



AUSTRALIA

ASB AU Outperform

Price (at 09:04, 28 Aug 2017 GMT) A\$1.71

Valuation A\$ 1.72-1.89
- EV/EBITA

12-month target A\$ 1.89

12-month TSR % +12.9

Volatility Index High

GICS sector Capital Goods

Market cap A\$m 598

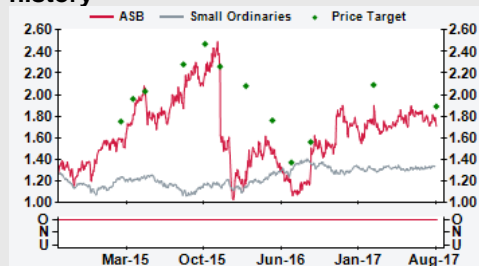
30-day avg turnover A\$m 0.4

Number shares on issue m 349.5

Investment fundamentals

Year end 30 Jun		2017A	2018E	2019E	2020E
Revenue	m	1,310.1	1,380.2	1,461.7	1,504.0
EBIT	m	58.7	59.5	75.5	80.4
Reported profit	m	15.3	35.3	46.1	49.5
Adjusted profit	m	32.7	35.3	46.1	49.5
Gross cashflow	m	64.2	65.8	76.8	79.9
CFPS	¢	18.4	18.8	22.0	22.9
CFPS growth	%	16.4	2.3	16.8	4.1
PGCFPS	x	9.3	9.1	7.8	7.5
PGCFPS rel	x	0.76	0.81	0.77	0.81
EPS adj	¢	9.4	10.1	13.2	14.2
EPS adj growth	%	30.6	7.7	30.7	7.4
PER adj	x	18.3	16.9	13.0	12.1
PER rel	x	0.95	1.03	0.91	0.99
Total DPS	¢	4.0	4.0	4.0	4.0
Total div yield	%	2.3	2.3	2.3	2.3
Franking	%	100	70	70	100
ROA	%	5.9	6.0	7.2	7.3
ROE	%	7.1	7.5	9.3	9.4
EV/EBITDA	x	7.1	7.1	6.1	5.8
Net debt/equity	%	10.0	0.4	-6.0	-12.5
P/BV	x	1.3	1.2	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, August 2017

(all figures in AUD unless noted)

Analyst(s)

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28 August 2017

Macquarie Securities (Australia) Limited

Austal

Building the foundations for growth

Event

- ASB reported FY17 underlying EBIT +67% to \$58.7m (MRE \$59.5m; Cons \$58.4m, guidance \$55m-\$60m). Revenues -2% to \$1,310m, underlying NPAT +31% to \$32.7m. Final dividend of 2cps.
- FY18 guidance: Revenue >\$1.3b, US shipbuilding margin 6%-8%.

Impact

- FY17 underlying EBIT of \$58.7m largely in line with expectations.** The key highlight was the US shipbuilding margin of 6.8%, a result of improving efficiency across the EPF and LCS programs with Austal increasing margin guidance to 6%-8% (previously 5%-7%). The Australian segment delivered a softer result with the business performing a large volume of design work during the period, while profit from the PPB program will not be recognised until FY19, in line with previous policy announcement. The commercial market is strong, with recent contract awards and prospective pipeline potentially setting the Philippines yard up for record throughput in FY18 and FY19.
- USA segment gaining momentum:** LCS Program is performing well with LCS 28 awarded recently through a competitive tender and is expected to deliver significantly higher margins than the current vessels under construction. **EPF Program delivered strong financial results during the year ahead of initial budget** with continual improvements in operational performance and efficiency highlighting the benefits of a mature building process. **Support revenue base growing** as Austal continues to add support contracts for vessels delivered. We estimate Austal currently has ~\$330m USA contracted support revenue that will continue to build.
- Australia segment reported softer results** as the segment transitions between programs and losses incurred on the CCPB support contract for which Austal has booked a \$3.2m provision in FY17 against the remainder of the contract to August 2019. PPB profit will not be booked until FY19 following the delivery of the first vessel and once Austal confidently knows the cost of completion. Given the history of the LCS and the fact that this will be Austal's first steel ship, we believe this is prudent.
- Commercial market strongest in a decade with significant opportunity:** Austal announced orders for three commercial vessels during August and noted the pipeline is still strong, with high confidence in the medium-term outlook. Austal intends to invest up to US\$30m to expand the Philippines facilities on the back of recent orders and the commercial segment could provide a meaningful contribution to group performance in the coming years.

