



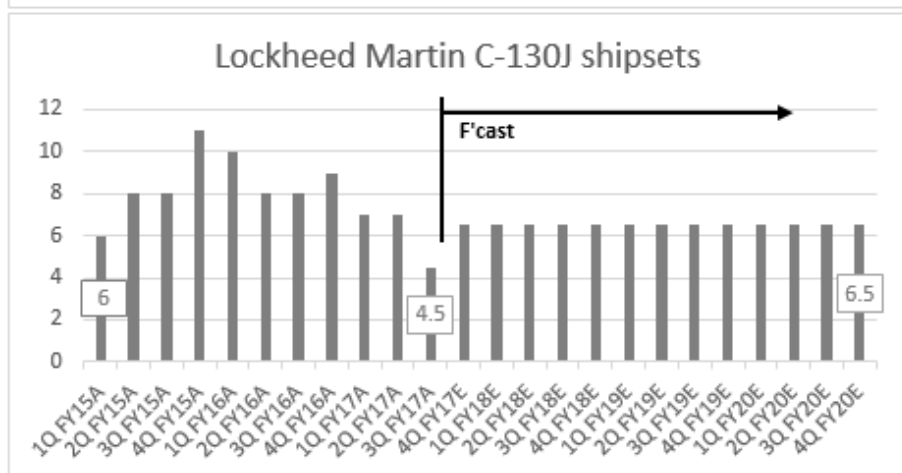
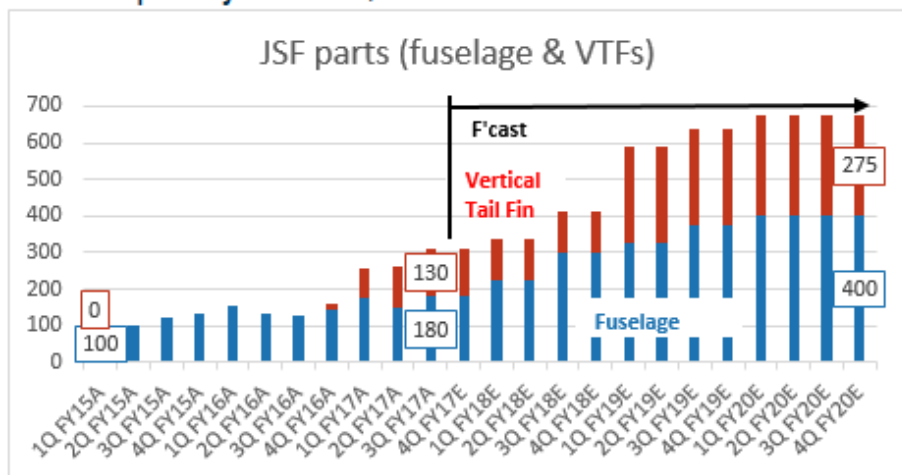
Quickstep Holdings Limited

Forecast production profile unchanged

- We note recent press reports stating that a [F-35 fighter wing at the Luke Air Force Base in Arizona was temporarily grounded](#) after five pilots experienced hypoxia-like symptoms. Tests are ongoing, no other incidents have been reported at other Air Force bases, and the planes are scheduled to resume operations on Saturday. While this development is clearly unwelcome, we have not read anything to indicate that it will impact the scheduled ramp-up in F-35 production over the next three years. We maintain our forecast of F-35 parts production at QHL's Bankstown plant more than doubling from 310 in the last reported quarter (3Q FY17) to 675 by 1Q FY20E. Note: We forecast sales of Lockheed Martin C-130J shipsets stabilising at 25 per annum (6.5 per quarter).
- We maintain our forecast of cash flows improving in FY19-20E on the back of a significant ramp-up in JSF parts demand. Our NPV/PER-derived target price of A\$0.19ps indicates some 90% upside potential. **Recommendation: BUY.**

QHL has a number of projects in the planning, development, and quotation phase (see Figure 1 overleaf). We believe that news on securing additional business – the aerospace production footprint at Bankstown is only 60% utilised – is likely to be announced over the next quarter, and could be an important near-term share price catalyst.

