



HOLD

Current Price \$1.90
Valuation \$1.80

Tuesday, 28 February 2017

Austal (ASB)

Securing the future

Analyst | Ian Christie, CFA

Quick Read

ASB's momentum into 2H17 is driven by strong US performance last half. With group underlying 1H17 EBIT of \$31.2m, the upgraded guidance of \$55-60m for the full year looks achievable. Tenders for significant long term work in the US and Australia provide sound reasons to remain positive, and our hold call is based primarily on valuation grounds.

Event & Impact | Positive

US performance key: The driver behind the 1H17 result was \$29.2m US shipbuilding EBIT at a 6.6% margin. When ASB reset the bar mid-2016 by writing off WIP, the Company indicated future US ship construction margins of 5-7%. Although it's only the first 6 month period, it provides initial validation of this forecast. Even accounting for the higher margin mature EPF programme, the LCS margin must be comfortably above 5% in our view. Adding to this was a solid \$7.0m contribution for support work and, on the back of the strong start to the year, ASB has upgraded EBIT guidance to \$55-60m (prior \$45-55m).

Negligible earnings elsewhere: In comparison, performance in other geographies was weak. In Australia the transition period from CCPB's to new contracts resulted in lower revenue and only \$1.7m EBIT. Operations in the Philippines also suffered from a lack of throughput, delivering a \$2.8m EBIT loss on \$13m revenue. The good news is that the steel-hulled PPB contract (19 boats, \$305m) and the Mols Linien ferry contract (~\$90m) are both set to commence in 4Q17, boosting earnings momentum into FY18.

Underpinning Henderson: In the medium term the OPV programme for the Australian Navy (\$1b for vessels and \$2b for support) provides an excellent opportunity for ASB to secure Henderson's long term future. The contract should be awarded end 2017 and we believe ASB is very strongly positioned to win and commence work in 2020. Further, the recent strong growth in commercial ferry export interest provides excellent opportunities for both Australian and Philippines operations.

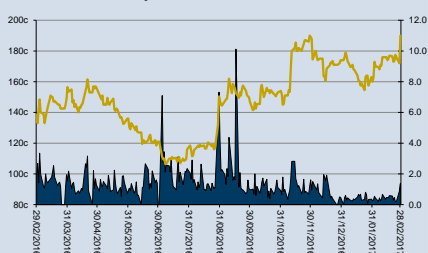
US defence work: In the US ASB has submitted a tender for 13 additional LCS's, with one to be potentially awarded in FY17. It is also likely the Navy upgrades the design such that the last 11 of ASB's ships in the 52-ship programme (currently shared between ASB and Lockheed Martin) are built as frigates. We have consistently maintained ASB has decades of US work ahead of it. Trump's pro-defence stance serves to underpin this view, even if his comments on pricing of defence contracts give pause.

Recommendation

Our blended valuation has increased to \$1.80 (prior \$1.70) on the back of an FY17 earnings uplift and after backing out notional debt on CCPB's 9 & 10. Our recent change to a hold call was on valuation grounds and, after adjustments, this still appears appropriate.

Ticker:	ASB.ASX			
Sector:	Ship Construction			
Shares on Issue (m):	349.1			
Market Cap (\$m):	663.3			
Net Debt / (Cash) (\$m):	32.6			
Enterprise Value (\$m):	695.9			
52 wk High/Low:	1.90	1.07		
12m Av Daily Vol (m):	1.64			
Key Metrics		17F	18F	
EV/EBITDA (x)		7.8	7.5	
EV/EBIT (x)		12.0	11.6	
P/E (x)		18.3	18.0	
Ratios		16A	17F	18F
ND / Equity	-11.3%	-4.5%	-10.5%	
EBIT Mgn	2.4%	4.3%	4.3%	
RoA	4.1%	7.3%	7.5%	
RoE	5.2%	7.8%	7.7%	
Financials*:		16A	17F	18F
Revenue (\$m)	1,495	1,361	1,383	
EBITDA (\$m)	65.0	89.1	93.1	
EBIT (\$m)	35.1	57.9	60.0	
NPAT (\$m)	25.0	36.2	36.9	
Rep. EBIT (\$m)	-120.9	44.8	60.0	
Rep. NPAT (\$m)	-84.2	27.0	36.9	
<i>* Normalised</i>				
Net Assets (\$m)	457.6	470.0	491.2	
Op CF (\$m)	102.1	35.9	68.5	
Per Share Data:		16A	17F	18F
Norm. EPS (cps)	7.2	10.4	10.6	
DPS (cps)	4.0	4.5	4.5	
Div Yield	2.1%	2.4%	2.4%	
NTAPS (cps)	128.9	132.5	138.8	
CFPS (cps)	29.4	10.3	19.6	

