



Quickstep Holdings Limited

June quarter activities and cash flow

- 401 F-35 JSF parts delivered (208 fuselage and 193 vertical tail fin parts). This represents +29% increase on the prior quarter (3Q FY17) and +146% increase on the pcq (4Q FY16).
- Eight (8) Lockheed Martin C-130J shipsets delivered (vs 4.5 in the prior quarter and 9 in the pcq). First parts were also supplied for the LM-100J commercial air freighter.
- In other programs, production of parts for portable X-ray manufacturer Micro-X Limited (ASX: MX1) ramped up, and a second lot of 10 sets of composite body parts for the Thales Hawkei military vehicle was completed. Commercialisation of QHL's New Technology "RapidQure" continued, with the front fender project for a European OEM nearing completion of phase one. A composite seat structure project terminated during the quarter following a partner decision to withdraw participation.
- Operating cash flow (backing out A\$750k in government grants/tax incentives) was -\$1.9m (vs -\$0.2m in the prior quarter); cash flows were boosted by a A\$0.9m VAT refund from the German government.
- Debt repayments of A\$0.9m were offset by QHL drawing down A\$1.5m from a newly established A\$3m Efic Export Contract Loan.
- June year-end cash position of A\$3.7m (State One forecast: A\$3.3m) was A\$800k down on end-March quarter cash balance of A\$4.5m.
- **QHL did not provide revenue or profit guidance for FY18E; however, QHL will provide the market with an update in August 2017 on the group's strategy and FY18 objectives.**

State One commentary

The QoQ increase in JSF parts production in the June quarter was particularly impressive; the 401 parts produced was significantly above our forecast of 310. We were also pleased to see that QHL is already producing parts for the commercial version of the C-130J (note: the contract was only announced on 26 June 2017). The smaller projects (Hawkei, Micro-X) are building up traction, and we look forward to the August update when QHL will clarify its strategy and focus to the market.

4Q FY17's operating cash flow (-A\$2.8m backing out government grants and a German VAT refund) was somewhat disappointing. However, we note June statements from management in the LM-100J contract announcement that they are focusing on profitability, delivering efficiencies and cutting costs. We maintain our forecast that the group will be cash flow positive, albeit marginally, in FY18E, with cash flows improving in FY19E-20E on the back of an expected ramp-up in JSF parts sales and a less onerous capex/R&D spend.

With President Trump looking to boost US military spend, while urging US allies (NATO/Japan) to increase their own military budgets, we suggest that Defence, as an investment thematic, will benefit from increasing global geopolitical concerns. We note that [Lockheed Martin \(LMT.NYSE\) reported in its June quarterly results](#) that US demand for its F-35 jets had increased with the Pentagon announcing on July 10 that it would add 13 jets to its planned purchase. Reflecting the strong investment thematic, Lockheed Martin and Northrop Grumman (NOC.NYSE) share prices have gained 221% and 340% respectively over the past five years.

Our NPV/PER-derived target price for QHL of A\$0.20ps (A\$0.19ps previously) indicates some 100% upside potential. **Recommendation: BUY (Higher Risk).**

25 July 2017

Share price: A\$0.10

Target price: A\$0.20

Recommendation
Buy

Risk Assessment
Higher

Industrial

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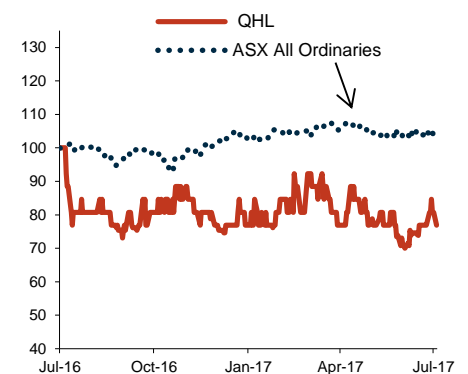
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.09-A\$0.14
Market Cap (ASm)	59
Shares Outstanding (m)	563
Av Daily Turnover (shares)	469k
ASX All Ordinaries	5,682
FY17E BV per share (A\$c)	1.7
EPS FY17E (A\$c)	-0.7
Net Cash/(Debt) 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	51.9	72.1	123.1	139.0
COGS	(37.3)	(41.0)	(55.9)	(93.5)	(105.7)
Operational/Marketing/Corporate	(7.6)	(8.0)	(8.2)	(11.0)	(11.0)
R&D	(3.5)	(4.9)	(4.5)	(4.5)	(4.5)
Total cash costs	(48.3)	(53.9)	(68.6)	(109.0)	(121.2)
EBITDA	1.8	(2.0)	3.6	14.0	17.9
Depreciation & Amortisation	(2.4)	(3.0)	(3.0)	(3.0)	(3.0)
Operating profit	(0.6)	(5.0)	0.6	11.0	14.9
NOI (Grants/Other)	(5.0)	1.4	2.6	0.8	0.0
EBIT	(5.6)	(3.6)	3.1	11.8	14.9
Interest income	1.0	0.2	0.1	0.1	0.1
Interest expense	(1.2)	(0.5)	(0.5)	(0.5)	(0.4)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(5.8)	(4.0)	2.7	11.4	14.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(5.8)	(4.0)	2.7	11.4	14.6
EPS Reported (A\$c)	(1.1)	(0.7)	0.5	1.9	2.5
EPS Normalised (A\$c)	(1.1)	(0.7)	0.5	1.9	2.5
Dividend payout (%)	na	na	0%	0%	0%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
DI Av no. of shares (m)	521	587	587	587	587
DI YE no. of shares (m)	587	587	587	587	587

Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	1.8	(2.0)	3.6	14.0	17.9
Investment in working capital	(3.4)	1.7	(0.8)	(6.6)	(2.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	(0.3)	2.8	7.4	15.8
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)	(0.5)	(0.4)	(0.3)
Debt increase / (repayment)	(3.8)	0.0	0.0	(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	(0.4)	(0.5)	(1.9)	(2.8)
Non-operating & Other	(4.7)	(0.2)	2.6	0.8	0.0
Inc(Dec) in Cash	6.4	(3.9)	0.3	1.7	8.5

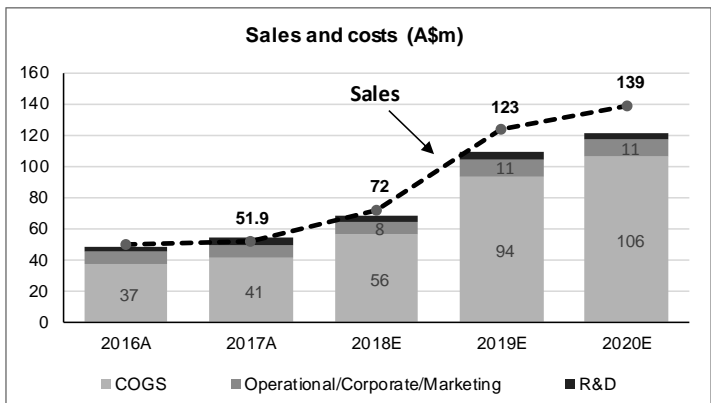
Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.7	4.1	5.8	14.3
Receivables	5.3	6.2	7.9	13.5	15.3
Inventories	11.9	8.6	10.1	17.2	19.5
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	13.1	14.6	16.1	17.6
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	39.2	32.6	37.7	53.7	67.6
Payables and other current Liabilities	11.3	10.2	12.7	18.8	20.7
Short Term Debt	2.2	2.2	2.2	2.2	2.2
Long Term Debt	9.8	9.8	9.8	8.3	5.8
Other Non Current Liabilities	1.8	0.2	0.2	0.2	0.2
Total Liabilities	25.0	22.3	24.8	29.4	28.8
Total Equity	14.2	10.2	12.9	24.3	38.8
Net Debt (Cash)	4.3	8.2	7.9	4.6	(6.4)

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	26.5	32	32	32
JSF parts (fuselage and VTFs)	578	1,230	1,645	2,450	2,700
Automotive parts	500	1,000	3,000	32,500	40,000
Revenue composition (A\$m)					
Aerospace	49.7	49.5	63.2	83.3	90.1
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	51.9	72.1	123.1	139.0
YoY revenue growth	nm	4%	39%	71%	13%
COGS as % revenue	74%	79%	77.5%	76%	76%
Operations/Other costs as % revenue	15%	15%	11%	9%	8%
R&D as % revenue	7%	9%	6%	4%	3%
Total cash costs as % revenue	96%	104%	95%	89%	87%

EBITDA margin (%)	4%	-ve	5%	11%	13%
Operating profit margin (%)	-ve	-ve	0.8%	9%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	80%	61%	19%	cash
Net Debt/Total Assets	11%	25%	21%	9%	cash
Net interest Cover (x)	na	na	7	28	50

