



# Quickstep Holdings Limited

## Deleveraging as cash flows improve

### Sales growth forecast to accelerate to FY20E

QHL sales of A\$59m in FY18 represent a 14% increase on FY17's A\$52m. We forecast revenue increasing by 26% to A\$75m in FY19E on the back of increased sales of F-35 JSF parts. Note: our forecast revenue growth is above QHL's disclosed guidance of "at least 20%" in FY19.

Our revenue forecast of A\$103m in FY20E (+38% on FY19E) assumes a further increase in JSF part sales. Importantly, we assume that by FY20E, business developments announced over the past six months - housings for countermeasure flares for the F-35, Approved Supplier status with Boeing and Airbus, and a LOI with US-based aerospace parts producer Triumph - will have converted into customer sales. We forecast new aerospace business contributing some A\$12m in revenue in FY20E (equal to 12% of FY20E group revenue).

In FY21E, we forecast group revenue of A\$124m (+20% on FY20E), with new aerospace business accounting for A\$24m or 19% of FY21E's top-line.

### Operating cash flow increases – but also capex & financing costs

On the back of our forecast rising revenue profile, and with margins expected to benefit from operational leverage and ongoing cost-cutting initiatives (*OneQuickstep*), we forecast operating cashflows improving significantly from A\$0.2m in FY18A to A\$2.6m in FY19E, and to A\$8.4m and A\$14.8m in FY20E in FY21E respectively.

Despite this operational turnaround, our view is that the group's cash position will remain largely unchanged over the next three years as capital expenditure (to support new business development) and debt repayments absorb operating cash flows. As at 30 June 2018, QHL's had A\$13.6m of debt including capitalised interest with maturity dates ranging between 2019 and 2021.

However, by FY22E, we forecast that with debt paid off, QHL could be able to distribute dividends; we forecast a maiden dividend of 0.5c in FY22E (~ 6% yield).

### Primed for maiden positive EPS in FY19E

A maiden positive interim EBITDA (in 2H FY18) indicates that the group has reached a critical inflection point. In FY19E we forecast QHL posting EBITDA of A\$4.2m, underlying net profit of A\$0.6m, and a maiden positive EPS of 0.1c. In FY20E we forecast QHL posting EBITDA of A\$11.1m, underlying net profit of A\$7.7m, and EPS of 1.3c. At current share price levels, we calculate that QHL is trading on an attractive two-year PER of 6.5x.

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 (dependent on order timing),
- timing and quantum of new aerospace business,
- the AUD:USD exchange rate,
- timing and quantum of the debt repayment profile & potential refinancing,
- capex and working capital requirements to support increased production and potential new business,
- key personnel/management risk.

28 September 2018

Share price: 8.5c

Target price: 15c (unchanged)

Recommendation  
**Buy**

Risk Assessment  
**Higher**

#### Industrial

David Brennan, CFA

Senior Investment Analyst

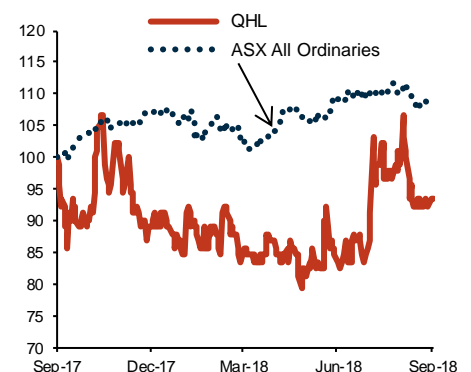
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)

+61 (0)2 9024 9142

#### Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.07-A\$0.11
Market Cap (A\$m)	48
Shares Outstanding (m)	563
Av Daily Turnover (shares)	369k
ASX All Ordinaries	6,193
FY19E BV per share (A\$c)	1.1
EPS FY19E (A\$c)	1.3c
Net (Debt)/Cash FY19E (A\$m)	-11

