



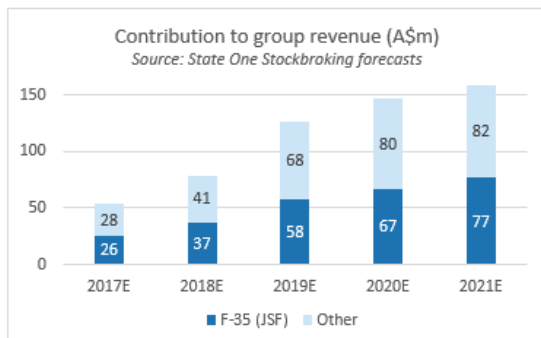
# Quickstep Holdings Limited

## F-35 impresses with 15:1 kill ratio

- **Press reports state that the often-maligned F-35 (JSF) is making an impressive showing at the US Air Force's Red Flag training exercise, concluding today (10 February 2017) at Nellis Air Force Base, Nevada.**
- Facing scenarios involving simulated surface-to-air (SAM) missiles, communications jamming and air-to-air combat, the F-35, which is primarily designed as a strike fighter, has scored a 15:1 kill ratio.
- Pilots noted that the F-35's advanced avionics and ability to port battlefield data meant that it formed a particularly effective team with the air superiority orientated F-22 Raptor. See article from Popular Mechanics [here](#).

### State One comments

The F-35 program has been beset with criticism primarily relating to cost, development slippage, and plane effectiveness/functionality; in 2015, Canada controversially pulled its 65 planes out of the F-35 program. As such, we view the F-35's recent performance - in what is considered to be the world's most realistic and challenging aviation warfare exercises - as a significant endorsement of the plane's capabilities. An acceleration in the (global) manufacturing schedule is important to QHL's revenue profile. We forecast sales from the production of F-35 central fuselage and vertical tail fin carbon-fibre panels increasing from A\$26m in FY17E to A\$77m in FY21E.



We forecast sales of F-35 central fuselage parts increasing from 628 in FY17E to 1,560 in FY21E, with vertical tail fin (VTF) sales increasing from 341 to 1,200 over this five-year period.

Our NPV/PER-derived target price of A\$0.20ps (unchanged) indicates some 100% upside potential. **Recommendation: BUY (Higher Risk).**

### Key Financials

Year-end June	FY 16A	FY17E	FY18E	FY19E	FY20E
Aerospace (US\$m)	36	35	44	59	67
Automotive (US\$m)	0	3	5	22	28
Other (US\$m)	0	3	11	13	15
Total sales (US\$m)	37	40	59	95	110
AUD/USD exchange rate	0.73	0.75	0.75	0.75	0.75
Total revenue (A\$m)	50	53	79	126	147
EBITDA (A\$m)	1.8	0.7	8.9	16.5	19.3
EBITDA margin (%)	-0.1%	4%	1%	11%	13%
Normalised NPAT (A\$m)	-6	-2	5	13	16
EPS Reported (A\$c)	-1.1	-0.4	0.9	2.3	2.8
EPS Normalised (A\$c)	-1.1	-0.4	0.9	2.3	2.8
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
PER (x)	-ve	-ve	10.7	4.4	3.6
Net debt / (cash) (A\$m)	4	7	5	-1	-11
Capex (A\$m)	-4.5	-4.0	-4.0	-4.5	-5.0

Source: Iress, Company Data, State One Stockbroking Est. Share price: \$ 0.100 Feb 09, 2017