Earnings and target price revision

- EPS: FY18E -18%, FY19E -2.6%. FY18E EPS down as PPB profit recognition is pushed back to FY19. Target price reduced to \$1.89ps from \$2.09ps.

Price catalyst

- 12-month price target: A\$1.89 based on an EV/EBITA methodology.
- Catalyst: OPV contract win, 1H18 results, further contract wins.

Action and recommendation

- Announcement of the Offshore Patrol Vessel contract expected late CY17 would be a key catalyst for the stock if Austal is successful. Outperform.

Analysis

Fig 1 FY17 EBIT in line with expectations

Profit and Loss	1H16a	2H16a	FY16a	1H17a	2H17a	FY17a	Change	Macq E	Change
Revenue	\$747.1m	\$591.8m	\$1,338.9m	\$648.5m	\$661.6m	\$1,310.1m	-2.1%	\$1,322.4m	(0.9%)
EBITDA	\$41.8m	\$23.2m	\$65.0m	\$46.5m	\$43.7m	\$90.2m	38.7%	\$90.2m	0.0%
Depreciation	\$12.7m	\$17.2m	\$29.9m	\$15.2m	\$16.3m	\$31.5m	5.4%	\$30.3m	4.1%
Amortisation	\$0.0m	\$0.0m	\$0.0m	\$0.0m	\$0.0m	\$0.0m	na	\$0.0m	na
EBIT	\$29.0m	\$6.1m	\$35.1m	\$31.2m	\$27.5m	\$58.7m	67.0%	\$59.9m	(2.0%)
Net Interest	\$2.3m	\$3.2m	\$5.5m	\$3.0m	\$2.6m	\$5.7m	3.2%	\$6.2m	(9.1%)
Pre-Tax Profit	\$26.8m	\$2.9m	\$29.6m	\$28.2m	\$24.8m	\$53.0m	78.9%	\$53.7m	(1.2%)
Tax Expense	\$9.9m	(\$5.3m)	\$4.6m	\$9.6m	\$10.7m	\$20.3m	340.5%	\$17.7m	14.8%
Net Profit	\$16.8m	\$8.2m	\$25.0m	\$18.6m	\$14.1m	\$32.7m	30.6%	\$36.0m	(9.1%)
Outside eq int	\$0.1m	\$0.0m	\$0.1m	\$0.0m	\$0.0m	\$0.0m	n/a	\$0.0m	#DIV/0!
Net ISI's	\$0.0m	(\$109.2m)	(\$109.2m)	(\$9.2m)	(\$8.1m)	(\$17.3m)	n/a	(\$9.2m)	88.4%
Rep Earnings	\$16.7m	(\$101.0m)	(\$84.3m)	\$9.3m	\$6.0m	\$15.3m	-118.2%	\$26.8m	(42.7%)
Adj Earnings	\$16.7m	\$8.2m	\$24.9m	\$18.6m	\$14.1m	\$32.7m	31.1%	\$36.0m	(9.1%)
Gross Cflow	\$29.5m	\$25.4m	\$54.8m	\$33.8m	\$30.4m	\$64.2m	17.1%	\$66.2m	(3.1%)
EPS (Adj/dil)	4.8c	2.4c	7.2c	5.3c	4.0c	9.4c	30.6%	10.3c	(9.1%)
EPS growth	-20.7%	-65.9%	-44.8%	10.6%	71.5%	30.6%	-168.4%	43.8%	(30.0%)
EBITDA/Sales	5.6%	3.9%	4.9%	7.2%	6.6%	6.9%		6.8%	
EBIT/Sales	3.9%	1.0%	2.6%	4.8%	4.2%	4.5%		4.5%	
Earnings Split	67.1%	32.9%		56.8%	43.2%				

Source: Company data, Macquarie Research, August 2017

- Revenues -2% to \$1,310m with ~3% growth in the US segment offset by the Australian business that saw a ~40% decline in revenues as it transitions between projects.
- Underlying EBIT +67% to \$58.7m was in line with guidance for EBIT \$55m-\$60m;
- Underlying NPAT +31% to \$32.7m was ~9% below our forecast largely due to higher tax expense;
- Reported NPAT of \$15.3m included net \$9.2m impact of legal settlement related to a commercial vessel delivered ~seven years ago and \$8.1m irregular tax items relating to non-recognition of carry forward tax losses in Australia.
- Final dividend of 2cps takes full-year dividend to 4cps.
- Austal ended the period with net cash of \$19m excluding CCPB 9 & 10 residual buyback guarantee.
- Cash conversion was impacted by significant working capital movements including a ~\$70m increase in inventories and ~\$75m reduction in accounts payable.

