



# Quickstep Holdings Limited

## December quarter activities

F-35 JSF deliveries increased 36% QoQ to 399 parts (309 fuselage and 90 VTF parts), bringing 1H total deliveries to 692. Importantly, management is maintaining FY18E full-year production/delivery guidance of ~1,500 parts; this implies a 17% increase in the second half of FY18E to 808 parts. Six Lockheed Martin C-130J shipsets and one spare (6.25 shipsets) were delivered in the quarter (vs 6 in the September quarter).

Reflecting the increase in output, quarterly sales revenue of A\$15.4m was up 24% on the prior quarter - although cash receipts were negatively impacted by seasonal C-130J advance payments in the first quarter. Operating cash outflow of A\$4.4m included a working capital increase of A\$1.6m, R&D costs of A\$0.7m, A\$2.4m in deferred income, and initial *OneQuickstep* activities. On the back of increasing output and ongoing cost-cutting initiatives, management expects the group to post a positive EBIT in 2H FY18E and in full-year FY19E.

### Target price: A\$0.15ps (unchanged)

We have kept our forecast FY18E full-year JSF and C-130J production figures unchanged at 1,500 parts and 24 shipsets respectively. Our NPV/PER-derived target price of A\$0.15 indicates significant upside potential relative to current share price levels of A\$0.083. **Recommendation: BUY (Higher Risk).**

### Australia targets defence sector for export growth

Prime minister Malcolm Turnbull unveiled a new "defence export strategy" setting out the policy and strategy to make Australia one of the world's top 10 weapons exporters within the next decade. "It is an ambitious, positive plan to boost Australian industry, increase investment, and create more jobs for Australian businesses", Turnbull said.

The government will set up a new Defence Export Office to work closely with Austrade and the Centre for Defence Industry Capability to coordinate export efforts. A A\$3.8bn Defence Export Facility to be administered by the Export Finance and Insurance Corporation (Efic) will provide finance to local companies to help sell their defence equipment overseas. The government states that it has identified a number of priority markets including the Middle East, the Indo-Pacific region, Europe, the US, the UK, Canada and New Zealand.

**Readthrough for QHL:** According to the Stockholm International Peace Research Institute, during the period 2012-2016, Australia was the world's seventh largest arms importer - sandwiched between Turkey and Iraq - but (only) the 20<sup>th</sup> largest arms exporter. Thus, the government's recently announced initiatives appear to be aimed at redressing the country's defence export/import trade imbalance. Note: between 2012 and 2016, the 10 largest arms exporters were, in order: the US, Russia, China, France, Germany, the UK, Spain, Italy, Ukraine, and Israel.

While the plan has been (naturally enough) criticised by opposition parties and groups such as Amnesty International and Oxfam Australia, the strategy has been anticipated since mid-2017 when Christopher Pyne, the defence industry minister, said he wanted to start selling far more Australian-made weapons overseas.

*At this early stage, the exact mechanism of how the government intends to boost the country's arms exports is unclear. However, we believe that QHL - with its close ties to major international arms players such as Lockheed Martin, Northrop Grumman, BAE Systems, Boeing and General Atomics - is well-placed to take advantage of any initiatives.*

30 January 2018

Share price: A\$0.083

Target price: A\$0.15

Recommendation  
**Buy**

Risk Assessment  
**Higher**

### Industrial

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Senior Investment Analyst

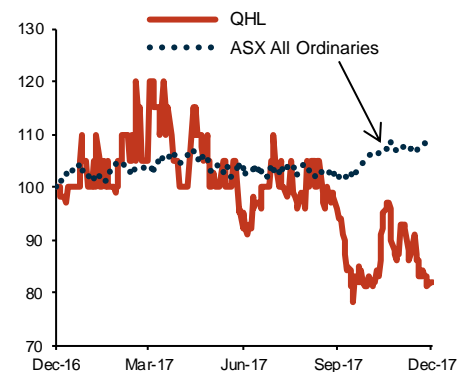
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### Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.08-A\$0.12
Market Cap (ASm)	47
Shares Outstanding (m)	563
Av Daily Turnover (shares)	448k
ASX All Ordinaries	6,075
FY18E BV per share (A\$c)	1.3
EPS FY18E (A\$c)	-0.2
Net (Debt)/Cash FY18E (A\$m)	-10

