



Quickstep Holdings Limited

3Q FY18 quarter: turning a corner

Positive operating cash flow

In August 2017, QHL's CEO and MD Mark Burgess, announced a business reorganisation and cost cutting initiative – the *OneQuickstep* change program – with a "line in the sand" objective of posting positive operating cash flows from the March 2018 quarter.

We are pleased to note that QHL delivered on this objective, posting positive operating cash flows for the first time since the September 2016 quarter. Operating cash flow of A\$2.7m was derived from A\$0.6m in EBITDA, a working capital reduction of A\$1.2m, and a net deferred income benefit of A\$0.9m. Note: this is the first time that QHL has posted a positive EBITDA – a landmark event in itself.

After paying off A\$2m in short-term loans and investing ~A\$0.2m in PPE, QHL achieved positive net cash inflow of A\$0.5m. As a result, the group's cash balance increased - albeit modestly - to A\$2.85m (as at 31 March 2018) from A\$2.35m (as at 31 Dec 2017).

Production ramp-up on track

Lockheed Martin C-130J shipset production was at the normalised rate of two per month (six for the quarter). JSF F-35 deliveries increased 9% QoQ to 436 parts (312 fuselage / 124 VTFs); this represents a 41% increase YoY. With YTD F-35 deliveries at 1,128 parts, we believe QHL is well on track to meet its targeted F-35 deliveries target of 1,500 parts for the full year (+22% on FY17).

We forecast F-35 production/deliveries accelerating further in FY19E; our forecast sales of 2,250 F-35 parts next year represents a 50% increase on FY18E. Importantly, we believe the benefits of the lean manufacturing program - already bearing fruit in the March 2018 quarter – will be even more visible over the next 12 months.

New projects

ATR Group: talks continuing with the Italian-based carbon fibre parts manufacturer focusing on developing specific automotive and commercial aerospace automotive growth opportunities.

Boeing Defence: in process of obtaining supplier accreditation. We believe initial QC audits have been successful, with production of parts and final accreditation scheduled to be completed by the end of the September/ beginning December quarter. QHL believes that successfully obtaining supplier accreditation could "open significant future business opportunities across the Boeing Group".

General Atomics: QHL is partnering with GA in the "Team Reaper" tender (to the Australian Army) for Remotely Piloted Aircraft (RPA) systems. We believe that the successful winner of the tender will be announced in the next few months.

State One conclusion: primed for positive EPS in FY19E

The March quarter results were important as a maiden positive EBITDA indicates that the group has reached a critical inflection point. With output set to increase significantly in FY19E, we forecast that margins should widen further on the back of operational leverage / economies of scale and ongoing cost-cutting initiatives. In FY19E / FY20E, we forecast QHL posting EBITDA of A\$6.9m / A\$13.8m, net profit of A\$4.9m / A\$8.3m, and EPS of 0.9c / 1.5c.

At current share price levels, we calculate that QHL is trading on a one-year PER of 9.2x, and a two-year PER of 5.4x. **Recommendation: Buy (High Risk).**

20 April 2018

Share price: A\$0.08

Target price: A\$0.15

Recommendation
Buy

Risk Assessment
Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

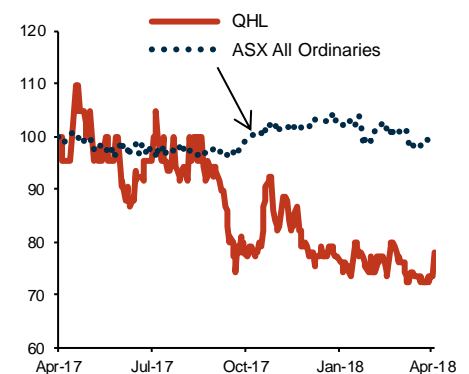
dbrennan@stateone.com.au

+61 (0)2 9024 9142

Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.08-A\$0.12
Market Cap (ASm)	43
Shares Outstanding (m)	563
Av Daily Turnover (shares)	392k
ASX All Ordinaries	5,881
FY18E BV per share (A\$c)	1.3
EPS FY18E (A\$c)	-0.2
Net (Debt)/Cash FY18E (A\$m)	-9

