AUSTRALIA

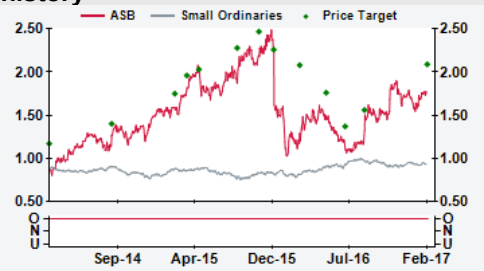
ASB AU	Outperform
Price (at 05:27, 27 Feb 2017 GMT)	A$1.72

Valuation - EV/EBITA	**A$**	**1.71-1.89**
12-month target	**A$**	**2.09**
12-month TSR	**%**	**+23.8**
Volatility Index		**High**
GICS sector		**Capital Goods**
Market cap	**A$m**	**600**
30-day avg turnover	**A$m**	**0.7**
Number shares on issue	**m**	**349.1**

Investment fundamentals

Year end 30 Jun		2016A	2017E	2018E	2019E
Revenue	m	1,338.9	1,322.4	1,380.7	1,419.5
EBIT	m	35.1	59.9	70.6	76.6
Reported profit	m	-84.3	26.8	43.1	47.2
Adjusted profit	m	24.9	36.0	43.1	47.2
Gross cashflow	m	54.9	66.2	73.8	77.5
CFPS	¢	15.8	19.0	21.1	22.2
CFPS growth	%	-20.9	20.2	11.4	5.0
PGCFPS	x	10.9	9.1	8.1	7.7
PGCFPS rel	x	0.93	0.88	0.87	0.91
EPS adj	¢	7.2	10.3	12.3	13.5
EPS adj growth	%	-44.8	43.7	19.7	9.6
PER adj	x	24.0	16.7	13.9	12.7
PER rel	x	1.14	0.94	0.92	0.97
Total DPS	¢	4.0	4.0	4.0	4.0
Total div yield	%	2.3	2.3	2.3	2.3
Franking	%	100	100	100	100
ROA	%	3.4	5.9	6.9	7.2
ROE	%	5.1	7.8	8.9	9.2
EV/EBITDA	x	9.7	7.0	6.2	5.9
Net debt/equity	%	-11.3	1.2	-5.9	-12.9
P/BV	x	1.3	1.3	1.2	1.1

ASB AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2017 (all figures in AUD unless noted)

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27 February 2017
Macquarie Securities (Australia) Limited

Austal

Upgrades FY17, pipeline strong

Event

- H1 FY17 underlying NPAT of $18.6m (Macquarie $12.9m), up 11% on pcp of $16.7m.
- Underlying EBITDA of $46.5m, up 11% on pcp of $41.8m and well ahead of our $37.0m expectation.
- Upgrades FY17 EBIT guidance of $45-55m to $55-60m.

Impact

- **Underlying EBIT better than expected.** The stronger-than-anticipated result was due to the US where EBIT of $41m was well ahead of our $27m expectation. Shipbuilding EBIT margins of 6.6% were towards the top end of the 5-7% range and the support margin of 12.5% was boosted by a profit payment from the US Navy relating to FY16 activity.
- LCS6 has now successfully completed its first shock trials and LCS8 has been delivered to the Navy incorporating shock requirements. The number of variations has dropped dramatically.
- Australian earnings were lower, as expected, driven by lower activity levels.
- **Long-term outlook remains strong.** Austal commented that its pipeline is at its strongest level which could benefit all three shipyards. We believe Austal could announce significant new contract wins over the coming year.
- On the LCS front, the previous Secretary of Defence had issued a memo to the Navy to reduce the LCS program from 52 ships to 40 and to down select to one shipbuilder in FY19. Congress and the Senate have largely reversed this decision in the current budget bill and the budget is now headed to a reconciliation conference later this year. It is likely that the new administration will make the eventual decision on the shape of the LCS program, in our view.
- **Balance sheet.** Net cash at 30 June of $51.7m is now net debt of $32.6m (Macquarie $46.0m net cash) due largely to the two extra Cape Class vessels which are being leased rather than sold to the Australian Navy.

