Hartleys

ASB.asx
Neutral

AUSTAL LIMITED (ASB)

OPV work goes to Civmec vs. Commercial expansion

Lürssen Australia have announced that Austal Limited ("Austal", "ASB", "Company") will not be taking part in the Australian Navy's 12 vessel Offshore Patrol Vessel contract. This is despite the best efforts of the Government to try and facilitate the construction of 10 vessels at ASB's yard in Henderson. ASB had originally backed Fassmer (in a rival bid to Lürssen), however after Lürssen were announced as prime contractor ASB were still given the opportunity to negotiate a commercial agreement with Lürssen to construct the 10 vessels at their yard. Lürssen and ASB could not reach a satisfactory agreement and as a result Lürssen have confirmed subcontracting arrangements with ASC and Perth-based Civmec Construction and Engineering for steel fabrication and construction. As previously announced the first two OPVs will be built by Lürssen and ASC at the Osborne Naval Shipyard in South Australia, starting this year. The remaining 10 OPVs will be constructed at Civmec's new facility (currently under construction) in the Henderson Maritime Precinct in Western Australia, from 2020.

Commercial to fill most of the void, major expansion announced

We had valued this contract at 23c per share net to ASB (total NPV of $2.10). Given the current strength in the commercial market we expect ASB will be able to fill most of this 'spare capacity' with higher margin commercial awards. So, in the near term the impact on earnings and profit of not participating in this contract will not be material but it is still a disappointing outcome and increases the uncertainty around workload for Henderson longer term (particularly if the commercial market slows down). A key highlight for ASB continues to be the strength in the commercial market (the Company have just announced a major expansion of capacity at Henderson and in the Philippines). ASB achieved $380m of new commercial orders in 1HFY18, leaving the total commercial order book at $435m at the end of December (with ASB's unique Trimaran hull a key differentiator - with 9 ASB trimarans already in operation around the world, another 7 under construction and 5 on order). ASB so far in 2HFY18 have announced the award of a $68m trimaran ferry with JR Kyushu. Overall the Company expects commercial revenue to increase circa 50% in FY2019.

2H18 Outlook – Maintain Neutral Recommendation

Company revenue guidance for FY18 is A$1.3-1.4bn with US shipbuilding EBIT margins in the 6-8% range. In Australia, PPB is expected to generate circa 20% revenue growth into FY19. In the Philippines, throughput is expected to approximately double from FY18 to FY19/20 on the back of the commercial order book. Overall the Company expects commercial revenue to increase circa 50% in FY19. Major news flow in 2018 will now be focused on; i) Further commercial wins, and ii) the down select to one bidder for the Frigates for the RAN. We have removed our valuation of the OPV contract from our Group NPV but have largely filled this void with an increase in commercial awards. The net result was a 6c reduction in our NPV10 to $2.03ps. Based on the average multiples for the S&P/ASX 300 Industrials (ex-BIP and Tech) sector and our NPV10 we derive a 12-month forward target price of $2.06 per share (from $2.10). Maintain our Neutral Recommendation.

15 May 2018

Share Price:	$1.75
Valuation:	$2.06
12mth price target:	$2.06

Brief Business Description:
Commercial and naval marine design and construction.

Hartleys Brief Investment Conclusion
Austal (ASB) generates the majority of its earnings from US naval contracts. Additional earnings are derived from commercial vessel construction and marine services

Chairman & CEO:
John Rothwell AO
David Singleton

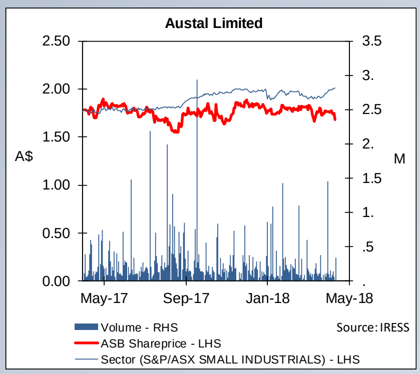
Top Shareholders:
Allan Gray Australia Pty Ltd 18.6%

Company Address:
100 Clarence Beach Road
Henderson WA

Issued Capital:	349.4m
- fully diluted	359.9m
Market Cap:	$609.7m
- fully diluted	$609.7m
Net Debt (FY 18e)	$3.8m