Share Price Graph



Austal

Equity Research

Ian Christie, CFA

Recommendation	HOLD
Current Price (\$)	1.90
Valuation (\$)	1.80

Sector	Shipbuilding
Market Cap (\$m)	663.3
Date	28 February 2017

Trading Metrics	FY15A	FY16A	FY17F	FY18F
EV / EBITDA (x)	7.1	10.7	7.8	7.5
EV / EBIT (x)	9.5	19.8	12.0	11.6
P/E (x)	14.5	26.4	18.3	18.0
Dividend Yield (%)	2.1%	2.1%	2.4%	2.4%

Per Share Data	FY15A	FY16A	FY17F	FY18F
Reported EPS (cps)	15.4	-24.2	7.7	10.6
Adjusted EPS (cps)	13.1	7.2	10.4	10.6
Div. per share (cps)	4.0	4.0	4.5	4.5
NTA per share (cps)	146.8	128.9	132.5	138.8
CF per share (cps)	32.1	29.4	10.3	19.6

Profit and Loss (\$m)*	FY15A	FY16A	FY17F	FY18F
Revenue	1,414.0	1,494.9	1,361.3	1,382.6
EBITDA	97.5	65.0	89.1	93.1
D&A	(24.3)	(29.9)	(31.2)	(33.1)
EBIT	73.2	35.1	57.9	60.0
PBT	69.1	29.6	52.9	54.3
NPAT	45.0	25.0	36.2	36.9
Reported EBIT	84.8	(120.9)	44.8	60.0
Reported NPAT	53.2	(84.2)	27.0	36.9

*Normalised, unless otherwise stated

Cash Flow (\$m)	FY15A	FY16A	FY17F	FY18F
Receipts	1,420.7	1,536.4	1,346.3	1,380.6
Payments	(1,287.7)	(1,425.5)	(1,298.0)	(1,289.0)
Other	(22.6)	(8.8)	(12.4)	(23.1)
Cash from Operations	110.4	102.1	35.9	68.5
Property, Plant & Equip	(28.1)	(30.8)	(55.5)	(22.3)
Payment for Subsidiary	-	-	-	-
Other	6.3	5.8	-	-
Cash From Investing	(21.8)	(25.0)	(55.5)	(22.3)
Issue of Shares	-	-	1.1	-
Net Borrowing	(31.1)	11.1	34.2	-
Dividends / Other	(3.5)	(15.8)	(15.7)	(15.7)
Cash From Financing	(34.6)	(4.7)	19.6	(15.7)
Net Cash Flow	54.0	72.4	(0.1)	30.5
Ending Cash	148.5	224.3	224.3	254.7

Balance Sheet (\$m)	FY15A	FY16A	FY17F	FY18F
Cash	138.4	224.3	224.3	254.7
Receivables	104.3	128.3	130.5	132.6
Inventory	339.7	109.0	108.2	108.7
Other	16.5	8.5	3.1	3.1
Current Assets	598.9	470.1	466.1	499.0
Property, Plant & Equip	442.5	490.8	512.9	503.6
Intangibles	9.6	9.3	7.9	6.5
Other NCAssets	19.8	42.9	42.9	42.9
Non-Current Assets	471.9	543.0	563.7	553.0
Total Assets	1,070.9	1,013.1	1,029.8	1,052.0
Payables	223.5	229.8	216.4	217.4
Progress Claims / Dep	26.2	12.8	-	-
Borrowings	154.6	172.6	203.1	203.1
Provisions	35.0	43.3	43.3	43.3
Other	119.3	97.0	96.9	96.9
Total Liabilities	558.5	555.6	559.8	560.8
Net Assets	512.4	457.6	470.0	491.2
Ordinary Equity	112.8	114.7	115.8	115.8
Reserves	55.8	100.7	100.7	100.7
Retained Earnings	343.8	242.1	253.5	274.7
Total Equity	512.4	457.6	470.0	491.2