Earnings and target price revision

- FY17E EPS up 20.4% to 10.3cps. FY18E EPS up 5.8% to 12.3cps.
- Price target changed from $1.56 to $2.09. Our price target is based on 9x FY18e EBIT vs 10x FY17E before.

Price catalyst

- 12-month price target: A$2.09 based on an EV/EBITA methodology.
- Catalyst: Margin delivery and improvement and contract wins.

Action and recommendation

- Outperform. Austal has a strong balance sheet and on balance, large opportunities in Australia and the US.

Underlying EBIT composition better than expected

- We have detailed the result in the table below.

Fig 1 Beat driven by the US business

	H1 FY16a	H1 FY17a	Change	Macq E	Difference
Sales	$747.1m	$648.5m	-13.2%	$622.8m	4.0%
EBITDA	$41.8m	$46.5m	11.2%	$37.0m	20.5%
Depreciation	$12.7m	$15.2m	19.6%	$14.9m	2.4%
EBITA	$29.0m	$31.2m	7.5%	$22.1m	29.3%
Amort	$0.0m	$0.0m	n/a	$0.0m	n/a
EBIT	$29.0m	$31.2m	7.5%	$22.1m	29.3%
Interest	$2.3m	$3.0m	32.9%	$2.8m	6.7%
Pre-Tax	$26.8m	$28.2m	5.4%	$19.3m	31.7%
Tax	$9.9m	$9.6m	-3.0%	$6.4m	34.1%
NPAT	$16.7m	$18.6m	11.0%	$12.9m	30.5%
Non-recurrings	$0.0m	($9.2m)	n/a	$0.0m	n/a
Reported profit	$16.7m	$9.3m	-44.1%	$12.9m	-38.0%
EPS (adj)	4.8c	5.3c	10.6%	3.7c	30.4%
DPS	2.0c	2.0c	0.0%	2.0c	0.0%

Source: ASB, Macquarie Research, February 2017

- The significant item of $13.2m pre-tax and $9.2m post tax related to a commercial vessel delivered seven years ago.
- The average exchange rate used to translate USD revenues cost A$20m at the revenue level this half. We have detailed the revenue breakdown below.

Fig 2 Lower revenues in Australia and the Philippines in H1

$m	FY14	H1 15	H2 15	FY15	H1 16	H2 16	FY16	H1 17
Revenue								
US								
Ships	744.3	400.8	513.4	914.2	497.7	323.6	821.3	440.8
Systems	144.9	80.4	79.6	160.0	109.4	104.5	213.9	97.7
Support	44.4	17.2	28.3	45.5	31.3	66.5	97.8	55.8
Total	933.6	498.4	621.3	1,119.7	638.4	494.6	1,133.0	594.3
Australia								
Ships	192.9	87.8	83.4	171.2	78.8	60.2	139.0	24.3
Systems	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Support	48.0	22.2	18.4	40.6	26.8	21.2	48.0	23.1
Total	241.9	110.0	101.8	211.8	105.6	81.4	187.0	47.4
Philippines								
Ships	33.4	14.9	14.4	29.3	15.1	16.8	31.9	12.7
Systems	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Support	0.4	5.4	4.0	9.4	1.2	0.8	2.0	0.0
Total	33.8	20.3	18.4	38.7	16.3	17.6	33.9	12.7
Intercompany/Other	(86.8)	50.9	(7.0)	43.8	(13.2)	(1.8)	(15.0)	(5.9)
Total	1,122.5	679.6	734.5	1,414.0	747.1	591.8	1,338.9	648.5

Source: ASB, Macquarie Research, February 2017

- Interestingly, support revenue is now ~11% of revenue up from ~8% of revenue in H1 16. We expect the US support business to keep growing strongly into the medium term as more vessels are completed.
- Underlying EBIT was better than expected. The stronger-than-anticipated result was due to the US where EBIT of $41m was well ahead of our $27m expectation. Shipbuilding EBIT margins of 6.6% were towards the top end of the 5-7% range and the support margin of 12.5% was boosted by a profit payment from the US Navy relating to FY16 activity.
- Austal stated the support margin would normally be 9-10%.
- Australian earnings were lower as expected, driven by lower activity levels.