		FY16a	FY17a	FY18e
Op Cash Flw		102.1	-37.9	75.2
Free Cash Flw		77.1	-91.4	56.1
NPAT* (A$m)	-	**71.7**	**32.7**	**47.9**
EPS ($, bas)	-	20.5	9.3	13.7
P/E (basic)		-8.5x	18.7x	12.8x
P/E (diluted)		-8.8x	19.2x	13.1x
EV / EBITDA		-7.6x	6.6x	6.1x
DPS (cps)		4.0	4.0	4.0
Dividend Yield		2.3%	2.3%	2.3%
N.D. / equity		-11%	10%	1%

Source: Hartleys Research. * normalised



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SUMMARY MODEL

Austal Limited (ASB)

Recommendation: Neutral

Company Information		
Date	15 May 2018	100 Clarence Beach Road
Share Price	$1.75	Henderson WA
52 Week High-Low	$2.02 - $1.495	Australia, 6166
Market Cap ($m)	$609.7	D: +61 8 6414 4010
Enterprise Value ($m)	$597.7	www.austal.com
Ordinary Shares	349.4	
Fully Diluted Shares	359.9	

Valuation					
S&P/ASX Industrial:	FY19 Multiple	ASX Comps	Target Multiple	Wgt.%	Tgt Price
EV/EBIT	8.6x	12.3x	10.8x	10%	2.12
EV/EBITDA	5.8x	8.0x	7.0x	25%	2.06
Earnings	13.8x	18.7x	16.5x	30%	2.14
Div Yield	2.9%	3.1%	2.7%	0%	1.83
NPV				35%	1.96
Valuation					**$2.06**
upside from current					*18%*
P / E (6/18F) at price target					15.4x
P / E (6/19F) at price target					*16.3x*
EV / EBITDA (6/18F) at price target					*7.7x*
EV / EBIT (6/18F) at price target					*12.1x*
Dividend Yield (6/18F) at price target					1.9%

Multiples (S/price at $1.75)	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
P / E (reported, basic weighted)	14.6x	11.4x	-7.2x	39.6x	12.7x	13.4x
P / E (normalised, dil. weighted)	14.5x	13.5x	-8.5x	18.7x	12.8x	13.5x
P / E (mkt cap / norm. NPAT)	14.6x	13.5x	-8.5x	18.7x	12.7x	13.4x
P / E (fully diluted mkt cap / norm. NF	15.1x	14.0x	-8.8x	19.2x	13.1x	13.8x
Dividend Yield	0.0%	2.3%	0.0x	2.3%	2.3%	2.9%
Group Free Cash Flow (f.c.f) / EV	9.1%	13.8%	0.1x	-15.0%	9.4%	4.3%
Equity f.c.f. / Mkt Cap	-5.7%	8.4%	0.1x	-10.7%	7.6%	2.6%
Norm f.c.f. / Mkt cap	-5.7%	8.4%	0.1x	-10.7%	7.6%	2.6%
Mkt cap / operating cash flow	14.6x	5.5x	6.0x	-16.1x	8.1x	9.3x
EV/EBITDA multiple	6.7x	6.1x	-7.6x	6.6x	6.1x	5.8x
EV/EBIT multiple	9.1x	8.2x	-5.5x	10.2x	9.6x	8.6x
Price / Book Value	1.4x	1.2x	1.4x	1.4x	1.3x	1.2x
Price / NTA	1.5x	1.2x	1.5x	1.4x	1.3x	1.2x
Price / FCF	11.1x	7.4x	10.0x	-6.8x	10.9x	23.8x

Ratios	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
Return period end Equity	7.4%	10.4%	-18.4%	3.4%	9.8%	8.7%
ROA	4.5%	4.5%	-6.9%	3.3%	4.9%	4.5%
ND / ND + Equity	15.8%	3.1%	-12.7%	9.1%	0.8%	-1.6%
ND / Equity	18.7%	3.2%	-11.3%	10.0%	0.8%	-1.5%
Net Interest Cover (EBIT)	7.8	17.8	-19.7	10.4	9.3	11.4
ROIC	6.4%	6.3%	-12.8%	5.0%	7.4%	6.8%

