

27 August 2019

Quickstep Holdings Limited (ASX: QHL)

FY2019 results: achieves maiden +ve EPS of 0.44c

Event

Quickstep (QHL)- Australia's leading independent manufacturer of advanced carbon fibre composite components - recently released its F2019 annual results. Highlights of the results include:

- Sales of A\$73.3m (+ 24% YoY).
- EBITDA of A\$5.8m, a significant improvement on FY18's EBITDA of A\$1.2m.
- EBIT of A\$3.9m versus FY18's -A\$1.3m; NPAT of A\$2.7m versus FY18's EBIT of -A\$2.9m.
- **Positive EPS of 0.44c, versus FY18's negative EPS of -0.51c (note: a +ve 0.95c swing)**
- Positive full-year operating cash flow of A\$363k (-A\$683k in FY18E).
- Interest-bearing debt reduced by A\$5.1m to A\$8.5m from A\$13.6m.
- Year-end cash of A\$7.3m (versus FY18's year-end cash balance of only A\$2.8m).
- **Outlook:**
 - QHL indicates that JSF revenues are expected to further increase in FY20E, with full rate JSF parts production being achieved over the next six to nine months.
 - FY19A's gross margin of 22.3% (Sales-COGS) improved by 6.5% on FY18A; management expects that the gross margin will widen further in FY20E on the back of increased production and ongoing cost reduction initiatives.
 - The A\$7m MJU-68 flare housing facility will progress to final commissioning through September 2019, with first production units due for delivery in November 2019. A proposal submission to Chemring Australia for full-rate production (>15,000 units per annum, State One estimate) is anticipated in mid-FY20E.
 - Based on the progress of confidential negotiations, QHL have guided the market to expect to see significant new business awards in FY20E.
 - QHL is guiding FY20E revenue growth of between 8% to 10%, with upside potential dependent on the timing and scope of new business; over FY20E QHL expects to deliver EBITDA margins of between 8% to 10%, positive NPAT and a materially increase in operating cash flow. Note: this is subject to the impact of AASB16 (treatment of revenue and finished goods/ WIP inventory) which is currently under review.

State One comment

We forecast current/existing aerospace (JSF, C-130) contract revenue growing by 9% in FY20E (in line with management's 8% to 10% guidance). Including new aerospace contract revenue (Chemring) we forecast total revenue growth of 12% in FY20E. In line with management's guidance of an improving margin environment, we forecast an FY20E EBITDA margin of 10% (FY19A 8%).

Predicated on our forecast revenue and margin profiles, we calculate QHL posting EPS of 0.8c in FY20E and 1.2c in FY21E/FY22E. At current share price levels, this implies that QHL is trading on an historic (FY19A) PE multiple of 23x, a one-year (FY20E) PE multiple of 11.4x, and a two-year (FY21E) PE multiple of 7.3x. Importantly, we note that following QHL's capital raising in FY19E, the institutional investor component of the group's shareholder base has enlarged significantly from 3.4% in July 2018 to 26% in July 2019. We suggest that with QHL now posting +ve EPS, the group's undemanding rating could attract a new cohort of value-based investors. In addition, the announcement(s) of new contracts - we believe potentially before the end of the calendar year - could be a significant near-term share price catalyst. At current share price levels of under 9c, we believe that QHL offers significant upside potential relative to our 75%:25% weighted 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 the Chemring Australia flare housing contract, timing and quantum of potentially other new contracts, the AUD:USD exchange rate, timing and quantum of QHL's debt repayment profile, capex and working capital requirements to support increased production and potential new business, key personnel/management risk.