#### Relative price performance



Source: IRESS

## Financial Statements

Year ending June

Profit & Loss Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
<b>Sales</b>	<b>59.0</b>	<b>74.6</b>	<b>103.3</b>	<b>124.3</b>	<b>124.3</b>
COGS	(46.7)	(58.9)	(80.6)	(95.7)	(95.7)
Operational/Marketing/Corporate	(7.4)	(7.5)	(7.7)	(7.8)	(8.0)
R&D	(3.7)	(4.0)	(4.0)	(4.0)	(4.0)
Total cash costs	(57.9)	(70.4)	(92.2)	(107.5)	(107.6)
<b>EBITDA</b>	<b>1.2</b>	<b>4.2</b>	<b>11.1</b>	<b>16.8</b>	<b>16.6</b>
Depreciation & Amortisation	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
<b>Operating profit</b>	<b>(1.8)</b>	<b>1.2</b>	<b>8.1</b>	<b>13.8</b>	<b>13.6</b>
NOI (Grants/Other)	(0.2)	0.5	0.5	0.5	0.5
<b>EBIT</b>	<b>(2.0)</b>	<b>1.7</b>	<b>8.6</b>	<b>14.3</b>	<b>14.1</b>
Interest income	0.2	0.1	0.1	0.1	0.1
Interest expense	(1.1)	(1.1)	(1.0)	(0.6)	(0.2)
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>(2.9)</b>	<b>0.6</b>	<b>7.7</b>	<b>13.7</b>	<b>14.0</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>(2.9)</b>	<b>0.6</b>	<b>7.7</b>	<b>13.7</b>	<b>14.0</b>
EPS Reported (A\$c)	(0.5)	0.1	1.3	2.4	2.4
EPS Normalised (A\$c)	(0.5)	0.1	1.3	2.4	2.4
Dividend payout (%)	na	0%	0%	0%	20%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.5
Dividend Yield (%)	0%	0%	0%	0%	6%
Number of shares - diluted (m)	580	580	580	580	580

Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	1.2	4.2	11.1	16.8	16.6
Investment in working capital	(1.0)	(1.6)	(2.7)	(2.0)	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>0.2</b>	<b>2.6</b>	<b>8.4</b>	<b>14.8</b>	<b>16.6</b>
Capex	(1.1)	(2.0)	(5.0)	(7.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(1.1)</b>	<b>(2.0)</b>	<b>(5.0)</b>	<b>(7.5)</b>	<b>(3.0)</b>
Net interest received / (paid)	(0.9)	(1.1)	(0.9)	(0.5)	(0.1)
Debt increase / (repayment)	1.6	1.0	(4.0)	(6.2)	(4.4)
Dividends declared	0.0	0.0	0.0	0.0	(2.8)
Equity raised / (repaid)	0.5	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>1.1</b>	<b>(0.1)</b>	<b>(4.9)</b>	<b>(6.7)</b>	<b>(7.3)</b>
Non-operating & Other	(1.0)	0.5	0.5	0.5	0.5
<b>Inc/(Dec) in Cash</b>	<b>(0.8)</b>	<b>1.0</b>	<b>(1.1)</b>	<b>1.1</b>	<b>6.8</b>

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Deposits	2.9	3.9	2.8	3.9	10.7
Receivables	4.5	5.6	7.7	9.3	9.3
Inventories	10.0	12.7	17.6	21.1	21.1
Other Current Assets	1.6	1.6	1.6	1.6	1.6
PPE and Exploration & Development	13.2	12.2	14.2	18.7	18.7
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
<b>Total Assets</b>	<b>32.2</b>	<b>36.0</b>	<b>44.0</b>	<b>54.7</b>	<b>61.5</b>
Payables and other current Liabilities	12.5	14.8	19.1	22.2	22.2
Short Term Debt	5.7	6.7	2.7	0.0	0.0
Long Term Debt	7.9	7.9	7.9	4.4	0.0
Other Non Current Liabilities	0.3	0.3	0.3	0.3	0.3
<b>Total Liabilities</b>	<b>26.4</b>	<b>29.6</b>	<b>29.9</b>	<b>26.9</b>	<b>22.5</b>
<b>Total Equity</b>	<b>5.8</b>	<b>6.4</b>	<b>14.0</b>	<b>27.8</b>	<b>39.0</b>
Net (Debt)/Cash	(10.7)	(10.7)	(7.7)	(0.5)	10.7