Fig 3 EBIT was well ahead of expectations driven by the US

EBIT ($m)	FY14	H1 15	H2 15	FY15	H1 16	H2 16	FY16	H1 17
US								
Ships	61.5	31.4	28.2	59.6	27.4	37.8	65.2	29.2
Systems	(0.8)	1.2	0.8	2.0	0.8	0.2	1.0	0.7
Support	1.0	(1.6)	5.9	4.3	3.3	2.9	6.2	7.0
Other	0.0	(3.6)	(3.9)	(7.5)	(4.6)	(3.4)	(8.0)	4.2
Total	61.7	27.4	31.0	58.4	26.9	37.5	64.4	41.1
Australia								
Ships	9.2	11.8	14.5	26.3	8.8	(3.2)	5.6	2.8
Systems	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Support	8.6	2.9	2.8	5.7	3.5	(1.4)	2.1	(1.0)
Other	0.0	(0.2)	0.0	(0.2)	(1.0)	0.0	(1.0)	(0.1)
Total	16.7	14.5	17.3	31.8	11.3	(4.6)	6.7	1.7
Philippines								
Ships	2.7	1.6	0.7	2.3	0.5	(4.9)	(4.4)	(2.8)
Systems	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Support	0.0	0.3	(1.6)	(1.3)	0.1	0.6	0.7	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	2.7	1.9	(0.9)	1.0	0.6	(4.3)	(3.7)	(2.8)
Other	(15.8)	(10.1)	(7.9)	(18.0)	(9.8)	(22.5)	(32.3)	(8.8)
Total	65.3	33.7	39.5	73.2	29.0	6.1	35.1	31.2
EBIT margins								
US								
Ships	8.3%	7.8%	5.5%	6.5%	5.5%	11.7%	7.9%	6.6%
Systems	-0.6%	1.5%	1.0%	1.3%	0.7%	0.2%	0.5%	0.7%
Support	2.3%	-9.3%	20.8%	9.5%	10.5%	4.4%	6.3%	12.5%
Total	6.6%	5.5%	5.0%	5.2%	4.2%	7.6%	5.7%	6.9%
Australia								
Ships	4.8%	13.4%	17.4%	15.4%	11.2%	-5.3%	4.0%	11.5%
Systems	-110.0%	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Support	17.9%	13.1%	15.2%	14.0%	13.1%	-6.6%	4.4%	-4.3%
Total	6.9%	13.2%	17.0%	15.0%	10.7%	-5.7%	3.6%	3.6%
Philippines								
Ships	8.1%	10.7%	4.9%	7.8%	3.3%	-29.2%	-13.8%	-22.0%
Systems	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Support	0.0%	5.6%	-40.0%	-13.8%	8.3%	75.0%	35.0%	n/c
Total	8.0%	9.4%	-4.9%	2.6%	3.7%	-24.4%	-10.9%	-22.0%
Total	5.8%	5.0%	5.4%	5.2%	3.9%	1.0%	2.6%	4.8%

Source: ASB, Macquarie Research, February 2017

- LCS6 has now successfully completed its first shock trials and LCS8 has been delivered to the Navy incorporating shock requirements. The number of variations has dropped dramatically.
- In line with our expectations, EBIT and EBIT margins fell in Australia as the Cape Class contract reached maturity.
- A feature of the result was the support business. EBIT totalled $6.0m ($6.9m in H1 FY16) and is now ~19% of the business. Austal stated that while it over-earned in its US business, the reverse occurred in Australia as the Cape Class maintenance support contract ramped up.

Long-term outlook remains strong

- Austal commented that its pipeline is at its strongest level which could benefit all three shipyards. We believe Austal could announce significant new contract wins over the coming year.
- On the LCS front, the previous Secretary of Defence had issued a memo to the Navy to reduce the LCS program from 52 ships to 40 and to down select to one shipbuilder in FY19.
- Congress and the Senate have largely reversed this decision in the current budget bill and the budget is now headed to a reconciliation conference later this year.
- It is likely that the new administration will make the eventual decision on the shape of the LCS program in our view.

