

Quickstep Holdings Limited

Laying groundwork for 2018/2019 growth

- In FY16, QHL strengthened its balance sheet by reducing debt by A\$5.5m, invested in PPE to support the forward C-130J and JSF sales pipeline, and supported R&D initiatives at both the aerospace and automotive operations. We calculate that the above items (including safety-stock inventory build-up) account for the bulk of the A\$14.5m cash outflow reported during the year.
- Revenue:** We forecast revenue growth slowing down to +8% in FY17E (from +27% in FY16) with increased sales of JSF parts offset by a forecast reduction in C-130J shipset sales from 35 in FY16 to a normalised level of 26pa. Coming of a forecast FY17E revenue base of ~A\$54m, we forecast revenue growing by +42% in FY18E and +58% in FY19E as increasing JSF sales is augmented by a ramp-up in automotive and other revenues.
- Cash flow:** Exceptionally high net cash outflow of A\$5.4m in the June 2016 quarter was particularly impacted by revenue timing and inventory build-up. However, we believe that the worst is now over in terms of cash outflow. We forecast full-year net cash outflow of (only) A\$3.8m in FY17E - reducing the cash balance to A\$3.8m in FY17E from A\$7.6m in FY16 - while we forecast that QHL will be cash neutral in FY18E and cash-positive in FY19E. Predicated on our forecast cash flow profile, and excluding any potential new business/expansionary or acquisition opportunities, we do not believe that QHL will need to tap the equity market for funding over our forecast period.
- Valuation:** The market responded negatively to the cash balance decline reported in the June Quarter Activities and Cash Flow Reports. However, we believe that the group is over the cash outflow "hump"; a reduction in inventory over the next 6-9 months as capital programs complete should have a positive impact on FY17E cash flows. Nevertheless, on the back of increased investor concern over the group's near-term outlook, we have reduced the (higher-value) NPV weighting to 55% from 75% in our NPV/PER-derived target price and consequentially, revised down our target price to A\$0.18ps (A\$0.25ps previously). At current share price levels, we believe that QHL offers significant upside potential.
Recommendation: BUY (Higher Risk).

Key Financials

Year-end June	FY15A	FY16E	FY17E	FY18E	FY19E
Aerospace (US\$m)	30	36	33	44	59
Automotive (US\$m)	0	0	3	5	22
Other (US\$m)	3	0	5	9	10
Total sales (US\$m)	33	37	41	58	91
AUD/USD exchange rate	0.83	0.73	0.75	0.75	0.75
Total revenue (A\$m)	40	50	54	77	121
EBITDA (A\$m)	-0.04	2	1	9	15
EBITDA margin (%)	-0.1%	3%	1%	11%	13%
Normalised NPAT (A\$m)	-4	0	-3	5	12
EPS Reported (A\$c)	-0.9	-0.1	-0.4	0.9	2.1
EPS Normalised (A\$c)	-0.9	-0.1	-0.4	0.9	2.1
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
PER (x)	-ve	-ve	-ve	11.4	5.1
Net debt / (cash) (A\$m)	15	3	4	3	-2
Capex (A\$m)	-4.5	-3.5	-5.0	-4.0	-4.5

Source: Iress, Company Data, State One Stockbroking Est. Share price: \$ 0.105 Aug 09, 2016

10 August 2016

QHL A\$0.105 (TP A\$0.18)

Recommendation
Buy

Risk Assessment
Higher

Industrial

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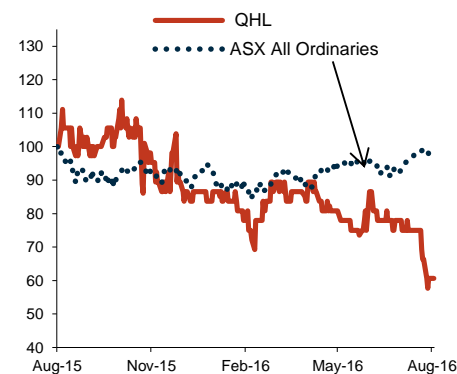
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.10-A\$0.20
Market Cap (A\$m)	59
Shares Outstanding (m)	562
Av Daily Turnover (shares)	589k
ASX All Ordinaries	5,538
FY16E BV per share (A\$c)	3.3
EPS FY16E (A\$c)	-0.1
Net Debt/(Cash) FY16E (A\$m)	3

