	52	58	96	123	130
EBITDA (A\$m)	-3.5	1.3	10.0	16.8	19.4
EBITDA margin (%)	-6.7%	2.3%	10.4%	13.7%	15.0%
Normalised NPAT (A\$m)	-7	-1	6	10	12
EPS Reported (A\$c)	-1.1	-0.1	0.9	1.8	2.1
EPS Normalised (A\$c)	-1.1	-0.1	0.9	1.8	2.1
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
PER (x)	-ve	-ve	8.6	4.6	3.8
Net (debt) / cash (A\$m)	-8	-10	-6	1	11
Capex (A\$m)	-3.7	-2.0	-2.3	-2.5	-3.0

Source: Iress, Company Data, State One Stockbroking Est. Share price: \$ 0.081 Oct 24, 2017

24 October 2017

Share price: A\$0.08

Target price: A\$0.16

Recommendation  
**Buy**

Risk Assessment  
**Higher**

### Industrial

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Senior Investment Analyst

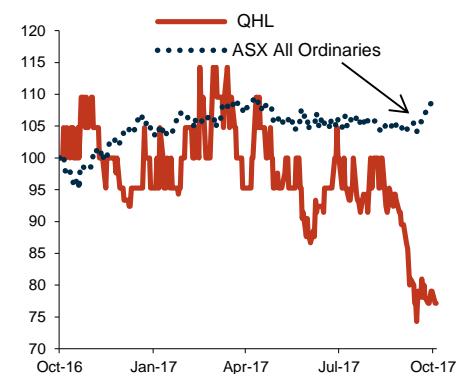
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### Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.08-A\$0.12
Market Cap (ASm)	46
Shares Outstanding (m)	562
Av Daily Turnover (shares)	432k
ASX All Ordinaries	5,905
FY18E BV per share (A\$c)	1.3
EPS FY18E (A\$c)	-0.1
Net (Debt)/Cash FY18E (A\$m)	-10

### Relative price performance



Source: IRESS

## Financial Statements

### Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Sales</b>	<b>51.9</b>	<b>58.0</b>	<b>95.8</b>	<b>123.2</b>	<b>129.8</b>
COGS	(42.0)	(46.7)	(75.7)	(96.1)	(99.9)
Operational/Marketing/Corporate	(7.9)	(7.0)	(7.1)	(7.3)	(7.4)
R&D	(5.5)	(3.0)	(3.0)	(3.0)	(3.0)
Total cash costs	(55.4)	(56.7)	(85.9)	(106.4)	(110.3)
<b>EBITDA</b>	<b>(3.5)</b>	<b>1.3</b>	<b>10.0</b>	<b>16.8</b>	<b>19.4</b>
Depreciation & Amortisation	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
<b>Operating profit</b>	<b>(5.7)</b>	<b>(0.9)</b>	<b>7.8</b>	<b>14.6</b>	<b>17.2</b>
NOI (Grants/Other)	(0.0)	0.6	0.6	0.6	0.6
<b>EBIT</b>	<b>(5.7)</b>	<b>(0.3)</b>	<b>8.4</b>	<b>15.2</b>	<b>17.8</b>
Interest income	0.6	0.1	0.1	0.1	0.2
Interest expense	(1.6)	(0.6)	(0.5)	(0.5)	(0.3)
Tax expense	0.0	0.0	(2.4)	(4.5)	(5.3)
<b>Reported NPAT</b>	<b>(6.7)</b>	<b>(0.8)</b>	<b>5.5</b>	<b>10.4</b>	<b>12.4</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>(6.7)</b>	<b>(0.8)</b>	<b>5.5</b>	<b>10.4</b>	<b>12.4</b>
EPS Reported (A\$c)	(1.1)	(0.1)	0.9	1.8	2.1
EPS Normalised (A\$c)	(1.1)	(0.1)	0.9	1.8	2.1
Dividend payout (%)	na	na	0%	0%	0%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
Dil Av no. of shares (m)	588	588	588	588	588
Dil YE no. of shares (m)	588	588	588	588	588