- The last 20 ships (vessels 33-52) will be more heavily armed and called future frigates.
- Austal bid to build 13 ships in February 2017. Each vessel is worth ~$500m. The procurement process for these vessels is yet to be fully finalised with the program in the preliminary design phase currently.
- Austal has LCS work for its US yard out to CY21. We expect further LCS orders out until the next block buy. Whether or not the Navy continues to split the orders is yet to be decided.
- As more LCS vessels enter into service there will be a growing sustainment and maintenance opportunity. Revenue from LCS support is likely to be over $100m in FY17.
- A good rule of thumb for navy vessels is that 10% of the original capital spend is required as maintenance annually. Margins on maintenance work are typically slightly higher than on construction work.
- Given Austal's initial LCS 10 ship block buy order was worth US$3.5bn and the 10 ship EPF order US$1.6bn, Austal would have eventually constructed ships worth ~US$5bn requiring ~US$500m in maintenance annually.

Expeditionary Fast Transport

- The JHSV program has recently been renamed Expeditionary Fast Transport (EPF) program by the US Navy. We view the name change positively for the future of the program. The Navy has now awarded Austal 12 ships despite only originally awarding a 10 vessel block buy.
- The US Navy is investigating growing both the size and the role of the EPF fleet which could have positive implications for expansion of the program.

Second Navy targeted

- Austal is incurring marketing and development spend to drive future products and orders.
- A clear target of this spend is future navy shipbuilding programs in Australia and the Middle East. The Australian Federal Government recently announced it will invest $89bn in Navy ships over the next 20 years.
- The plan centres on three programs:
- 1. The Future Frigate programme to replace the ANZAC class frigates. These will be built in South Australia with a tender commencing in October 2015.
- 2. The bringing forward of the Offshore Patrol Vessel program by two years to 2018 to replace the Armidale class patrol boats. The first two vessels will be built in South Australia and the next 10 in WA.
- 3. The last leg of the plan is the future submarine program, which has been speculated in the media to be about $50bn of the $89bn.
- Importantly, the Government is proposing a continuous build of new ships, which avoids voids for order books.
- We believe Austal would be interested in the first two opportunities and would be in a strong position for the patrol boats given its previous experience with these types of vessels in Australia.

Offshore Patrol Vessel

- The Offshore Patrol Vessel program is estimated to be ~12 boats each of >60m in length. The estimated budget is $1bn for the ships and support.
- These vessels would replace the current Armidale Class patrol boats which Austal built.

Pacific Patrol Boat (PPB) Replacement Project

- Austal was awarded this program in May 2016. It is a 19 vessel program to be built by the Australian Government and then donated to a range of South Pacific countries.
- The vessels are to be steel hulled and cost $305m plus have through life sustainment over 30 years.
- This program passed its Detailed Design Review in February 2017 on time and to specification.

Cape Class Program

- Austal was awarded the $330m Cape Class Patrol Boat contract in August 2011. $280m relates to the building of 8 new 58m vessels and $50m is an eight-year maintenance agreement. Construction commenced in February 2012 with delivery beginning in March 2013 and ended (on time and on budget) in August 2015.
- This successful program was recently extended by two vessels.

Balance sheet

- Cash conversion was impacted by a $32.2m increase in debtors and WIP and lower creditors to the tune of $61.2m. We have previously highlighted working capital can swing by up to $50m depending on progress payments. We have detailed this below.

Fig 4 H1 working capital build should ease in H2

$m	1H16(a)	2H16(a)	FY16(a)	1H17(a)	2H17(e)	FY17(e)
EBITDA	41.8	23.2	65.0	46.5	43.7	90.2
Operating Cash flow	51.8	50.3	102.1	-43.8	54.7	10.8
+ Tax Paid	17.6	-12.8	4.8	-2.1	6.7	4.6
+ Net Interest Paid	2.3	3.2	5.5	3.0	3.2	6.2
Ungeared Pre-tax Cash flow	71.7	40.7	112.4	-42.9	64.6	21.7
Profit to cash Conversion	171.5%	175.3%	172.8%	-92.3%	147.8%	24.1%

Source: ASB, Macquarie Research, February 2017

- As a consequence, net cash at 30 June of $51.7m is now net debt of $32.6m (Macquarie $46.0m net cash). Also, the two extra Cape Class vessels are being leased rather than sold to the Australian Navy. These two vessels should cost ~$65m in total and be on charter by the end of FY17.

Valuation $1.71-1.89, price target $2.09

- We have detailed our valuation in the table below.

