

29 April 2019

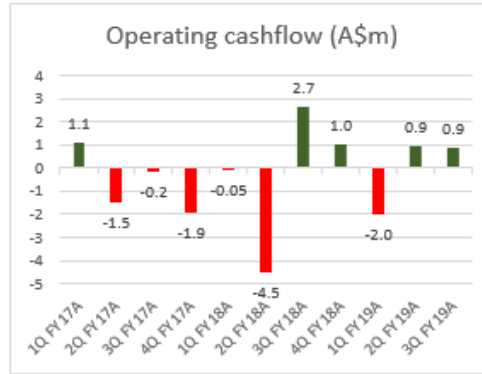
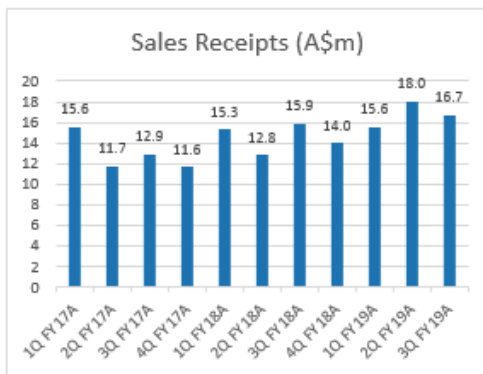
Quickstep Holdings Limited (ASX: QHL)

3Q FY19 report: balance sheet now supported

Event

Quickstep (QHL)- Australia's leading independent manufacturer of advanced carbon fibre composite components - recently released its March quarter (3Q FY19) 4C and Quarterly Report.

- Receipts from customers of A\$16.7m, up 5% YoY.
- Positive operating cash flow of A\$0.9m; this is the second consecutive quarter of +ve operating cash flows. Note: QHL has posted +ve operating cash flows in 4 of the last 5 quarters.
- Cash flow post PPE capex of A\$1.025m was marginally negative at -A\$0.2m.



- **Major +ve changes in the balance sheet due to financing developments during the quarter.**
 - Issue of 125m placement shares @ A\$0.085ps to raise A\$10.625m (before costs).
 - Total outstanding debt, including capitalised interest was A\$10.3m as at 31 March 2019. This represents a decline of A\$5.2m from 31 December 2018 following repayment of a short term working capital facility after the A\$10.6m placement.
 - At 31 March 2019, QHL held A\$7.6m in cash (31 December 2018: A\$3.2m) and A\$0.8m in restricted term deposits. Note: QHL's cash balance was further boosted after the March 2019 quarter via a A\$1.65m SPP (@ A\$0.085ps) completed in April.
- **Outlook:** QHL has reported positive NPAT to 31 March 2019 and maintains guidance of positive NPAT for the full-year. Importantly, operational problems experienced in the December 2018 and March 2019 quarters have been resolved, and management is guiding to improved operational performance and a lift in gross margin in the current (June 2019) quarter. Cashflow during the June quarter should also improve as working capital requirements - which increased in the March 2019 quarter - normalises. QHL indicates that the group has a healthy pipeline of new business, with new contracts anticipated in 2019.

State One comment

Predicated on our forecast EPS of 0.1c in FY19E, 1.1c in FY20E and 2.0c in FY21E, we calculate that QHL is trading on a current PE multiple of 57x, a one-year PE of 6.7x, and a two-year PE of 3.9x. We suggest that these multiples are not challenging and could attract a new cohort of growth-based investors. In addition, the announcement(s) of new 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 (and other) contracts, the AUD:USD exchange rate, timing and quantum of long-term debt repayment profile, capex and working capital requirements to support increased production and potential new business, key personnel/management risk.

Share Price: A\$0.077

Target Price: A\$0.15

Target Upside: 95%

Recommendation

Buy

Risk Assessment

Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

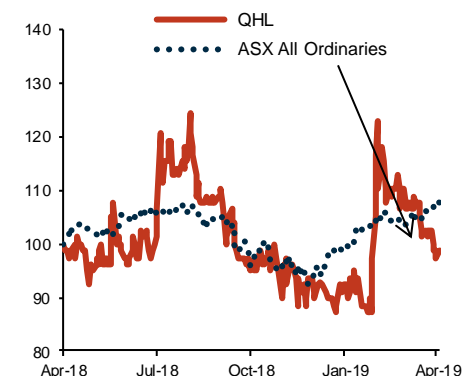
dbrennan@stateone.com.au

+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)	55
Quoted shares (m)	710
Av Daily Turnover (shares)	559k
ASX All Ordinaries	6,354
FY19E BV per share (A\$c)	2.6
FY19E EPS (A\$c)	0.1
FY19E Net (Debt)/Cash (A\$m)	1.4