Cash Flow Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
<b>EBITDA</b>	<b>(3.5)</b>	<b>1.3</b>	<b>10.0</b>	<b>16.8</b>	<b>19.4</b>
Investment in working capital	4.7	(0.7)	(2.3)	(2.7)	(1.9)
Tax expense	0.0	0.0	(2.4)	(4.5)	(5.3)
<b>Operating Cash Flow</b>	<b>1.2</b>	<b>0.6</b>	<b>5.3</b>	<b>9.6</b>	<b>12.2</b>
Capex	(3.7)	(2.0)	(2.25)	(2.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(3.7)</b>	<b>(2.0)</b>	<b>(2.25)</b>	<b>(2.5)</b>	<b>(3.0)</b>
Net interest received / (paid)	(1.0)	(0.5)	(0.5)	(0.3)	(0.1)
Debt increase / (repayment)	0.1	0.5	(1.0)	(3.0)	(3.5)
Dividends declared	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	0.6	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>(0.3)</b>	<b>0.0</b>	<b>(1.5)</b>	<b>(3.3)</b>	<b>(3.6)</b>
Non-operating & Other	(1.1)	0.60	0.60	0.60	0.6
<b>Inc/(Dec) in Cash</b>	<b>(3.9)</b>	<b>(0.8)</b>	<b>2.1</b>	<b>4.4</b>	<b>6.1</b>

Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Deposits	3.7	3.0	5.1	9.5	15.6
Receivables	6.3	6.1	9.6	11.1	11.7
Inventories	10.6	11.0	12.5	14.8	16.9
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	14.8	14.6	14.6	14.9	15.7
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
<b>Total Assets</b>	<b>36.8</b>	<b>35.7</b>	<b>42.8</b>	<b>51.3</b>	<b>60.9</b>
Payables and other current Liabilities	15.7	14.9	17.5	18.6	19.3
Short Term Debt	3.8	4.3	4.3	2.8	1.3
Long Term Debt	8.2	8.2	7.2	5.7	3.7
Other Non Current Liabilities	0.9	0.9	0.9	0.9	0.9
<b>Total Liabilities</b>	<b>28.6</b>	<b>28.3</b>	<b>29.9</b>	<b>28.0</b>	<b>25.2</b>
<b>Total Equity</b>	<b>8.2</b>	<b>7.4</b>	<b>13.0</b>	<b>23.4</b>	<b>35.8</b>
Net (Debt)/Cash	(8.3)	(9.6)	(6.4)	1.0	10.6

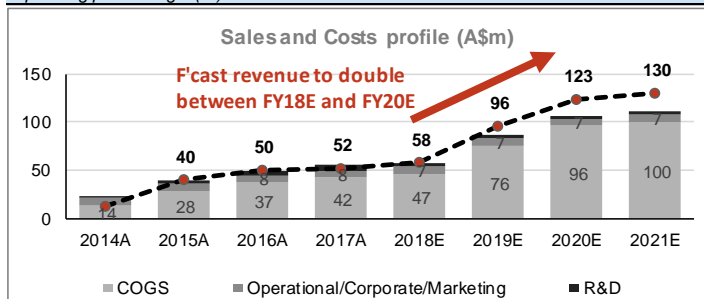
Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-17
Farjoy PL	2.4	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Parts sold / delivered</b>					
C-130J/LM-100J shipsets	27	24	28	28	28
F-35 JSF parts	1,230	1,500	2,250	2,650	2,720
... JSF fuselage	716	1,040	1,340	1,580	1,640
... JSF VTF	514	460	910	1,070	1,080
<b>Revenue composition (A\$m)</b>					
Aerospace - exisiting contracts	49.5	55.6	76.4	88.7	90.6
C-130J/LM-100J	19.3	18.7	21.9	21.9	21.9
F-35 JSF	30.2	36.9	54.5	66.8	68.7
... JSF fuselage	20.7	28.6	38.0	47.4	49.2
... JSF VTF	9.5	8.3	16.4	19.3	19.5
Aerospace - new business	0.0	0.0	12.1	24.2	24.2
<b>Total Aerospace (Bankstown)</b>	<b>49.5</b>	<b>55.6</b>	<b>88.5</b>	<b>112.9</b>	<b>114.8</b>
Automotive	0.7	0.7	1.4	2.8	7.1
X-Ray	0.2	1.7	4.0	5.6	5.9
Engineering/Other	1.5	0.0	2.0	2.0	2.0
<b>Non-Aerospace (Geelong)</b>	<b>2.4</b>	<b>2.4</b>	<b>7.4</b>	<b>10.4</b>	<b>14.9</b>

