



Quickstep Holdings Limited

European manufacturing partnership agreement

QHL announced on 5 March 2018 that it had signed a Manufacturing Partnership Agreement with ATR Group – an Italian-based manufacturer and supplier of advanced composite components for the automotive, aerospace and other industrial markets.

State One comment

Although the exact nature of the partnership is not disclosed, we believe it has the potential to deliver a “win-win” for both parties. [ATR Group](#) has a manufacturing base in Italy, enjoys key strengths in design, development, and tooling, has an established sales presence in Europe, and has contracts with many OEMs across the automotive, aerospace, and marine sectors. Indeed, ATR’s customer base reads like a who’s who of the global car industry and includes premium Italian brands like Ferrari, Maserati, and Ducati. Our understanding is that ATR is currently profitable, with a top-line of around A\$30m (i.e., roughly half of QHL’s).

QHL is the largest independent aerospace-grade advanced composite manufacturer in Australia, produces parts for major international aerospace/defence OEMs such as Lockheed Martin (C-130J flaps), Northrop Grumman (F-35 parts), and is establishing business opportunities with Boeing and General Atomics. Most importantly, QHL’s proprietary out-of-autoclave process technology “Qure” and the “Quickstep Production System” (QPS), offer the potential for efficient and flexible production of complex medium-to-high volume composite parts/panels. QHL is currently using the Qure process at its Geelong site to produce lightweight panels for portable X-ray machines for ASX-listed Micro-X (ASX: MX1).

In 2017, using the Qure/QPS technology at QHL’s German facilities (now closed), QHL produced (demonstration) front fenders for an unnamed European premium automotive manufacturer. Note: the Qure machine has since been relocated to Geelong.

We believe the OEM was impressed with the fender quality and build process/technology, but suspect that from a logistics/control (and possibly economics) perspective, the OEM would have insisted on the parts production being located in Europe. This constraint, in addition to the risk averse nature of the auto industry, most likely accounts for the time taken since demonstrating the technology. Thus, we view QHL entering into a manufacturing partnership with a European-based group as a positive, and logical, step.

One solution might be to produce fenders using QHL’s Qure/QPS technology, with the machine located at ATR’s facilities and with ATR assisting in sourcing raw material, and providing manufacturing, quality control, and logistical support. Assuming a medium-rate of production of 10,000 parts per annum, at an average selling price of US\$500/unit, we calculate potential project revenue of US\$5m. In addition, a successful track record producing fenders could lead to winning additional contracts for other parts from the (as yet unnamed) OEM or indeed, from other OEMs. In our base-case revenue profile, we forecast the Automotive sector contributing ~A\$7m in revenue (6% of group total) in FY21E.

Target price: A\$0.15ps (unchanged)

Our NPV/PER-derived target price of A\$0.15 (unchanged) indicates upside potential relative to current share price levels of A\$0.084.

Recommendation: BUY (Higher Risk).

7 March 2018

Share price: A\$0.084

Target price: A\$0.15

Recommendation

Buy

Risk Assessment

Higher

Industrial

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Senior Investment Analyst

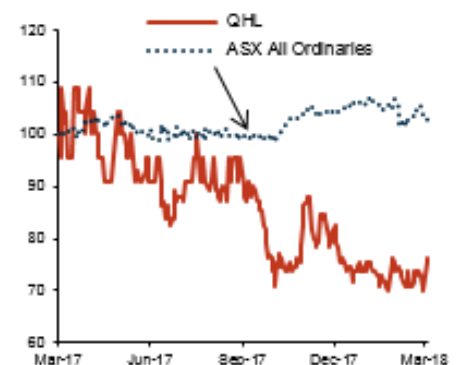
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.08-A\$0.12
Market Cap (ASm)	47
Shares Outstanding (m)	563
Av Daily Turnover (shares)	441k
ASX All Ordinaries	6,021
FY18E BV per share (A\$c)	1.3
EPS FY18E (A\$c)	-0.2
Net (Debt)/Cash FY18E (A\$m)	-10

Relative price performance



SOURCE: IRESS

Financial Statements

Year ending June

Profit & Loss Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Sales	51.9	58.2	78.2	106.5	126.1
COGS	(42.0)	(47.1)	(61.8)	(83.1)	(97.1)
Operational/Marketing/Corporate	(7.9)	(7.0)	(6.5)	(6.6)	(6.8)
R&D	(5.5)	(3.0)	(3.0)	(3.0)	(3.0)
Total cash costs	(55.4)	(57.1)	(71.3)	(92.7)	(106.9)
EBITDA	(3.5)	1.1	6.9	13.8	19.2
Depreciation & Amortisation	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Operating profit	(5.7)	(1.1)	4.7	11.6	17.0
NOI (Grants/Other)	(0.0)	0.6	0.6	0.6	0.6
EBIT	(5.7)	(0.5)	5.3	12.2	17.6
Interest income	0.6	0.1	0.1	0.1	0.1
Interest expense	(1.6)	(0.6)	(0.6)	(0.5)	(0.3)
Tax expense	0.0	0.0	(1.4)	(3.5)	(5.2)
Reported NPAT	(6.7)	(1.1)	3.4	8.3	12.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(6.7)	(1.1)	3.4	8.3	12.2
EPS Reported (A\$c)	(1.2)	(0.2)	0.6	1.5	2.2
EPS Normalised (A\$c)	(1.2)	(0.2)	0.6	1.5	2.2
Dividend payout (%)	na	na	0%	33%	45%
DPS (A\$c)	0.0	0.0	0.0	0.5	1.0
Dividend Yield (%)	0%	0%	0%	6%	12%
Number of shares (m)	563	563	563	563	563