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)	1.4	0.5	0.5	0.5
EBIT	(2.0)	1.8	8.6	14.3	14.1
Interest income	0.2	0.1	0.2	0.2	0.3
Interest expense	(1.1)	(0.8)	(0.4)	(0.1)	(0.0)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(2.9)	1.0	8.3	14.3	14.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(2.9)	1.0	8.3	14.3	14.4
EPS Reported (A\$¢)	(0.5)	0.1	1.1	2.0	2.0
EPS Normalised (A\$¢)	(0.5)	0.1	1.1	2.0	2.0
Dividend payout (%)	na	0%	0%	0%	20%
DPS (A\$¢)	0.0	0.0	0.0	0.0	0.4
Dividend Yield (%)	0%	0%	0%	0%	5%
Number of shares - diluted (m)	580	724	724	724	724

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)	(0.8)	(0.3)	0.0	0.2
Debt increase / (repayment)	1.6	(6.5)	(3.5)	(3.4)	0.0
Dividends declared	0.0	0.0	0.0	0.0	(2.9)
Equity raised / (repaid)	0.5	12.3	0.0	0.0	0.0
Financing Cash Flow	1.1	5.0	(3.8)	(3.4)	(2.6)
Non-operating & Other	(1.0)	1.4	0.5	0.5	0.5
Inc/(Dec) in Cash	(0.8)	5.5	(0.2)	4.4	11.5

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Deposits	2.9	8.4	8.2	12.6	24.1
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	40.7	50.3	64.4	75.9
Payables and other current Liabilities	12.5	14.2	19.1	22.2	22.2
Short Term Debt	5.7	0.2	0.2	0.2	0.2
Long Term Debt	7.9	6.9	3.4	0.0	0.0
Other Non Current Liabilities	0.3	0.3	0.3	0.3	0.3
Total Liabilities	26.4	21.6	22.9	22.7	22.7
Total Equity	5.8	19.1	27.4	41.7	53.2
Net (Debt)/Cash	(10.7)	1.4	4.6	12.4	23.9

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

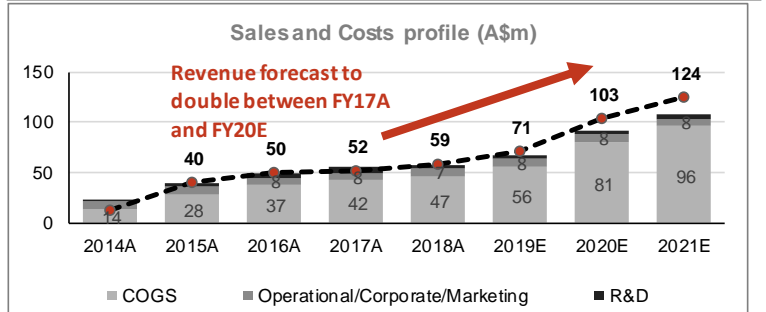
Source: Company, IRESS, State One Stockbroking forecasts

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)	FY18A	FY19E	FY20E	FY21E	FY22E
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%	cash	cash	cash	cash
Net Debt/Total Assets	-33%	cash	cash	cash	cash
Net interest Cover (x)	na	2.3	33	-961	na

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised PER	-ve	54.8	6.7	3.9	3.9
Price/OP Cash Flow	304.7	25.6	7.0	3.8	3.4
EV (A\$m)	65	53	49	42	30
EV/EBITDA	56	15	4	2	2
ROE (%)	na	5%	30%	34%	27%

Weighted Target Price					
Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.15	50%	0.14	0.08	95%
Base-case EPS/PER	0.13	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\$1.9c (rounded) and a PE multiple of 7x

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

General Advice Warning

The contents of this document have been prepared without taking account of your objectives, financial situation or needs. You should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

Whilst State One Stockbroking Ltd believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One Stockbroking Ltd or any officer, agent or employee of State One Stockbroking Ltd. If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the financial product) and consider it before making any decision about whether to acquire the financial product.

Disclosure

The directors and associated persons of State One Stockbroking Ltd may have an interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products.

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report.

This research at all times remains the property of State One Stockbroking Ltd. And as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from an Executive Director of State One Stockbroking Ltd.