

10 December 2019

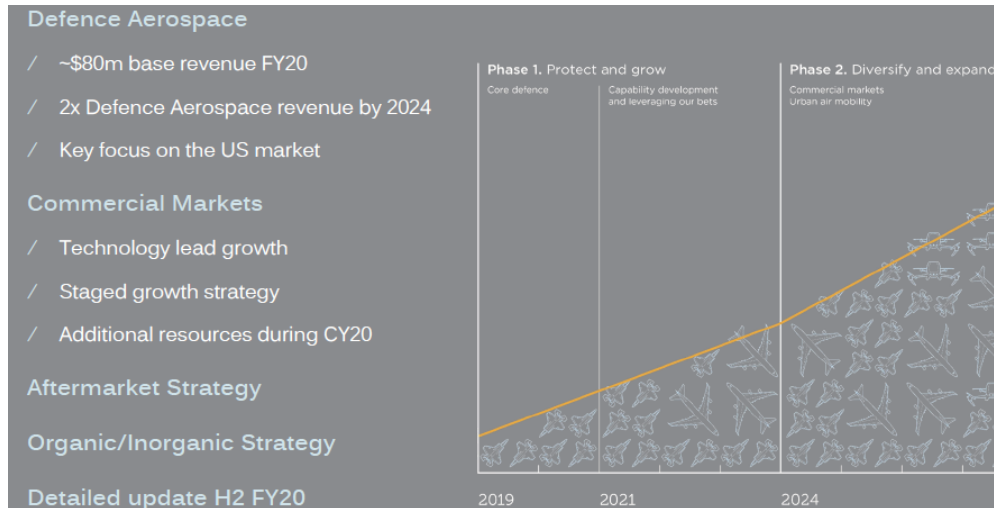
Quickstep Holdings Limited (ASX: QHL)

Aiming to 2x Defence Aerospace revenue by 2024

We forecast QHL revenue of ~A\$80.5m in FY20E (+10% on FY19A's A\$73m), split A\$80m from Defence Aerospace (C-130, F-35 JSF) and A\$0.5m from other business (Boeing, Lockelec). In FY21E/22E, we forecast revenue levelling off at ~A\$90m, with the increase over FY20E coming from F-35 flare housing sales to Chemring (~A\$5mpa) and a new F-35 parts contract (A\$3.5mpa) with Northrop Grumman.

However, one slide at the group's recent AGM caught our eye. QHL management is targeting to double the group's Defence Aerospace revenue by 2024. Relative to current (i.e. FY20E) Defense Aerospace revenue levels of A\$80m, this implies that **QHL is targeting Defense Aerospace revenues of A\$160m in five years' time**. In addition, QHL is looking to win business in the Commercial Markets and sees opportunities in the AfterMarket sector.

Business & Market Development



Source: QHL, AGM 21 November 2019

QHL's targeted Defence Aerospace revenue profile is significantly more ambitious than we currently forecast. Clearly, estimating the timing and quantum of new business/contracts (and associated capex/working capital and funding (debt/equity) requirements) is problematic. Nevertheless, QHL's ambition, and confidence in its technology, to drive future revenue growth sends a positive signal. In addition, **to hit this A\$160m revenue target in 2024, we suggest that QHL must be close to announcing the first of new, and material, contract "wins"**. In our model, we have tried to capture this upside potential by adding a 33% "Bluesky" premium of 4cps (equivalent to ~A\$28m) to our underlying or existing business valuation of 13cps (equivalent to A\$93m).