Cash Flow Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	(3.5)	1.1	6.9	13.8	19.2
Investment in working capital	4.7	(1.0)	(0.3)	(2.8)	(3.2)
Tax expense	0.0	0.0	(1.4)	(3.5)	(5.2)
Operating Cash Flow	1.2	0.0	5.2	7.4	10.8
Capex	(3.7)	(2.0)	(2.25)	(2.5)	(3.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(3.7)	(2.0)	(2.25)	(2.5)	(3.0)
Net interest received / (paid)	(1.0)	(0.5)	(0.5)	(0.4)	(0.3)
Debt increase / (repayment)	0.1	2.0	(1.5)	(3.0)	(3.5)
Dividends declared	0.0	0.0	0.0	(2.7)	(5.5)
Equity raised / (repaid)	0.6	0.0	0.0	0.0	0.0
Financing Cash Flow	(0.3)	1.5	(2.0)	(6.1)	(9.2)
Non-operating & Other	(1.1)	0.6	0.6	0.6	0.6
Inc/(Dec) in Cash	(3.9)	0.1	1.6	(0.6)	(0.8)

Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Deposits	3.7	3.8	5.4	4.8	4.0
Receivables	6.3	6.1	7.8	9.6	11.3
Inventories	10.6	11.3	10.2	12.8	16.4
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	14.8	14.6	14.6	14.9	15.7
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
Total Assets	36.8	36.9	39.0	43.1	48.5
Payables and other current Liabilities	15.7	14.9	15.2	16.7	18.9
Short Term Debt	3.8	5.8	4.3	2.8	1.3
Long Term Debt	8.2	8.2	8.2	6.7	4.7
Other Non Current Liabilities	0.9	0.9	0.9	0.9	0.9
Total Liabilities	28.6	29.8	28.6	27.1	25.8
Total Equity	8.2	7.1	10.5	16.0	22.7
Net (Debt)/Cash	(8.3)	(10.2)	(7.1)	(4.7)	(2.0)

Major Shareholders	%	Date
Washington H Soul Pattinson	15.9	
Deakin University	5.9	Aug-17
Farjoy PL	2.4	

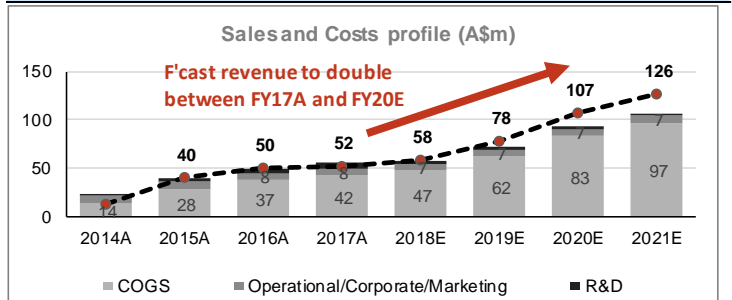
Source: Company, IRESS, State One Stockbroking forecasts

Performance drivers	FY17A	FY18E	FY19E	FY20E	FY21E
Parts sold / delivered					
C-130J/LM-100J shipsets	27	24	24	26	28
F-35 JSF parts	1,230	1,500	2,250	2,650	2,720
..... JSF fuselage	716	1,040	1,340	1,580	1,640
..... JSF VTF	514	460	910	1,070	1,080

Revenue composition (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Aerospace - existing contracts	49.5	55.8	71.5	84.5	88.0
C-130J/LM-100J	19.3	18.9	18.8	20.3	21.9
F-35 JSF	30.2	36.9	52.7	64.2	66.1
..... JSF fuselage	20.7	28.6	36.3	44.9	46.6
..... JSF VTF	9.5	8.3	16.4	19.3	19.5
Aerospace - new business	0.0	0.0	1.3	11.6	23.2
Total Aerospace (Bankstown)	49.5	55.8	72.8	96.1	111.2
Automotive	0.7	0.7	1.4	2.8	7.1
X-Ray	0.2	1.7	4.0	5.6	5.9
Engineering/Other	1.5	0.0	0.0	2.0	2.0
Non-Aerospace (Geelong)	2.4	2.4	5.4	10.4	14.9

Group revenue (A\$m)	51.9	58.2	78.2	106.5	126.1
YoY revenue growth	4%	12%	34%	36%	18%
COGS as % revenue	81%	81%	79%	78%	77%
Operations/Other costs as % revenue	15%	12%	8%	6%	5%
R&D as % revenue	11%	5%	4%	3%	2%
Total costs as % revenue	107%	98%	91%	87%	85%

EBITDA margin (%)	-ve	2%	9%	13%	15%
Operating profit margin (%)	-ve	-ve	6%	11%	14%



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	-101%	-143%	-68%	-29%	-9%
Net Debt/Total Assets	-23%	-28%	-18%	-11%	-4%
Net interest Cover (x)	na	na	10	32	70

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised PER	-ve	-ve	14.1	5.7	3.9
Price/OP Cash Flow	38.9	948.8	9.1	6.4	4.4
EV (A\$m)	56	57	54	52	49
EV/EBITDA	-ve	55	8	4	3
ROE (%)	na	-ve	32%	52%	54%

Weighted Target Price

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Base-case NPV	0.17	50%	0.14	0.08	79%
Base-case EPS/PER	0.12	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\$1.2c (rounded) and a PE multiple of 10x

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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