Free Cash Flow Analysis ($m)	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
Net Operating Cash Flow	41.6	110.4	102.1	-37.9	75.2	65.2
Capex (Reported)	12.7	-28.1	-40.9	-52.0	-19.1	-39.4
Group Free Cash Flow (rep'ted)	54.4	82.3	61.2	-89.9	56.1	25.8
Fixed Debt Repayments	-89.3	-31.1	11.1	24.6	-10.0	-10.0
Equity Free Cash Flow (rep'ted)	**-35.0**	**51.2**	**72.2**	**-65.2**	**46.1**	**15.8**
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-35.0	51.2	72.2	-65.2	46.1	15.8
Capex (inc HP) / depreciation	-54%	116%	137%	165%	53%	114%

Share Data	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
Ord Issued shares (m)	346.5	346.9	349.4	349.5	350.5	351.5
growth	0.1%	0.2%	0.8%	0.7%	0.3%	0.6%
Weighted ave shares (m)	267.4	346.5	348.0	348.2	349.9	350.5
growth	0.8%	30.7%	30.1%	0.5%	0.6%	0.7%
Diluted shares wgted (m)	346.2	346.9	349.4	349.5	350.5	351.5
growth	87.8%	0.2%	0.9%	0.7%	0.3%	0.6%

Options & Rights

Year Expires	Number	% ord
28-Sep-17	1,925,000	0.5%
20-Oct-18	1,715,000	0.5%
Various	709,018	0.2%
5-Oct-18	1,418,036	0.4%
Perf. Rights	4,775,438	1.3%
TOTAL	**10,542,492**	**2.9%**

Directors & Senior Management	
John Rothwell AO	Non-Executive Chairman
David Singleton	Managing Director
Giles Everist	Independent Director
Jim McDowell	Independent Director

Substantial Shareholders	%
Allan Gray Australia Pty Ltd	18.6%

Profit & Loss ($m)	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
Australia - Divisional						
Revenue	153.9	211.8	187.0	113.7	191.7	251.5
EBIT	16.7	31.8	6.7	-2.1	2.9	4.2
EBIT Margin	10.8%	15.0%	3.6%	-1.8%	1.5%	1.7%
USA - Divisional						
Revenue	933.6	1119.7	1133.1	1172.1	1077.2	1159.4
EBIT	61.7	58.4	-90.6	78.5	73.5	79.9
EBIT Margin	6.6%	5.2%	-8.0%	6.7%	6.8%	6.9%
Philippines - Divisional						
Revenue	32.8	38.7	33.9	33.8	52.4	65.5
EBIT	2.7	1.0	-3.7	0.3	-1.3	-1.6
EBIT Margin	8.3%	2.6%	-10.9%	0.9%	-2.5%	-2.5%
Total Revenue	**1,122.8**	**1,414.9**	**1,340.0**	**1,308.6**	**1,308.0**	**1,463.2**
growth	*24.9%*	*26.0%*	-5.3%	*-2.3%*	*0.0%*	11.9%
Segment EBITDA	101.6	112.4	-60.8	106.3	108.7	115.0
Overhead	-12.5	-14.9	-17.6	-16.1	-10.4	-11.1
- % of sales	-1.1%	-1.1%	-1.3%	-1.2%	-0.8%	-0.8%
EBITDA	**89.1**	**97.5**	**-78.5**	**90.2**	**98.3**	**103.8**
margin	**7.9%**	**6.9%**	**-5.9%**	**6.9%**	**7.5%**	**7.1%**
Depreciation/Amortisation	-23.8	-24.3	-29.9	-31.5	-35.7	-34.5
EBIT	65.3	73.2	-108.4	58.7	62.6	69.3
EBIT / Sales	5.8%	5.2%	-8.1%	4.5%	4.8%	4.7%
Net Interest	-8.4	-4.1	-5.5	-5.7	-6.7	-6.1
Profit Before Tax	**56.9**	**69.1**	**-113.9**	**53.0**	**55.9**	**63.2**
- margin	**5.1%**	**4.9%**	**-8.5%**	**4.0%**	**4.3%**	**4.3%**
Normalised Tax	-15.3	-24.1	42.2	-20.3	-8.0	-17.7
Effective Tax Rate	26.9%	34.9%	37.0%	38.3%	14.3%	28.0%
NPAT Pre Minorities	41.6	45.0	-71.7	32.7	47.9	45.5
Minorities	0.0	0.0	0.0	0.0	1.0	2.0
Normalised NPAT to equity	**41.6**	**45.0**	**-71.7**	**32.7**	**47.9**	**45.5**
Normalised tax rate	-27%	-35%	-37%	-38%	-27%	-28%
Norm. Net Profit / Sales	**3.7%**	**3.2%**	**-5.3%**	**2.5%**	**3.7%**	**3.1%**
Abnormals / discontinued	-9.8	8.2	-12.6	-17.3	0.0	0.0
Reported Profit to equity	31.9	53.2	-84.3	15.4	47.9	45.5
Reported EPS (basic, w'ghted)	11.9	15.3	-24.2	4.4	13.7	13.0
Normalised EPS (dil, wghtd)	12.0	13.0	-20.5	9.3	13.7	12.9
Normalised EPS (full. diluted)	11.6	12.5	-19.9	9.1	13.3	12.6
EPS (full dil) Growth %	***16.5%***	***8.1%***	***-259.3%***	***-145.5%***	***46.7%***	***-5.0%***
DPS (cps)	**0.0**	**4.0**	**4.0**	**4.0**	**4.0**	**5.0**
Payout Ratio	0.0%	26.1%	-16.5%	90.7%	29.2%	38.5%