Target price and Recommendation: 17c, Buy (Higher Risk)

Predicated on our forecast revenue and margin profiles, we calculate QHL posting EPS of 0.7c in FY20E 0.9c in FY21E, and 1c in FY22E; this implies that QHL is trading on an historic (FY19A) PE multiple of 29x, a one-year (FY20E) PE multiple of 15.6x, and a two-year (FY21E) PE multiple of 10.9x. We do not view these ratings as demanding. Relative to our NPV/EPS-derived target price of 17c, we believe that current share price levels offer an attractive entry point to a potentially high-growth domestic player in the global Aerospace sector. **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\$0.11

Target Price: A\$0.17

Target Upside: 55%

Recommendation

Buy

Risk Assessment

Higher

Industrial

David Brennan, CFA

Senior Investment Analyst

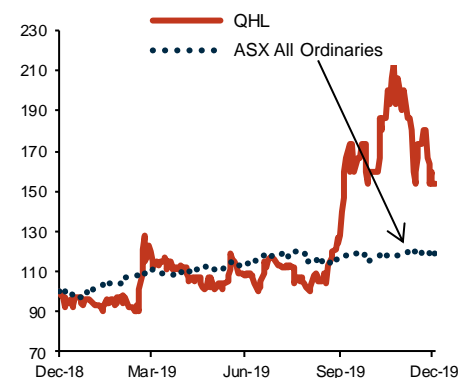
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Quickstep Holdings Limited

ASX Code	QHL
52-week range (A\$cps)	A\$0.07-A\$0.17
Market Cap (A\$m)	82
Quoted shares (m)	712
Av Daily Turnover (shares)	1.2million
ASX All Ordinaries	6,724
FY20E BV per share (A\$c)	3.8
FY20E EPS (A\$c)	0.7
FY20E Net (Debt)/Cash (A\$m)	-4

Relative Price Performance



Year ending June

Profit & Loss Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Sales	73.3	80.5	89.8	91.2	91.2
COGS	(54.9)	(60.0)	(66.4)	(67.5)	(67.5)
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)	(73.0)	(80.2)	(81.5)	(81.7)
EBITDA	5.8	7.5	9.6	9.7	9.5
Depreciation & Amortisation	(2.0)	(2.0)	(2.5)	(2.5)	(2.5)
Operating profit	3.8	5.5	7.1	7.2	7.0
NOI (Grants/Other)	0.1	0.0	0.0	0.0	0.0
EBIT	3.9	5.5	7.1	7.2	7.0
Interest income	0.0	0.1	0.1	0.1	0.2
Interest expense	(2.2)	(0.7)	(0.4)	(0.1)	0.0
Tax expense	1.0	0.0	0.0	0.0	0.0
Reported NPAT	2.7	5.0	6.7	7.2	7.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	2.7	5.0	6.7	7.2	7.2
EPS Reported (A\$)	0.4	0.7	0.9	1.0	1.0
EPS Normalised (A\$)	0.4	0.7	0.9	1.0	1.0
Dividend payout (%)	0%	0%	0%	25%	33%
DPS (A\$)	0.0	0.0	0.0	0.3	0.3
Dividend Yield (%)	0%	0%	0%	2%	3%
Number of shares - diluted (m)	715	712	712	712	712

Cash Flow Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	5.8	7.5	9.6	9.7	9.5
Investment in working capital	(4.3)	(4.8)	(0.1)	(0.3)	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	1.5	2.8	9.5	9.5	9.5
Capex	(5.1)	(5.0)	(2.5)	(2.5)	(2.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(5.1)	(5.0)	(2.5)	(2.5)	(2.5)
Net interest received / (paid)	(2.2)	(0.5)	(0.4)	(0.0)	0.2
Debt increase / (repayment)	(5.1)	(0.2)	(5.3)	(3.0)	0.0
Dividends declared	0.0	0.0	0.0	(1.8)	(2.4)
Equity raised / (repaid)	12.4	0.0	0.0	0.0	0.0
Financing Cash Flow	5.1	(0.7)	(5.7)	(4.8)	(2.2)
Non-operating & Other	2.9	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	4.5	(3.0)	1.3	2.2	4.8