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	11.50%		
PV Free Cash Flow (\$m)	639.0		
Less Net Debt / Plus Cash (\$m)	(32.6)		
Unpaid Capital (\$m) / Notional CCPB Debt	45.5		
Equity Value (\$m)		651.9	1.87
Multiple Valuation:			
FY18 EV/EBIT multiple	10.0	612.8	1.76
FY18 PE multiple	15.0	575.3	1.65
Valuation (\$ per share) - blended DCF and multiple valuations			1.80

Profit and Loss (\$m)*	1H16A	2H16A	1H17A	2H17F
Revenue	747.1	747.8	648.5	712.8
EBITDA	41.8	23.2	46.5	42.6
D&A	(12.7)	(17.2)	(15.2)	(15.9)
EBIT	29.0	6.1	31.2	26.7
PBT	26.8	2.9	28.2	24.7
NPAT	16.8	8.2	18.6	17.7
Reported EBIT	29.0	(149.9)	18.1	26.7
Reported NPAT	16.8	(101.0)	9.3	17.7

*Normalised, unless otherwise stated

Cash Flow (\$m)	1H16A	2H16A	1H17A	2H17F
Receipts	815.6	720.8	627.2	719.1
Payments	(744.4)	(681.0)	(671.5)	(626.5)
Other	(19.4)	10.5	0.5	(12.9)
Cash from Operations	51.8	50.3	(43.8)	79.7
Property, Plant & Equip	(11.1)	(19.8)	(32.5)	(23.0)
Payment for Subsidiary	-	-	(0.3)	0.3
Other	8.6	(2.8)	0.0	(0.0)
Cash From Investing	(2.4)	(22.6)	(32.8)	(22.7)
Issue of Shares	-	-	-	1.1
Net Borrowing	(12.3)	23.4	7.2	26.9
Dividends / Other	(9.9)	(5.9)	(5.9)	(9.8)
Cash From Financing	(22.2)	17.5	1.3	18.2
Net Cash Flow	27.2	45.2	(75.3)	75.2
Ending Cash	181.5	224.3	153.5	224.3

Financial Ratios	FY15A	FY16A	FY17F	FY18F
Growth				
Revenue growth (%)	26.0%	-5.3%	1.7%	1.6%
NPAT growth (%)	16.2%	-44.5%	44.9%	2.0%
Norm. EPS growth (%)	15.6%	-45.0%	44.4%	1.9%
Profitability Ratios				
EBITDA Margin (%)	6.9%	4.9%	6.5%	6.7%
EBIT Margin (%)	5.2%	2.4%	4.3%	4.3%
PBT Margin (%)	4.9%	2.0%	3.9%	3.9%
NPAT Margin (%)	3.2%	1.7%	2.7%	2.7%
Return on Assets (%)	8.3%	4.1%	7.3%	7.5%
Return on Equity (%)	9.5%	5.2%	7.8%	7.7%
ROIC (%)	7.5%	3.9%	7.0%	7.1%
Balance Sheet Ratios				
Net Debt (ND)	6.1	(51.7)	(21.1)	(51.6)
Net Debt (ND) / Equity (%)	1.2%	-11.3%	-4.5%	-10.5%
ND / ND + Equity (%)	1.2%	-12.7%	-4.7%	-11.7%
Current Ratio (x)	1.3	1.5	1.7	1.8
Net Interest Cover (x)	20.6	-22.0	8.9	10.6
Cash Flow Ratios				
Free Cash Flow Yield (%)	12.6%	8.8%	-3.0%	7.0%
Cash Conversion (x)	1.1	1.6	0.4	0.7