Fig 2 ASB's cash flow fluctuates with large movements in working capital

	FY08(a)	FY09(a)	FY10(a)	FY11(a)	FY12(a)	FY13(a)	FY14(a)	FY15(a)	FY16(a)	FY17(a)
EBITDA	59.2	54.7	64.7	37.6	32.9	62.3	89.1	97.5	65.0	90.2
Operating Cashflow (reported)	87.4	-46.6	-95.3	64.3	33.1	-55.9	44.6	110.4	102.1	-37.9
+ Tax Paid	8.6	10.0	-0.8	8.2	-4.9	10.6	15.9	18.5	4.8	-12.2
+ Net Interest Paid	-18.1	-8.3	1.6	2.3	4.0	11.3	8.4	4.1	5.5	5.7
Ungeared Pre-tax Cashflow	77.8	-44.9	-94.5	74.8	32.3	-33.9	68.9	133.1	112.4	-44.4
Profit to cash Conversion	131.4%	-82.0%	-146.1%	198.9%	98.2%	-54.5%	77.3%	136.5%	172.8%	-49.2%

Source: Company data, Macquarie Research, August 2017

Fig 3 Lower revenues in Australia should continue to build into FY18

Revenue	FY14(a)	1H15(a)	2H15(a)	FY15(a)	1H16(a)	2H16(a)	FY16(a)	1H17(a)	2H17(a)	FY17(a)
US										
Ships	744.3	400.8	513.4	914.2	497.7	323.6	821.3	440.8	408.2	849
Systems	144.9	80.4	79.6	160.0	109.4	104.5	213.9	97.7	102.4	200.1
Support	44.4	17.2	28.3	45.5	31.3	66.5	97.8	55.8	67.2	123
Total	933.6	498.4	621.3	1,119.7	638.4	494.6	1,133.0	594.3	577.8	1,172.1
Australia										
Ships	192.9	87.8	83.4	171.2	78.8	60.2	139.0	24.3	25.2	49.5
Systems	1.0	0.0	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	41.1	64.2
Total	241.9	110.0	101.8	211.8	105.6	81.4	187.0	47.4	66.3	113.7
Philippines										
Ships	33.4	14.9	14.4	29.3	15.1	16.8	31.9	12.7	21.1	33.8
Systems	0.0	0.0	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	0.0	0
Total	33.8	20.3	18.4	38.7	16.3	17.6	33.9	12.7	21.1	33.8
Intercompany	(86.8)	50.9	(7.0)	43.8	(13.2)	(1.8)	(15.0)	(5.9)	(3.6)	(9.5)
Total	1,122.5	679.6	734.5	1,414.0	747.1	591.8	1,338.9	648.5	661.6	1,310.1

