



Quickstep Holdings Limited

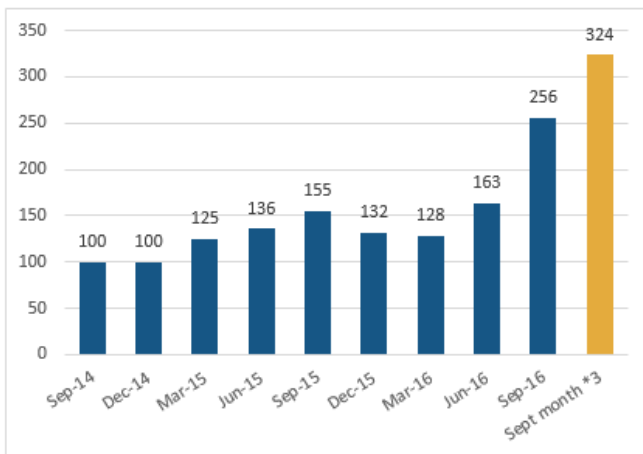
JSF parts production surprises on upside

QHL announced today (6 October 2016) that 256 F-35 JSF parts were delivered during the September quarter, with a record 108 parts manufactured in the September month. QHL also stated that capital projects for further JSF production expansion are expected to be complete in December 2016.

State One commentary

- 256 JSF parts sales in the September quarter represent a 56% increase on June quarter's sales of 163 parts (143 fuselage, 20 VTF). Production of 108 parts in Sept indicates potential sales of 324 JSF parts (i.e., 108 x 3) in the current Dec quarter. This represents a further 27% QoQ growth.
- Based on production YTD, we believe full year (FY17E) **JSF parts sales could surprise on the upside relative to our forecast of 875 JSF parts** (600 fuselage, 275 VTF).

Quarterly JSF parts sales/deliveries



Reported September quarter deliveries of 256 parts are up 56% on the prior quarter, and some 65% up on last year.

Based on reported production in the month of September, deliveries in the December quarter could potentially increase a further 27% to 324 parts.

Source: Company, compiled by State One Stockbroking

- At current share price levels, we believe that QHL offers significant upside potential. **Recommendation: BUY (Higher Risk).**

Key Financials

Year-end June	FY16A	FY17E	FY18E	FY19E	FY20E
Aerospace (US\$m)	36	33	44	59	67
Automotive (US\$m)	0	3	5	22	28
Other (US\$m)	0	5	9	10	11
Total sales (US\$m)	37	41	58	91	106
AUD/USD exchange rate	0.73	0.75	0.75	0.75	0.75
Total revenue (A\$m)	50	54	77	121	141
EBITDA (A\$m)	1.8	1.1	8.7	15.4	17.8
EBITDA margin (%)	-0.1%	4%	2%	11%	13%
Normalised NPAT (A\$m)	-6	-2	5	12	15
EPS Reported (A\$c)	-1.1	-0.3	0.9	2.1	2.5
EPS Normalised (A\$c)	-1.1	-0.3	0.9	2.1	2.5
DPS (A\$c)	0.0	0.0	0.0	0.0	0.0
PER (x)	-ve	-ve	11.0	4.8	4.0
Net debt / (cash) (A\$m)	4	7	5	0	-9
Capex (A\$m)	-4.5	-5.0	-4.0	-4.5	-5.0

Source: Iress, Company Data, State One Stockbroking Est. Share price: \$ 0.100 Oct 06, 2016

6 October 2016

Share price: A\$0.10

Target price: A\$0.18

Recommendation
Buy

Risk Assessment
Higher

Industrial

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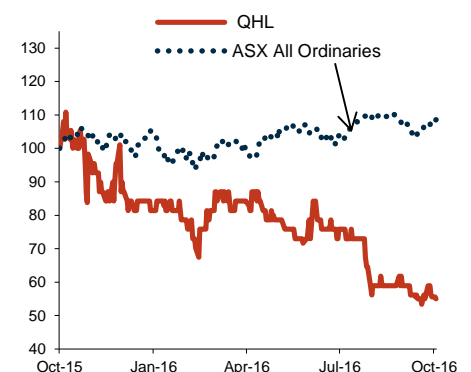
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Quickstep Holdings Limited

ASX Code	QHL
52 week range	A\$0.10-A\$0.20
Market Cap (A\$m)	56
Shares Outstanding (m)	562
Av Daily Turnover (shares)	601k
ASX All Ordinaries	5,470
FY17E BV per share (A\$c)	2.1
EPS FY17E (A\$c)	-0.3
Net Debt/(Cash) FY17E (A\$m)	7