Cashflow Statement ($m)	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
EBITDA	89.1	97.5	-78.5	90.2	98.3	103.8
Working Capital Change	6.5	19.8	213.0	-108.4	-8.5	-14.8
Net interest Paid	-4.1	-6.6	-5.7	-6.7	-6.1	-5.5
Tax Paid	-15.9	-18.5	42.2	-20.3	-8.0	-17.7
Other	-29.6	15.8	-68.1	6.2	0.0	0.0
Net Operating Cash Flow	**41.6**	**110.4**	**102.1**	**-37.9**	**75.2**	**65.2**
Capital Expenditure	12.7	-28.1	-40.9	-52.0	-19.1	-39.4
Asset Sales	0.0	6.3	0.0	0.0	1.0	2.0
Other (inc Investments)	6.2	0.0	15.9	-1.5	0.0	0.0
Net Investing Cash Flow	**19.0**	**-21.8**	**-25.0**	**-53.5**	**-19.1**	**-39.4**
Proceeds from Equity Issues	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	-89.3	-31.1	11.1	24.6	-10.0	-10.0
Dividends Paid	0.0	-3.5	-15.8	-12.3	-14.0	-14.0
Net Financing Cash Flow	**-89.3**	**-34.6**	**-4.7**	**12.4**	**-24.0**	**-24.0**
Movement in Cash	-28.7	54.0	72.4	-79.0	32.1	1.8
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet ($m)	6/14A	6/15A	6/16A	6/17A	6/18F	6/19F
Cash	74.4	138.4	224.3	150.5	182.6	184.4
Receivables	95.8	104.3	128.3	100.4	107.5	120.3
Inventories	328.1	339.7	109.0	170.4	169.4	190.3
Other	19.2	16.5	8.5	10.4	10.4	10.4
Total Current Assets	**517.5**	**598.9**	**470.1**	**431.7**	**469.8**	**505.3**
Property, Plant & Equipment	366.5	442.5	490.8	500.3	483.7	488.5
Intangibles	9.0	9.0	35.0	5.6	5.6	5.6
Other	18.2	20.4	17.3	22.4	22.4	22.4
Total Non Current Assets	**393.8**	**471.9**	**543.0**	**528.3**	**511.6**	**516.5**
Total Assets	**911.3**	**1,070.9**	**1,013.1**	**960.0**	**981.5**	**1,021.8**
Accounts Payable	183.6	223.5	229.8	154.9	152.5	171.3
Interest Bearing Liabilities	13.2	146.9	2.5	9.9	9.9	9.9
Other	79.3	92.1	74.4	74.1	74.1	74.1
Total Current Liabilities	**276.0**	**462.5**	**306.8**	**238.9**	**236.5**	**255.3**
Interest Bearing Liabilities	142.3	7.7	170.1	186.5	176.5	166.5
Deferred Tax Liability	49.9	63.7	72.0	62.9	62.9	62.9
Other	9.9	24.6	6.8	14.8	14.8	14.8
Total Non Current Liabilities	**202.0**	**96.0**	**248.8**	**264.2**	**254.2**	**244.2**
Total Liabilities	**478.1**	**558.5**	**555.6**	**503.1**	**490.6**	**499.5**
Net Assets	**433.2**	**512.4**	**457.6**	**456.9**	**490.8**	**522.3**
Net Asset Value / Share ($)	1.20	1.42	1.27	1.27	1.36	1.45
NTA / Share ($)	1.18	1.40	1.17	1.25	1.35	1.44
Net Debt (net cash)	81.0	16.1	-51.7	45.9	3.8	-8.0