Source: Company data, Macquarie Research, August 2017

Fig 4 USA a solid 2H with growth across all segments expected in FY18

EBIT	FY14(a)	1H15(a)	2H15(a)	FY15(a)	1H16(a)	2H16(a)	FY16(a)	1H17(a)	2H17(a)	FY17(a)
USA										
Ships	61.5	31.4	28.2	59.6	27.4	37.8	65.2	29.2	28.4	57.6
Systems	(0.8)	1.2	0.8	2.0	0.8	0.2	1.0	0.7	3.9	4.6
Support	1.0	(1.6)	5.9	4.3	3.3	2.9	6.2	7.0	9.3	16.3
Other	0.0	(3.6)	(3.9)	(7.5)	(4.6)	(3.4)	(8.0)	4.2	(6.6)	(2.4)
Total	61.7	27.4	31.0	58.4	26.9	37.5	64.4	41.1	35.0	76.1
Australia										
Ships	9.2	11.8	14.5	26.3	8.8	(3.2)	5.6	2.8	(2.2)	0.6
Systems	(1.1)	0.0	0.0	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)	(1.7)	(2.7)
Other	0.0	(0.2)	0.0	(0.2)	(1.0)	0.0	(1.0)	(0.1)	0.1	0.0
Total	16.7	14.5	17.3	31.8	11.3	(4.6)	6.7	1.7	(3.8)	(2.1)
Philippines										
Ships	2.7	1.6	0.7	2.3	0.5	(4.9)	(4.4)	(2.8)	3.1	0.3
Systems	0.0	0.0	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	0.0	0.0
Other	0.0	0.0	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)	3.1	0.3
Total	65.3	33.7	39.5	73.2	29.0	6.1	35.1	31.2	27.5	58.7
EBIT margins										
US										
Ships	8.3%	7.8%	5.5%	6.5%	5.5%	11.7%	7.9%	6.6%	7.0%	6.8%
Systems	-0.6%	1.5%	1.0%	1.3%	0.7%	0.2%	0.5%	0.7%	3.8%	2.3%
Support	2.3%	-9.3%	20.8%	9.5%	10.5%	4.4%	6.3%	12.5%	13.8%	13.3%
Total	6.6%	5.5%	5.0%	5.2%	4.2%	7.6%	5.7%	6.9%	6.1%	6.5%
Australia										
Ships	4.8%	13.4%	17.4%	15.4%	11.2%	-5.3%	4.0%	11.5%	-8.7%	1.2%
Systems	-110.0%	n/c	n/c	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%	-4.1%	-4.2%
Total	6.9%	13.2%	17.0%	15.0%	10.7%	-5.7%	3.6%	3.6%	-5.7%	-1.8%
Philippines										
Ships	8.1%	10.7%	4.9%	7.8%	3.3%	-29.2%	-13.8%	-22.0%	14.7%	0.9%
Systems	n/c	n/c	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	n/c	n/c
Total	8.0%	9.4%	-4.9%	2.6%	3.7%	-24.4%	-10.9%	-22.0%	14.7%	0.9%
Total	5.8%	5.0%	5.4%	5.2%	3.9%	1.0%	2.6%	4.8%	4.2%	4.5%

Source: Company data, Macquarie Research, August 2017

USA FY17 summary

- USA revenues +3% to \$1,172m and EBIT +18% to \$76.1m with stronger Ships and Support segments slightly offset by lower Systems contribution.
- **Shipbuilding margin 6.8% with guidance range increased to 6%-8%** (5%-7% previously) with the improvement achieved by greater operational efficiencies on the LCS program while the more mature EPF program continues to perform well.
- **LCS Program** is performing well and in line with guidance given following the reset of margin expectations ~1 year ago.
 - ⇒ LCS 28 won through the “pro-competition” tender was achieved with the reset cost base and is expected to deliver significantly higher margins than the current ships under construction. Austal expect the award of LCS 30 later in FY18 also at an improved profit margin;
 - ⇒ President’s budget for US FY18 included two additional LCS and Austal expect congress may again increase it to three. Given Austal’s strong result in the pro competition tender we expect a favourable outcome is likely if three LCS vessels are in the budget;
 - ⇒ LCS 14 expected to be delivered in the next few months and LCS 16 near end of year.
- **EPF Program delivered strong financial results during the year ahead of initial budget** with continual improvements in operational performance and efficiency highlighting the benefits of a mature building process:
 - ⇒ Austal do not expect any further EPFs to be awarded during FY18 following the award of EPF 11 & 12 in September 2016 that extended the initial 10-ship block buy agreement.
- **Support revenues** continue to grow with Austal continuing to add support contracts for the delivered LCS and EPF vessels. We estimate Austal currently has ~\$330m contracted USA support revenue that will continue to build as additional vessels are delivered.
 - ⇒ **Support margins were 13.3%** and are typically higher than on construction work. A good rule of thumb for navy vessels is that ~10% of the original capital spend is required as maintenance annually.