10 February 2017

Share price: A\$0.10

Target price: A\$0.20

**Recommendation**  
**Buy**

**Risk Assessment**  
**Higher**

### Industrial

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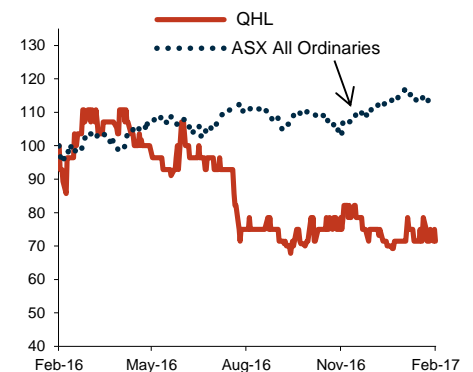
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### Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.10-A\$0.17
Market Cap (ASm)	56
Shares Outstanding (m)	562
Av Daily Turnover (shares)	495k
ASX All Ordinaries	5,665
FY17E BV per share (A\$c)	2.0
EPS FY17E (A\$c)	-0.4
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
<b>Sales</b>	<b>50.1</b>	<b>53.5</b>	<b>78.9</b>	<b>126.1</b>	<b>147.0</b>
COGS	(37.3)	(40.1)	(59.2)	(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)	(52.8)	(70.1)	(109.6)	(127.8)
<b>EBITDA</b>	<b>1.8</b>	<b>0.7</b>	<b>8.9</b>	<b>16.5</b>	<b>19.3</b>
Depreciation & Amortisation	(2.4)	(2.8)	(3.0)	(3.0)	(3.0)
<b>Operating profit</b>	<b>(0.6)</b>	<b>(2.1)</b>	<b>5.9</b>	<b>13.5</b>	<b>16.3</b>
NOI (Grants/Other)	(5.0)	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(5.6)</b>	<b>(2.1)</b>	<b>5.9</b>	<b>13.5</b>	<b>16.3</b>
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
<b>Reported NPAT</b>	<b>(5.8)</b>	<b>(2.5)</b>	<b>5.5</b>	<b>13.3</b>	<b>16.3</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>(5.8)</b>	<b>(2.5)</b>	<b>5.5</b>	<b>13.3</b>	<b>16.3</b>
EPS Reported (A\$¢)	(1.1)	(0.4)	0.9	2.3	2.8
EPS Normalised (A\$¢)	(1.1)	(0.4)	0.9	2.3	2.8
Dividend payout (%)	na	na	0%	0%	0%
DPS (A\$¢)	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	0.7	8.9	16.5	19.3
Investment in working capital	(3.4)	2.8	(2.4)	(5.9)	(4.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>(1.6)</b>	<b>3.4</b>	<b>6.5</b>	<b>10.6</b>	<b>15.2</b>
Capex	(4.5)	(4.0)	(4.0)	(4.5)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(4.5)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(4.5)</b>	<b>(5.0)</b>
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
<b>Financing Cash Flow</b>	<b>17.2</b>	<b>(1.6)</b>	<b>(1.9)</b>	<b>(3.7)</b>	<b>(3.6)</b>
Non-operating & Other	(4.7)	(1.6)	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>6.4</b>	<b>(3.7)</b>	<b>0.6</b>	<b>2.4</b>	<b>6.7</b>

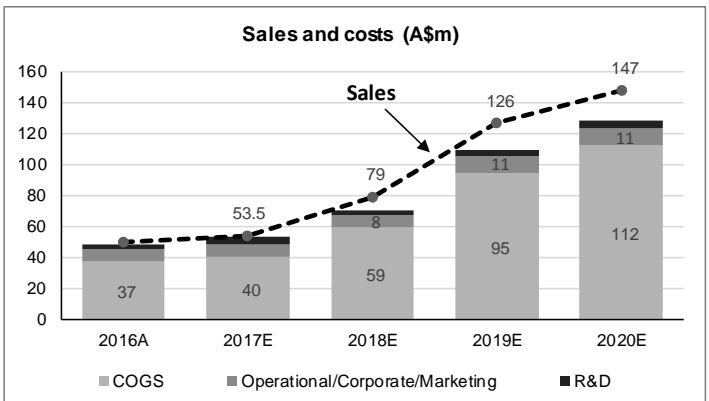
Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.8	4.4	6.8	13.5
Receivables	5.3	5.9	8.7	15.1	17.6
Inventories	11.9	8.0	11.1	15.1	19.1
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	14.3	15.3	16.8	18.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>39.2</b>	<b>33.1</b>	<b>40.5</b>	<b>54.9</b>	<b>70.1</b>
Payables and other current Liabilities	11.3	10.4	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
<b>Total Liabilities</b>	<b>25.0</b>	<b>21.3</b>	<b>23.2</b>	<b>24.4</b>	<b>23.3</b>
<b>Total Equity</b>	<b>14.2</b>	<b>11.8</b>	<b>17.3</b>	<b>30.6</b>	<b>46.8</b>
Net Debt (Cash)	4.3	6.8	4.7	(1.2)	(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
<b>Revenue composition (%)</b>					
Aerospace	99%	87%	74%	63%	61%
Automotive	1%	7%	8%	24%	26%
Engineering/Other (incl. X-Ray)	0%	6%	15%	10%	10%
<b>Revenue composition (A\$m)</b>					
Aerospace	49.7	46.5	58.2	78.9	89.0
Automotive	0.4	3.6	6.5	29.6	37.7
Engineering/Other (incl. X-Ray)	0.0	3.0	12.0	13.0	14.0
<b>Total</b>	<b>50.1</b>	<b>53.5</b>	<b>78.9</b>	<b>126.1</b>	<b>147.0</b>
<b>YoY revenue growth</b>	<i>nm</i>	7%	48%	60%	17%
COGS as % revenue	74.4%	75.0%	75.0%	75.0%	76.0%
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%	99%	89%	87%	87%

EBITDA margin (%)	4%	1%	11%	13%	13%
Operating profit margin (%)	-ve	-ve	7%	11%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	58%	27%	cash	cash
Net Debt/Total Assets	11%	21%	12%	cash	cash
Net interest Cover (x)	na	na	15.9	55.2	412.6

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	10.7	4.4	3.6
Price/OP Cash Flow	-36.0	17.1	9.1	5.5	3.9
EV (A\$m)	61	63	61	55	45
EV/EBITDA	34	96	7	3	2
ROE (%)	na	-ve	32%	43%	35%

#### Weighted Target Price\*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.26	35%	0.20	0.10	101%
EPS/PER	0.17	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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