Analyst: Aiden Bradley
Phone: +61 8 9268 2876

Last Earnings Estimate Changes: 15-May-2018

Sources: IRESS, Company Information, Hartleys Research

HIGHLIGHTS

Lürssen Australia have announced that ASB will not be taking part in the Australian Navy's 12 vessel Offshore Patrol Vessel contract. This is despite the best efforts of the Government to try and facilitate the construction of 10 vessels at ASB's yard in Henderson. ASB had originally backed Fassmer (in a rival bid to Lürssen) but after Lürssen were announced as prime contractor ASB were still given the opportunity to negotiate a commercial agreement with Lürssen to construct the 10 vessels at their yard. Lürssen and ASB could not reach a satisfactory agreement and as a result Lürssen have confirmed subcontracting arrangements with ASC and Perth-based Civmec Construction and Engineering for steel fabrication and construction.

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http://civmec.com.au/facility/henderson/

We had valued this contract at 23c per share net to ASB (out of our total NPV of $2.10). Given the current strength in the commercial market we expect ASB will be able to fill most of this 'spare capacity' with higher margin commercial awards.

So, in the near term the impact on earnings and profit of not participating in this contract will not be material but it is still a disappointing outcome and increases the uncertainty around workload for Henderson longer term (particularly if the commercial market slows down).

Commercial to fill most of the void – major capacity expansion announced

A key highlight for ASB continues to be the strength in the commercial market. ASB achieved $380m of new commercial orders in 1HFY18, leaving the total commercial order book at $435m at the end of December (with ASB's unique Trimaran hull a key differentiator - with 9 ASB trimarans already in operation around the world, another 7 under construction and 5 on order). ASB so far in 2HFY18 have announced the award of a $68m trimaran ferry with JR Kyushu. Overall the Company expects commercial revenue to increase circa 50% in FY2019.

The Company have also announced that they are undertaking a US$30m expansion of the yards at Henderson and in the Philippines to meet this commercial demand. Works have commenced and will be funded from ASB's ongoing cash reserves. Completion of the works are expected during CY2018 at Henderson (A$6m spend) and in early CY2019 in the Philippines (US$18 upgrade).

Key commercial contracts include;

Australia;

- Mols ($100m, 109m vehicle / passenger ferry)

Over 50% complete and on schedule.

- Fred Olsen Lines (combined $190m, two 117m trimaran ferries)

Construction of the first ferry will commence shortly.

- JR Kyushu ($68m, 83m trimaran ferry)

Construction of the vessel will commence in late 2018.

Philippines;

- FRS ($22m, 56m vessel).

Ferry will be delivered in 2HFY18.

- VS Grand Tours ($5m, 30m ferry)

Construction has just commenced.

- Fjord Line (~ $108 m, 109 m vehicle passenger ferry).

First metal was cut February 2018.

- Braveline ($44m, 2 x 50 m ferries)

Construction will commence in 2HFY18.

- Aremiti ferry ($30m, 49m ferry)

Construction will commence in 2HFY18.

China;

- 6 x ~ $5-6 m, 35m high-speed catamarans in Aulong Joint Venture (ASB 40%).

RECOMMENDATION & RISKS

INVESTMENT THESIS & RECOMMENDATION

Austal's achievements in establishing itself as a primary supplier to both the Australian Navy (and especially) and US Navy is quite simply a tremendous achievement.

