



Quickstep Holdings Limited

X-ray contract offers new sector opportunity

QHL announced that it has been awarded a contract to manufacture a range of carbon fibre composite components for a new portable, ultra-lightweight (85kg) X-ray device being manufactured by Micro-X Limited (ASX:MX1). MX1 expects to start production in 1Q 2017 at its new 1,000 unit per annum production facility at Tonsley in South Australia. Each X-ray unit contains nine composite components/panels.

State One commentary

The X-ray panels will be manufactured at QHL's automotive parts production facility at Waurn Ponds, Victoria. We believe that QHL will initially be contracted to provide around half of the nine panels per X-ray unit, although it is highly likely that this will increase to 100% over time. Predicated on a forecast average selling price of US\$500/panel (i.e., similar to our forecast car panel price), and a ramp up in X-ray unit production from 400 in CY2017 to 1,000 in CY2019, we forecast MX1 contract revenues increasing from A\$0.4m in FY17E to A\$6.4m in FY21E.

Forecast revenue to FY21E (A\$m) incorporating new X-ray contract

	2016A	2017E	2018E	2019E	2020E	2021E
Lockheed Martin C130	30.1	20.8	20.8	21.2	21.6	22.0
JSF (Centre Fuselage)	19.3	18.5	30.8	41.7	49.1	52.1
JSF (Vertical Tail)	0.4	5.3	6.7	16.0	18.3	25.0
Automotive	0.4	3.6	6.5	29.6	37.7	38.5
X-Ray	0.0	0.4	2.2	4.6	6.3	6.4
Equipment/Other	0.0	6.0	12.0	13.0	14.0	15.0
Total	50.1	54.5	78.9	126.1	147.0	159.0



Source: State One Stockbroking forecasts

The contract, while relatively small (we estimate ~4% of group FY21E revenue), is nevertheless important as it further endorses QHL's composite technologies, opens up a new sector opportunity, and potentially assists QHL's position in negotiating new automotive and aerospace business. Our revised NPV/PER-derived target price of A\$0.20ps (A\$0.18ps previously) indicates some 86% upside potential. **Recommendation: BUY (Higher Risk).**

Key Financials

Year-end June	FY16A	FY17E	FY18E	FY19E	FY20E
Aerospace (US\$m)	36	33	44	59	67
Automotive (US\$m)	0	3	5	22	28
Other (US\$m)	0	5	11	13	15
Total sales (US\$m)	37	41	59	95	110
AUD/USD exchange rate	0.73	0.75	0.75	0.75	0.75
Total revenue (A\$m)	50	55	79	126	147
EBITDA (A\$m)	1.8	1.2	9.3	16.5	19.3
EBITDA margin (%)	-0.1%	4%	2%	12%	13%
Normalised NPAT (A\$m)	-6	-2	6	13	16
EPS Reported (A\$c)	-1.1	-0.3	1.0	2.3	2.8
EPS Normalised (A\$c)	-1.1	-0.3	1.0	2.3	2.8
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
PER (x)	-ve	-ve	10.5	4.6	3.8
Net debt / (cash) (A\$m)	4	7	5	-1	-11
Capex (A\$m)	-4.5	-5.0	-4.0	-4.5	-5.0

Source: Iress, Company Data, State One Stockbroking Est. Share price: \$ 0.105 Dec 14, 2016

15 December 2016

Share price: A\$0.105

Target price: A\$0.20

Recommendation
Buy

Risk Assessment
Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

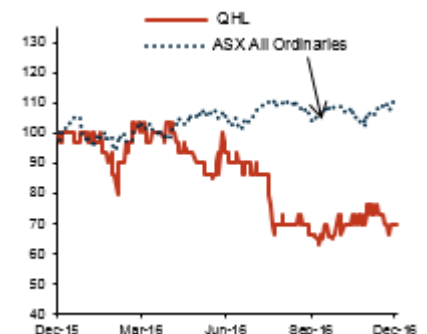
dbrennan@stateone.com.au

+61 (0)2 9024 9142

Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.10-A\$0.17
Market Cap (ASm)	59
Shares Outstanding (m)	562
Av Daily Turnover (shares)	499k
ASX All Ordinaries	5,585
FY17E BV per share (A\$c)	2.1
EPS FY17E (A\$c)	-0.3
Net Debt/(Cash) FY17E (A\$m)	7

Relative price performance



Source: IRESS

Financial Statements

Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Sales	50.1	54.5	78.9	126.1	147.0
COGS	(37.3)	(40.6)	(58.8)	(94.6)	(111.8)
Operational/Marketing/Corporate	(7.6)	(7.7)	(7.9)	(11.0)	(11.0)
R&D	(3.5)	(5.0)	(3.0)	(4.0)	(5.0)
Total cash costs	(48.3)	(53.3)	(69.7)	(109.6)	(127.8)
EBITDA	1.8	1.2	9.3	16.5	19.3
Depreciation & Amortisation	(2.4)	(2.8)	(3.0)	(3.0)	(3.0)
Operating profit	(0.6)	(1.6)	6.3	13.5	16.3
NOI (Grants/Other)	(5.0)	0.0	0.0	0.0	0.0
EBIT	(5.6)	(1.6)	6.3	13.5	16.3
Interest income	1.0	0.2	0.1	0.1	0.1
Interest expense	(1.2)	(0.5)	(0.4)	(0.3)	(0.2)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(5.8)	(1.9)	5.9	13.3	16.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(5.8)	(1.9)	5.9	13.3	16.3
EPS Reported (A\$c)	(1.1)	(0.3)	1.0	2.3	2.8
EPS Normalised (A\$c)	(1.1)	(0.3)	1.0	2.3	2.8
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)	521	587	587	587	587
Dil YE no. of shares (m)	587	587	587	587	587

Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	1.8	1.2	9.3	16.5	19.3
Investment in working capital	(3.4)	3.2	(2.8)	(5.9)	(4.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	4.4	6.5	10.6	15.2
Capex	(4.5)	(5.0)	(4.0)	(4.5)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.5)	(5.0)	(4.0)	(4.5)	(5.0)
Net interest received / (paid)	(0.2)	(0.4)	(0.4)	(0.2)	(0.0)
Debt increase / (repayment)	(3.8)	(1.25)	(1.5)	(3.5)	(3.5)
Dividends declared	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	21.3	0.0	0.0	0.0	0.0
Financing Cash Flow	17.2	(1.6)	(1.9)	(3.7)	(3.6)
Non-operating & Other	(4.7)	(1.6)	0.0	0.0	0.0
Inc/(Dec) in Cash	6.4	(3.8)	0.6	2.4	6.6

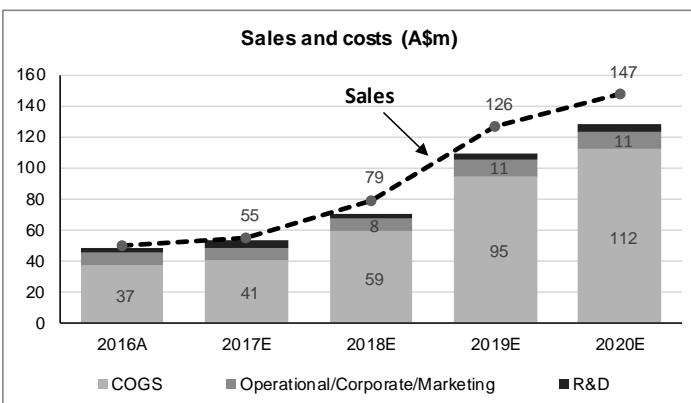
Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.8	4.4	6.8	13.4
Receivables	5.3	6.0	8.7	15.1	17.6
Inventories	11.9	7.6	11.1	15.1	19.1
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	15.3	16.3	17.8	19.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	39.2	33.7	41.4	55.9	71.0
Payables and other current Liabilities	11.3	10.5	13.9	18.5	20.9
Short Term Debt	2.2	2.2	2.2	2.2	2.2
Long Term Debt	9.8	8.5	7.0	3.5	0.0
Other Non Current Liabilities	1.8	0.2	0.2	0.2	0.2
Total Liabilities	25.0	21.4	23.2	24.4	23.3
Total Equity	14.2	12.3	18.2	31.5	47.7
Net Debt (Cash)	4.3	6.9	4.8	(1.1)	(11.3)

Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-16
Farjoy PL	2.1	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue composition (%)					
Aerospace	99%	82%	74%	63%	61%
Automotive	1%	7%	8%	24%	26%
Engineering/Other (incl. X-Ray)	0%	11%	15%	10%	10%
Revenue composition (A\$m)					
Aerospace	49.7	44.6	58.2	78.9	89.0
Automotive	0.4	3.6	6.5	29.6	37.7
Engineering/Other (incl. X-Ray)	0.0	6.0	12.0	13.0	14.0
Total	50.1	54.5	78.9	126.1	147.0
YoY revenue growth	nm	9%	45%	60%	17%
COGS as % revenue	74%	75%	75%	75%	76%
Operations/Other costs as % revenue	15%	14%	10%	9%	7%
R&D as % revenue	7%	9%	4%	3%	3%
Total cash costs as % revenue	96%	98%	88%	87%	87%

EBITDA margin (%)	4%	2%	12%	13%	13%
Operating profit margin (%)	-ve	-ve	8%	11%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	56%	26%	cash	cash
Net Debt/Total Assets	11%	20%	12%	cash	cash
Net interest Cover (x)	na	na	16.9	54.9	397.1

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	10.5	4.6	3.8
Price/OP Cash Flow	-37.8	14.2	9.5	5.8	4.1
EV (A\$m)	63	66	64	58	48
EV/EBITDA	35	56	7	4	2
ROE (%)	na	-ve	32%	42%	34%

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.26	35%	0.20	0.105	86%
EPS/PER	0.16	65%			

EPS/PER TP based on two-year EPS of A\$1.6c (rounded) and a PE of 10x

Company Overview:

Quickstep (QHL) - listed on the ASX in 2005 - is the largest independent aerospace-grade advanced composite manufacturer in Australia. QHL has made significant progress with its out-of-autoclave technology (Qure), tendered for and finalised contracts with tier-one US military clients, completed F35-JSF and C-130J production readiness tests and tollgate trials, ramped up JSF and C-130J production at its Bankstown production facilities, and positioned the group to tender for low cost/high speed manufacturing of automobile body parts through patented in-house Qure and RST technology. In February 2016, QHL announced a contract to supply carbon fibre air ducts for the Ford Australian production of the Falcon XR6 Sprint.

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Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Peter Curtis
Head of Institutional Sales
Phone: +61 2 9024 9106
pcurtis@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

Alexander Bax
Equities Advisor
Phone: +61 8 9288 3340
abax@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au