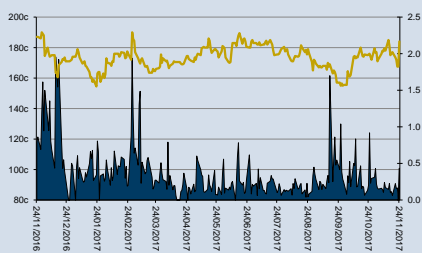


## BUY

Current Price **\$1.84**  
Valuation **\$2.10**

Ticker:	ASB.ASX			
Sector:	Ship Construction			
Shares on Issue (m):	350.1			
Market Cap (\$m):	644.2			
Net Debt / (Cash) (\$m):	45.9			
Enterprise Value (\$m):	690.1			
52 wk High/Low:	1.90	1.55		
12m Av Daily Vol (m):	0.43			
<b>Key Metrics</b>		18F	19F	
EV/EBITDA (x)		7.3	6.3	
EV/EBIT (x)		11.4	9.3	
P/E (x)		17.3	13.8	
<b>Ratios</b>		17A	18F	19F
ND / Equity	10.0%	6.9%	0.0%	
EBIT Mgn	4.5%	4.4%	4.9%	
RoA	7.3%	7.4%	8.9%	
RoE	7.2%	7.9%	9.5%	
<b>Financials*:</b>		17A	18F	19F
Revenue (\$m)	1,309	1,382	1,518	
EBITDA (\$m)	90.2	94.1	109.5	
EBIT (\$m)	58.7	60.4	74.3	
NPAT (\$m)	32.7	37.1	46.6	
Rep. EBIT (\$m)	45.6	60.4	74.3	
Rep. NPAT (\$m)	15.4	37.1	46.6	
<i>* Normalised</i>				
Net Assets (\$m)	456.9	478.3	503.9	
Op CF (\$m)	-37.9	80.1	65.6	
<b>Per Share Data:</b>		17A	18F	19F
Norm. EPS (cps)	9.4	10.6	13.3	
DPS (cps)	4.0	4.5	6.0	
Div Yield	2.2%	2.4%	3.3%	
NTAPS (cps)	129.8	134.7	142.3	
CFPS (cps)	-10.9	22.9	18.8	

Share Price Graph



Friday, 24 November 2017

## Austal (ASB)

### We'll take it

Analysts | Ian Christie, CFA | Daniel Williamson

### Quick Read

Although design partner Fassmer lost the OPV bid, ASB will be involved in the programme with winning bidder Luerssen. This is not unexpected given ASB's shipbuilding experience and existing facilities. Importantly, the work will help underpin Henderson's operations, backfilling our Australian forecasts (rather than adding to them). We expect the maturing LCS programme and significant commercial work to boost FY19 earnings. Momentum is positive and we maintain a buy call on a \$2.10 valuation (prior \$1.96).

### Event & Impact | Positive

**(Sort of) winners:** The Government has awarded the prime contract to deliver the Australian Navy's Offshore Patrol Vessels (OPV's) to Luerssen, the ship designer teamed up with Cvmec and ASC. Despite ASB's design partner Fassmer losing the bid, the Government also stated Luerssen will use the capabilities of both ASB and Cvmec to construct the vessels. This is unsurprising given ASB has both a well-established shipbuilding track record and existing facilities in Henderson.

**Details to come:** While it's not first prize, ASB's involvement is very important in underpinning the Henderson operations with a steady baseload of work for at least a decade from 2020. When more specific contract details emerge in the coming 3-4 months, we expect to see that ASB will construct the vessels and subcontract work to Cvmec and others. It is not unusual to see significant portions of work done by others, and is the case with ASB's other shipbuilding programmes.

**Underpins Henderson:** The importance of this contract is less about the financial impact and more about the longevity of the work, and hence the confidence, in the Australian operations. While it is unclear at this stage how the contract will work we believe it could potentially utilise up to half the capacity at Henderson, and allow ASB to continue with its sustainment programmes and still bid for other work. It underpins our Australian forecasts rather than adding to them.

**Near-term locked in:** It's also worth remembering that this work will only kick off ~2020 (as the first 2 OPV's get built in SA), and in the meantime ASB has a full order book of naval work in the US and commercial ferry work in Australia and the Philippines. We expect a jump in FY19 earnings as PPB's start getting delivered, recent ferry orders start delivering earnings, and US margins tick up as the LCS programme matures.

### Recommendation

We continue to believe ASB is well positioned to maintain a high workload across the US, Australian and (increasingly) the Philippines operations. We expect to see this reflected in FY19 earnings, which we now use to calculate a revised blended valuation of \$2.10 (prior \$1.96). Operational and financial momentum is positive. Buy maintained.

