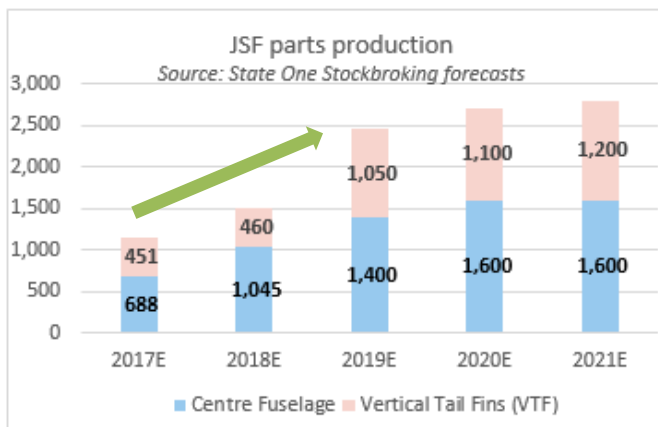




Quickstep Holdings Limited

March quarter activities and cash flow

- 310 F-35 JSF parts delivered (+18% on prior quarter's 263 and +142% on 3Q FY16's 128).
- 4 Lockheed Martin C-130J shipsets and 2 spares delivered (vs 7 in the prior quarter (2Q FY17), and 8 in 3Q FY16).
- A\$1.5m payment received for Qure equipment installed at the Korean Institute of Science and Technology (KIST). Production of parts for Micro-X's (ASX:MX1) portable, ultra-lightweight X-ray device commenced using Qure technology.
- On the automotive front, 10 further Thales Hawkei sets of body parts are nearing completion while panel projects are in their prototype tooling phase.
- Development projects underway with OEM and Tier-one customers.
- Cash of A\$4.5m at 31 March 2017 (vs A\$5m end-Dec 2016). Note: This excludes a A\$1.8m VAT refund from the German Tax Office (expected before calendar year-end) and some A\$1.7m in government grants (likely to be received in part-payments over the next two years).
- QHL announced the appointment of Mark Burgess as MD and CEO following David Marino's decision to step down from the role for personal and family reasons. Mark Burgess will commence in the role on 8 May 2017.
- The company's A\$10m Bankstown capital expansion program, to enable increased JSF production, was completed during the quarter. Management states that the business is now in a position to deliver significant additional contract volumes.



We forecast total JSF parts production increasing by 32% from **1,139 in FY17E** (829 YTD) to **1,505 in FY18E**.

We forecast production increasing by a further 63% to **2,450 parts in FY19E**, with annual JSF production levels peaking at some 2,800 parts in FY21E.

State One comments

QHL offers Australian investors one of the few opportunities to gain exposure to the US Defence budget. Bearing in mind the recent escalation in geopolitical tensions between North Korea and the US (and indeed between Russia and the US), we suggest that expenditure here is unlikely to fall over the next few years. QHL's March 2017 sales (parts and revenue) and operational, investing and financing cash flows were largely in line with our expectations. We maintain our forecast that the group will be cash flow positive, albeit marginally, in FY18E, with cash flows improving in FY19E and FY20E on the back of an expected ramp-up in JSF parts demand.

Our NPV/PER-derived target price of A\$0.19ps indicates some 73% upside potential. **Recommendation: BUY (Higher Risk).**