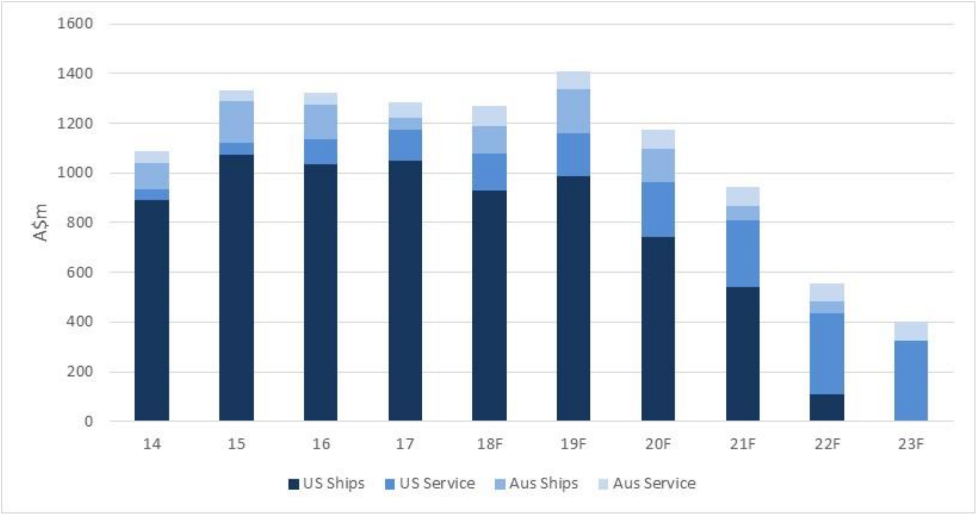
However, it has not been without its teething problems and the volatility in the share price over the past five years reflects that (a low of 52c in late 2012 to a high of $2.43ps in late 2015).

The Company is on the verge of taking another leap forward. Winning a substantial portion of the Royal Australian Navy's Future Frigates Programme will underpin the Company's Australian business for decades to come and further confirm its credentials in steel hull ship building, important to participate in tenders for large vessels globally going forward.

However, it is the US Navy's LCS/Frigate contract that will likely determine the extent of upside for ASB in the near future. If the Company secures at least a portion of this extension contract, it will along with the Australian Future Frigates contract position them reputationally to compete for a larger number of global contracts against the major defence contractors.

ASB to maintain utilisation of their existing three yards at close to capacity has to secure additional contracts in the next 12-18 months as highlighted in the chart below.

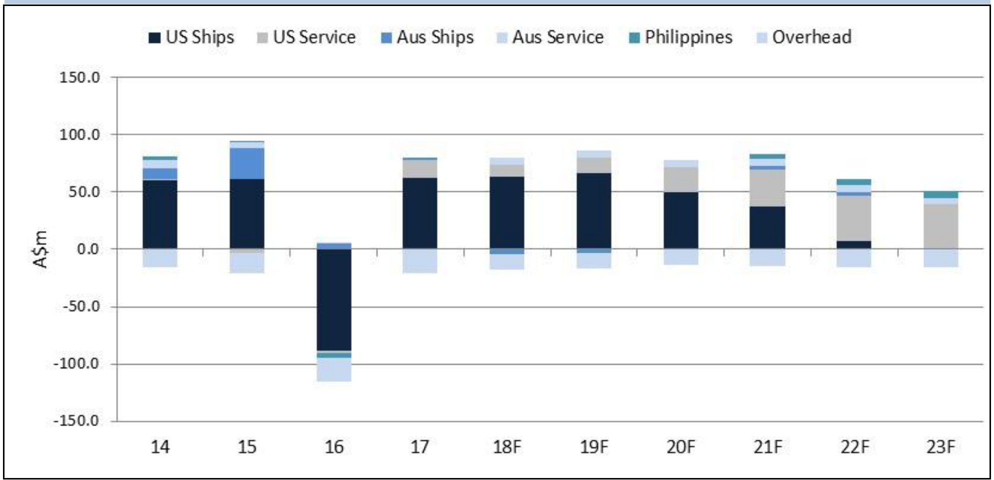
Fig. 1: ***Revenue Outlook – Existing Backlog***



Source: Hartleys Research

Sustainment revenue going forward will provide a significant high margin source of income both in the US and Australia and would naturally increase further as more Naval vessels are built. This is a significant change for ASB versus the past and will assist in smoothing out earnings going forward.