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	22.1	5.2	4.0
Price/OP Cash Flow	-36.0	-188.8	21.3	7.9	3.7
EV (A\$m)	63	67	67	64	53
EV/EBITDA	35	-ve	19	5	3
ROE (%)	na	-ve	21%	47%	38%

Weighted Target Price*

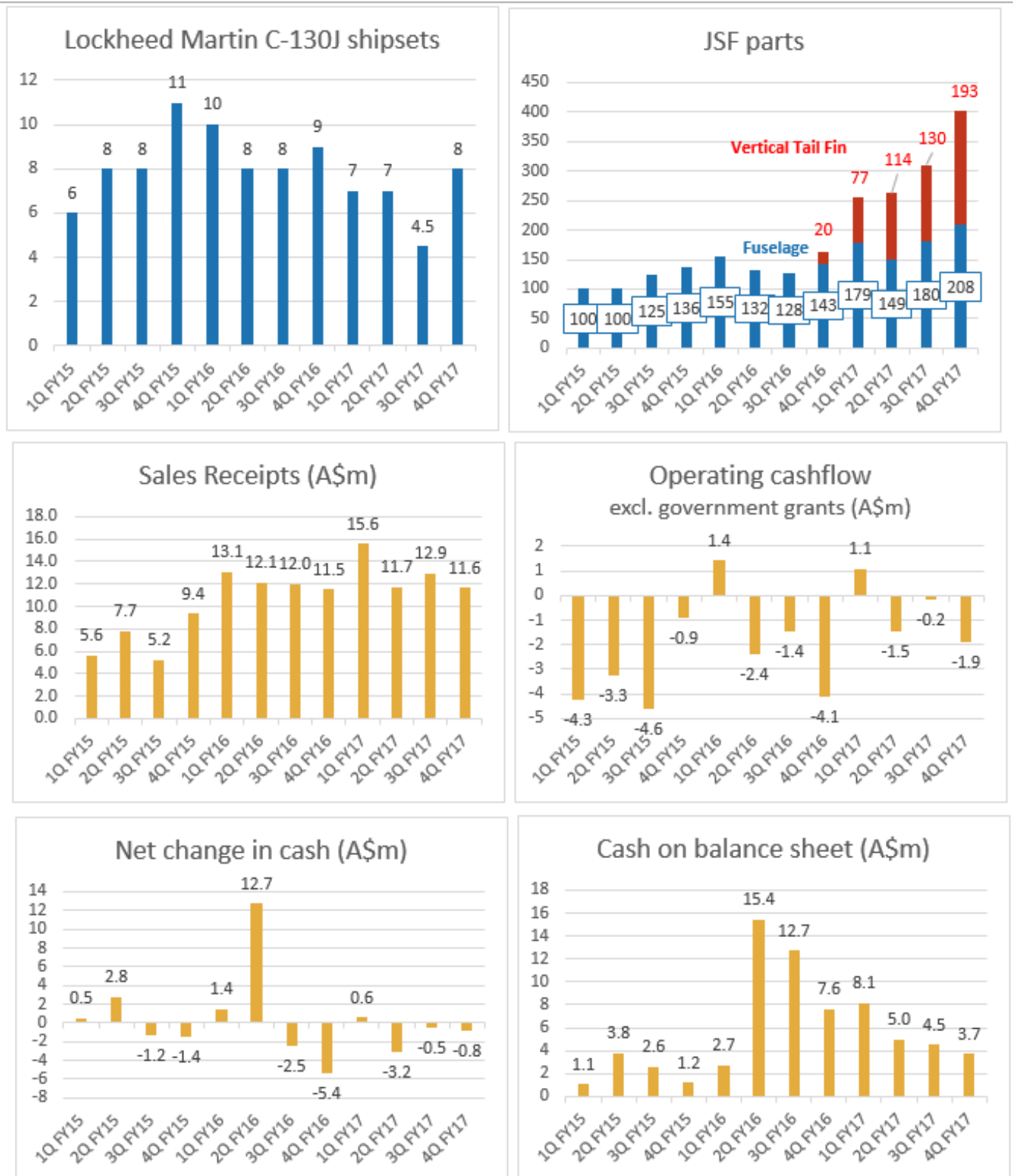
Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.21	50%	0.20	0.10	96%
EPS/PER	0.18	50%			

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 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).

Figure 1: Quarterly performance 1QFY15- 4QFY17



Source: Company, compiled by State One Stockbroking

Figure 2: Lockheed Martin 5-year share price history



Source: IRESS

Figure 3: Northrop Grumman 5-year share price history



Source: IRESS

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