Australia FY17 summary

- **Australia revenues** -39% to \$114m and EBIT -\$2.1m (\$6.7m pcp) represents a 5-year low as the segment transitions between programs. The shipyard was in the front-end design phase on two significant vessel programs (Pacific Patrol Boat (PPB) and Mols ferry) for the majority of the year that resulted in lower revenues;
- **PPB profit to be recognised in FY19 with delivery of first vessel still due October 2018:** Austal has taken the conservative measure of not booking profit on the PPB until it delivers the first vessel and confidently knows the cost of completion. Given the history of the LCS and the fact that this will be Austal’s first steel ship we believe this is prudent.
 - ⇒ Austal expects negotiations with the Navy should deliver a better outcome for this contract.
- **Earnings were impacted by the Cape Class Patrol Boat (CCPB) support contract** with more resources required to conduct support activities than initially thought when the contract was signed.
 - ⇒ Austal has booked a \$3.2m provision in FY17 against the remainder of the contract through to August 2019.
- **Offshore Patrol Vessel (OPV)** competitive evaluation program is ongoing and the result will be known by the end of CY2017.
- **Future Frigate program positioning:** The Department of Defence has down selected three foreign designs and is currently undertaking a tendering process to define which vessel and which industrial solution for its construction they wish to pursue.
- **Major cost reduction drive underway at Henderson** that is targeting ~20% labour and cumulative 5% procurement benefits.

Philippines FY17 summary

- **Philippines revenues** flat at \$33.8m & EBIT \$0.3m delivered improved performance following reorganisation of the management team with the facility now positioned to deal with forecast increased throughput from the commercial vessel pipeline:
- **Commercial market strongest in a decade with significant opportunity:** Austal announced orders for three commercial vessels during August including the A\$108m order for a 109m high-speed vehicle passenger ferry for Fjord Line of Norway. This highlights the commercial pipeline is still strong with Austal expecting FY18 & FY19 could be record throughput years for the Philippines yard:
 - ⇒ Austal intends to invest up to US\$30m to expand the Philippines facilities on the back of recent orders and a high degree of confidence the strong market will continue to grow over the next few years. Exact details weren't provided; however, the future facilities footprint is expected to be several times bigger and will be able to produce larger vessels with higher volume throughput.
 - ⇒ Austal noted the segment ideally requires US\$50-70m / year to cover overheads and deliver solid EBIT margins. With the current order book, we expect FY18 revenue to break \$40m with further growth into FY19. With additional orders, the commercial segment could provide a meaningful contribution to group performance in the coming years.

Fig 5 EV/EBITA multiple valuation \$1.72-\$1.89 with a \$1.89 target price

	2018E	2018E
EBITA	59.55	59.55
Multiple (x)	9.00	10.00
Value	535.93	595.47
Add Other Assets (Cape Class x2)	65.00	65.00
Add Net Cash/(Debt)	-1.57	-1.57
Add Option Cash	0.00	0.00
Value	599.36	658.90
Shares on Issue	349.47	349.47
Add Options	0.00	0.00
Total	349.47	349.47
Value per share	\$1.72	\$1.89

Source: Macquarie Research, August 2017

- Our target price is based on 10x FY18e EBITA.

Austal Limited (ASB:\$1.71)