Forecast quarterly sales to 4Q FY20E



Source: Company, State One Stockbroking forecasts

15 June 2017

Share price: A\$0.10

Target price: A\$0.19

Recommendation
Buy

Risk Assessment
Higher

Industrial

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Senior Investment Analyst

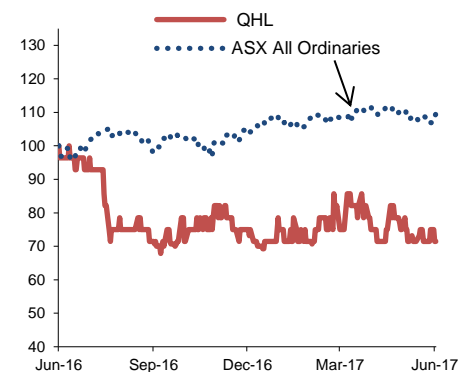
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.10-A\$0.15
Market Cap (ASm)	56
Shares Outstanding (m)	562
Av Daily Turnover (shares)	468k
ASX All Ordinaries	5,873
FY17E BV per share (A\$c)	1.8
EPS FY17E (A\$c)	-0.6
Net Debt/(Cash) FY17E (A\$m)	8

Relative price performance



Source: IRESS

Figure 1: QHL – project pipeline

Sector	Project	Status				Comments
		In production	To start production	Planning, development, and quotation	Investigating opportunities	
Aerospace	C-130J wing flaps	X				US\$75-100m contract over 5 years to 2019, potential to extend beyond
	JSF F-35 fuselage components	X				A\$700m contract over program life
	JSF F-35 VTF components	X				A\$135m contract over program life
	Parts - other defence (incl. UAVs)				X	To leverage off existing contracts with US military
	Parts - other commercial (incl. UAVs)				X	Opportunities in both developing (Asia/China) and mature markets
Automobile	Thales Hawkei - various parts	X				First parts supplied for test vehicles
	Bonnet parts for high-end European OEM			X		Leveraging off PRESCHE project with Audi, "Class A" surface finish
	Seat components for Futuris			X		Received grant from Federal Government CRC-P program
	Front fender project with European OEM			X		Received grant from Advanced Manufacturing Growth Centre
	Chinese EV manufacturer			X		Low-Medium volume production
	North American vehicle manufacturer			X		Low-Medium volume production
	Korean vehicle manufacturers			X		To leverage off sale to KIST
Performance vehicle CFRP parts supply			X		Leveraging off PRESCHE project with Audi, "Class A" surface finish	
Other	Korean Institute of Science and Technology (KIST)	X				Qure machine and RST cell revenue to be recognised in 2H FY17E
	Micro-X (ASX:MX1)	X				First deliveries planned in March quarter 2017
	DCNS Group (submarines)				X	MOU signed, demonstrator parts to be developed
	Sale of New Technology machinery				X	Looking to replicate ORPE sale / KIST sale

Source: Company, compiled by State One Stockbroking

Figure 2: QHL slide from 2016 AGM presentation – targeting numerous global opportunities

New Technology – Forward Strategy

» Western Europe

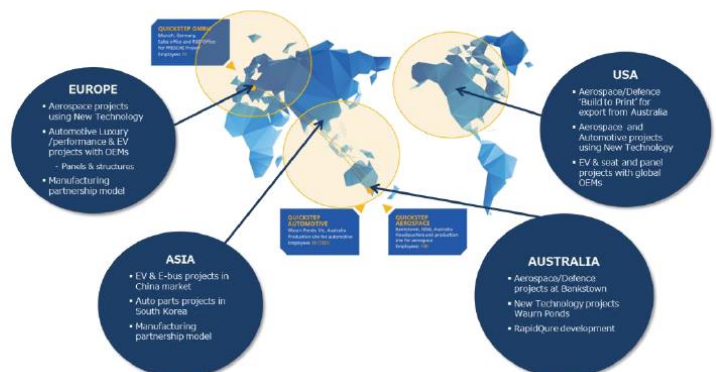
- Luxury /performance & EV projects
- Focus on Panels and Structures
- Manufacturing partnership model with an existing composites manufacturer

» Asia Region

- Automotive projects in South Korea
- EV & E-bus projects in China market
- Focus on Panels and Structures
- Manufacturing partnership model

» North America

- Auto projects using New Technology
- Seat and panel projects with global OEMs
- Focus on EVs and performance vehicles



