

18 October 2019

Quickstep Holdings Limited (ASX: QHL)

Share price doubles; market rewards turnaround

Event

Quickstep's (QHL) share price has effectively doubled from an historical low of 6.9c in mid-February 2019, to current share price levels of 13.5c.



We attribute this in the main to QHL delivering on its promise of achieving a significant turnaround in the financial performance of the group. Highlights of the FY19 results included:

- 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).
- Management guidance that JSF revenues are expected to further increase in FY20E, that EBITDA margins are expected to widen further, and that significant new business awards are expected to be announced.

State One comment: Target price increased to 17c (15c previously)

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 36x, a one-year (FY20E) PE multiple of 17.8x, and a two-year (FY21E) PE multiple of 11.4x. Importantly, we note that following QHL's capital raising in March 2019, 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. At current share price levels, we believe that QHL offers upside potential relative to our revised NPV/EPS-derived target price of 17c (15c previously).

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\$0.135

Target Price: A\$0.17

Target Upside: 26%

Recommendation

Buy

Risk Assessment

Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

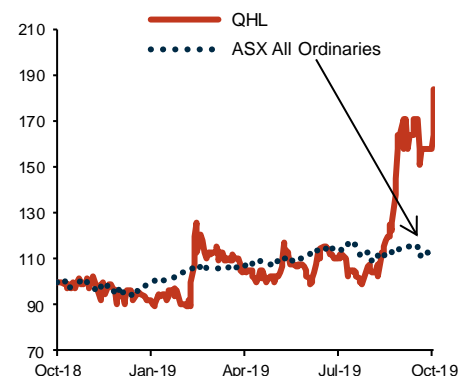
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Quickstep Holdings Limited

ASX Code	QHL
52-week range (A\$cps)	A\$0.07-A\$0.15
Market Cap (A\$m)	96
Quoted shares (m)	710
Av Daily Turnover (shares)	960k
ASX All Ordinaries	6,643
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%	2%	3%
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

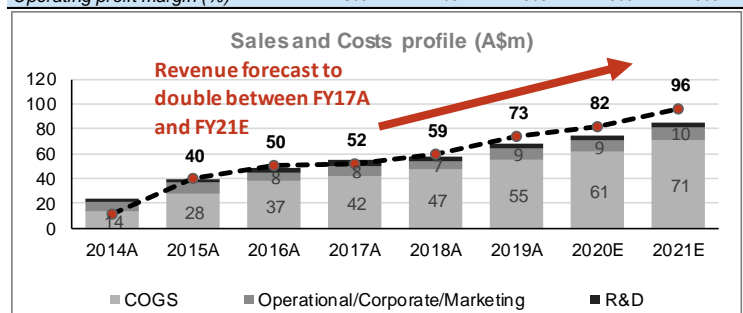
Largest Shareholders	%	Date
Washington H Soul Pattinson	12.6	
HSBC Custody Nominees	5.7	Jun-19
Deakin University	4.6	

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	35.5	17.4	11.2	11.2	11.3
Price/OP Cash Flow	63.6	14.6	8.8	8.7	8.9
EV (A\$m)	97	98	92	88	85
EV/EBITDA	17	12	8	8	8
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	0.14	75%	0.135		26%
Base-case EPS/PER	0.14	25%			
"Blue sky" @ 25% of base-case valuation		0.03			
Target Price (A\$)			0.17		

EPS/PER TP based on one-year rolling EPS of 0.98c (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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