28-Aug-17

Interim results					Profit & Loss						
	2H16(a)	1H17(a)	2H17(a)	1H18(e)		2017A	2018E	2019E	2020E		
Revenue	591.8	648.5	661.6	630.0	Revenue	\$m	1310.1	1380.2	1461.7	1504.0	
EBITDA	\$m	23.2	46.5	43.7	41.0	EBITDA	\$m	90.2	90.1	106.3	110.9
Depreciation	\$m	17.2	15.2	16.3	15.3	Depreciation	\$m	31.5	30.5	30.7	30.4
Amortisation of goodwill	\$m	0.0	0.0	0.0	0.0	Amortisation of goodwill	\$m	0.0	0.0	0.0	0.0
EBIT	\$m	6.1	31.2	27.5	25.7	EBIT	\$m	58.7	59.5	75.5	80.4
Net interest expense	\$m	3.2	3.0	2.6	3.3	Net interest expense	\$m	5.7	6.6	6.4	6.2
Pre-Tax Profit	\$m	2.9	28.2	24.8	22.4	Pre-Tax Profit	\$m	53.0	52.9	69.1	74.2
Tax Expense	\$m	-5.3	9.6	10.7	7.5	Tax Expense	\$m	20.3	17.7	23.1	24.8
Net Profit	\$m	8.2	18.6	14.1	14.9	Net Profit	\$m	32.7	35.3	46.1	49.5
Outside equity interests	\$m	0.0	0.0	0.0	0.0	Outside equity interests	\$m	0.0	0.0	0.0	0.0
Net Abn/Extra	\$m	-109.2	-9.2	-8.1	0.0	Net Abnormals/Extra.	\$m	-17.3	0.0	0.0	0.0
Reported Earnings	\$m	-101.0	9.3	6.0	14.9	Reported Earnings	\$m	15.3	35.3	46.1	49.5
Adjusted Earnings	\$m	8.2	18.6	14.1	14.9	Adjusted Earnings	\$m	32.7	35.3	46.1	49.5
Gross Cashflow	\$m	32.8	45.5	51.2	30.2	Gross Cashflow	\$m	96.7	63.1	82.2	81.6
EPS (Adj/dil)	c	2.4	5.3	4.0	4.3	EPS (adj/diluted)	c	9.4	10.1	13.2	14.2
EPS growth	%	-65.9	10.6	71.5	-19.8	EPS growth	%	31%	8%	31%	7%
CFPS	c	14.5	-12.6	1.7	20.7	PE (adj)	x	18.3	16.9	13.0	12.1
CFPS Growth	%	nmf	nmf	-88.2	nmf	CFPS	c	-10.9	28.9	20.6	22.2
EBITDA/Sales	%	3.9	7.2	6.6	6.5	CFPS Growth	%	nmf	nmf	-28.7	7.5
EBIT/Sales	%	1.0	4.8	4.2	4.1	PGCFPS	x	nmf	5.9	8.3	7.7
Earnings Split	%	32.9	56.8	43.2	42.3	DPS	c	4.0	4.0	4.0	4.0
Revenue Growth	%	-19.4	-13.2	11.8	-2.9	Yield	%	2.3	2.3	2.3	2.3
EBIT Growth	%	-84.6	7.5	350.6	-17.7	Franking	%	100.0	70.0	70.0	100.0
Profit and Loss ratios		2017A	2018E	2019E	2020E	Cashflow Analysis		2017A	2018E	2019E	2020E
Revenue Growth	%	-2.1	5.3	5.9	2.9	Pre-tax Profit	\$m	53.0	52.9	69.1	74.2
EBIT Growth	%	67.0	1.5	26.9	6.5	Depreciation & Amortisation	\$m	31.5	30.5	30.7	30.4
EBITDA/Sales	%	6.9	6.5	7.3	7.4	Tax Paid	\$m	12.2	-20.3	-17.7	-23.1
EBIT/Sales	%	4.5	4.3	5.2	5.3	Gross cashflow	\$m	96.7	63.1	82.2	81.6
Effective tax rate	%	38.4	33.4	33.4	33.4	Changes in working capital	\$m	-108.4	35.2	-4.8	-2.5
Payout ratio	%	42.7	39.6	30.3	28.3	Other	\$m	-26.2	2.7	-5.4	-1.7
EV/EBITDA	x	11.0	10.1	7.5	6.6	Operating Cashflow	\$m	-37.9	101.0	72.0	77.4
EV/EBIT	x	7.1	6.7	5.3	4.8	Acquisitions	\$m	-0.3	0.0	0.0	0.0
EV/Sales	x	0.5	0.4	0.4	0.4	Capex - Plant & Equip.	\$m	-54.8	-42.9	-25.4	-26.2
Balance sheet ratios						Asset Sales	\$m	0.1	0.0	0.0	0.0
ROE	%	7.1	7.5	9.3	9.4	Other	\$m	1.4	0.0	0.0	0.0
ROA	%	5.9	6.0	7.2	7.3	Investing cashflow	\$m	-53.5	-42.9	-25.4	-26.2
ROFE	%	12.9	12.1	15.7	16.8	Dividend (ordinary)	\$m	-12.3	-14.0	-14.0	-14.0
Net Debt	\$m	45.9	1.8	-30.9	-68.2	Equity raised	\$m	0.0	0.0	0.0	0.0
Net Debt/Equity	%	10.0	0.4	< 0	< 0	Other	\$m	0.0	0.0	0.0	0.0
Interest Cover	x	10.3	9.0	11.8	13.0	Financing cashflow	\$m	-12.3	-14.0	-14.0	-14.0
Price/NTA	x	1.3	1.3	1.2	1.1	Net Change in cash/debt	\$m	-103.7	44.1	32.6	37.3
NTA per share	\$	1.28	1.34	1.43	1.54						
EFPOWA	m	349.0	349.5	349.5	349.5						
Historical performance		2014A	2015A	2016A	2017A	Balance Sheet		2017A	2018E	2019E	2020E
Revenue	\$m	1122.5	1414.0	1338.9	1310.1	Cash	\$m	150.5	194.6	227.2	264.5
EBITDA	\$m	89.1	97.5	65.0	90.2	Receivables	\$m	100.4	105.8	112.1	115.3
Depreciation/Amortisation	\$m	23.8	24.3	29.9	31.5	Inventories	\$m	170.4	179.5	190.1	195.6
EBIT	\$m	65.3	73.2	35.1	58.7	Investments	\$m	9.6	9.6	9.6	9.6
Net interest expense	\$m	8.4	4.1	5.5	5.7	Property, plant & equipment	\$m	500.3	512.7	507.4	503.1
Pre-Tax Profit	\$m	56.9	69.1	29.6	53.0	Intangibles	\$m	8.9	8.9	8.9	8.9
Tax Expense	\$m	18.2	24.1	4.6	20.3	Other Assets	\$m	19.8	19.8	19.8	19.8
Net Profit	\$m	38.7	45.0	25.0	32.7	Total Assets	\$m	960.0	1031.0	1075.1	1116.9
Net Abn/Extra	\$m	-6.9	8.2	-109.2	-17.3	Payables	\$m	154.9	204.6	216.7	223.0
EPS (adj/dil)	c	11.1	13.0	7.2	9.4	Short Term Debt	\$m	9.9	9.9	9.9	9.9
EPS growth	%	0.2	0.2	-0.4	0.3	Long Term Debt	\$m	186.5	186.5	186.5	186.5
Ordinary DPS	c	0.0	4.0	4.0	4.0	Other Liabilities	\$m	151.8	151.8	151.8	151.8
EBITDA/Sales	%	7.9	6.9	4.9	6.9	Total Liabilities	\$m	503.1	552.8	564.9	571.1
EBIT/Sales	%	5.8	5.2	2.6	4.5	Shareholders Funds	\$m	456.9	478.2	510.3	545.8
ROE	%	9.1	9.5	5.1	7.1	Minority Interests	\$m	0.0	0.0	0.0	0.0
ROFE	%	12.5	14.4	7.6	12.9	Total Shareholders Equity	\$m	456.9	478.2	510.3	545.8
EFPOWA	m	346.4	346.8	347.7	349.0	Total Funds employed	\$m	960.0	1,031.0	1,075.1	1,116.9