## Austal

## Equity Research

Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	1.84
Valuation (\$)	2.10

Sector	Shipbuilding
Market Cap (\$m)	644.2
Date	24 November 2017

Trading Metrics	FY16A	FY17A	FY18F	FY19F
EV / EBITDA (x)	10.6	7.7	7.3	6.3
EV / EBIT (x)	19.6	11.8	11.4	9.3
P/E (x)	25.6	19.6	17.3	13.8
Dividend Yield (%)	2.2%	2.2%	2.4%	3.3%

Per Share Data	FY16A	FY17A	FY18F	FY19F
Reported EPS (cps)	-24.2	4.4	10.6	13.3
Adjusted EPS (cps)	7.2	9.4	10.6	13.3
Div. per share (cps)	4.0	4.0	4.5	6.0
NTA per share (cps)	128.9	129.8	134.7	142.3
CF per share (cps)	29.4	-10.9	22.9	18.8

Profit and Loss (\$m)*	FY16A	FY17A	FY18F	FY19F
Revenue	1,494.9	1,308.6	1,381.6	1,517.8
EBITDA	65.0	90.2	94.1	109.5
D&A	(29.9)	(31.5)	(33.7)	(35.2)
EBIT	35.1	58.7	60.4	74.3
PBT	29.6	52.9	54.5	68.6
NPAT	25.0	32.7	37.1	46.6
Reported EBIT	(120.9)	45.6	60.4	74.3
Reported NPAT	(84.2)	15.4	37.1	46.6

\*Normalised, unless otherwise stated

Cash Flow (\$m)	FY16A	FY17A	FY18F	FY19F
Receipts	1,536.4	1,256.2	1,327.5	1,498.3
Payments	(1,425.5)	(1,302.8)	(1,235.8)	(1,405.0)
Other	(8.8)	8.7	(11.6)	(27.6)
Cash from Operations	102.1	(37.9)	80.1	65.6
Property, Plant & Equip	(30.8)	(52.0)	(51.8)	(12.8)
Payment for Subsidiary	-	-	-	-
Other	5.8	(1.5)	-	-
Cash From Investing	(25.0)	(53.5)	(51.8)	(12.8)
Issue of Shares	-	-	-	-
Net Borrowing	11.1	24.6	-	-
Dividends / Other	(15.8)	(12.3)	(15.7)	(21.0)
Cash From Financing	(4.7)	12.4	(15.7)	(21.0)
Net Cash Flow	72.4	(79.0)	12.6	31.9
Ending Cash	224.3	150.5	163.1	195.0

Balance Sheet (\$m)	FY16A	FY17A	FY18F	FY19F
Cash	224.3	150.5	163.1	195.0
Receivables	128.3	100.4	132.5	145.5
Inventory	109.0	170.4	144.8	158.2
Other	8.5	10.4	4.3	4.3
Current Assets	470.1	431.7	444.6	503.0
Property, Plant & Equip	490.8	500.3	525.7	509.8
Intangibles	9.3	8.9	7.7	6.5
Other NC Assets	42.9	19.1	13.5	13.5
Non-Current Assets	543.0	528.3	546.8	529.7
Total Assets	1,013.1	960.0	991.5	1,032.8
Payables	229.8	154.9	181.0	197.7
Progress Claims / Dep	12.8	15.6	-	-
Borrowings	172.6	196.4	195.9	194.8
Provisions	43.3	49.5	49.5	49.5
Other	97.0	86.8	86.8	86.8
Total Liabilities	555.6	503.1	513.2	528.8
Net Assets	457.6	456.9	478.3	503.9
Ordinary Equity	114.7	116.4	116.4	116.4
Reserves	100.7	91.6	91.6	91.6
Retained Earnings	242.1	248.9	270.3	295.9
Total Equity	457.6	456.9	478.3	503.9

Valuation	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
Discount Rate / WACC (%)	11.50%		
PV Free Cash Flow (\$m)		701.5	
Less Net Debt / Plus Cash (\$m)		(45.9)	
Unpaid Capital (\$m) / Notional CCPB Debt		65.2	
<b>Equity Value (\$m)</b>		<b>720.8</b>	<b>2.06</b>
<b>Multiple Valuation:</b>			
FY19 EV/EBIT multiple	10.0	761.9	2.18
FY19 PE multiple	15.0	717.8	2.05
<b>Valuation (\$ per share) - blended DCF and multiple valuations</b>			<b>2.10</b>

Profit and Loss (\$m)*	1H17A	2H17A	1H18F	2H18F
Revenue	648.5	660.0	684.3	697.3
EBITDA	46.5	43.7	46.4	47.7
D&A	(15.2)	(16.3)	(16.9)	(16.9)
EBIT	31.2	27.4	29.5	30.9
PBT	28.2	24.7	26.6	28.0
NPAT	18.6	14.1	18.1	19.0
Reported EBIT	18.1	27.6	29.5	30.9
Reported NPAT	9.3	6.0	18.1	19.0