1 May 2017

Share price: A\$0.11

Target price: A\$0.19

Recommendation
Buy

Risk Assessment
Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

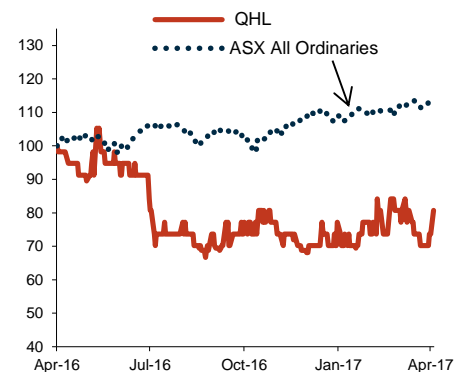
dbrennan@stateone.com.au

+61 (0)2 9024 9142

Quickstep Holdings Limited

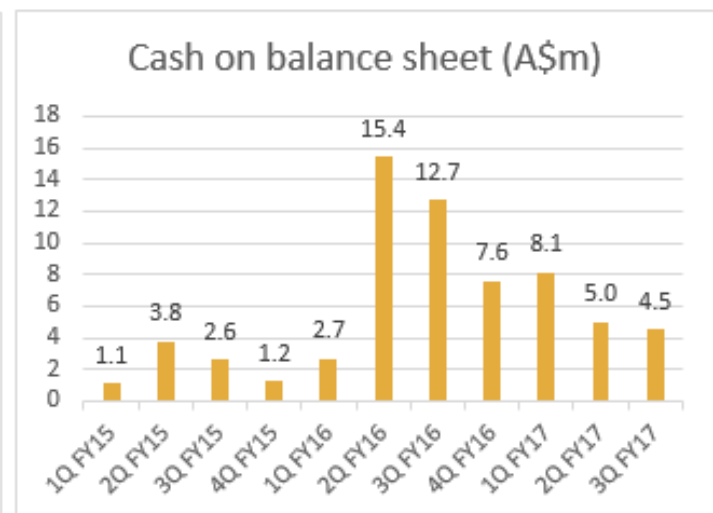
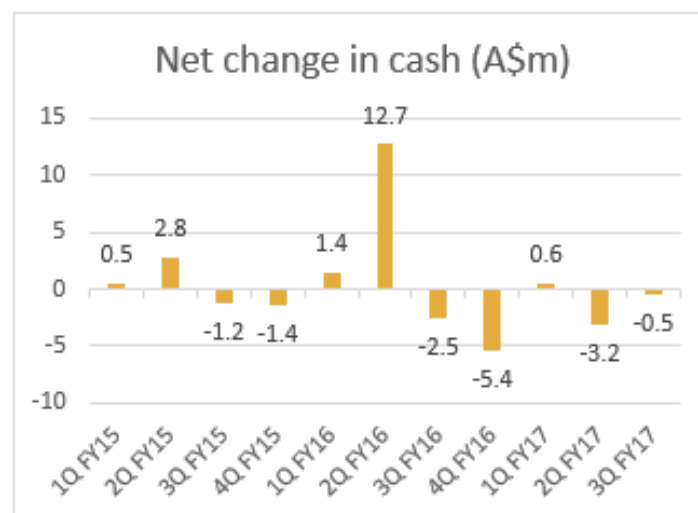
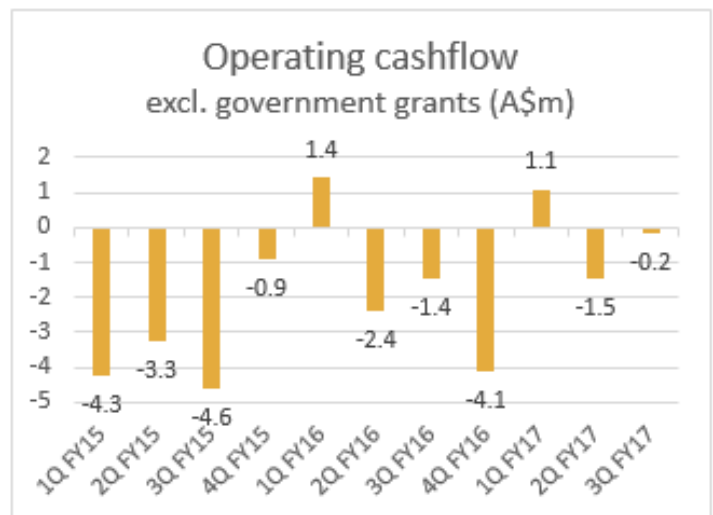
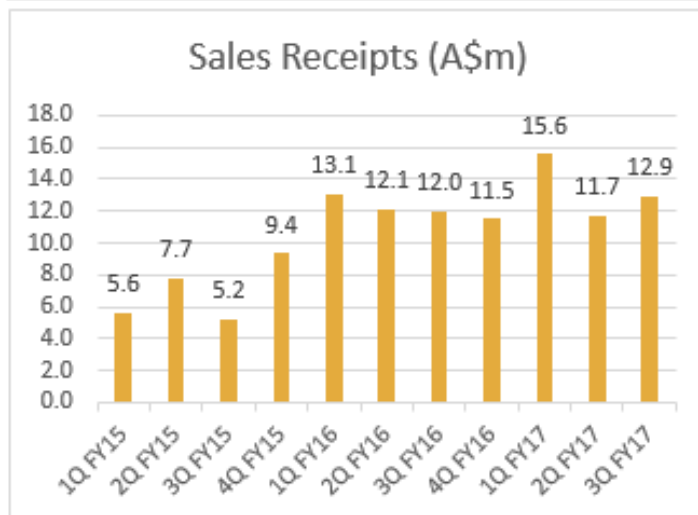
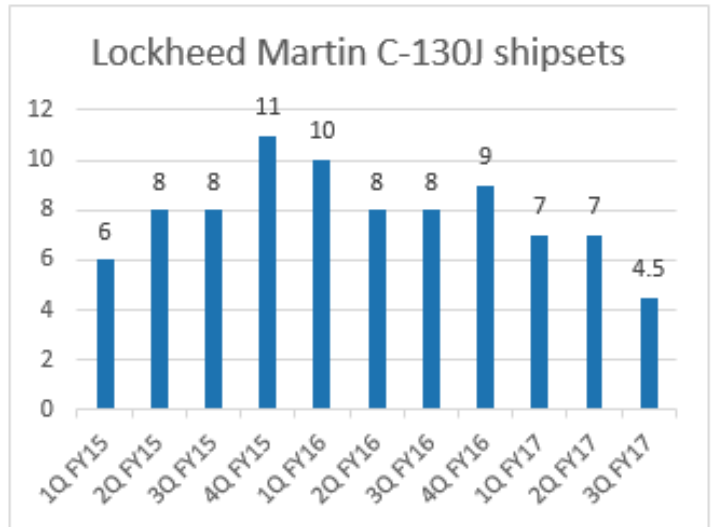
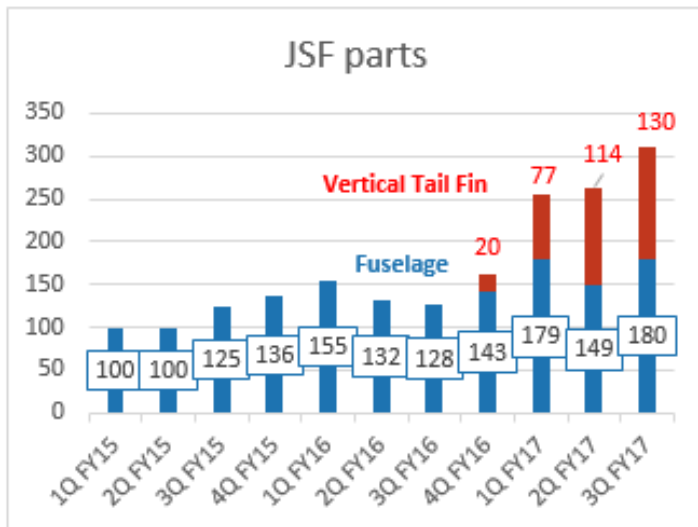
ASX Code	QHL
52 week range	A\$0.10-A\$0.15
Market Cap (ASm)	58
Shares Outstanding (m)	562
Av Daily Turnover (shares)	464k
ASX All Ordinaries	5,927
FY17E BV per share (A\$c)	1.8
EPS FY17E (A\$c)	-0.6
Net Debt/(Cash) FY17E (A\$m)	8