Source: Company data, Macquarie Research, August 2017

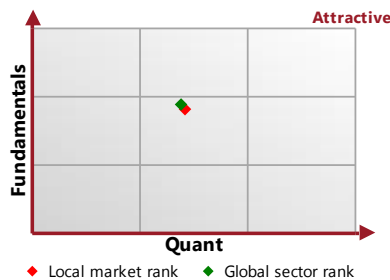
Macquarie Quant View

The quant model currently holds a neutral view on Austal. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

1056/1952

Global rank in Capital Goods

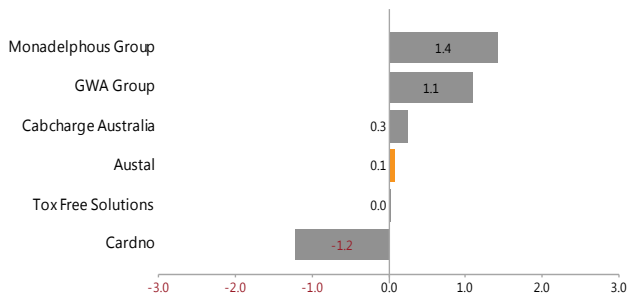
% of BUY recommendations 43% (3/7)
Number of Price Target downgrades 0
Number of Price Target upgrades 1



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)