Fig 5 EV/EBITA valuation

EBITA Multiple Valuation	2017E	2017E
EBITA	59.9	59.9
Multiple (x)	9.00	10.00
Value	539.2	599.1
Add Other Assets	65.0	65.0
Add Net Cash	-5.5	-5.5
Add Option Cash	0.0	0.0
Value	598.7	658.6
Shares on Issue	349.1	349.1
Add Options	0.0	0.0
Total	349.1	349.1
Value per share	$1.71	$1.89

Source: Macquarie Research, February 2017

- We have included $65m for the two Cape Class vessels which will be on the face of Austal's balance sheet by June.
- Our price target is based on 9.0x FY18e EBIT.

Austal Limited (ASB:$1.72)

27-Feb-17

Interim results		1H16(a)	2H16(a)	1H17(a)	2H17(e)
Revenue		**747.1**	**591.8**	**648.5**	**673.9**
EBITDA	**$m**	**41.8**	**23.2**	**46.5**	**43.7**
Depreciation	$m	12.7	17.2	15.2	15.0
Amortisation of goodwill	$m	0.0	0.0	0.0	0.0
EBIT	**$m**	**29.0**	**6.1**	**31.2**	**28.7**
Net Interest expense	$m	2.3	3.2	3.0	3.2
Pre-Tax Profit	**$m**	**26.8**	**2.9**	**28.2**	**25.5**
Tax Expense	$m	9.9	-5.3	9.6	8.1
Net Profit	**$m**	**16.8**	**8.2**	**18.6**	**17.4**
Outside equity interests	$m	0.1	0.0	0.0	0.0
Net Abn/Extra	$m	0.0	-109.2	-9.2	0.0
Reported Earnings	**$m**	**16.7**	**-101.0**	**9.3**	**17.4**
Adjusted Earnings	**$m**	**16.7**	**8.2**	**18.6**	**17.4**
Gross Cashflow	**$m**	**21.9**	**32.8**	**45.5**	**33.8**
EPS (Adj/dil)	c	4.8	2.4	5.3	5.0
EPS growth	%	-20.7	-65.9	10.6	111.4
CFPS	c	14.9	14.5	-12.6	15.7
CFPS Growth	%	-56.2	nmf	nmf	8.4
EBITDA/Sales	%	5.6	3.9	7.2	6.5
EBIT/Sales	%	3.9	1.0	4.8	4.3
Earnings Split	%	67.1	32.9	51.6	48.4
Revenue Growth	%	9.9	-19.4	-13.2	13.9
EBIT Growth	%	-13.9	-84.6	7.5	370.6

Profit & Loss		2016A	2017E	2018E	2019E
Revenue	**$m**	**1338.9**	**1322.4**	**1380.7**	**1419.5**
EBITDA	**$m**	**65.0**	**90.2**	**101.3**	**106.8**
Depreciation	$m	29.9	30.3	30.7	30.3
Amortisation of goodwill	$m	0.0	0.0	0.0	0.0
EBIT	**$m**	**35.1**	**59.9**	**70.6**	**76.6**
Net interest expense	$m	5.5	6.2	6.3	6.1
Pre-Tax Profit	**$m**	**29.6**	**53.7**	**64.3**	**70.5**
Tax Expense	$m	4.6	17.7	21.2	23.3
Net Profit	**$m**	**25.0**	**36.0**	**43.1**	**47.2**
Outside equity interests	$m	0.1	0.0	0.0	0.0
Net Abnormals/Extra.	$m	-109.2	-9.2	0.0	0.0
Reported Earnings	**$m**	**-84.3**	**26.8**	**43.1**	**47.2**
Adjusted Earnings	**$m**	**24.9**	**36.0**	**43.1**	**47.2**
Gross Cashflow	**$m**	**54.7**	**79.3**	**77.3**	**79.5**
EPS (adj/diluted)	c	7.2	10.3	12.3	13.5
EPS growth	%	-45%	44%	20%	10%
PE (adj)	x	24.0	16.7	13.9	12.7
CFPS	c	29.4	3.1	20.5	21.7
CFPS Growth	%	-7.8	-89.4	558.5	6.3
PGCFPS	x	5.9	55.3	8.4	7.9
DPS	c	4.0	4.0	4.0	4.0
Yield	%	2.3	2.3	2.3	2.3
Franking	%	100.0	100.0	100.0	100.0