Group revenue (A\$m)	51.9	58.0	95.8	123.2	129.8
YoY revenue growth	4%	12%	65%	29%	5%
COGS as % revenue	81%	81%	79%	78%	77%
Operations/Other costs as % revenue	15%	12%	7%	6%	6%
R&D as % revenue	11%	5%	3%	2%	2%
Total costs as % revenue	107%	98%	90%	86%	85%

EBITDA margin (%)	-ve	2%	10%	14%	15%
Operating profit margin (%)	-ve	-ve	8%	12%	13%



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	cash	cash	cash	4%	30%
Net Debt/Total Assets	cash	cash	cash	2%	17%
Net interest Cover (x)	na	na	17	44	156

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised PER	-ve	-ve	8.6	4.6	3.8
Price/OP Cash Flow	39.2	76.8	9.0	4.9	3.9
EV (A\$m)	54	55	52	45	35
EV/EBITDA	-ve	42	5	3	2
ROE (%)	na	-ve	43%	45%	35%

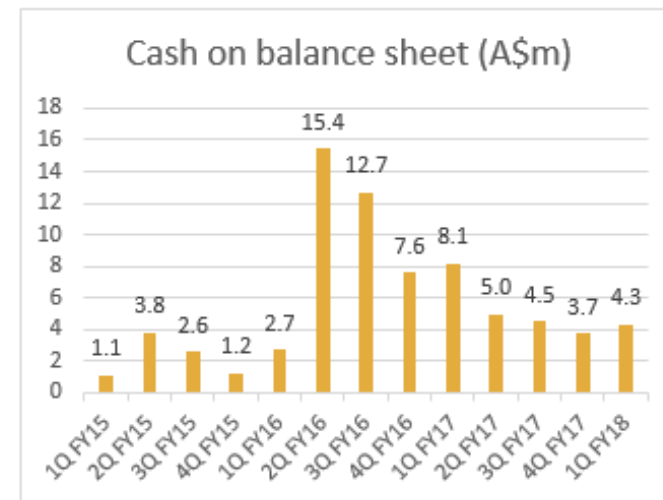
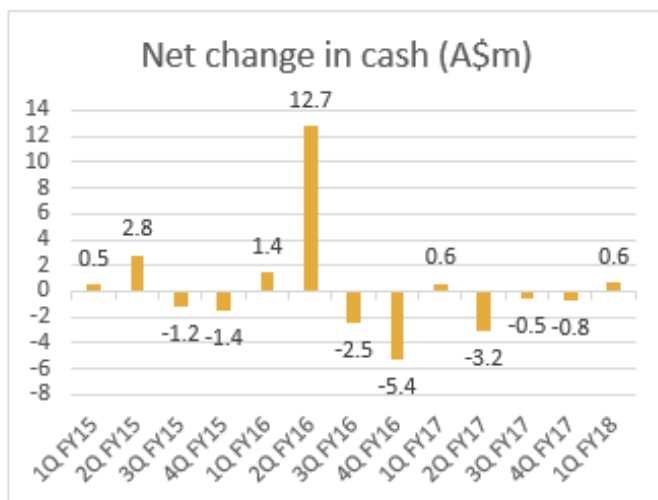
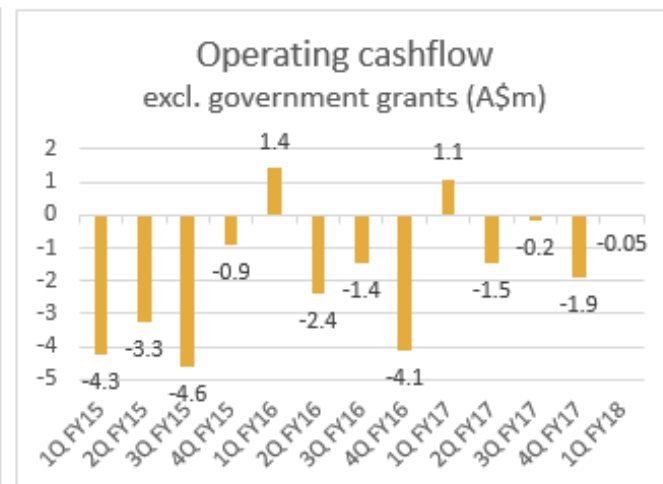
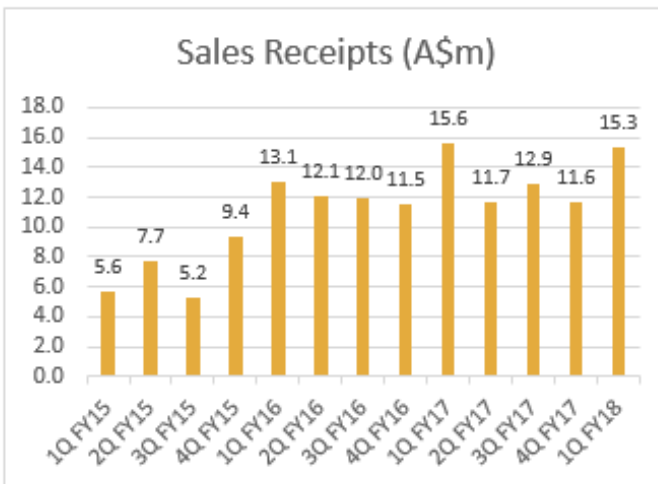
