



Quickstep Holdings Limited

New F-35 contract and operating cash flow +ve

New contract to produce F-35 flare housings

On 31 July, [QHL announced that it will receive funding to produce housings for an F-35 Lightning II countermeasure flare](#). Engineering and production tooling to support the new business will be funded, in part, by the F-35 Joint Program Office via Victoria-based Chemring Australia - which is manufacturing the pyrotechnic and countermeasure infrastructure. Funding is also being received via a A\$1m grant from a New Air Combat Capability – Industry Support Program (NACC-ISP).

Collaboration with US-based Triumph Group (NYSE:TGI)

QHL appointed a senior Business Development leader in the June quarter. Management believes this will allow for more regular and deeper engagement with existing and potential new US customers. The appointment appears to be bearing fruit; we note [an announcement from Triumph Group](#), a US-based aerospace parts designer and manufacturer, stating that it has signed a LOI with QHL to actively explore and cooperate in pursuing new business opportunities in the US and Australian aerospace and defence markets.

New supplier status with Boeing (NYSE:BA) and Airbus (EPA:AIR)

Boeing Defence: QHL achieved Approved Supplier status with Boeing in the June 2018 quarter; management expects that this should open significant future business opportunities.

Airbus: QHL received formal notification in the quarter that it is now an Approved Supplier to Airbus in Australia and the South Pacific. This will allow QHL to formally quote for new business with Airbus in Australia Pacific

Two quarters of positive operating profits

A year ago, in August 2017, 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. In 3Q FY18, QHL posted operating cash flows of A\$2.7m; [in the most recently reported quarter \(4Q FY18\)](#), QHL posted operating cash flows of A\$1.1m. [Achieving two successive quarters of positive operating profits is an important milestone](#). In our view, it bodes well for the current financial year when we forecast that QHL will post its maiden year of positive cash flow. We note management’s comments that increased production of F-35 fuselage and VTF parts in FY19E should underpin an expected 40% increase in JSF revenue, with margins boosted by operational leverage and ongoing *OneQuickstep* initiatives.

State One conclusion: primed for positive EPS in FY19E

A maiden positive interim EBITDA (in 2H FY18) indicates that the group has reached a critical inflection point. In FY19E / FY20E, we forecast QHL posting EBITDA of A\$6.9m / A\$13.8m, net profit of A\$4.5m / A\$8.2m, and EPS of 0.8c / 1.5c. At current share price levels, we calculate that QHL is trading on a one-year PER of 10.9x, and a two-year PER of 6.0x. At current share price levels, we believe QHL offers significant upside potential relative to our NPV/EPS-derived target price of 15c (unchanged). **Recommendation: Buy (High Risk)**. Risks to our target price and earnings profile include but are not limited to: operational performance at the Bankstown manufacturing site, JSF parts sales profile (which in turn is dependent on order timing), timing and quantum of new business, the AUD:USD exchange rate, debt repayment profile, capex and working capital requirements to support increased production and potential new business, key personnel/management risk.

2 August 2018

Share price: A\$8.7c

Target price: A\$15c

Recommendation
Buy

Risk Assessment
Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

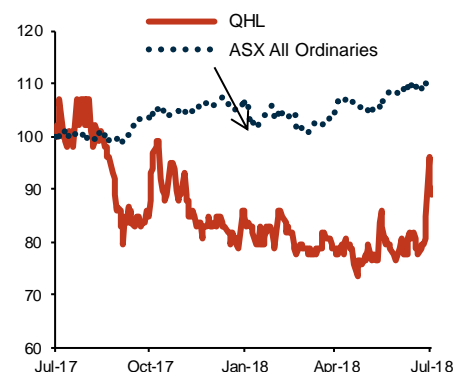
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.07-A\$0.11
Market Cap (ASm)	49
Shares Outstanding (m)	563
Av Daily Turnover (shares)	369k
ASX All Ordinaries	6,276
FY19E BV per share (A\$c)	2.0
EPS FY19E (A\$c)	0.8
Net (Debt)/Cash FY19E (A\$m)	-7

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)	(1.0)	(0.9)	(0.6)	(0.2)
Tax expense	0.0	0.0	0.0	(3.5)	(5.3)
Reported NPAT	(6.7)	(1.4)	4.5	8.2	12.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(6.7)	(1.4)	4.5	8.2	12.3
EPS Reported (A\$c)	(1.2)	(0.3)	0.8	1.5	2.2
EPS Normalised (A\$c)	(1.2)	(0.3)	0.8	1.5	2.2
Dividend payout (%)	na	na	0%	0%	20%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.4
Dividend Yield (%)	0%	0%	0%	0%	5%
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	(3.5)	(5.3)
Operating Cash Flow	1.2	0.5	4.7	9.0	10.8
Capex	(3.7)	(1.0)	(2.0)	(2.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(3.7)	(1.0)	(2.0)	(2.5)	(3.0)
Net interest received / (paid)	(1.0)	(0.9)	(0.8)	(0.5)	(0.1)
Debt increase / (repayment)	0.1	0.0	(1.5)	(5.5)	(5.0)
Dividends declared	0.0	0.0	0.0	0.0	(2.5)
Equity raised / (repaid)	0.6	0.0	0.0	0.0	0.0
Financing Cash Flow	(0.3)	(0.9)	(2.3)	(6.0)	(7.6)
Non-operating & Other	(1.1)	0.6	0.6	0.6	0.6
Inc/(Dec) in Cash	(3.9)	(0.8)	0.9	1.1	0.8

Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Deposits	3.7	2.9	3.8	4.9	5.7
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	13.4	13.7	14.5
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	34.5	37.8	42.0	49.0
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	4.2	0.0
Other Non Current Liabilities	0.9	0.9	0.9	0.9	0.9
Total Liabilities	28.6	27.8	26.6	22.6	19.8
Total Equity	8.2	6.7	11.2	19.4	29.2
Net (Debt)/Cash	(8.3)	(9.1)	(6.7)	(0.1)	5.7

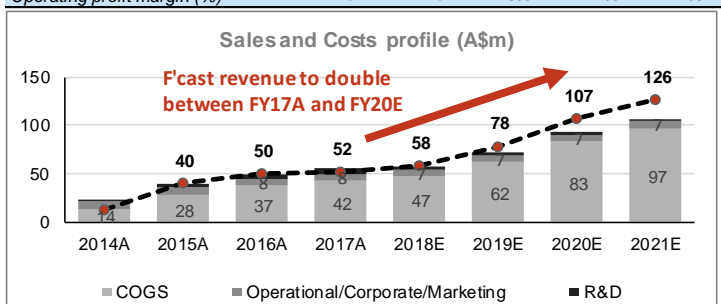
Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-17
Farjor PL	2.4	

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%	-135%	-59%	0%	cash
Net Debt/Total Assets	-23%	-26%	-18%	0%	cash
Net interest Cover (x)	na	na	6	22	173

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised PER	-ve	-ve	10.9	6.0	4.0
Price/OP Cash Flow	40.3	100.7	10.5	5.4	4.6
EV (A\$m)	57	58	56	49	43
EV/EBITDA	-ve	55	8	4	2
ROE (%)	na	-ve	40%	42%	42%