Share Price: A\$0.088

Target Price: A\$0.15

Target Upside: 70%

Recommendation

Buy

Risk Assessment

Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

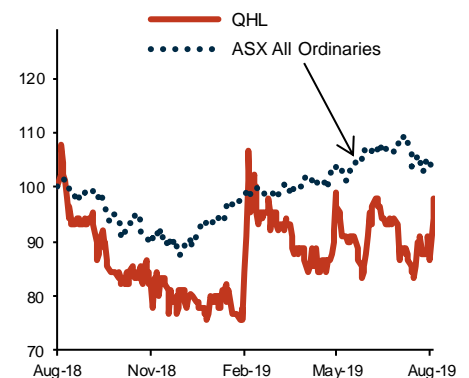
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Quickstep Holdings Limited

ASX Code	QHL
52-week range (A\$cps)	A\$0.07-A\$0.11
Market Cap (A\$m)	60
Quoted shares (m)	710
Av Daily Turnover (shares)	530k
ASX All Ordinaries	6,475
FY20E BV per share (A\$c)	3.9
FY20E EPS (A\$c)	0.8
FY20E Net (Debt)/Cash (A\$m)	-2

Relative Price Performance



Year ending June

Profit & Loss Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Sales	73.3	81.9	96.2	96.2	96.2
COGS	(54.9)	(61.0)	(71.2)	(71.2)	(71.2)
Operational/Marketing/Corporate	(8.6)	(9.0)	(9.8)	(10.0)	(10.2)
R&D	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Total cash costs	(67.5)	(74.0)	(84.9)	(85.2)	(85.4)
EBITDA	5.8	7.9	11.3	11.0	10.8
Depreciation & Amortisation	(2.0)	(2.0)	(2.5)	(2.5)	(2.5)
Operating profit	3.8	5.9	8.8	8.5	8.3
NOI (Grants/Other)	0.1	0.0	0.0	0.0	0.0
EBIT	3.9	5.9	8.8	8.5	8.3
Interest income	0.0	0.1	0.1	0.1	0.2
Interest expense	(2.2)	(0.5)	(0.3)	(0.1)	0.0
Tax expense	1.0	0.0	0.0	0.0	0.0
Reported NPAT	2.7	5.5	8.6	8.5	8.5
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	2.7	5.5	8.6	8.5	8.5
EPS Reported (A\$)c	0.4	0.8	1.2	1.2	1.2
EPS Normalised (A\$)c	0.4	0.8	1.2	1.2	1.2
Dividend payout (%)	0%	0%	0%	25%	33%
DPS (A\$)c	0.0	0.0	0.0	0.3	0.4
Dividend Yield (%)	0%	0%	0%	3%	4%
Number of shares - diluted (m)	715	710	710	710	710

Cash Flow Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	5.8	7.9	11.3	11.0	10.8
Investment in working capital	(4.3)	(1.3)	(0.3)	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	1.5	6.6	10.9	11.0	10.8
Capex	(5.1)	(7.0)	(5.0)	(5.0)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(5.1)	(7.0)	(5.0)	(5.0)	(5.0)
Net interest received / (paid)	(2.2)	(0.4)	(0.2)	0.0	0.2
Debt increase / (repayment)	(5.1)	(3.5)	(3.5)	(1.5)	0.0
Dividends declared	0.0	0.0	0.0	(2.1)	(2.8)
Equity raised / (repaid)	12.4	0.0	0.0	0.0	0.0
Financing Cash Flow	5.1	(3.9)	(3.7)	(3.6)	(2.6)
Non-operating & Other	2.9	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	4.5	(4.3)	2.3	2.4	3.2