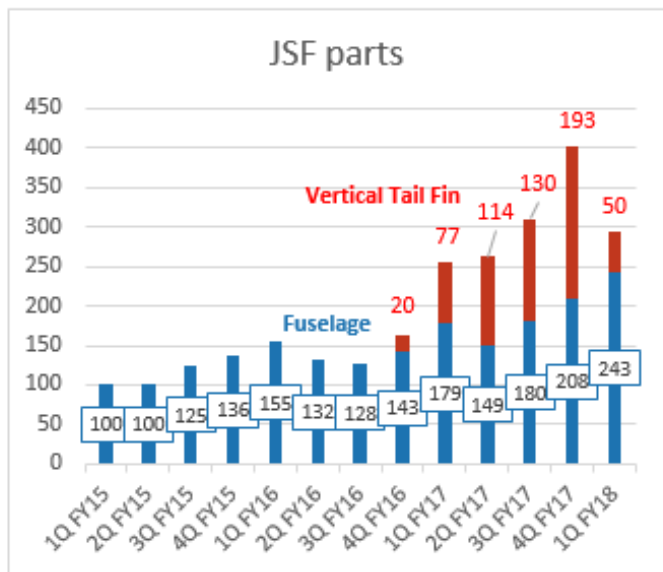
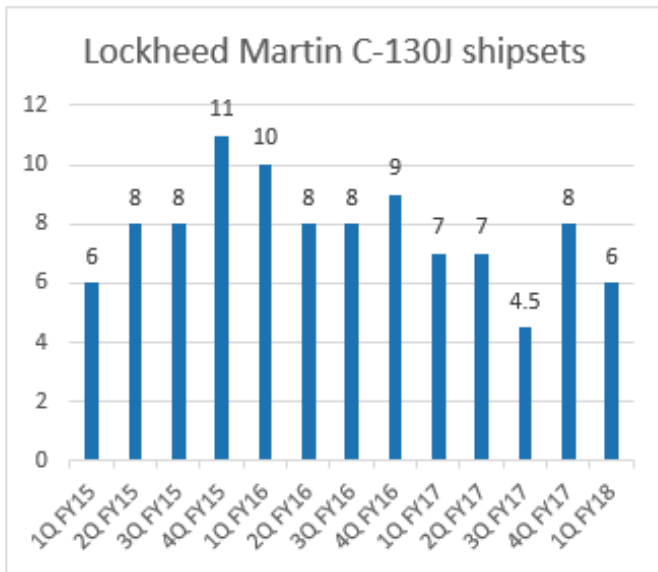
#### Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.18	50%	0.14	0.08	98%
Base-case EPS/PER	0.10	50%			
"Blue sky" @ 10% of base-case valuation			0.01		
<b>Target Price (A\$)</b>			<b>0.16</b>		

EPS/PER TP based on two-year rolling EPS of A\$1.2c (rounded) and a PE multiple of 8.5x

**Company Overview:** Quickstep (QHL) is the largest independent aerospace-grade advanced composite manufacturer in Australia. QHL is the sole provider of carbon fibre wing flap parts for the Lockheed Martin C-130J and LM-100J transport planes, and is a parts supplier to Northrop Grumman and BAE/Marand for the JSF F-35.

Quarterly performance 1QFY15- 1QFY18



Source: Company, compiled by State One Stockbroking

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