Profit and Loss ratios		2016A	2017E	2018E	2019E
Revenue Growth	%	-5.3	-1.2	4.4	2.8
EBIT Growth	%	-52.0	70.5	17.8	8.5
EBITDA/Sales	%	4.9	6.8	7.3	7.5
EBIT/Sales	%	2.6	4.5	5.1	5.4
Effective tax rate	%	15.6	33.0	33.0	33.0
Payout ratio	%	55.8	38.8	32.4	29.6
EV/EBITA	x	15.5	10.1	8.1	6.9
EV/EBITDA	x	8.4	6.7	5.6	5.0
EV/Sales	x	0.4	0.5	0.4	0.4
Balance sheet ratios					
ROE	%	5.1	7.8	8.9	9.2
ROA	%	3.4	5.9	6.9	7.2
ROFE	%	7.6	13.6	14.9	16.4
Net Debt	$m	-51.7	5.5	-29.6	-68.5
Net Debt/Equity	%	< 0	1.2	< 0	< 0
Interest Cover	x	6.4	9.6	11.2	12.6
Price/NTA	x	1.3	1.3	1.2	1.1
NTA per share	$	1.29	1.32	1.40	1.50
EFPOWA	m	347.7	348.9	349.1	349.1

Cashflow Analysis		2016A	2017E	2018E	2019E
Pre-tax Profit	**$m**	**29.6**	**53.7**	**64.3**	**70.5**
Depreciation & Amortisation	$m	29.9	30.3	30.7	30.3
Tax Paid	$m	-4.8	-4.6	-17.7	-21.2
Gross cashflow	**$m**	**54.7**	**79.3**	**77.3**	**79.5**
Changes in working capital	$m	213.0	-46.2	-2.4	-1.6
Other	$m	-165.6	-22.3	-3.5	-2.0
Operating Cashflow	**$m**	**102.1**	**10.8**	**71.4**	**75.9**
Acquisitions	$m	0.0	-0.3	0.0	0.0
Capex - Plant & Equip.	$m	-41.9	-54.0	-22.4	-23.0
Asset Sales	$m	2.5	0.2	0.0	0.0
Other	$m	14.5	0.0	0.0	0.0
Investing cashflow	**$m**	**-25.0**	**-54.1**	**-22.4**	**-23.0**
Dividend (ordinary)	$m	-15.8	-14.0	-14.0	-14.0
Equity raised	$m	0.0	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0
Financing cashflow	**$m**	**-15.8**	**-14.0**	**-14.0**	**-14.0**
Net Change in cash/debt	**$m**	**61.3**	**-57.2**	**35.1**	**38.9**

Historical performance		2013A	2014A	2015A	2016A
Revenue	**$m**	**900.6**	**1122.5**	**1414.0**	**1338.9**
EBITDA	**$m**	**62.3**	**89.1**	**97.5**	**65.0**
Depreciation/Amortisation	$m	24.5	23.8	24.3	29.9
EBIT	**$m**	**37.8**	**65.3**	**73.2**	**35.1**
Net interest expense	$m	11.3	8.4	4.1	5.5
Pre-Tax Profit	**$m**	**26.4**	**56.9**	**69.1**	**29.6**
Tax Expense	$m	2.1	18.2	24.1	4.6
Net Profit	**$m**	**24.3**	**38.7**	**45.0**	**25.0**
Net Abn/Extra	$m	11.4	-6.9	8.2	-109.2
EPS (adj/dil)	c	9.0	11.1	13.0	7.2
EPS growth	%	0.5	0.2	0.2	-0.4
Ordinary DPS	c	0.0	0.0	4.0	4.0
EBITDA/Sales	%	6.9	7.9	6.9	4.9
EBIT/Sales	%	4.2	5.8	5.2	2.6
ROE	%	7.1	9.1	9.5	5.1
ROFE	%	7.7	12.5	14.4	7.6
EFPOWA	m	271.5	346.4	346.8	347.7

