



Quickstep Holdings Limited

December quarter activities and cash flow

- 7 Lockheed Martin C-130J shipsets delivered (unchanged from the prior quarter); 263 F-35 JSF parts delivered (vs 256 in 1Q FY17). Order book is unchanged at A\$115m.
- During 2Q FY17, QHL secured a contract with portable X-Ray producer Micro-X, advanced several projects including KIST and Thales Hawkei, and supplied demonstrator parts for potential new business opportunities.
- QHL posted customer receipts of A\$11.7m in 2Q FY17 (vs A\$15.6m in 1Q FY17); interim receipts of A\$27.3m are on track to meet management's unchanged full-year sales guidance of A\$54m (State One estimate: A\$53.5m).
- Operating cash flow (less A\$366k in government grants/tax incentives) was -A\$1.5m (vs +A\$1.1m 1Q FY17). However, this included a A\$1.8m German VAT payment which is expected to be recovered in 3Q FY17. Backing this out, we calculate that 2Q operating cash flows were positive to the tune of A\$300k => underlying interim operating cash flow: A\$1.4m.
- An increase in capex (A\$1.4m vs A\$600k in 1Q FY17), and a borrowings repayment during the quarter, resulted in QHL's cash position falling by A\$3.1m to A\$5m from A\$8.1m. We note, however, management's comments that the group's A\$10m JSF capital investment program at Bankstown is expected to be completed in the current quarter.

State One commentary

QHL's sales (parts and revenue) and operational, investing and financing cash flows were largely in line with our expectations; we maintain our forecast that the group will be cash flow positive in FY18E. With President Trump looking to boost US military spend, while urging US allies (NATO/Japan) to increase their own military budgets, we suggest that Defence, as an investment thematic, will benefit from the recent changing of the guard in Washington. In particular, we suggest that the (global) manufacturing schedule of the F-35 program could accelerate, which would benefit QHL directly. Our NPV/PER-derived target price of A\$0.20ps (unchanged) indicates some 100% upside potential. **Recommendation: BUY (Higher Risk).**

Key Financials

Year-end June	FY16A	FY17E	FY18E	FY19E	FY20E
Aerospace (US\$m)	36	35	44	59	67
Automotive (US\$m)	0	3	5	22	28
Other (US\$m)	0	3	11	13	15
Total sales (US\$m)	37	40	59	95	110
AUD/USD exchange rate	0.73	0.75	0.75	0.75	0.75
Total revenue (A\$m)	50	53	79	126	147
EBITDA (A\$m)	1.8	0.7	8.9	16.5	19.3
EBITDA margin (%)	-0.1%	4%	1%	11%	13%
Normalised NPAT (A\$m)	-6	-2	5	13	16
EPS Reported (A\$c)	-1.1	-0.4	0.9	2.3	2.8
EPS Normalised (A\$c)	-1.1	-0.4	0.9	2.3	2.8
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
PER (x)	-ve	-ve	10.7	4.4	3.6
Net debt / (cash) (A\$m)	4	7	5	-1	-11
Capex (A\$m)	-4.5	-4.0	-4.0	-4.5	-5.0

Source: Iress, Company Data, State One Stockbroking Est. Share price: \$ 0.100 Jan 23, 2017

23 January 2017

Share price: A\$0.10

Target price: A\$0.20

Recommendation
Buy

Risk Assessment
Higher

Industrial

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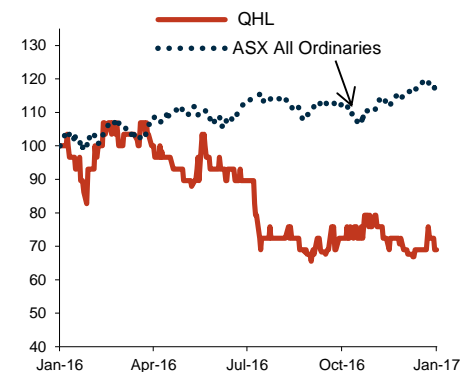
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Quickstep Holdings Limited