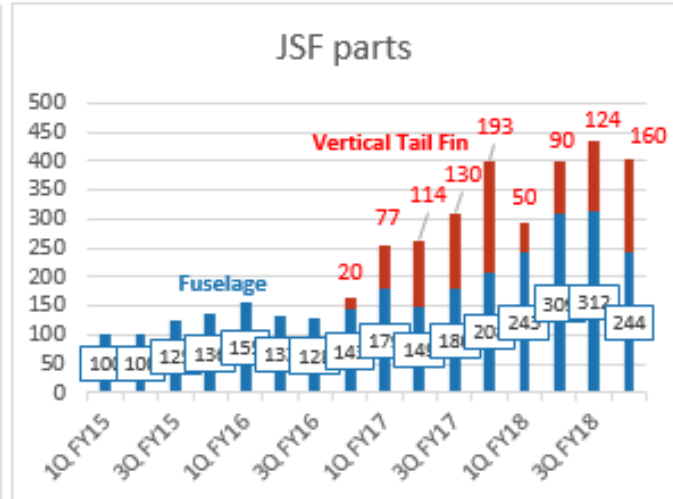
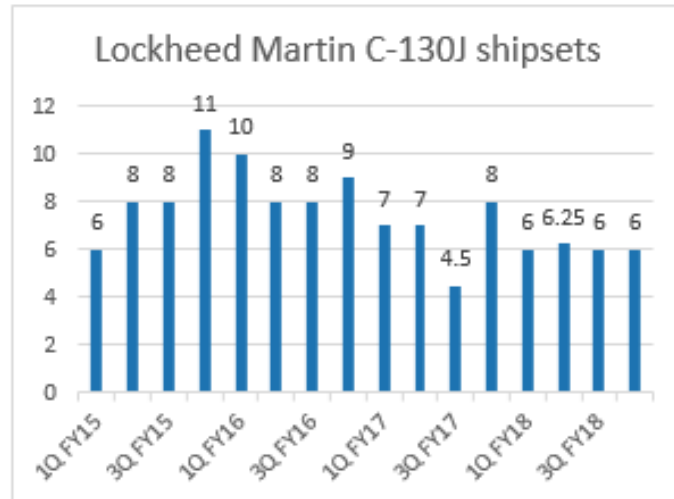
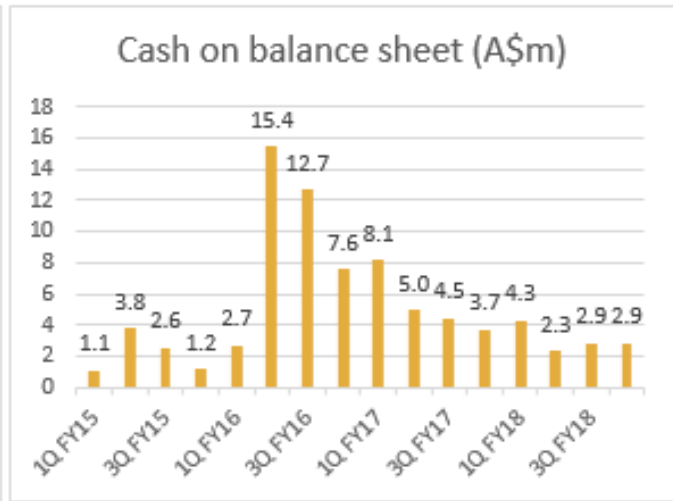
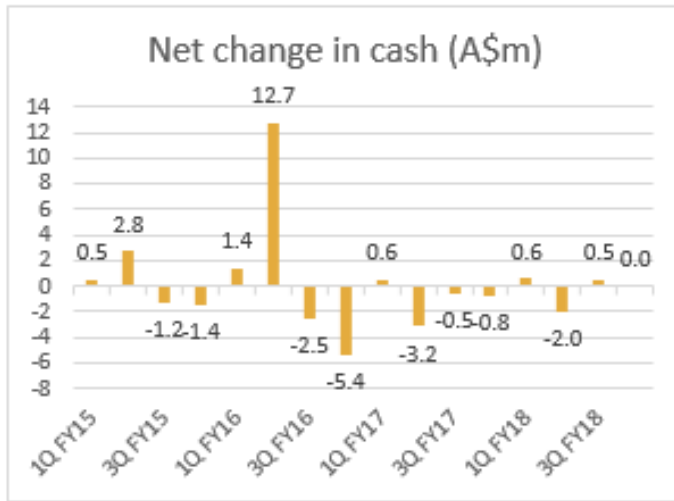
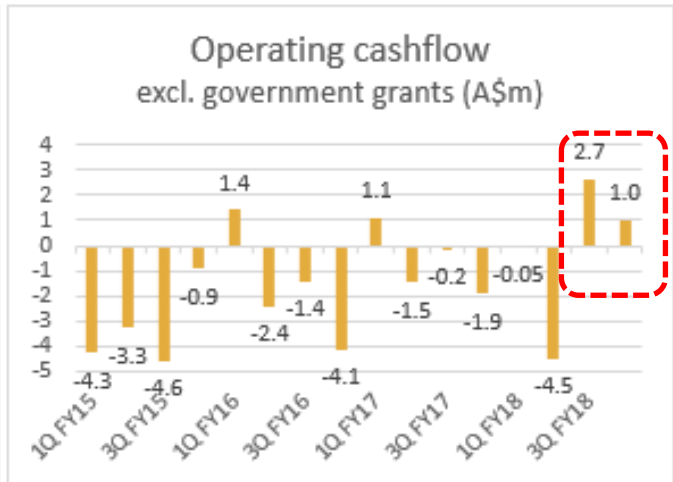
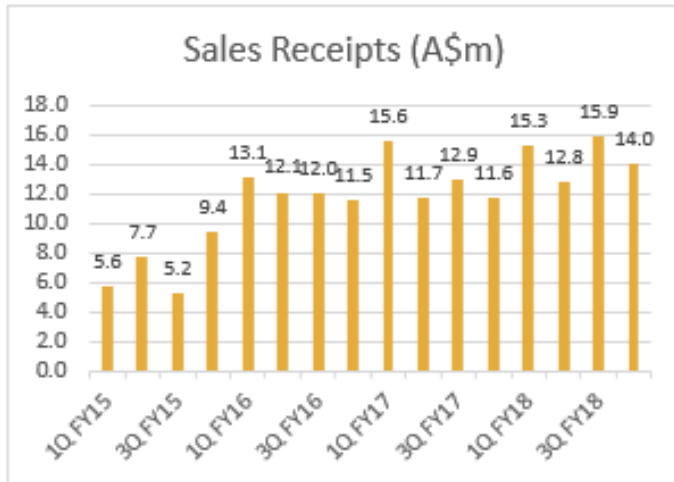
Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.17	50%	0.14	0.09	72%
Base-case EPS/PER	0.12	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- 4QFY18



Source: Company, compiled by State One Stockbroking

Note: 4Q FY18 C-130J shipsets and JSF parts production are State One estimates; as from 3Q FY18, QHL no longer discloses these figures in the quarterly activity reports.

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