



Quickstep Holdings Limited

Automotive potential recognised by Government

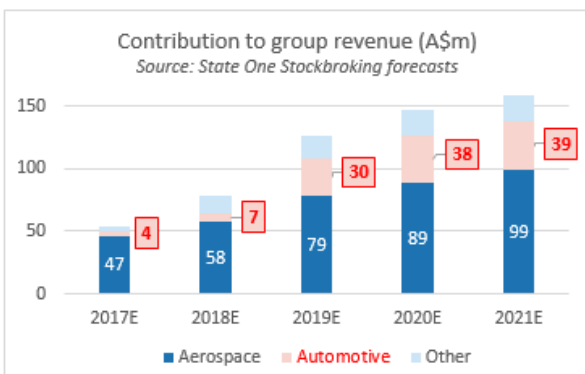
20 February 2017

- QHL announced today (20 Feb 2017) that the group's Automotive Division had secured a grant of A\$250,000 from the Advanced Manufacturing Growth Centre (AMGC) to develop a demonstrator carbon composite fender for the European automotive market. Note: the AMGC is a company established through the Australian Government's Industry Growth Centres initiative.
- In a separate announcement, QHL also disclosed that it had received a Cooperative Research Centre Project (CRC-P) grant of A\$1.5m from the Australian Government, to develop automotive carbon composite seats.

State One comments

In October 2016, Ford shut its Broadmeadows and Geelong plants, retrenching 580 workers; thousands more jobs will be lost in October this year when GM Holden and Toyota close their Port Melbourne and Altona operations.

We are pleased to see that the government is supporting QHL in finding new products/markets for the group's newly commissioned Automotive division at Waurin Ponds; clearly, the government views QHL as a potential provider of new and high-skilled employment opportunities in hard-hit regional Victoria.



We forecast revenues from QHL's Automotive division growing from below A\$4m in FY17E to just under A\$40m in FY20/21E. Key to this growth profile is the development of the RapidQure technology which will facilitate high-volume carbon composite parts production.
Note: Other includes revenue from Micro-X and Equipment.

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 | FY16A | 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 20, 2017

Share price: A\$0.10

Target price: A\$0.20

Recommendation
Buy

Risk Assessment
Higher

Industrial

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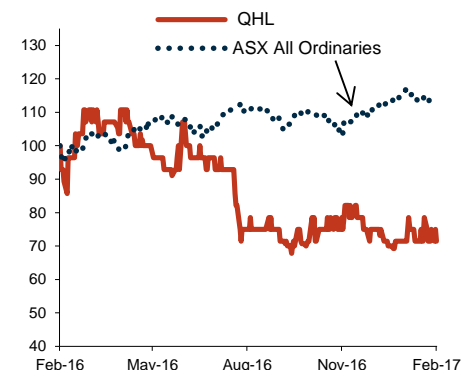
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Quickstep Holdings Limited

| | |
|------------------------------|-----------------|
| ASX Code | QHL |
| 52 week range | A\$0.10-A\$0.17 |
| Market Cap (A\$m) | 59 |
| Shares Outstanding (m) | 562 |
| Av Daily Turnover (shares) | 478k |
| ASX All Ordinaries | 5,795 |
| 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 |
|---------------------------------|--------------|--------------|-------------|--------------|--------------|
| Sales | 50.1 | 53.5 | 78.9 | 126.1 | 147.0 |
| 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) |
| EBITDA | 1.8 | 0.7 | 8.9 | 16.5 | 19.3 |
| Depreciation & Amortisation | (2.4) | (2.8) | (3.0) | (3.0) | (3.0) |
| Operating profit | (0.6) | (2.1) | 5.9 | 13.5 | 16.3 |
| NOI (Grants/Other) | (5.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | (5.6) | (2.1) | 5.9 | 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) | (2.5) | 5.5 | 13.3 | 16.3 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Underlying NPAT | (5.8) | (2.5) | 5.5 | 13.3 | 16.3 |
| 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 |
| 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 | 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 |
| Operating Cash Flow | (1.6) | 3.4 | 6.5 | 10.6 | 15.2 |
| Capex | (4.5) | (4.0) | (4.0) | (4.5) | (5.0) |
| Other investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cash Flow | (4.5) | (4.0) | (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 | (3.7) | 0.6 | 2.4 | 6.7 |

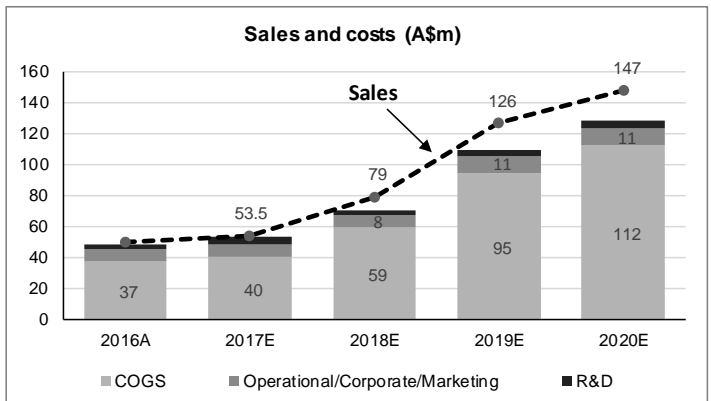
| Balance Sheet (A\$m) | FY16A | FY17E | FY18E | FY19E | FY20E |
|--|-------------|-------------|-------------|-------------|-------------|
| Cash & Deposits | 7.6 | 3.8 | 4.4 | 6.8 | 13.5 |
| Receivables | 5.3 | 5.9 | 8.7 | 15.1 | 17.6 |
| Inventories | 11.9 | 8.0 | 11.1 | 15.1 | 19.1 |
| Other Current 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 |
| Total Assets | 39.2 | 33.1 | 40.5 | 54.9 | 70.1 |
| 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 |
| Total Liabilities | 25.0 | 21.3 | 23.2 | 24.4 | 23.3 |
| Total Equity | 14.2 | 11.8 | 17.3 | 30.6 | 46.8 |
| 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 |
|-------------------------------------|-------------|-------------|-------------|--------------|--------------|
| Revenue composition (%) | | | | | |
| Aerospace | 99% | 87% | 74% | 63% | 61% |
| Automotive | 1% | 7% | 8% | 24% | 26% |
| Engineering/Other (incl. X-Ray) | 0% | 6% | 15% | 10% | 10% |
| Revenue composition (A\$m) | | | | | |
| 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 |
| Total | 50.1 | 53.5 | 78.9 | 126.1 | 147.0 |
| YoY revenue growth | <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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