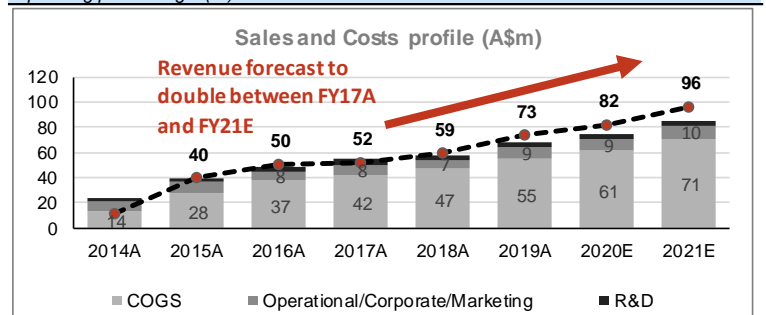
Balance Sheet (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Deposits	7.3	3.0	5.3	7.7	10.9
Receivables	6.9	7.7	7.2	7.2	7.2
Inventories	18.3	20.5	24.0	24.0	24.0
Other Current Assets	1.5	1.5	1.5	1.5	1.5
PPE and Exploration & Development	14.8	19.8	22.3	24.8	27.3
Deferred tax asset	1.0	1.0	1.0	1.0	1.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	49.8	53.5	61.4	66.3	72.0
Payables and other current Liabilities	18.9	20.6	23.3	23.3	23.3
Short Term Debt	3.7	0.2	0.0	0.0	0.0
Long Term Debt	4.8	4.8	1.5	0.0	0.0
Other Non Current Liabilities	0.5	0.5	0.5	0.5	0.5
Total Liabilities	27.8	26.0	25.3	23.8	23.8
Total Equity	22.0	27.5	36.1	42.5	48.2
Net (Debt)/Cash	(1.1)	(1.9)	3.8	7.7	10.9

Largest Shareholders	%	Date
Washington H Soul Pattinson	12.6	
HSBC Custody Nominees	5.7	Jun-19
Deakin University	4.6	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY19A	FY20E	FY21E	FY22E	FY23E
Parts sold / delivered					
C-130J/LM-100J shipsets	24	24	24	24	24
F-35 JSF parts	2,180	2,425	2,720	2,720	2,720
.... JSF fuselage	1,280	1,475	1,640	1,640	1,640
.... JSF VTF	900	950	1,080	1,080	1,080
Revenue composition (A\$m)					
Aerospace - existing contracts	71.7	78.1	85.1	85.1	85.1
C-130J/LM-100J	19.2	19.2	19.2	19.2	19.2
F-35 JSF	52.5	58.9	65.9	65.9	65.9
.... JSF fuselage	35.8	41.3	45.9	45.9	45.9
.... JSF VTF	16.7	17.6	20.0	20.0	20.0
Aerospace - new business	0.0	2.0	8.0	8.0	8.0
Total Aerospace (Bankstown)	71.7	80.1	93.1	93.1	93.1
Automotive	0.0	0.0	0.0	0.0	0.0
X-Ray	1.6	1.8	3.0	3.0	3.0
Engineering/Other	0.0	0.0	0.0	0.0	0.0
Non-Aerospace (Geelong)	1.6	1.8	3.0	3.0	3.0
Group revenue (A\$m)	73.3	81.9	96.2	96.2	96.2
YoY revenue growth	24%	12%	17%	0%	0%
COGS as % revenue	75%	74.5%	74%	74%	74%
Operations/Other costs as % revenue	12%	11%	10%	10%	11%
R&D as % revenue	6%	5%	4%	4%	4%
Total costs as % revenue	92%	90%	88%	89%	89%

EBITDA margin (%)	8%	10%	12%	11%	11%
Operating profit margin (%)	5%	7%	9%	9%	9%



Leverage	FY19A	FY20E	FY21E	FY22E	FY23E
Net Debt/Equity	-5%	-7%	cash	cash	cash
Net Debt/Total Assets	-2%	-4%	cash	cash	cash
Net interest Cover (x)	1.8	15.1	44	-183	na

Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised PER	23.1	11.4	7.3	7.3	7.4
Price/OP Cash Flow	41.5	9.5	5.7	5.7	5.8
EV (A\$m)	57	58	52	48	45
EV/EBITDA	10	7	5	4	4
ROE (%)	na	20%	24%	20%	18%

Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.13	75%	0.13	0.088	70%
Base-case EPS/PER	0.13	25%			
"Blue sky" @ 20% of base-case valuation			0.03		
Target Price (A\$)			0.15		

EPS/PER TP based on one-year rolling EPS of 0.8c (rounded) and a PE multiple of 15x

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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