Balance Sheet		2016A	2017E	2018E	2019E
Cash	$m	224.3	167.1	202.2	241.1
Receivables	$m	128.3	126.8	132.4	136.1
Inventories	$m	109.0	140.7	146.9	151.0
Investments	$m	7.6	7.9	7.9	7.9
Property, plant & equipment	$m	490.8	514.3	506.0	498.7
Intangibles	$m	9.3	9.3	9.3	9.3
Other Assets	$m	43.8	43.8	43.8	43.8
Total Assets	**$m**	**1013.1**	**1009.9**	**1048.4**	**1087.9**
Payables	$m	229.8	213.7	223.1	229.4
Short Term Debt	$m	2.5	2.5	2.5	2.5
Long Term Debt	$m	170.1	170.1	170.1	170.1
Other Liabilities	$m	153.2	153.2	153.2	153.2
Total Liabilities	**$m**	**555.6**	**539.5**	**548.9**	**555.2**
Shareholders Funds	$m	457.6	470.3	499.4	532.7
Minority Interests	$m	0.0	0.0	0.0	0.0
Total Shareholders Equity	$m	457.6	470.3	499.4	532.7
Total Funds employed	**$m**	**1,013.1**	**1,009.9**	**1,048.4**	**1,087.9**

Divisional Information	2016A	2017E	2018E	2019E
Sales	1338.9	1322.4	1380.7	1419.5
Austal	-30.4	-21.6	-13.0	-9.1
Oceanfast	0.0	0.0	0.0	0.0
Image	0.0	0.0	0.0	0.0
US	65.5	81.5	83.6	85.7
Corporate	0.0	0.0	0.0	0.0
Total	35.1	59.9	70.6	76.6

Source: Company data, Macquarie Research, February 2017

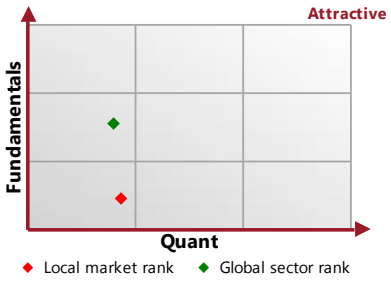
Macquarie Quant View

The quant model currently holds a marginally negative view on Austal. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

1399/1899

Global rank in Capital Goods

% of BUY recommendations	75% (3/4)
Number of Price Target downgrades	0
Number of Price Target upgrades	1

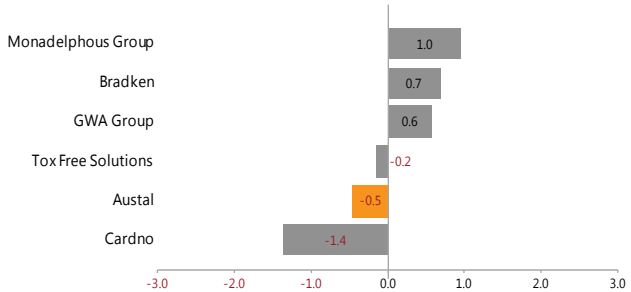


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Australia & NZ) and Global sector (Capital Goods)

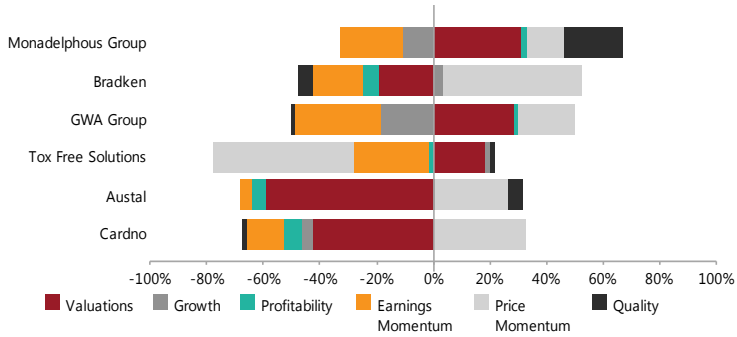
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



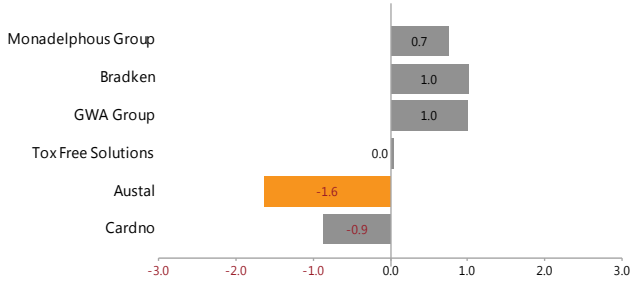
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