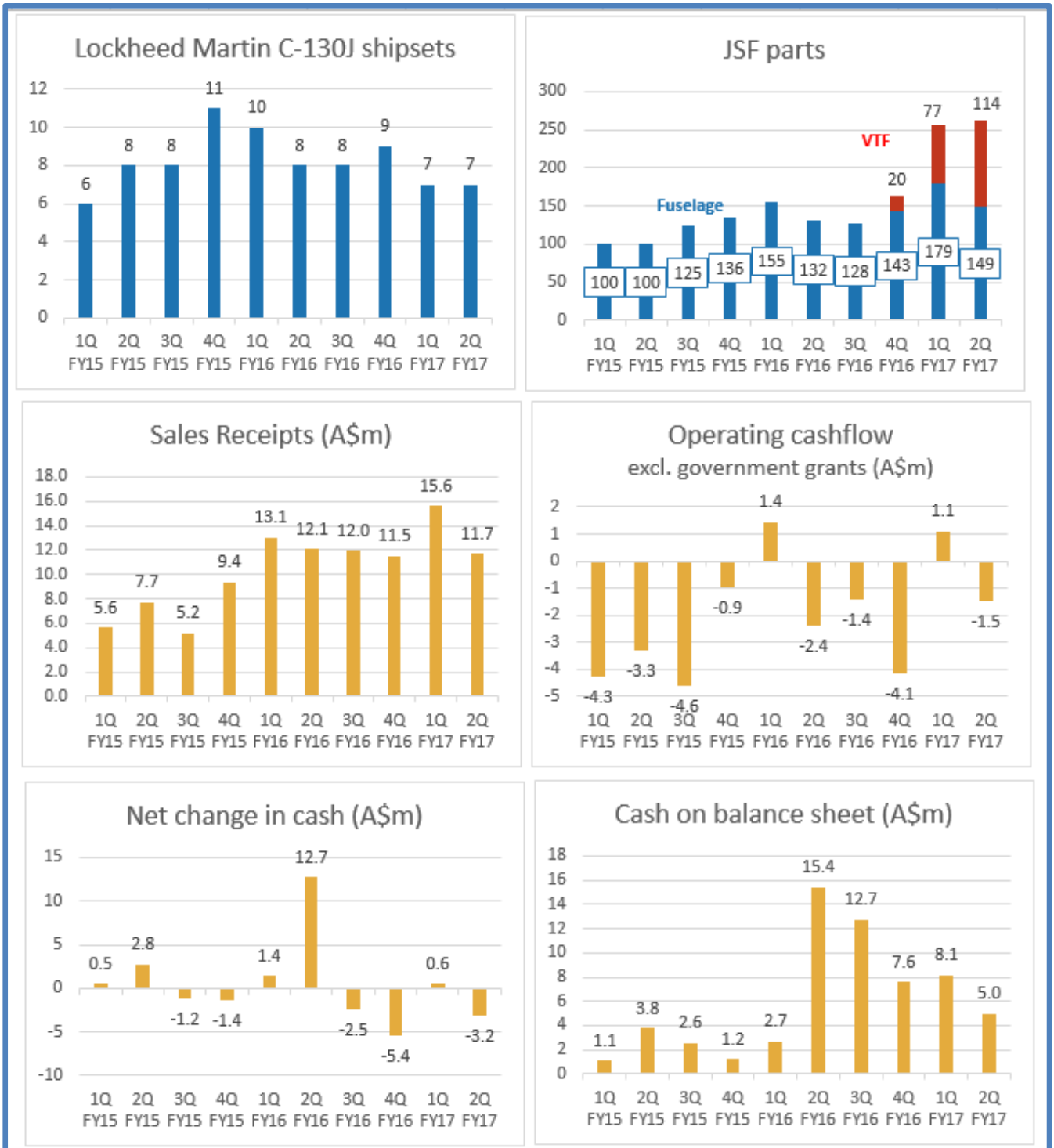
ASX Code	QHL
52 week range	A\$0.10-A\$0.17
Market Cap (ASm)	56
Shares Outstanding (m)	562
Av Daily Turnover (shares)	499k
ASX All Ordinaries	5,608
FY17E BV per share (A\$c)	2.0
EPS FY17E (A\$c)	-0.3
Net Debt/(Cash) FY17E (A\$m)	7

Relative price performance



Source: IRESS

Quarterly performance 1QFY15- 2QFY17



Source: Company, compiled by State One Stockbroking
Note: VTF = Vertical Tail Fins

Financial Statements

Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Sales	50.1	53.5	78.9	126.1	147.0
COGS	(37.3)	(40.1)	(59.2)	(94.6)	(111.8)
Operational/Marketing/Corporate	(7.6)	(7.7)	(7.9)	(11.0)	(11.0)
R&D	(3.5)	(5.0)	(3.0)	(4.0)	(5.0)
Total cash costs	(48.3)	(52.8)	(70.1)	(109.6)	(127.8)
EBITDA	1.8	0.7	8.9	16.5	19.3
Depreciation & Amortisation	(2.4)	(2.8)	(3.0)	(3.0)	(3.0)
Operating profit	(0.6)	(2.1)	5.9	13.5	16.3
NOI (Grants/Other)	(5.0)	0.0	0.0	0.0	0.0
EBIT	(5.6)	(2.1)	5.9	13.5	16.3
Interest income	1.0	0.2	0.1	0.1	0.1
Interest expense	(1.2)	(0.5)	(0.4)	(0.3)	(0.2)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(5.8)	(2.5)	5.5	13.3	16.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(5.8)	(2.5)	5.5	13.3	16.3
EPS Reported (A\$c)	(1.1)	(0.4)	0.9	2.3	2.8
EPS Normalised (A\$c)	(1.1)	(0.4)	0.9	2.3	2.8
Dividend payout (%)	na	na	0%	0%	0%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
Dil Av no. of shares (m)	521	587	587	587	587
Dil YE no. of shares (m)	587	587	587	587	587