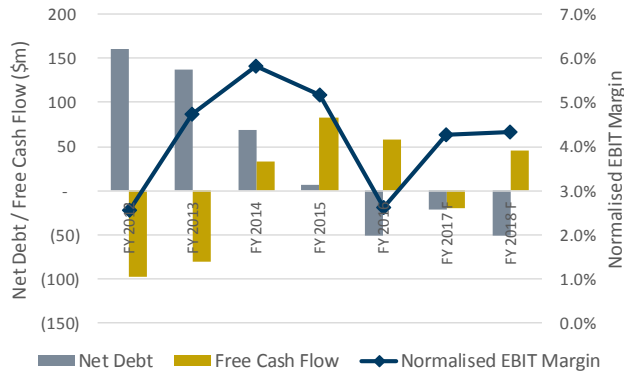


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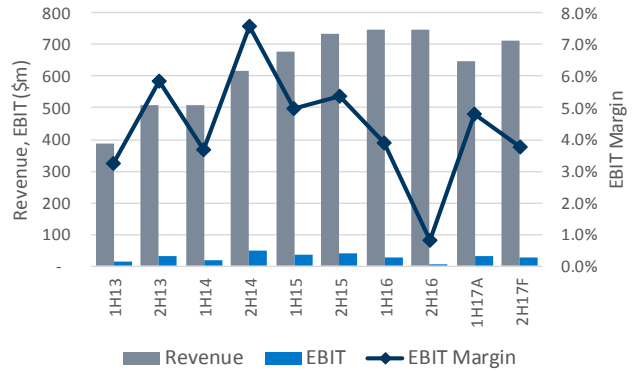
Key Charts