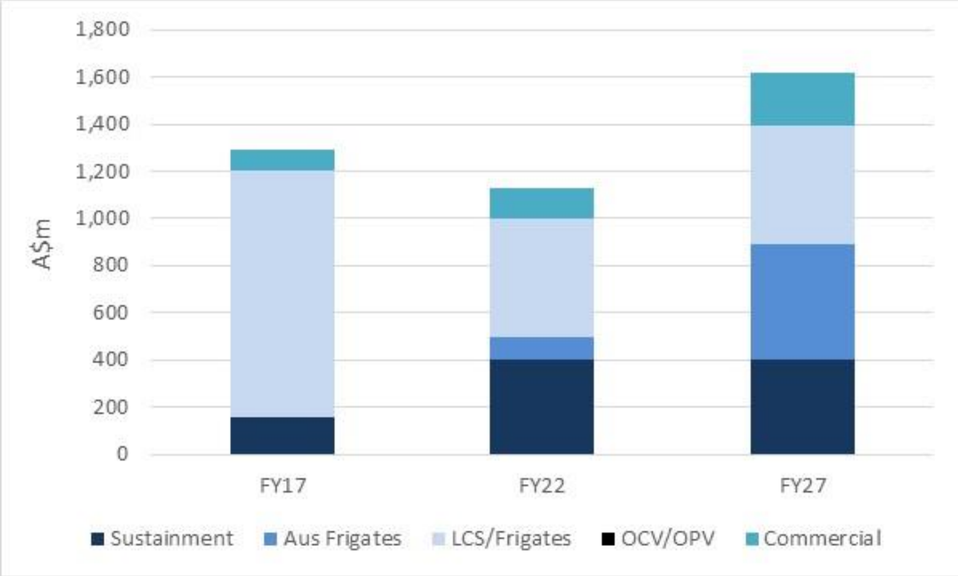
Fig. 2: ***EBIT Outlook – Existing Backlog***



Source: Hartleys Research

However, in the near term the outlook for revenue and earnings is underpinned by continued strength in the commercial market and existing US Navy orders. Longer term, the two Frigate contracts (US Navy LCS/frigate extension and the RAN's Future Frigate programme) will be crucial, both are likely to be awarded in the next 18-24 months. At the moment, we assume 50% is awarded to ASB from the former and 25% from the latter.

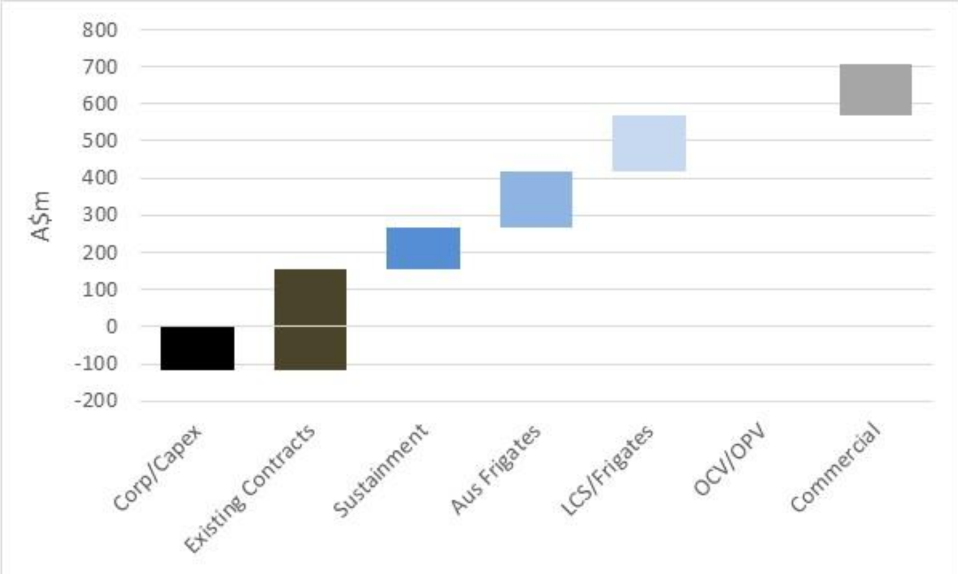
Fig. 3: Long Run Revenue



Source: Hartleys Research

We have removed our valuation of the OPV contract from our Group NPV but have largely filled this void with an increase in commercial awards. The net result was a 6c reduction in our NPV10 (Net Present Value discounted at 10%) to $2.03per share (on the basis of a long run AUD/USD exchange rate of US$76c per A$1). We have also decreased our NPV marginally further on the back of slightly higher capex than expected.