### Relative price performance



Source: IRESS

## Financial Statements

Year ending June

Profit & Loss Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Sales</b>	<b>51.9</b>	<b>58.2</b>	<b>86.2</b>	<b>111.2</b>	<b>129.8</b>
COGS	(42.0)	(47.1)	(69.0)	(86.7)	(99.9)
Operational/Marketing/Corporate	(7.9)	(7.0)	(7.1)	(7.3)	(7.4)
R&D	(5.5)	(3.0)	(3.0)	(3.0)	(3.0)
Total cash costs	(55.4)	(57.1)	(79.1)	(97.0)	(110.3)
<b>EBITDA</b>	<b>(3.5)</b>	<b>1.1</b>	<b>7.1</b>	<b>14.2</b>	<b>19.4</b>
Depreciation & Amortisation	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
<b>Operating profit</b>	<b>(5.7)</b>	<b>(1.1)</b>	<b>4.9</b>	<b>12.0</b>	<b>17.2</b>
NOI (Grants/Other)	(0.0)	0.6	0.6	0.6	0.6
<b>EBIT</b>	<b>(5.7)</b>	<b>(0.5)</b>	<b>5.5</b>	<b>12.6</b>	<b>17.8</b>
Interest income	0.6	0.1	0.1	0.1	0.1
Interest expense	(1.6)	(0.6)	(0.6)	(0.5)	(0.4)
Tax expense	0.0	0.0	(1.5)	(3.6)	(5.3)
<b>Reported NPAT</b>	<b>(6.7)</b>	<b>(1.1)</b>	<b>3.5</b>	<b>8.5</b>	<b>12.3</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>(6.7)</b>	<b>(1.1)</b>	<b>3.5</b>	<b>8.5</b>	<b>12.3</b>
EPS Reported (A\$)c	(1.2)	(0.2)	0.6	1.5	2.2
EPS Normalised (A\$)c	(1.2)	(0.2)	0.6	1.5	2.2
Dividend payout (%)	na	na	0%	33%	45%
DPS (A\$)c	0.0	0.0	0.0	0.5	1.0
Dividend Yield (%)	0%	0%	0%	6%	12%
Number of shares (m)	563	563	563	563	563

Cash Flow Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	(3.5)	1.1	7.1	14.2	19.4
Investment in working capital	4.7	(1.0)	(1.1)	(2.5)	(3.2)
Tax expense	0.0	0.0	(1.5)	(3.6)	(5.3)
<b>Operating Cash Flow</b>	<b>1.2</b>	<b>0.0</b>	<b>4.6</b>	<b>8.0</b>	<b>11.0</b>
Capex	(3.7)	(2.0)	(2.25)	(2.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(3.7)</b>	<b>(2.0)</b>	<b>(2.25)</b>	<b>(2.5)</b>	<b>(3.0)</b>
Net interest received / (paid)	(1.0)	(0.5)	(0.5)	(0.4)	(0.3)
Debt increase / (repayment)	0.1	2.0	(1.0)	(3.0)	(3.5)
Dividends declared	0.0	0.0	0.0	(2.8)	(5.5)
Equity raised / (repaid)	0.6	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>(0.3)</b>	<b>1.5</b>	<b>(1.5)</b>	<b>(6.2)</b>	<b>(9.3)</b>
Non-operating & Other	(1.1)	0.6	0.6	0.6	0.6
<b>Inc/(Dec) in Cash</b>	<b>(3.9)</b>	<b>0.1</b>	<b>1.4</b>	<b>(0.1)</b>	<b>(0.7)</b>

Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Deposits	3.7	3.8	5.2	5.1	4.4
Receivables	6.3	6.1	8.6	10.0	11.7
Inventories	10.6	11.3	11.2	13.3	16.9
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	14.8	14.6	14.6	14.9	15.7
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
<b>Total Assets</b>	<b>36.8</b>	<b>36.9</b>	<b>40.7</b>	<b>44.4</b>	<b>49.7</b>
Payables and other current Liabilities	15.7	14.9	16.2	17.2	19.3
Short Term Debt	3.8	5.8	5.8	4.3	2.8
Long Term Debt	8.2	8.2	7.2	5.7	3.7
Other Non Current Liabilities	0.9	0.9	0.9	0.9	0.9
<b>Total Liabilities</b>	<b>28.6</b>	<b>29.8</b>	<b>30.1</b>	<b>28.1</b>	<b>26.7</b>
<b>Total Equity</b>	<b>8.2</b>	<b>7.1</b>	<b>10.6</b>	<b>16.3</b>	<b>23.1</b>
Net (Debt)/Cash	(8.3)	(10.2)	(7.8)	(4.9)	(2.1)

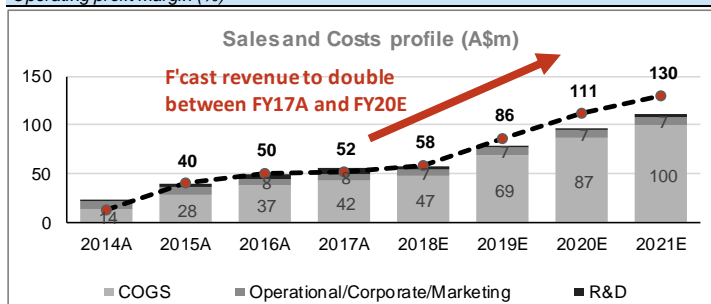
Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-17
Farjoy PL	2.4	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Parts sold / delivered</b>					
C-130J/LM-100J shipsets	27	24	26	28	28
F-35 JSF parts	1,230	1,500	2,250	2,650	2,720
..... JSF fuselage	716	1,040	1,340	1,580	1,640
..... JSF VTF	514	460	910	1,070	1,080
<b>Revenue composition (A\$m)</b>					
Aerospace - existing contracts	49.5	55.8	74.8	88.7	90.6
C-130J/LM-100J	19.3	18.9	20.3	21.9	21.9
F-35 JSF	30.2	36.9	54.5	66.8	68.7
..... JSF fuselage	20.7	28.6	38.0	47.4	49.2
..... JSF VTF	9.5	8.3	16.4	19.3	19.5
Aerospace - new business	0.0	0.0	6.1	12.1	24.2
<b>Total Aerospace (Bankstown)</b>	<b>49.5</b>	<b>55.8</b>	<b>80.9</b>	<b>100.8</b>	<b>114.8</b>
Automotive	0.7	0.7	1.4	2.8	7.1
X-Ray	0.2	1.7	4.0	5.6	5.9
Engineering/Other	1.5	0.0	0.0	2.0	2.0
<b>Non-Aerospace (Geelong)</b>	<b>2.4</b>	<b>2.4</b>	<b>5.4</b>	<b>10.4</b>	<b>14.9</b>

Group revenue (A\$m)	51.9	58.2	86.2	111.2	129.8
YoY revenue growth	4%	12%	48%	29%	17%
COGS as % revenue	81%	81%	80%	78%	77%
Operations/Other costs as % revenue	15%	12%	8%	7%	6%
R&D as % revenue	11%	5%	3%	3%	2%
Total costs as % revenue	107%	98%	92%	87%	85%

EBITDA margin (%)	-ve	2%	8%	13%	15%
Operating profit margin (%)	-ve	-ve	6%	11%	13%



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	-101%	-143%	-73%	-30%	-9%
Net Debt/Total Assets	-23%	-28%	-19%	-11%	-4%
Net interest Cover (x)	na	na	10	30	66

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised PER	-ve	-ve	13.4	5.5	3.8
Price/OP Cash Flow	38.5	937.5	10.3	5.8	4.2
EV (A\$m)	55	57	55	52	49
EV/EBITDA	-ve	54	8	4	3
ROE (%)	na	-ve	33%	52%	53%