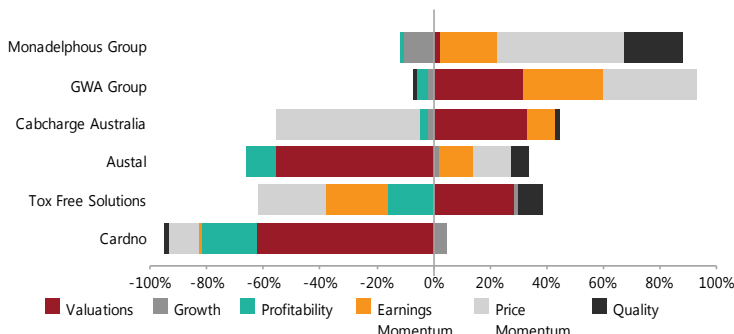
Macquarie Alpha Model ranking

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



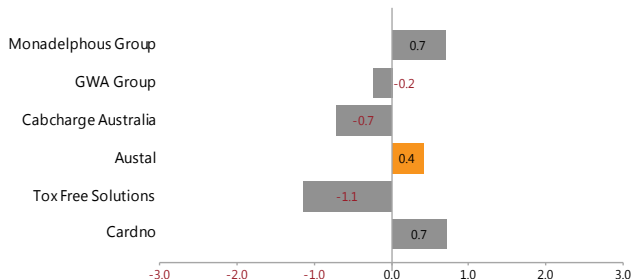
Factors driving the Alpha Model

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



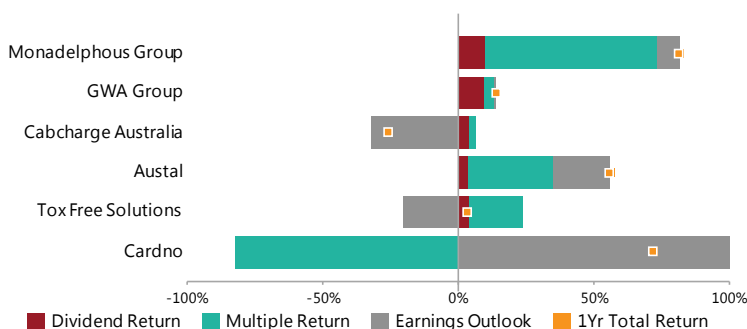
Macquarie Earnings Sentiment Indicator

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.



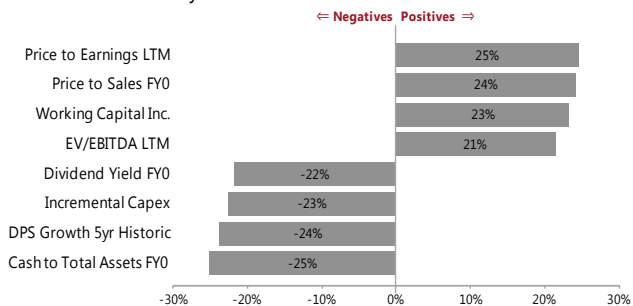
Drivers of Stock Return

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



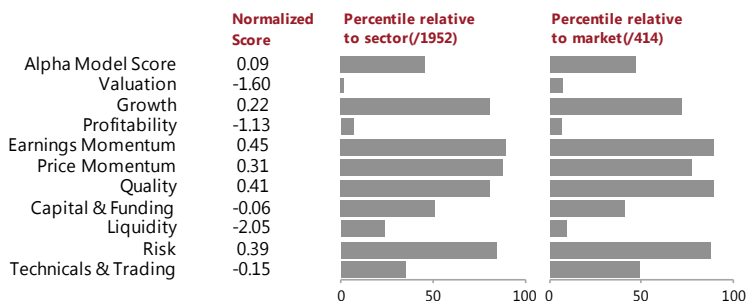
What drove this Company in the last 5 years

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.



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 (cpq@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 / epowa*

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 30 June 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.01%	55.36%	42.05%	46.38%	66.67%	43.60%	(for global coverage by Macquarie, 2.98% of stocks followed are investment banking clients)
Neutral	37.73%	29.86%	42.05%	47.88%	27.91%	40.14%	(for global coverage by Macquarie, 2.33% of stocks followed are investment banking clients)
Underperform	10.26%	14.78%	15.91%	5.74%	5.43%	16.26%	(for global coverage by Macquarie, 1.15% 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, August 2017

12-month target price methodology

ASB AU: A\$1.89 based on an EV/EBITA methodology

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Date	Stock Code (BVG code)	Recommendation	Target Price
27-Feb-2017	ASB AU	Outperform	A\$2.09
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

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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