



Quickstep Holdings Limited

New commercial aerospace contract

Quickstep (QHL) announced today (26 June 2017) that it has won the contract to supply carbon fibre wing flaps for the Lockheed Martin LM-100J. The LM-100J is a successor to the L-100-20/30, the commercial version of the Lockheed Martin C-130J Hercules. The LM-100J – which will operate in the commercial air freighter marketplace – was launched at the 2014 Farnborough International Airshow (UK).

State One Stockbroking comments

- QHL is the sole supplier of carbon fibre wing flaps for the C-130J, and our understanding is that QHL has developed a good relationship with the US aerospace and defence giant. Thus we are pleased, although not overly surprised, that QHL succeeded in winning this new business.
- While the timing and quantum of sales is still under review (by Lockheed Martin (LM)), we note [an article from Aviation Doctor](#) indicating that LM is looking to sell 75 of the new aircraft over a 10-12 year period, and that LM has secured an initial order for 10 LM-100J's from ASL Aviation Group (Dublin, Ireland).
- Pending clarification on (sales) timing and volume, we have not incorporated the new business into our QHL model. However, we calculate that increasing the number of annual C-130J/LM-100J shipset sales by six - from our base-case forecast of 26 to 32 – could potentially boost revenues and NPAT by, a not immaterial, A\$5m and A\$1m respectively. Importantly, the C-130J production facilities at Bankstown have spare capacity (QHL produced 35 C-130J shipsets in 2016), and thus should not require any significant capex expenditure.
- We also note management's comments on delivering efficiencies, cutting costs, and focusing on profitability. QHL will provide the market with a further update on its strategy and FY18 objectives in August 2017.
- The new business announced today should add to our base-case forecast of improving cash flows on the back of a significant ramp-up in JSF parts demand. Our NPV/PER-derived target price of A\$0.19ps indicates significant upside potential. **Recommendation: BUY.**



LM-100J:
commercial
version of C-130J



C-130J Hercules

26 June 2017

Share price: A\$0.09

Target price: A\$0.19

Recommendation
Buy

Risk Assessment
Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

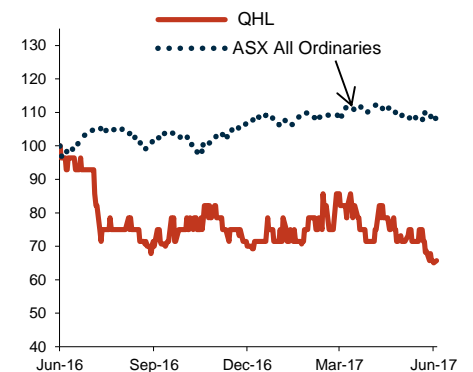
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.09-A\$0.14
Market Cap (A\$m)	51
Shares Outstanding (m)	563
Av Daily Turnover (shares)	466k
ASX All Ordinaries	5,719
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

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\$c)	(1.1)	(0.6)	0.7	1.9	2.4
EPS Normalised (A\$c)	(1.1)	(0.6)	0.7	1.9	2.4
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

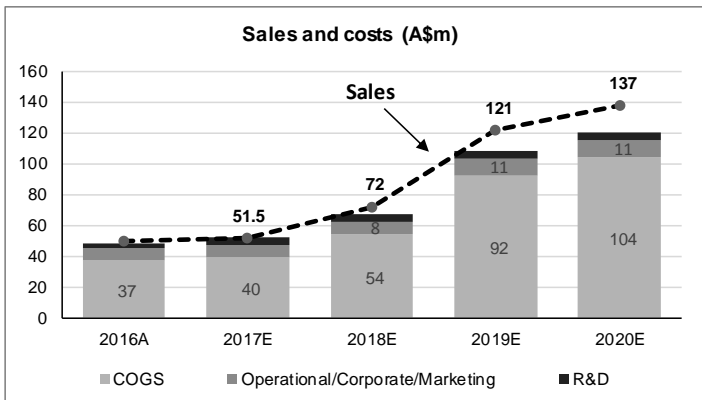
Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	1.8	(0.9)	4.8	13.6	17.4
Investment in working capital	(3.4)	2.0	(0.7)	(6.2)	(3.4)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	1.1	4.1	7.4	14.1
Capex	(4.5)	(3.0)	(4.5)	(4.5)	(4.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing 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	0.0
Equity raised / (repaid)	21.3	0.0	0.0	0.0	0.0
Financing Cash Flow	17.2	(1.4)	(1.9)	(1.8)	(2.7)
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	6.9

Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.3	3.6	5.4	12.3
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	65.4
Payables and other current Liabilities	11.3	10.2	12.9	18.0	19.8
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	25.4
Total Equity	14.2	10.7	14.7	25.8	40.0
Net Debt (Cash)	4.3	7.6	5.9	2.5	(6.8)

Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-16
Farjor 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	13.6	4.9	3.8
Price/OP Cash Flow	-33.1	47.2	13.2	7.3	3.8
EV (A\$m)	56	59	57	54	44
EV/EBITDA	31	-ve	12	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	0.09	110%
EPS/PER	0.18	50%			

EPS/PER TP based on two-year EPS of A\$1.9c (rounded) and a PE multiple of 9.5x

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 n 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 light weight x-ray for ASX-listed Micro-X (ASX:MX1).

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