Relative price performance



Source: IRESS

Financial Statements

Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Sales	39.5	50.1	54.1	76.8	121.5
COGS	(27.9)	(36.1)	(39.0)	(55.3)	(91.1)
Operational/Marketing/Corporate	(9.0)	(9.4)	(9.6)	(9.8)	(11.0)
R&D	(2.7)	(3.1)	(5.0)	(3.0)	(4.0)
Total cash costs	(39.5)	(48.6)	(53.6)	(68.0)	(106.1)
EBITDA	(0.0)	1.5	0.6	8.7	15.4
Depreciation & Amortisation	(2.4)	(2.5)	(2.8)	(3.0)	(3.0)
Operating profit	(2.4)	(1.0)	(2.2)	5.7	12.4
NOI (Grants/Other)	1.8	1.1	0.0	0.0	0.0
EBIT	(0.6)	0.1	(2.2)	5.7	12.4
Interest income	0.0	0.0	0.2	0.1	0.1
Interest expense	(3.2)	(0.6)	(0.4)	(0.3)	(0.2)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(3.9)	(0.5)	(2.6)	5.4	12.2
Exceptional items	(0.1)	0.0	0.0	0.0	0.0
Underlying NPAT	(3.8)	(0.5)	(2.6)	5.4	12.2
EPS Reported (A\$c)	(0.9)	(0.1)	(0.4)	0.9	2.1
EPS Normalised (A\$c)	(0.9)	(0.1)	(0.4)	0.9	2.1
Dividend payout (%)	na	na	na	0%	0%
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
Dil Av no. of shares (m)	423	505	587	587	587
Dil YE no. of shares (m)	423	587	587	587	587

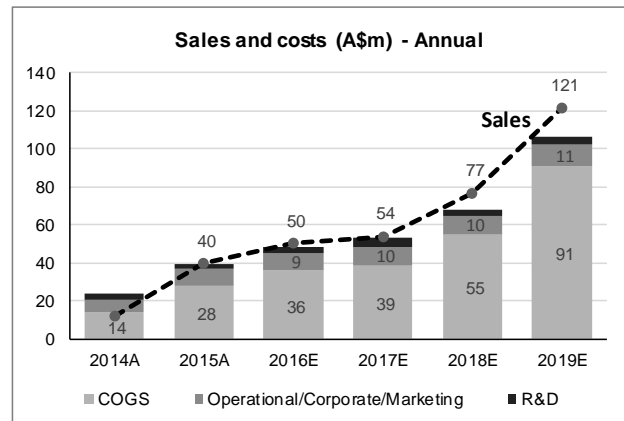
Cash Flow Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
EBITDA	(0.0)	1.5	0.6	8.7	15.4
Investment in working capital	(4.3)	(5.1)	3.0	(3.0)	(5.7)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(4.3)	(3.6)	3.6	5.7	9.7
Capex	(4.5)	(3.5)	(5.0)	(4.0)	(4.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.5)	(3.5)	(5.0)	(4.0)	(4.5)
Net interest received / (paid)	(3.2)	(0.6)	(0.3)	(0.3)	(0.1)
Debt increase / (repayment)	5.3	(5.6)	(2.1)	(1.5)	(3.5)
Dividends declared	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	(0.4)	21.0	0.0	0.0	0.0
Financing Cash Flow	1.7	14.8	(2.4)	(1.8)	(3.6)
Non-operating & Other	7.7	(1.3)	0.0	0.0	0.0
Inc/(Dec) in Cash	0.6	6.4	(3.8)	(0.0)	1.5