Financial Statements

Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Sales	50.1	51.5	71.6	121.3	137.3
COGS	(37.3)	(39.7)	(54.4)	(92.2)	(104.3)
Operational/Marketing/Corporate	(7.6)	(7.7)	(7.9)	(11.0)	(11.0)
R&D	(3.5)	(5.0)	(4.5)	(4.5)	(4.5)
Total cash costs	(48.3)	(52.4)	(66.8)	(107.7)	(119.8)
EBITDA	1.8	(0.9)	4.8	13.6	17.4
Depreciation & Amortisation	(2.4)	(2.8)	(3.0)	(3.0)	(3.0)
Operating profit	(0.6)	(3.6)	1.8	10.6	14.4
NOI (Grants/Other)	(5.0)	0.5	2.6	0.8	0.0
EBIT	(5.6)	(3.1)	4.4	11.4	14.4
Interest income	1.0	0.2	0.1	0.1	0.1
Interest expense	(1.2)	(0.5)	(0.5)	(0.4)	(0.3)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(5.8)	(3.5)	4.0	11.0	14.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(5.8)	(3.5)	4.0	11.0	14.2
EPS Reported (A\$c)	(1.1)	(0.6)	0.7	1.9	2.4
EPS Normalised (A\$c)	(1.1)	(0.6)	0.7	1.9	2.4
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	(0.9)	4.8	13.6	17.4
Investment in working capital	(3.4)	2.0	(0.7)	(6.2)	(3.4)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	1.1	4.1	7.4	14.1
Capex	(4.5)	(3.0)	(4.5)	(4.5)	(4.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.5)	(3.0)	(4.5)	(4.5)	(4.5)
Net interest received / (paid)	(0.2)	(0.4)	(0.4)	(0.3)	(0.2)
Debt increase / (repayment)	(3.8)	(1.0)	(1.5)	(1.5)	(2.5)
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	(1.4)	(1.9)	(1.8)	(2.7)
Non-operating & Other	(4.7)	(1.1)	2.6	0.8	0.0
Inc/(Dec) in Cash	6.4	(4.3)	0.3	1.8	6.9

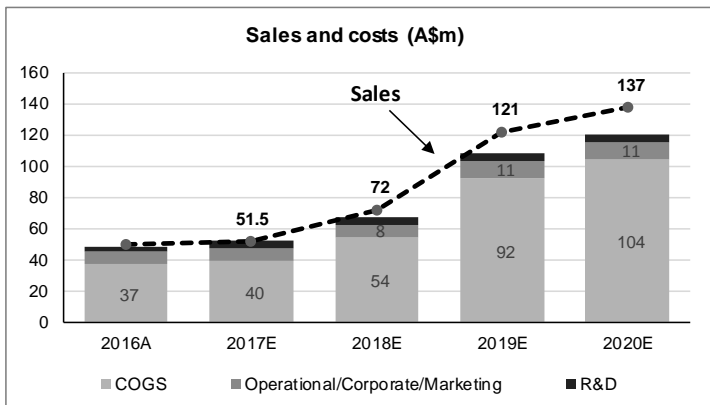
Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.3	3.6	5.4	12.3
Receivables	5.3	6.2	7.9	14.6	16.5
Inventories	11.9	8.2	10.0	14.6	17.8
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	13.3	14.8	16.3	17.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	39.2	32.0	37.3	51.8	65.4
Payables and other current Liabilities	11.3	10.2	12.9	18.0	19.8
Short Term Debt	2.2	2.2	2.2	2.2	2.2
Long Term Debt	9.8	8.8	7.3	5.8	3.3
Other Non Current Liabilities	1.8	0.2	0.2	0.2	0.2
Total Liabilities	25.0	21.3	22.6	26.1	25.4
Total Equity	14.2	10.7	14.7	25.8	40.0
Net Debt (Cash)	4.3	7.6	5.9	2.5	(6.8)

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
Parts sold / delivered					
C-130J shipsets	35	25	26	26	26
JSF parts (fuselage and VTFs)	578	1,139	1,505	2,450	2,700
Automotive parts	500	1,000	3,000	32,500	40,000
Revenue composition (A\$m)					
Aerospace	49.7	49.0	62.6	81.5	88.3
Automotive	0.4	0.7	2.2	23.7	29.2
Engineering/Other (incl. X-Ray)	0.0	1.5	5.0	12.0	14.0
Total	50.1	51.5	71.6	121.3	137.3
YoY revenue growth	nm	3%	39%	69%	13%
COGS as % revenue	74%	77%	76%	76%	76%
Operations/Other costs as % revenue	15%	15%	11%	9%	8%
R&D as % revenue	7%	10%	6%	4%	3%
Total cash costs as % revenue	96%	102%	93%	89%	87%

EBITDA margin (%)	4%	-ve	7%	11%	13%
Operating profit margin (%)	-ve	-ve	3%	9%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	71%	40%	10%	cash
Net Debt/Total Assets	11%	24%	16%	5%	cash
Net interest Cover (x)	na	na	11	36	75

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	14.8	5.3	4.1
Price/OP Cash Flow	-36.0	51.3	14.3	7.9	4.2
EV (A\$m)	61	64	62	59	49
EV/EBITDA	34	-ve	13	4	3
ROE (%)	na	-ve	27%	43%	36%

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.21	50%	0.19	0.10	92%
EPS/PER	0.17	50%			

EPS/PER TP based on two-year EPS of A\$1.7c (rounded) and a PE multiple 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 December 2016, QHL announced a contract to manufacture carbon fibre panels for a lightweight x-ray for ASX-listed Micro-X (ASX:MX1).

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