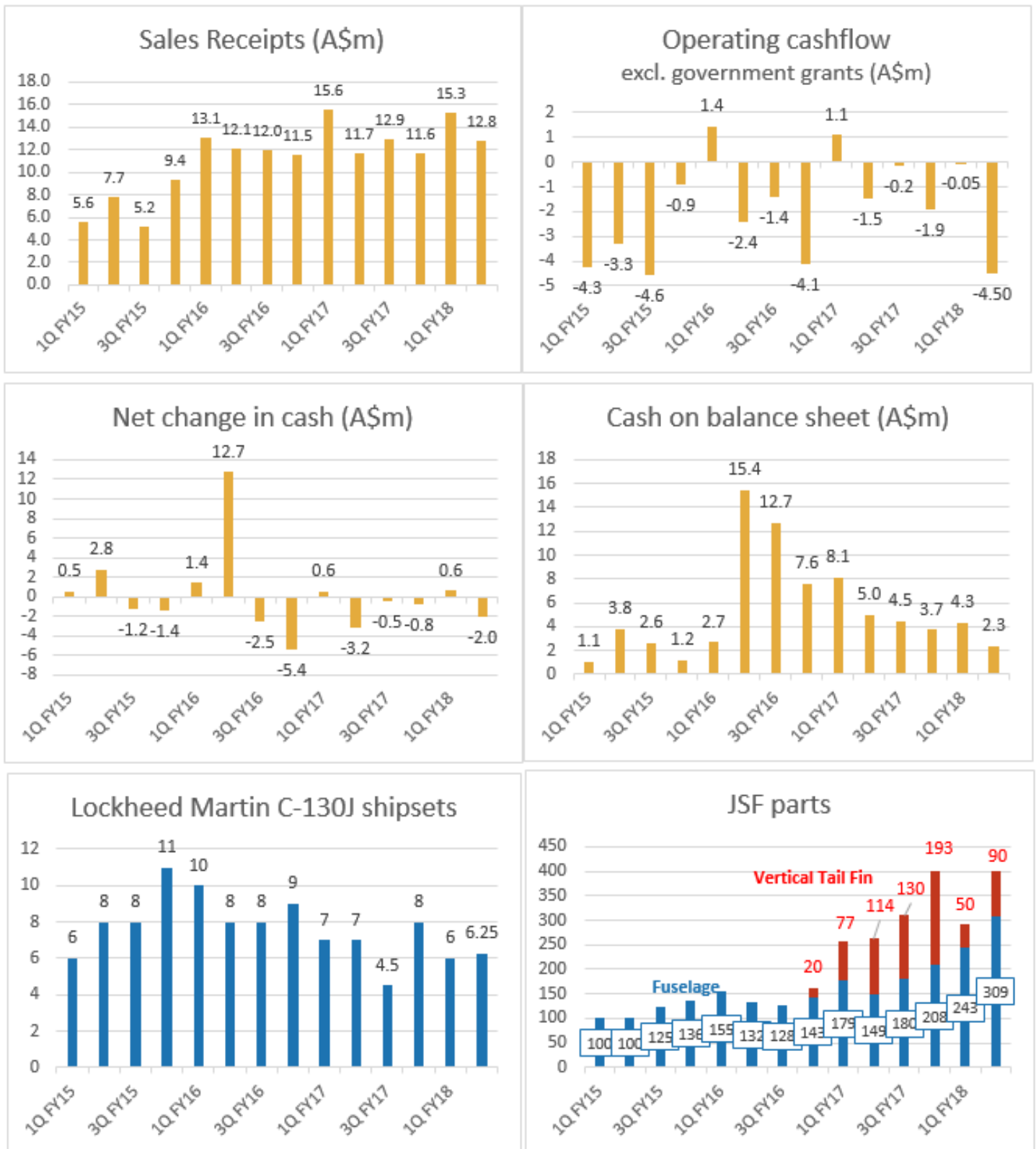
### Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.17	50%	0.14	0.08	81%
Base-case EPS/PER	0.11	50%			
"Blue sky" @ 10% of base-case valuation			0.01		
<b>Target Price (A\$)</b>			<b>0.15</b>		

EPS/PER TP based on two-year rolling EPS of A\$1.1c (rounded) and a PE multiple of 10x

**Company Overview:** Quickstep (QHL) is the largest independent aerospace-grade advanced composite manufacturer in Australia. QHL is the sole provider of carbon fibre wing flap parts for the Lockheed Martin C-130J and LM-100J transport planes, and is a parts supplier to Northrop Grumman and BAE/Marand for the JSF F-35.

Quarterly performance 1QFY15- 2QFY18



Source: Company, compiled by State One Stockbroking

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