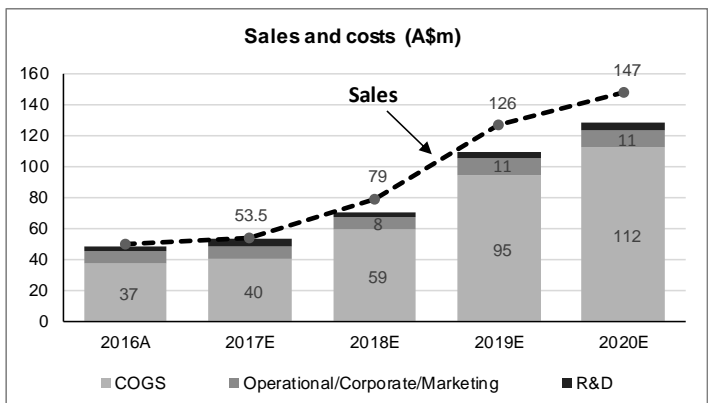
Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	1.8	0.7	8.9	16.5	19.3
Investment in working capital	(3.4)	2.8	(2.4)	(5.9)	(4.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	3.4	6.5	10.6	15.2
Capex	(4.5)	(4.0)	(4.0)	(4.5)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.5)	(4.0)	(4.0)	(4.5)	(5.0)
Net interest received / (paid)	(0.2)	(0.4)	(0.4)	(0.2)	(0.0)
Debt increase / (repayment)	(3.8)	(1.25)	(1.5)	(3.5)	(3.5)
Dividends declared	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	21.3	0.0	0.0	0.0	0.0
Financing Cash Flow	17.2	(1.6)	(1.9)	(3.7)	(3.6)
Non-operating & Other	(4.7)	(1.6)	0.0	0.0	0.0
Inc/(Dec) in Cash	6.4	(3.7)	0.6	2.4	6.7

Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.8	4.4	6.8	13.5
Receivables	5.3	5.9	8.7	15.1	17.6
Inventories	11.9	8.0	11.1	15.1	19.1
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	14.3	15.3	16.8	18.8
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	39.2	33.1	40.5	54.9	70.1
Payables and other current Liabilities	11.3	10.4	13.9	18.5	20.9
Short Term Debt	2.2	2.2	2.2	2.2	2.2
Long Term Debt	9.8	8.5	7.0	3.5	0.0
Other Non Current Liabilities	1.8	0.2	0.2	0.2	0.2
Total Liabilities	25.0	21.3	23.2	24.4	23.3
Total Equity	14.2	11.8	17.3	30.6	46.8
Net Debt (Cash)	4.3	6.8	4.7	(1.2)	(11.3)

Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-16
Farjoy PL	2.1	

Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue composition (%)					
Aerospace	99%	87%	74%	63%	61%
Automotive	1%	7%	8%	24%	26%
Engineering/Other (incl. X-Ray)	0%	6%	15%	10%	10%
Revenue composition (A\$m)					
Aerospace	49.7	46.5	58.2	78.9	89.0
Automotive	0.4	3.6	6.5	29.6	37.7
Engineering/Other (incl. X-Ray)	0.0	3.0	12.0	13.0	14.0
Total	50.1	53.5	78.9	126.1	147.0
YoY revenue growth	nm	7%	48%	60%	17%
COGS as % revenue	74.4%	75.0%	75.0%	75.0%	76.0%
Operations/Other costs as % revenue	15%	14%	10%	9%	7%
R&D as % revenue	7%	9%	4%	3%	3%
Total cash costs as % revenue	96%	99%	89%	87%	87%
EBITDA margin (%)	4%	1%	11%	13%	13%
Operating profit margin (%)	-ve	-ve	7%	11%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	58%	27%	cash	cash
Net Debt/Total Assets	11%	21%	12%	cash	cash
Net interest Cover (x)	na	na	15.9	55.2	412.6

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	10.7	4.4	3.6
Price/OP Cash Flow	-36.0	17.1	9.1	5.5	3.9
EV (A\$m)	61	63	61	55	45
EV/EBITDA	34	96	7	3	2
ROE (%)	na	-ve	32%	43%	35%

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.26	35%	0.20	0.10	101%
EPS/PER	0.17	65%			

EPS/PER TP based on two-year EPS of A\$1.6c (rounded) and a PE of 10x

Company Overview:

Quickstep (QHL) - listed on the ASX in 2005 - is the largest independent aerospace-grade advanced composite manufacturer in Australia. QHL has made significant progress with its out-of-autoclave technology (Qure), tendered for and finalised contracts with tier-one US military clients, completed F35-JSF and C-130J production readiness tests and tollgate trials, ramped up JSF and C-130J production at its Bankstown production facilities, and positioned the group to tender for low cost/high speed manufacturing of automobile body parts through patented in-house Qure and RST technology. In February 2016, QHL announced a contract to supply carbon fibre air ducts for the Ford Australian production of the Falcon XR6 Sprint.

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