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A few notes on QHL following last week's AGM in Sydney, in response to a shareholder request for feedback.

Strong shareholder interest was evident within a room that was comfortably full.

One "negative" (albeit very modest) in evidence was an issue relating to manpower, which we expect to have resolved within a few weeks, after several rounds of discussion before the Fair Work Commission. We understand that only a few individuals are involved, with all but about 4 persons (out of some 230 persons) carrying on with their work as normal.

Another issue evident from the discussion was the growing pains of a company simultaneously negotiating for, winning and implementing a large number of new high-tech activities. It was encouraging to hear pronounced positive views from QHL on both the Australian aerospace sector and the potential of the stock itself.

After the hard slog of recent years, management is now enthusiastically looking forward to the year ahead when significant new contracts are expected to drop into place. We expect that these will largely comprise of aerospace contracts, with a mixture of new clients and existing clients. The order book is expected to move comfortably from $AUD 55-60M pa and exceed $AUD80 M per annum in FY2019. Indicative gross outstanding orders over the life of the projects are expected to be in excess of $AUD1.0B.

Another challenge is the growing demand for its work, which appears to be a daily occurrence. We remain of the view that QHL has the potential to become a leader in the rapidly growing Australian aerospace industry. With rapidly expanding activity in aerospace linked sectors such as jet fighters, commercial aircraft and a range of drones, we believe that Quickstep promises to be one of Australia's leading aerospace stocks in the coming decades.

Quickstep has already placed its stamp on high-demand engineering activities, in conjunction with global industry leaders including Lockheed Martin, Northrop Grumman and Boeing, with additional brands due to join the queue.

If you review the performance of the global sector leaders, as per the NYSE (companies such as Lockheed Martin), you see a capital gain of some 14 x, over the most recent 19 years. This is clearly a quite a substantial return.

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Focussing on the Joint Strike Fighter (JSF), just about every week now sees fresh (positive) new information on that aircraft's development. Recently the sale to Japan of 100 JSF aircraft has been the focal point.

Despite previously being "bagged" from all points of the globe, to date there have been few operational mishaps in developing the JSF, which is most encouraging. Meanwhile the new aircraft appears to be proving itself in action (including notably by the Israelis). In this media-aware world we would expect that any other problems would have very quickly been made public. Most recently, the JSF 35 has been proudly shown completing take-off and landing sequences on various ships from a range of the JSF participant nations.

Another significant contract in which QHL is engaged, the C130 project, has also been comfortably meeting its contractual obligation, with a steady increase in its contract volumes, indicating a high degree of satisfaction by the clients managing that project.

The JSF project will, when combined with participation in other projects by Boeing (F18 and F16) see QHL being involved with several companies on the first tier of US military aircraft, for at least a further 10 years.

Perhaps more importantly, QHL is now involved with the top 3 western world global fighter aircraft manufacturers: int the world - Lockheed Martin, Northrop Grumman and of course Boeing. Additionally, QHL is steadily building links & credibility with a broad-spread of other global manufacturers, and numerous components involved.

The most relevant matter is that we are now seeing an ongoing reduction in the costs incurred by QHL. Following continued tinkering with the management structure, we are also of the view that QHL is steadily getting costs down. It now needs to demonstrate an increased factory utilisation rate, up from about 50%, which is achievable in the next 18 months or so.

QHL’s growth opportunities are undeniable, due to increasing international demand for a broadening range of aircraft aerospace devices, and the fact that QHL already has under its belt multi-year supplier relationships with leading international aerospace manufacturers.

QHL continues to work with European car manufacturers, although this doesn't seem likely to be a significant contributor to future growth when compared with aerospace. We understand that regular domestic vehicle manufacturers are in the middle of adapting to new, more onerous emissions regulations in the European Union, and that at the same time, they have been cautious with plans until the EU sorts its trade relationships with the US and the UK. Analysts seem positive on the future of European vehicle manufacturing, while accepting current constraints.

QHL Recommendation: Long Term BUY @ 7.2 cps (Our Valuation by State One Analyst - David Brennan is +16 cps.)

For more, see State One research on our website www.stateone.com.au

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