Relative price performance



Source: IRESS

Financial Statements

Year ending June

Profit & Loss Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Sales	51.9	58.2	78.2	106.5	126.1
COGS	(42.0)	(47.1)	(61.8)	(83.1)	(97.1)
Operational/Marketing/Corporate	(7.9)	(7.0)	(6.5)	(6.6)	(6.8)
R&D	(5.5)	(3.0)	(3.0)	(3.0)	(3.0)
Total cash costs	(55.4)	(57.1)	(71.3)	(92.7)	(106.9)
EBITDA	(3.5)	1.1	6.9	13.8	19.2
Depreciation & Amortisation	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Operating profit	(5.7)	(1.1)	4.7	11.6	17.0
NOI (Grants/Other)	(0.0)	0.6	0.6	0.6	0.6
EBIT	(5.7)	(0.5)	5.3	12.2	17.6
Interest income	0.6	0.1	0.1	0.1	0.1
Interest expense	(1.6)	(0.5)	(0.5)	(0.4)	(0.3)
Tax expense	0.0	0.0	0.0	(3.6)	(5.3)
Reported NPAT	(6.7)	(1.0)	4.9	8.3	12.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(6.7)	(1.0)	4.9	8.3	12.3
EPS Reported (A\$c)	(1.2)	(0.2)	0.9	1.5	2.2
EPS Normalised (A\$c)	(1.2)	(0.2)	0.9	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	6.9	13.8	19.2
Investment in working capital	4.7	(0.6)	(2.3)	(1.3)	(3.2)
Tax expense	0.0	0.0	0.0	(3.6)	(5.3)
Operating Cash Flow	1.2	0.5	4.7	9.0	10.8
Capex	(3.7)	(1.0)	(1.5)	(2.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(3.7)	(1.0)	(1.5)	(2.5)	(3.0)
Net interest received / (paid)	(1.0)	(0.5)	(0.4)	(0.3)	(0.1)
Debt increase / (repayment)	0.1	0.0	(1.5)	(3.5)	(2.8)
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
Financing Cash Flow	(0.3)	(0.5)	(1.9)	(6.5)	(8.4)
Non-operating & Other	(1.1)	0.6	0.6	0.6	0.6
Incl/(Dec) in Cash	(3.9)	(0.4)	1.8	0.5	(0.0)

Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Deposits	3.7	3.3	5.1	5.7	5.6
Receivables	6.3	6.0	7.8	9.6	11.3
Inventories	10.6	11.1	11.7	12.8	16.4
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	14.8	13.6	12.9	13.2	14.0
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
Total Assets	36.8	35.0	38.6	42.2	48.4
Payables and other current Liabilities	15.7	14.9	15.2	16.7	18.9
Short Term Debt	3.8	3.8	2.3	0.8	0.0
Long Term Debt	8.2	8.2	8.2	6.2	4.2
Other Non Current Liabilities	0.9	0.9	0.9	0.9	0.9
Total Liabilities	28.6	27.8	26.6	24.6	24.0
Total Equity	8.2	7.2	12.0	17.6	24.4
Net (Debt)/Cash	(8.3)	(8.7)	(5.4)	(1.3)	1.4

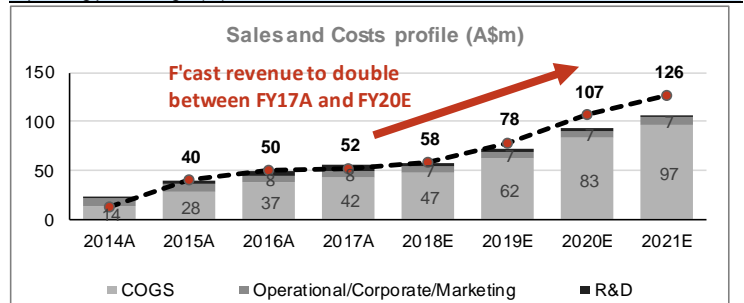
Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-17
Farjoy PL	2.4	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY17A	FY18E	FY19E	FY20E	FY21E
Parts sold / delivered					
C-130J/LM-100J shipsets	27	24	24	26	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
Revenue composition (A\$m)					
Aerospace - existing contracts	49.5	55.8	71.5	84.5	88.0
C-130J/LM-100J	19.3	18.9	18.8	20.3	21.9
F-35 JSF	30.2	36.9	52.7	64.2	66.1
... JSF fuselage	20.7	28.6	36.3	44.9	46.6
... JSF VTF	9.5	8.3	16.4	19.3	19.5
Aerospace - new business	0.0	0.0	1.3	11.6	23.2
Total Aerospace (Bankstown)	49.5	55.8	72.8	96.1	111.2
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
Non-Aerospace (Geelong)	2.4	2.4	5.4	10.4	14.9