Balance Sheet (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Cash & Deposits	1.2	7.6	3.8	3.8	5.3
Receivables	5.1	6.8	6.5	8.4	12.1
Inventories	6.0	11.0	8.1	10.7	15.8
Other Current Assets	1.2	1.0	1.0	1.0	1.0
PPE and Exploration & Development	12.0	13.0	15.3	16.3	17.8
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	25.6	39.3	34.7	40.2	52.0
Payables and other current Liabilities	8.5	9.8	9.7	11.3	14.3
Short Term Debt	5.2	(0.4)	0.0	0.0	0.0
Long Term Debt	10.5	10.5	8.0	6.5	3.0
Other Non Current Liabilities	2.5	0.1	0.1	0.1	0.1
Total Liabilities	26.8	20.0	17.8	17.9	17.4
Total Equity	(1.2)	19.3	16.9	22.3	34.6
Net Debt (Cash)	14.6	2.6	4.2	2.7	(2.3)

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	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue composition (%)					
Aerospace	91%	99%	82%	76%	65%
Automotive	0%	1%	7%	9%	24%
Engineering/Other	9%	0%	11%	16%	11%
Revenue composition (A\$m)					
Aerospace	35.9	49.7	44.6	58.2	78.9
Automotive	0.0	0.4	3.6	6.5	29.6
Engineering/Other	3.6	0.0	6.0	12.0	13.0
Total	39.5	50.1	54.1	76.8	121.5
YoY revenue growth	<i>nm</i>	27%	8%	42%	58%
COGS as % revenue	71%	72%	72%	72%	75%
Operations/Other costs as % revenue	23%	19%	18%	13%	9%
R&D as % revenue	7%	6%	9%	4%	3%
Total cash costs as % revenue	100%	97%	99%	89%	87%
EBITDA margin (%)	-ve	3%	1%	11%	13%
Operating profit margin (%)	-ve	-ve	-ve	7%	10%



Leverage	FY15A	FY16E	FY17E	FY18E	FY19E
Net Debt/Equity	cash	13%	25%	12%	cash
Net Debt/Total Assets	57%	7%	12%	7%	cash
Net interest Cover (x)	na	0.2	na	22.8	89.3

Valuation Ratios (x)	FY15A	FY16E	FY17E	FY18E	FY19E
Normalised PER	-ve	-ve	-ve	11.4	5.1
Price/OP Cash Flow	-14.3	-17.1	17.1	10.7	6.4
EV (A\$m)	74	62	63	62	57
EV/EBITDA	-ve	40	111	7	4
ROE (%)	na	-ve	-ve	24%	35%

Weighted Target Price*

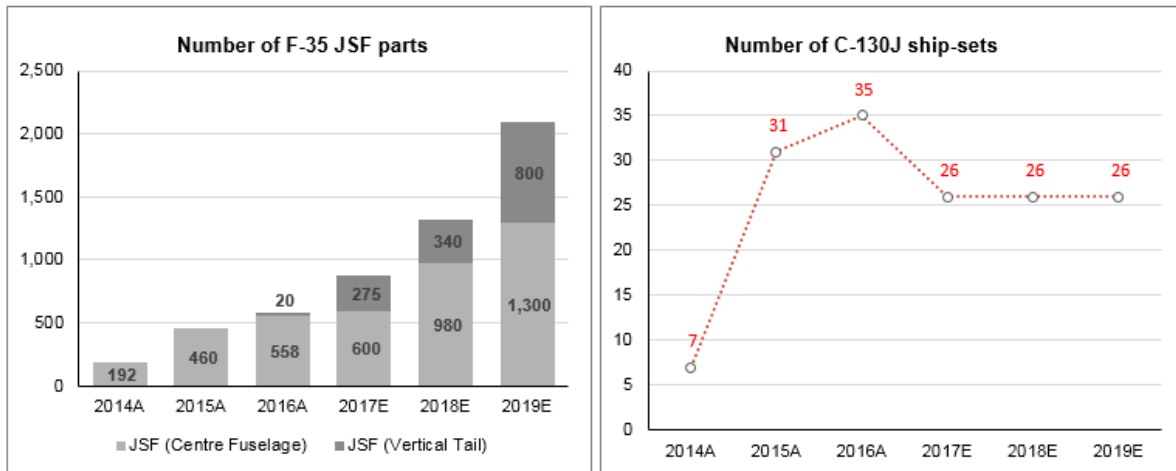
Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.23	55%	0.18	0.105	67%
EPS/PER	0.11	45%			

