



22 February 2019

Quickstep Holdings Limited (ASX: QHL)

On track for maiden full year NPAT

Event

Quickstep (QHL)- Australia's leading independent manufacturer of advanced carbon fibre composite components - reported its 1H FY19 interim financial results.)

- Total sales of A\$33.8m, up 21.5% on the prior comparative period's (1H FY18) A\$27.9m.
- EBITDA of A\$2.9m (-A\$1.0), EBIT of A\$2m (A\$0.9m), NPAT of A\$0.9m (-A\$2.9m). Note: EBIT of A\$2m benefited by A\$0.7m from accounting changes to revenue recognition and reassessment of plant and equipment useful lives.
- 1H FY19 gross profit margins of 23% improved significantly on the pcp's margins of 12.5% ; the improvement was due to strong volume growth on the JSF programme, lean enterprise programs at the Bankstown and Geelong sites and increasing efficiency.
- Operating cash flow -A\$0.9m (-A\$4.3m); this was a material improvement YoY but was impacted by a build-up of inventory (primarily raw material) because of production delays during the period due to key machine outage in November and December 2018
- Net debt increased by A\$1.1m to A\$11m to fund increased inventory.
- **Outlook:** QHL expects to deliver positive NPAT and operating cash flow for the full financial year, despite the impact of a key machine (PMM) failure during the December 2018 quarter which will impact March 2019 production.
- Successes in defence manufacturing were recently recognised with QHL taking the winners' awards at the Premier's Export Awards in the NSW Defence Industries category and the Defence Business of the Year Award at the 2018 Optus MyBusiness Awards.
- Four-year Enterprise Agreement successfully negotiated with two unions at Bankstown, the Australian Manufacturing Worker's Union (AMWU) and the Australian Workers Union (AWU).
- **QHL expects to win new composite manufacturing contracts**, primarily in the aerospace sector, using both traditional techniques and its proprietary advanced manufacturing Qure and QPS technologies.

State One comment

- Revenue is on track to meet our full year FY19E forecast of A\$71.1m.
- Interim EBIT of A\$2m (A\$1.3m backing out accounting changes) indicates that our full-year forecast of A\$2.3m could be on the conservative side.
- Interim NPAT of A\$0.9m indicates that the group is on track to (comfortably) meet our full-year forecast of A\$1.3m.
- Interim EPS of 0.15c are well on the way to meeting our forecast full year EPS of 0.2c.

Predicated on our forecast EPS of 0.2c in FY19E, 1.3c in FY20E and 2.4c in FY21E, we calculate that QHL is trading on a current PE multiple of 32.2x, a one-year PE of 5.3x, and a two-year PE of 3.0x. We suggest that these ratings are not challenging and could attract a new cohort of growth-based investors.

In addition, the announcement of new material contracts (we believe potentially before the end of the financial year) could be a significant near-term share price catalyst.

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, and the AUD:USD exchange rate, timing and quantum of the long-term debt repayment profile & success in refinancing short term debt, capex and working capital requirements to support increased production and potential new business, key personnel/management risk.

Share Price: A\$0.07

Target Price: A\$0.15

Target Upside: 114%

Recommendation

Buy

Risk Assessment

Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

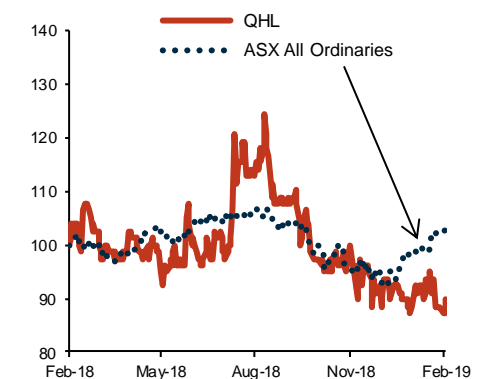
dbrennan@stateone.com.au

+61 02 9024 9142

Quickstep Holdings Limited

ASX Code	QHL
52 week range (A\$cps)	A\$0.07-A\$0.11
Market Cap (A\$m)	38
Quoted shares (m)	564
Av Daily Turnover (shares)	328k
ASX All Ordinaries	6,153
FY19E BV per share (A\$c)	1.2
FY19E EPS (A\$c)	0.2
FY19E Net (Debt)/Cash (A\$m)	-11

Relative Price Performance



Year ending June

Profit & Loss Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Sales	59.0	71.1	103.3	124.3	124.3
COGS	(46.7)	(56.1)	(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)	(67.6)	(92.2)	(107.5)	(107.6)
EBITDA	1.2	3.4	11.1	16.8	16.6
Depreciation & Amortisation	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Operating profit	(1.8)	0.4	8.1	13.8	13.6
NOI (Grants/Other)	(0.2)	1.9	0.5	0.5	0.5
EBIT	(2.0)	2.3	8.6	14.3	14.1
Interest income	0.2	0.1	0.1	0.0	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
Reported NPAT	(2.9)	1.3	7.7	13.7	14.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(2.9)	1.3	7.7	13.7	14.0
EPS Reported (A\$)c	(0.5)	0.2	1.3	2.4	2.4
EPS Normalised (A\$)c	(0.5)	0.2	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%	7%
Number of shares - diluted (m)	580	580	580	580	580

Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	1.2	3.4	11.1	16.8	16.6
Investment in working capital	(1.0)	(1.2)	(3.1)	(2.0)	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	0.2	2.2	8.0	14.8	16.6
Capex	(1.1)	(3.0)	(5.0)	(7.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(1.1)	(3.0)	(5.0)	(7.5)	(3.0)
Net interest received / (paid)	(0.9)	(1.0)	(0.9)	(0.6)	(0.1)
Debt increase / (repayment)	1.6	0.0	(3.0)	(5.2)	(5.4)
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
Financing Cash Flow	1.1	(1.0)	(3.9)	(5.7)	(8.3)
Non-operating & Other	(1.0)	1.9	0.5	0.5	0.5
Inc/(Dec) in Cash	(0.8)	0.0	(0.4)	2.0	5.8

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Deposits	2.9	2.9	2.5	4.5	10.3
Receivables	4.5	5.3	7.7	9.3	9.3
Inventories	10.0	12.1	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	13.2	15.2	19.7	19.7
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
Total Assets	32.2	35.1	44.7	56.3	62.1
Payables and other current Liabilities	12.5	14.2	19.1	22.2	22.2
Short Term Debt	5.7	5.7	1.7	0.0	0.0
Long Term Debt	7.9	7.9	8.9	5.4	0.0
Other Non Current Liabilities	0.3	0.3	0.3	0.3	0.3
Total Liabilities	26.4	28.1	29.9	27.9	22.5
Total Equity	5.8	7.0	14.7	28.4	39.6
Net (Debt)/Cash	(10.7)	(10.7)	(8.1)	(0.9)	10.3

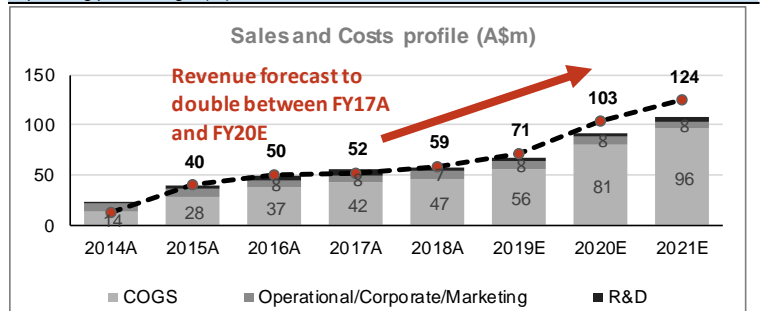
Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Jul-18
State One Stockbroking	2.9	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY18A	FY19E	FY20E	FY21E	FY22E
Parts sold / delivered					
C-130J/LM-100J shipsets	24	24	26	28	28
F-35 JSF parts	1,500	2,105	2,650	2,720	2,720
..... JSF fuselage	1,040	1,250	1,580	1,640	1,640
..... JSF VTF	460	855	1,070	1,080	1,080
Revenue composition (A\$m)					
Aerospace - existing contracts	57.3	68.1	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	50.8	65.3	67.2	67.2
..... JSF fuselage	29.4	35.0	45.3	47.0	47.0
..... JSF VTF	8.5	15.8	20.0	20.2	20.2
Aerospace - new business	0.0	1.3	12.0	24.0	24.0
Total Aerospace (Bankstown)	57.3	69.5	96.0	111.3	111.3
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
Non-Aerospace (Geelong)	1.7	1.6	7.3	12.9	12.9

Group revenue (A\$m)	59.0	71.1	103.3	124.3	124.3
YoY revenue growth	14%	20%	45%	20%	0%
COGS as % revenue	79%	79%	78%	77%	77%
Operations/Other costs as % revenue	13%	11%	7%	6%	6%
R&D as % revenue	6%	6%	4%	3%	3%
Total costs as % revenue	98%	95%	89%	86%	87%

EBITDA margin (%)	2%	5%	11%	14%	13%
Operating profit margin (%)	-ve	1%	8%	11%	11%



Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Net Debt/Equity	-185%	-152%	-55%	-3%	cash
Net Debt/Total Assets	-33%	-30%	-18%	-2%	cash
Net interest Cover (x)	na	2.2	9	24	na

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised PER	-ve	32.2	5.3	3.0	2.9
Price/OP Cash Flow	221.7	18.6	5.1	2.7	2.4
EV (A\$m)	49	49	46	39	28
EV/EBITDA	43	14	4	2	2
ROE (%)	na	18%	52%	48%	35%

Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.15	50%	0.14	0.070	114%
Base-case EPS/PER	0.14	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\$1.6c (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.

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

Wayne Osterberg
Equities Advisor
Phone: +61 8 9288 3318
Wayne.Osterberg@stateone.com.au

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