Fig. 4: NPV10 – Base Case



Source: Hartleys Research

Again, the downside for the stock price if it does not win a significant portion of the Future Frigate and LCS/Frigate contracts would obviously be material. However, not as significant as suggested by simply removing these from our NPV10 analysis. We would expect a significant portion of the freed-up capacity to be filled over time with commercial contracts (where the market is improving) and we would expect the US Navy to also keep the Mobile yard at a reasonable level of capacity through further sustainment work and perhaps an extension to the successful Expeditionary Fast Transport programme (beyond the current 12 vessels).

ASB is unique in that there are no other Naval contractors listed on the ASX. So, we have selected the S&P/ASX 300 Industrials (ex-BIP and Tech) as the most relevant benchmark for investors. Based on the average multiple for this sector and our NPV10 we derive a 12-month forward target price of $2.06 per share (from $2.10).

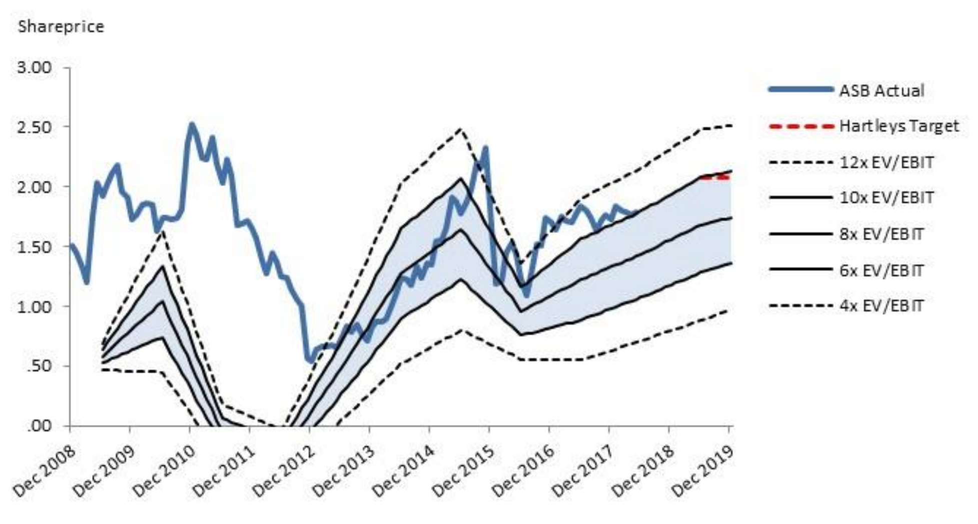
Fig. 5: Valuation - Target Multiples

Valuation					
S&P/ASX Industrials	**FY19 Multiple**	**ASX Comps**	**Target Multiple**	**Wgt.%**	**Tgt Price**
EV/EBIT	8.6x	12.3x	10.8x	10%	2.12
EV/EBITDA	5.8x	8.0x	7.0x	25%	2.06
Earnings	13.8x	18.7x	16.5x	30%	2.14
Div Yield	2.9%	3.1%	2.7%	0%	1.83
NPV				35%	1.96
Valuation					**$2.06**
upside from current					*18%*

Source: Hartleys Research

As discussed, if the Company does win larger portions of the Future Frigates and LCS/frigate programmes than we currently assume then a premium to the Industrials Index may be warranted.

Fig. 6: EV/EBIT Band



Source: Hartleys Research

RISKS

A key risk for ASB, similar to other industrials, is the ability of management to replenish the order book. Capital intensive businesses, such as shipbuilding, require a relatively high level of plant capacity utilisation in order to generate an economic return. An inability to replenish the order book can lead to earnings disappointments. Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. Specific risks for ASB include cuts to the US and Australian naval budgets, failure to secure a portion of upcoming major contract awards and / or a sharp appreciation in the AUD / USD exchange rate.

SIMPLE S.W.O.T. TABLE

Strengths	Order book secures revenue through to FY18 and into FY19. Sustainment revenue: Contract with the US Navy should allow ASB to generate annuity service revenue from the LCS fleet once operational.
Weaknesses	Currently heavily reliant on a single customer (the US Navy). Capital intensive business that requires a relatively high level of yard utilisation to maintain margins.
Opportunities	Potential to win further orders from the US Navy, especially the LCS/frigate extension. Australian Governments' $89bn Naval replenishment programme, opportunity to secure a portion of the Future Frigates Program.
Threats	The majority of ASB's revenue is USD based. A strengthening of the AUD against the USD, therefore, could impact reported AUD earnings. Cuts to the US Navy's budget could have a long-term impact on ASB earnings.

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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