Balance Sheet (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Deposits	7.3	4.4	5.7	7.9	12.7
Receivables	6.9	7.5	6.7	6.8	6.8
Inventories	18.3	20.1	22.4	22.8	22.8
Other Current Assets	1.5	1.5	1.5	1.5	1.5
PPE & Development	14.8	17.8	17.8	17.8	17.8
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	52.4	55.2	57.9	62.7
Payables and other current Liabilities	18.9	16.6	18.0	18.2	18.2
Short Term Debt	3.7	3.5	1.5	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	25.3	21.4	18.7	18.7
Total Equity	22.0	27.1	33.8	39.2	44.0
Net (Debt)/Cash	(1.1)	(3.9)	2.7	7.9	12.7

Largest Shareholders	%	Date
Australian Super	9.3	
Regal	5.6	Oct-19
Perpetual	5.1	

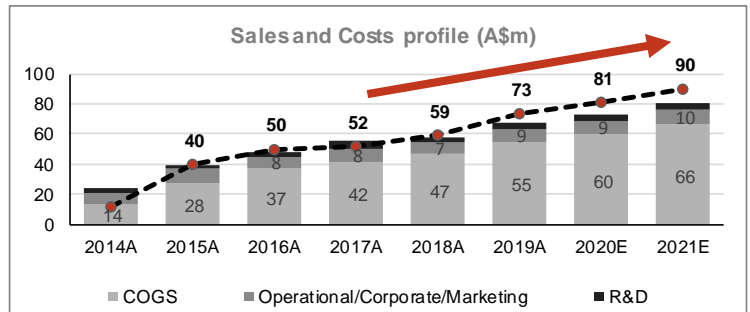
Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY19A	FY20E	FY21E	FY22E	FY23E
Parts sold / delivered					
C-130J/LM-100J shipsets	24	24	24	24	24
F-35 JSF parts	2,156	2,375	2,450	2,450	2,450
..... JSF fuselage	1,256	1,450	1,500	1,500	1,500
..... JSF VTF	900	925	950	950	950

Revenue composition (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Aerospace - existing contracts	73.3	80.0	82.0	82.0	82.0
C-130J/LM-100J	20.3	19.2	19.2	19.2	19.2
F-35 JSF	53.0	60.8	62.8	62.8	62.8
..... JSF fuselage	35.4	42.5	43.9	43.9	43.9
..... JSF VTF	17.6	18.4	18.9	18.9	18.9
Aerospace - new contracts	0.0	0.0	3.5	3.5	3.5
Aerospace (Bankstown)	73.3	80.0	85.5	85.5	85.5
Chemring	0.0	0.0	4.3	5.7	5.7
X-Ray	0.2	0.0	0.0	0.0	0.0
Automotive/Engineering/Other	0.0	0.5	0.0	0.0	0.0
Aerospace/Other (Geelong)	0.2	0.5	4.3	5.7	5.7

Group revenue (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
YoY revenue growth	24%	10%	11%	2%	0%
COGS as % revenue	75%	74.5%	74%	74%	74%
Operations/Other costs as % revenue	12%	11%	11%	11%	11%
R&D as % revenue	6%	5%	4%	4%	4%
Total costs as % revenue	92%	91%	89%	89%	90%

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



Leverage	FY19A	FY20E	FY21E	FY22E	FY23E
Net Debt/Equity	-5%	-14%	cash	cash	cash
Net Debt/Total Assets	-2%	-7%	cash	cash	cash
Net interest Cover (x)	1.8	10.6	20	1486	na

Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised PER	28.9	15.6	11.6	10.9	10.9
Price/OP Cash Flow	52.0	28.5	8.3	8.3	8.2
EV (A\$m)	83	86	79	74	69
EV/EBITDA	14	11	8	8	7
ROE (%)	na	19%	20%	18%	16%

Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.13	75%	0.13	0.110	55%
Base-case EPS/PER	0.12	25%			
"Blue sky" @ 33% of base-case valuation			0.04		
Target Price (A\$)			0.17		

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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