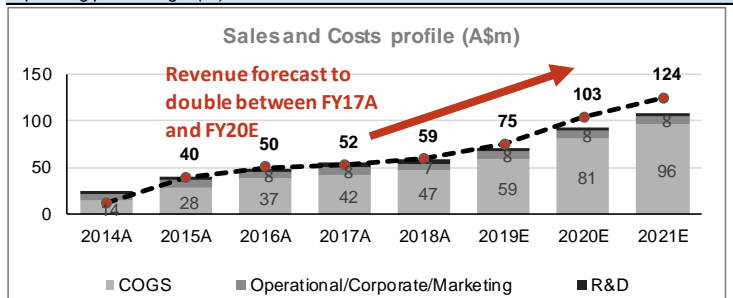
Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Jul-18
State One Stockbroking	2.9	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY18A	FY19E	FY20E	FY21E	FY22E
<b>Parts sold / delivered</b>					
C-130J/LM-100J shipsets	24	24	26	28	28
F-35 JSF parts	1,500	2,250	2,650	2,720	2,720
..... JSF fuselage	1,040	1,340	1,580	1,640	1,640
..... JSF VTF	460	910	1,070	1,080	1,080
<b>Revenue composition (A\$m)</b>					
Aerospace - existing contracts	57.3	71.7	84.0	87.3	87.3
C-130J/LM-100J	19.4	17.3	18.7	20.2	20.2
F-35 JSF	37.9	54.4	65.3	67.2	67.2
..... JSF fuselage	29.4	37.5	45.3	47.0	47.0
..... JSF VTF	8.5	16.9	20.0	20.2	20.2
Aerospace - new business	0.0	1.3	12.0	24.0	24.0
<b>Total Aerospace (Bankstown)</b>	<b>57.3</b>	<b>73.0</b>	<b>96.0</b>	<b>111.3</b>	<b>111.3</b>
Automotive	0.4	0.0	2.9	7.3	7.3
X-Ray	1.3	1.6	2.4	3.6	3.6
Engineering/Other	0.0	0.0	2.0	2.0	2.0
<b>Non-Aerospace (Geelong)</b>	<b>1.7</b>	<b>1.6</b>	<b>7.3</b>	<b>12.9</b>	<b>12.9</b>

Group revenue (A\$m)	59.0	74.6	103.3	124.3	124.3
YoY revenue growth	14%	26%	38%	20%	0%
COGS as % revenue	79%	79%	78%	77%	77%
Operations/Other costs as % revenue	13%	10%	7%	6%	6%
R&D as % revenue	6%	5%	4%	3%	3%
Total costs as % revenue	98%	94%	89%	86%	87%

EBITDA margin (%)	2%	6%	11%	14%	13%
Operating profit margin (%)	-ve	2%	8%	11%	11%



Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Net Debt/Equity	-185%	-167%	-55%	-2%	cash
Net Debt/Total Assets	-33%	-30%	-18%	-1%	cash
Net interest Cover (x)	na	1.6	9	26	na

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised PER	-ve	82.9	6.5	3.6	3.6
Price/OP Cash Flow	272.4	19.3	6.0	3.4	3.0
EV (A\$m)	59	59	56	48	37
EV/EBITDA	51	14	5	3	2
ROE (%)	na	9%	55%	49%	36%

### Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.16	50%	0.14	0.086	74%
Base-case EPS/PER	0.13	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\$1.6c (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.

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Alan Hill  
Executive Chairman  
Phone: +61 8 9288 3388  
[ahill@stateone.com.au](mailto:ahill@stateone.com.au)

Ric Heydon  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3307  
[rheydon@stateone.com.au](mailto:rheydon@stateone.com.au)

Mark Sullivan  
Institutional Dealer  
Phone: +61 2 9024 9134  
[msullivan@stateone.com.au](mailto:msullivan@stateone.com.au)

Thomas Tan  
Equities Advisor  
Phone: +61 2 9024 9131  
[ttan@stateone.com.au](mailto:ttan@stateone.com.au)

Morris Levitzke  
Equities Advisor  
Phone: +61 8 9288 3315  
[mlevitzke@stateone.com.au](mailto:mlevitzke@stateone.com.au)

Graeme Johnson  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3316  
[gjohnson@stateone.com.au](mailto:gjohnson@stateone.com.au)

Yitz Barber  
Equities Advisor  
Phone: +61 2 9024 9107  
[ybarber@stateone.com.au](mailto:ybarber@stateone.com.au)

Tammie Wong  
Equities Advisor  
Phone: +61 2 9024 9133  
[twong@stateone.com.au](mailto:twong@stateone.com.au)

Dawn Chia  
Business Development Manager  
Phone: +61 8 9288 3336  
[Dawn.Chia@stateone.com.au](mailto:Dawn.Chia@stateone.com.au)

David Zhang  
Equities Advisor  
Phone: +61 2 9024 9130  
[dzhang@stateone.com.au](mailto:dzhang@stateone.com.au)

David Brennan  
Senior Investment Analyst  
Phone: +61 2 9024 9142  
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)