Relative price performance



Source: IRESS

Quarterly performance 1QFY15- 3QFY17



Source: Company, compiled by State One Stockbroking

Financial Statements

Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Sales	50.1	51.5	71.6	121.3	137.3
COGS	(37.3)	(39.7)	(54.4)	(92.2)	(104.3)
Operational/Marketing/Corporate	(7.6)	(7.7)	(7.9)	(11.0)	(11.0)
R&D	(3.5)	(5.0)	(4.5)	(4.5)	(4.5)
Total cash costs	(48.3)	(52.4)	(66.8)	(107.7)	(119.8)
EBITDA	1.8	(0.9)	4.8	13.6	17.4
Depreciation & Amortisation	(2.4)	(2.8)	(3.0)	(3.0)	(3.0)
Operating profit	(0.6)	(3.6)	1.8	10.6	14.4
NOI (Grants/Other)	(5.0)	0.5	2.6	0.8	0.0
EBIT	(5.6)	(3.1)	4.4	11.4	14.4
Interest income	1.0	0.2	0.1	0.1	0.1
Interest expense	(1.2)	(0.5)	(0.5)	(0.4)	(0.3)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(5.8)	(3.5)	4.0	11.0	14.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(5.8)	(3.5)	4.0	11.0	14.2
EPS Reported (A\$m)	(1.1)	(0.6)	0.7	1.9	2.4
EPS Normalised (A\$m)	(1.1)	(0.6)	0.7	1.9	2.4
Dividend payout (%)	na	na	0%	0%	20%
DPS (A\$m)	0.0	0.0	0.0	0.0	0.5
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	(0.9)	4.8	13.6	17.4
Investment in working capital	(3.4)	2.0	(0.7)	(6.2)	(3.4)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	1.1	4.1	7.4	14.1
Capex	(4.5)	(3.0)	(4.5)	(4.5)	(4.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.5)	(3.0)	(4.5)	(4.5)	(4.5)
Net interest received / (paid)	(0.2)	(0.4)	(0.4)	(0.3)	(0.2)
Debt increase / (repayment)	(3.8)	(1.0)	(1.5)	(1.5)	(2.5)
Dividends declared	0.0	0.0	0.0	0.0	(2.8)
Equity raised / (repaid)	21.3	0.0	0.0	0.0	0.0
Financing Cash Flow	17.2	(1.4)	(1.9)	(1.8)	(5.5)
Non-operating & Other	(4.7)	(1.1)	2.6	0.8	0.0
Inc/(Dec) in Cash	6.4	(4.3)	0.3	1.8	4.1