\*Normalised, unless otherwise stated

Cash Flow (\$m)	1H17A	2H17A	1H18F	2H18F
Receipts	627.2	629.0	650.0	677.5
Payments	(671.5)	(631.2)	(625.0)	(610.8)
Other	0.5	8.2	(6.4)	(5.2)
Cash from Operations	(43.8)	6.0	18.6	61.6
Property, Plant & Equip	(32.5)	(19.4)	(25.0)	(26.8)
Payment for Subsidiary	(0.3)	0.3	-	-
Other	0.0	(1.6)	-	-
Cash From Investing	(32.8)	(20.7)	(25.0)	(26.8)
Issue of Shares	-	-	-	-
Net Borrowing	7.2	17.4	-	-
Dividends / Other	(5.9)	(6.4)	(7.0)	(8.7)
Cash From Financing	1.3	11.0	(7.0)	(8.7)
Net Cash Flow	(75.3)	(3.8)	(13.4)	26.0
Ending Cash	153.5	150.5	137.1	163.1

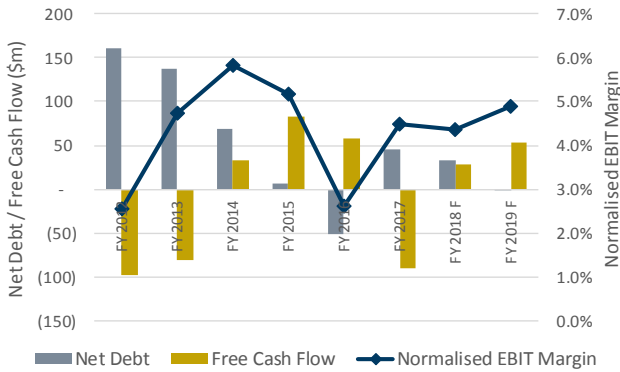
Financial Ratios	FY16A	FY17A	FY18F	FY19F
<b>Growth</b>				
Revenue growth (%)	-5.3%	-2.3%	5.6%	9.9%
NPAT growth (%)	-44.5%	30.8%	13.4%	25.7%
Norm. EPS growth (%)	-45.0%	30.7%	12.9%	25.7%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	4.9%	6.9%	6.8%	7.2%
EBIT Margin (%)	2.4%	4.5%	4.4%	4.9%
PBT Margin (%)	2.0%	4.0%	3.9%	4.5%
NPAT Margin (%)	1.7%	2.5%	2.7%	3.1%
Return on Assets (%)	4.1%	7.3%	7.4%	8.9%
Return on Equity (%)	5.2%	7.2%	7.9%	9.5%
ROIC (%)	3.9%	6.7%	6.4%	8.0%
<b>Balance Sheet Ratios</b>				
Net Debt (ND)	(51.7)	45.9	32.8	(0.2)
Net Debt (ND) / Equity (%)	-11.3%	10.0%	6.9%	0.0%
ND / ND + Equity (%)	-12.7%	9.1%	6.4%	0.0%
Current Ratio (x)	1.5	1.8	1.8	1.9
Net Interest Cover (x)	-22.0	8.0	10.4	13.1
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	9.1%	-14.2%	4.4%	8.2%
Cash Conversion (x)	1.6	(0.4)	0.9	0.6