Relative price performance



Source: IRESS

Financial Statements

Quickstep Holdings Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Sales	50.1	54.1	76.8	121.5	140.8
COGS	(37.3)	(40.3)	(57.2)	(91.1)	(107.0)
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)	(53.0)	(68.1)	(106.1)	(123.0)
EBITDA	1.8	1.1	8.7	15.4	17.8
Depreciation & Amortisation	(2.4)	(2.8)	(3.0)	(3.0)	(3.0)
Operating profit	(0.6)	(1.7)	5.7	12.4	14.8
NOI (Grants/Other)	(5.0)	0.0	0.0	0.0	0.0
EBIT	(5.6)	(1.7)	5.7	12.4	14.8
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)	(2.0)	5.3	12.1	14.7
Exceptional items	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	(5.8)	(2.0)	5.3	12.1	14.7
EPS Reported (A\$c)	(1.1)	(0.3)	0.9	2.1	2.5
EPS Normalised (A\$c)	(1.1)	(0.3)	0.9	2.1	2.5
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	1.1	8.7	15.4	17.8
Investment in working capital	(3.4)	3.2	(2.6)	(5.6)	(3.8)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.6)	4.3	6.1	9.8	14.0
Capex	(4.5)	(5.0)	(4.0)	(4.5)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.5)	(5.0)	(4.0)	(4.5)	(5.0)
Net interest received / (paid)	(0.2)	(0.4)	(0.4)	(0.3)	(0.1)
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)	(3.8)	(3.6)
Non-operating & Other	(4.7)	(1.6)	0.0	0.0	0.0
Inc/(Dec) in Cash	6.4	(3.9)	0.3	1.5	5.4

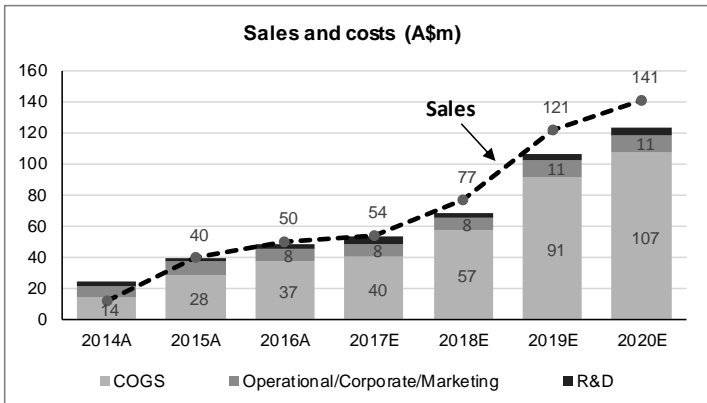
Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Deposits	7.6	3.7	4.0	5.5	10.9
Receivables	5.3	6.0	8.4	14.6	16.9
Inventories	11.9	7.6	10.7	14.6	18.3
Other Current Assets	1.4	1.0	1.0	1.0	1.0
PPE and Exploration & Development	13.1	15.3	16.3	17.8	19.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	39.2	33.6	40.5	53.5	66.9
Payables and other current Liabilities	11.3	10.5	13.6	18.0	20.2
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	21.4	23.0	23.8	22.5
Total Equity	14.2	12.2	17.5	29.7	44.4
Net Debt (Cash)	4.3	7.0	5.2	0.2	(8.7)

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%	82%	76%	65%	63%
Automotive	1%	7%	9%	24%	27%
Engineering/Other	0%	11%	16%	11%	10%
Revenue composition (A\$m)					
Aerospace	49.7	44.6	58.2	78.9	89.0
Automotive	0.4	3.6	6.5	29.6	37.7
Engineering/Other	0.0	6.0	12.0	13.0	14.0
Total	50.1	54.1	76.8	121.5	140.8
YoY revenue growth	nm	8%	42%	58%	16%
COGS as % revenue	74%	75%	75%	75%	76%
Operations/Other costs as % revenue	15%	14%	10%	9%	8%
R&D as % revenue	7%	9%	4%	3%	4%
Total cash costs as % revenue	96%	98%	89%	87%	87%

EBITDA margin (%)	4%	2%	11%	13%	13%
Operating profit margin (%)	-ve	-ve	7%	10%	11%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	31%	57%	30%	1%	cash
Net Debt/Total Assets	11%	21%	13%	0%	cash
Net interest Cover (x)	na	na	15.3	48.7	224.3

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised PER	-ve	-ve	10.9	4.8	4.0
Price/OP Cash Flow	-35.6	13.5	9.5	5.9	4.2
EV (A\$m)	59	62	60	55	46
EV/EBITDA	33	57	7	4	3
ROE (%)	na	-ve	30%	41%	33%

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
NPV	0.25	35%	0.18	0.10	86%
EPS/PER	0.15	65%			

EPS/PER TP based on two-year EPS of A\$1.2c (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 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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