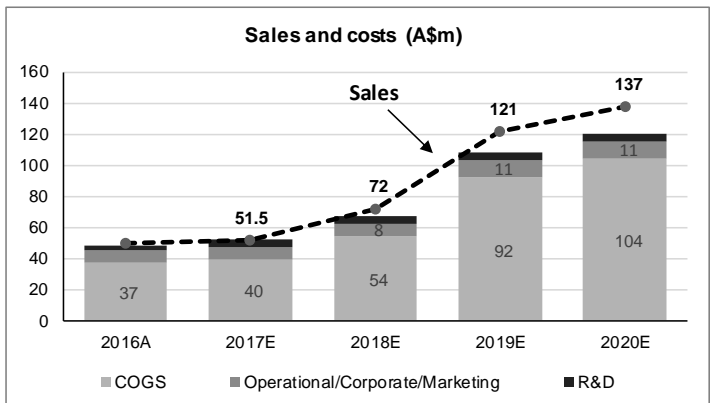
Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.3	3.6	5.4	9.5
Receivables	5.3	6.2	7.9	14.6	16.5
Inventories	11.9	8.2	10.0	14.6	17.8
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	13.3	14.8	16.3	17.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	39.2	32.0	37.3	51.8	62.6
Payables and other current Liabilities	11.3	10.2	12.9	18.0	17.0
Short Term Debt	2.2	2.2	2.2	2.2	2.2
Long Term Debt	9.8	8.8	7.3	5.8	3.3
Other Non Current Liabilities	1.8	0.2	0.2	0.2	0.2
Total Liabilities	25.0	21.3	22.6	26.1	22.6
Total Equity	14.2	10.7	14.7	25.8	40.0
Net Debt (Cash)	4.3	7.6	5.9	2.5	(4.0)

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
Parts sold / delivered					
C-130J shipsets	35	25	26	26	26
JSF parts (fuselage and VTFs)	578	1,139	1,505	2,450	2,700
Automotive parts	500	1,000	3,000	32,500	40,000
Revenue composition (A\$m)					
Aerospace	49.7	49.0	62.6	81.5	88.3
Automotive	0.4	0.7	2.2	23.7	29.2
Engineering/Other (incl. X-Ray)	0.0	1.5	5.0	12.0	14.0
Total	50.1	51.5	71.6	121.3	137.3
YoY revenue growth	nm	3%	39%	69%	13%
COGS as % revenue	74%	77%	76%	76%	76%
Operations/Other costs as % revenue	15%	15%	11%	9%	8%
R&D as % revenue	7%	10%	6%	4%	3%
Total cash costs as % revenue	96%	102%	93%	89%	87%

EBITDA margin (%)	4%	-ve	7%	11%	13%
Operating profit margin (%)	-ve	-ve	3%	9%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	71%	40%	10%	cash
Net Debt/Total Assets	11%	24%	16%	5%	cash
Net interest Cover (x)	na	na	11	36	75

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	16.3	5.8	4.5
Price/OP Cash Flow	-39.6	56.4	15.8	8.7	4.6
EV (A\$m)	62	65	64	60	54
EV/EBITDA	35	-ve	13	4	3
ROE (%)	na	-ve	27%	43%	36%

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.21	50%	0.19	0.11	73%
EPS/PER	0.17	50%			

EPS/PER TP based on two-year EPS of A\$1.7c (rounded) and a PE multiple 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 December 2016, QHL announced a contract to manufacture carbon fibre panels for a lightweight x-ray for ASX-listed Micro-X (ASX:MX1).

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