Austal

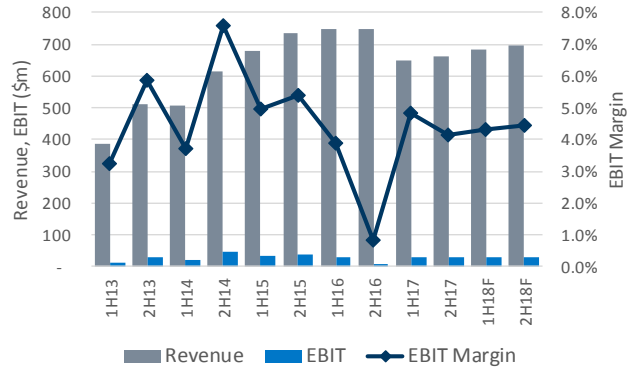
Key Charts

Equities Research

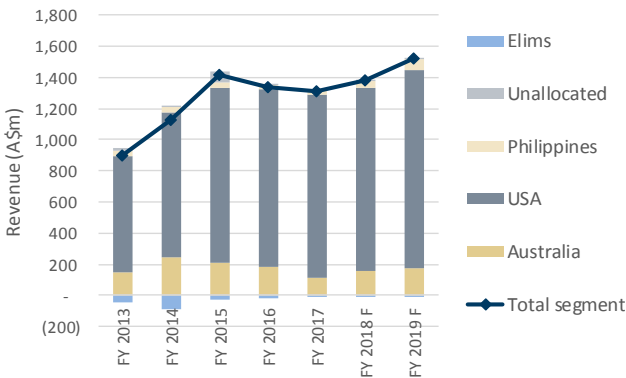
Key metrics



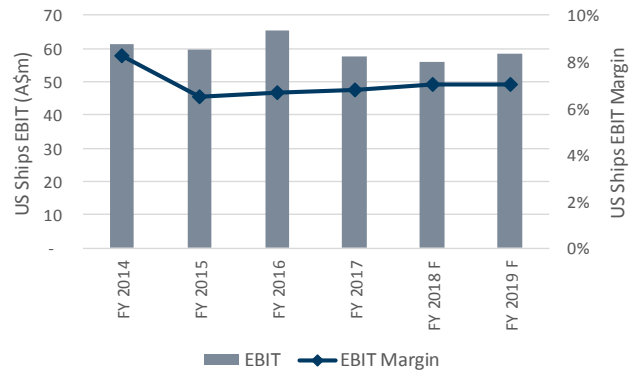
Half yearly performance - underlying



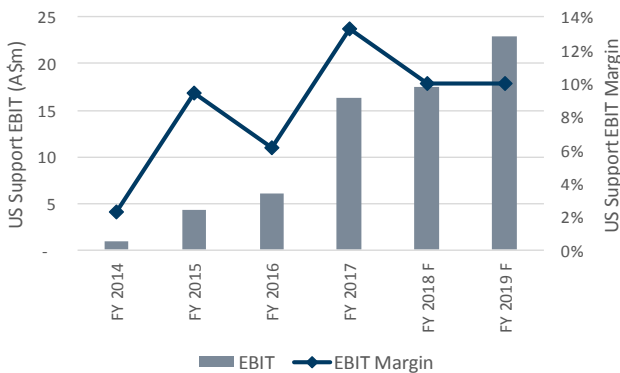
Revenue Reported - group



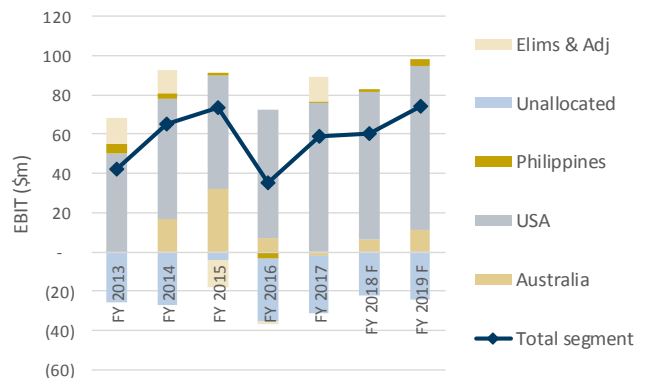
US Ships Construction Earnings



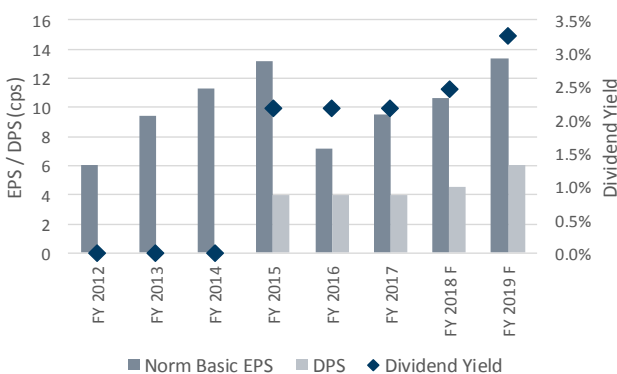
US Support Earnings



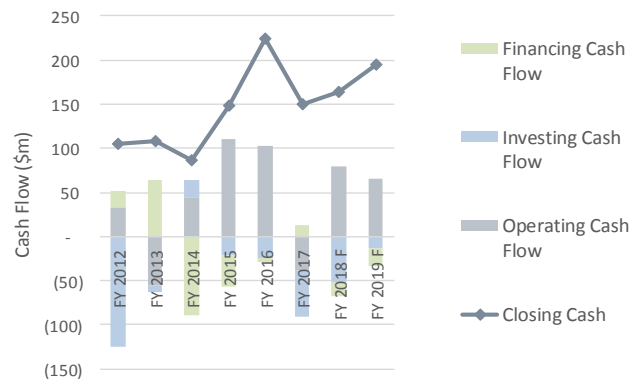
Segment EBIT



Dividends



Cash Flow



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