Group revenue (A\$m)	51.9	58.2	78.2	106.5	126.1
YoY revenue growth	4%	12%	34%	36%	18%
COGS as % revenue	81%	81%	79%	78%	77%
Operations/Other costs as % revenue	15%	12%	8%	6%	5%
R&D as % revenue	11%	5%	4%	3%	2%
Total costs as % revenue	107%	98%	91%	87%	85%

EBITDA margin (%)	-ve	2%	9%	13%	15%
Operating profit margin (%)	-ve	-ve	6%	11%	14%



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	-101%	-121%	-44%	-8%	cash
Net Debt/Total Assets	-23%	-25%	-14%	-3%	cash
Net interest Cover (x)	na	na	12	42	126

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised PER	-ve	-ve	9.2	5.4	3.7
Price/OP Cash Flow	37.1	92.6	9.7	5.0	4.2
EV (A\$m)	51	51	48	44	41
EV/EBITDA	-ve	49	7	3	2
ROE (%)	na	-ve	40%	47%	50%

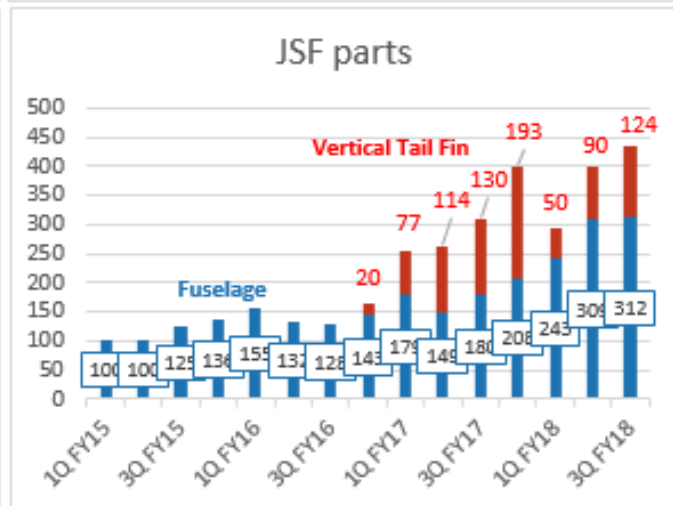
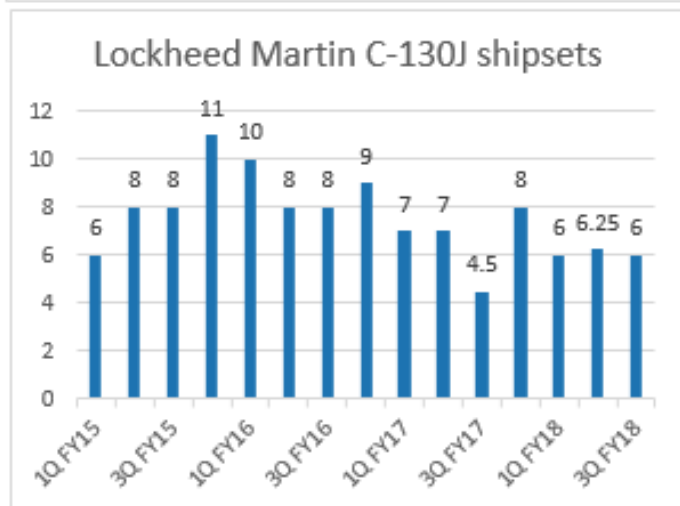
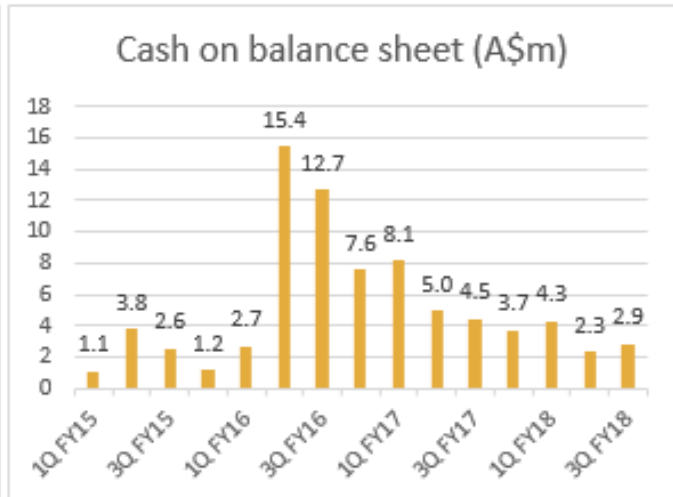
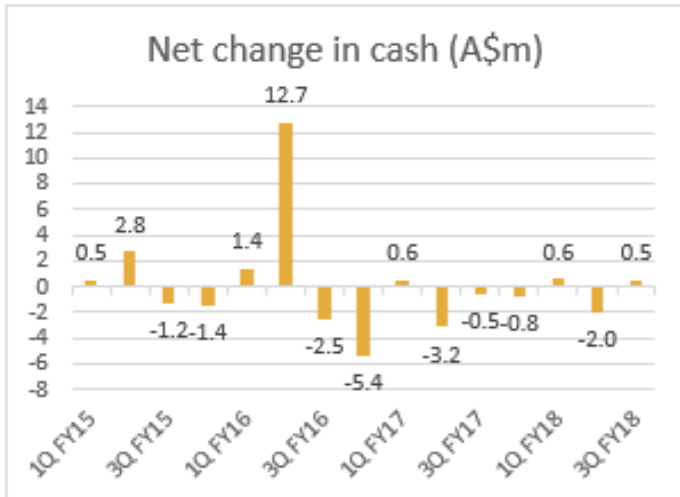
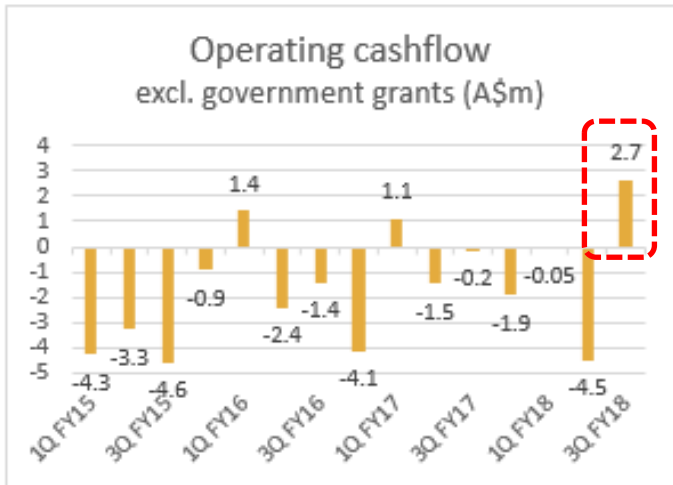
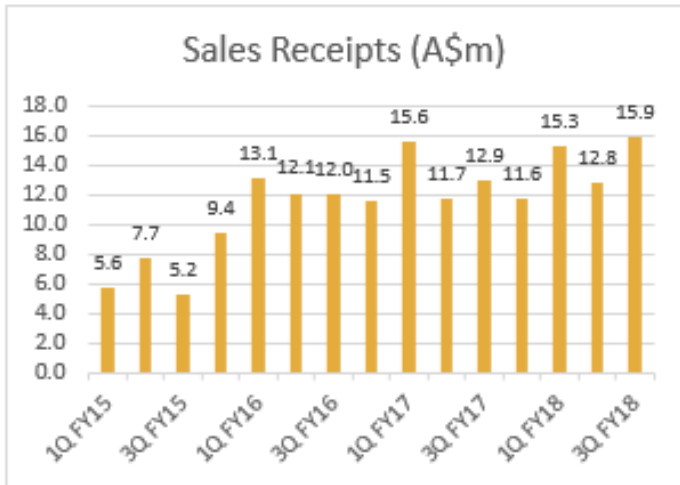
Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.17	50%	0.14	0.08	88%
Base-case EPS/PER	0.11	50%			
"Blue sky" @ 10% of base-case valuation			0.01		
Target Price (A\$)			0.15		

EPS/PER TP based on two-year rolling EPS of A\$1.4c (rounded) and a PE multiple of 8x

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- 3QFY18



Source: Company, compiled by State One Stockbroking

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Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au