Equities Research

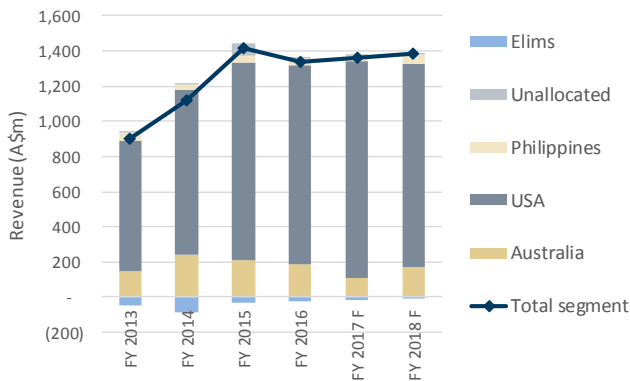
Key metrics



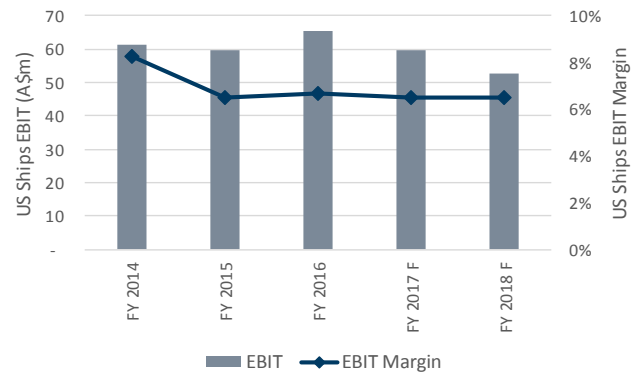
Half yearly performance - underlying



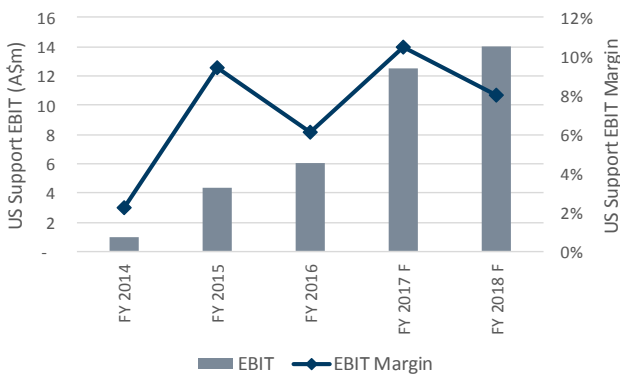
Revenue Reported - group



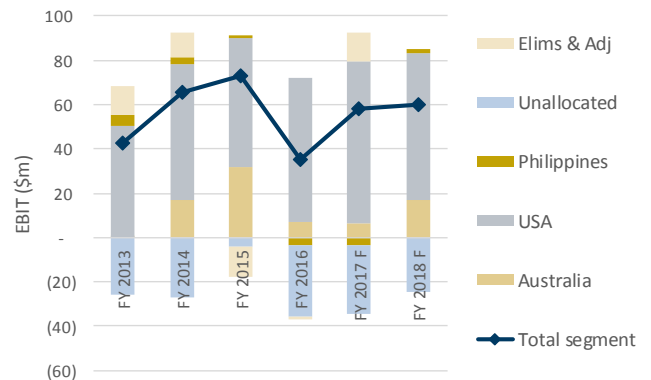
US Ships Construction Earnings



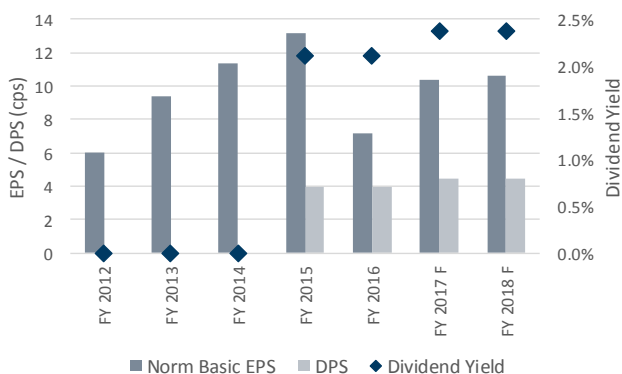
US Support Earnings



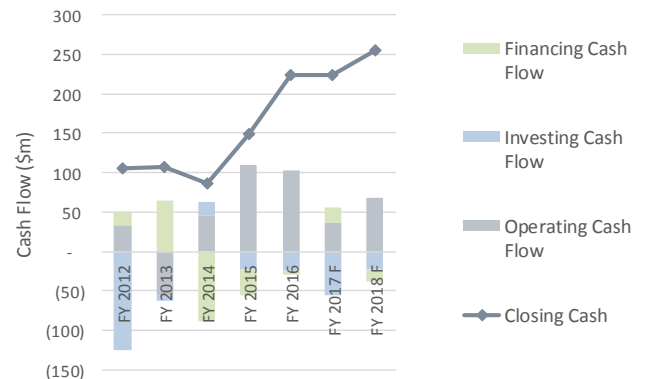
Segment EBIT



Dividends



Cash Flow



Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised	FY14	FY15	FY16	FY17F			FY18F		
	Actual	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	1,123	1,414	1,495	1,448	1,361	-6%	1,509	1,383	-8%
EBIT (\$m)	65.3	73.2	35.1	50.0	57.9	16%	60.0	60.0	0%
EBIT margin	5.8%	5.2%	2.4%	3.5%	4.3%	23%	4.0%	4.3%	9%
PBT (\$m)	56.9	69.1	29.6	45.1	52.9	17%	54.5	54.3	0%
NPAT (\$m)	38.8	45.0	25.0	30.7	36.2	18%	37.1	36.9	0%
Rep. EBIT (\$m)	-0.3	84.8	-120.9	50.0	44.8	-11%	60.0	60.0	0%
Rep. NPAT (\$m)	31.5	53.2	-84.3	30.7	27.0	-12%	37.1	36.9	0%
EPS (cps)	11.3	13.1	7.2	8.8	10.4	18%	10.6	10.6	-1%

Source: Argonaut forecasts

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