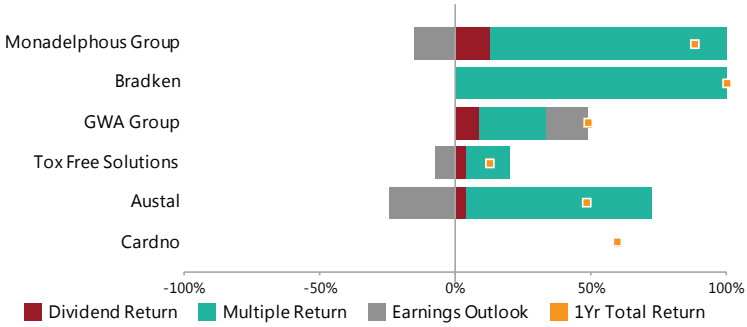
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



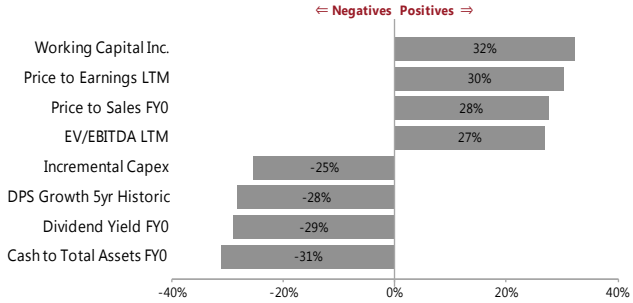
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



What drove this Company in the last 5 years

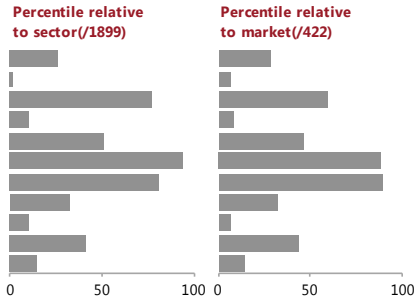
Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.

	Normalized Score	Percentile relative to sector(/1899)	Percentile relative to market(/422)
Alpha Model Score	-0.46		
Valuation	-1.83		
Growth	0.14		
Profitability	-0.92		
Earnings Momentum	-0.18		
Price Momentum	0.62		
Quality	0.40		
Capital & Funding	-0.17		
Liquidity	-2.07		
Risk	-0.18		
Technicals & Trading	-0.72		



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.53%	50.72%	45.57%	42.28%	60.58%	52.79%	(for global coverage by Macquarie, 8.71% of stocks followed are investment banking clients)
Neutral	33.90%	33.97%	43.04%	50.11%	37.23%	35.62%	(for global coverage by Macquarie, 8.05% of stocks followed are investment banking clients)
Underperform	8.56%	15.30%	11.39%	7.61%	2.19%	11.59%	(for global coverage by Macquarie, 4.63% of stocks followed are investment banking clients)

ASB AU vs Small Ordinaries, & rec history

(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, February 2017

12-month target price methodology
ASB AU: A$2.09 based on a EV/EBITA methodology

Company-specific disclosures:
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Date	Stock Code (BBG code)	Recommendation	Target Price
29-Aug-2016	ASB AU	Outperform	A$1.56
04-Jul-2016	ASB AU	Outperform	A$1.37
10-May-2016	ASB AU	Outperform	A$1.76
23-Feb-2016	ASB AU	Outperform	A$2.08
10-Dec-2015	ASB AU	Outperform	A$2.26
28-Oct-2015	ASB AU	Outperform	A$2.47
26-Aug-2015	ASB AU	Outperform	A$2.28
07-May-2015	ASB AU	Outperform	A$2.03
02-Apr-2015	ASB AU	Outperform	A$1.96
26-Feb-2015	ASB AU	Outperform	A$1.75
27-Aug-2014	ASB AU	Outperform	A$1.40
27-Feb-2014	ASB AU	Outperform	A$1.17

Target price risk disclosures:
ASB AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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