EPS/PER TP based on two-year EPS of A\$1.0c (rounded) and a PE of 12x

Company Overview :

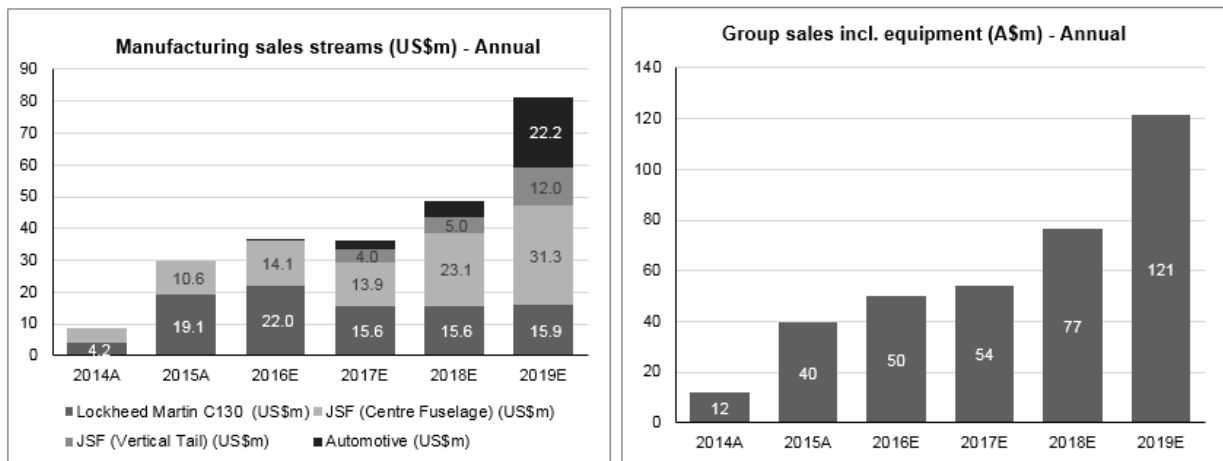
Quickstep (QHL) - listed on the ASX in 2005 - is the largest independent aerospace-grade advanced composite manufacturer in Australia. QHL has made significant progress w ith its out-of-autoclave technology (Qure), tendered for and finalised contracts w ith tier-one US military clients, completed F35-JSF 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.

Figure 1: Forecast aerospace parts sales to FY19E



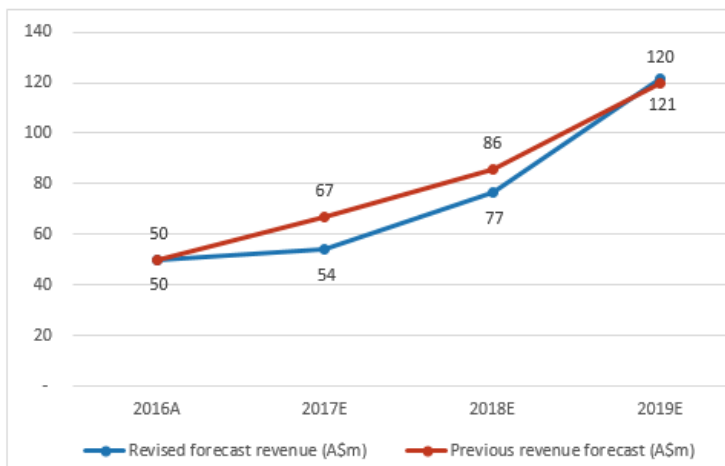
Source: Company, State One Stockbroking forecasts

Figure 2: Forecast revenue profiles in US\$ and A\$ to FY19E



Source: Company, State One Stockbroking forecasts

Figure 3: Revised versus previous forecast revenues to FY19E



Source: Company, State One Stockbroking forecasts

We have adopted a more conservative near-term revenue profile, while maintaining FY19E forecast revenue at ~A\$120m.

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