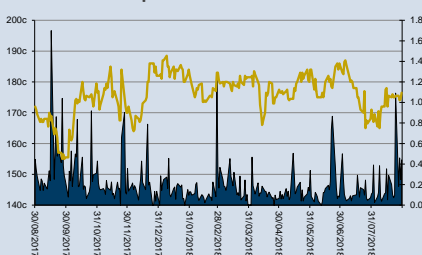


BUY

Current Price \$1.765
Valuation \$2.25

Ticker:		ASB.ASX		
Sector:		Ship Construction		
Shares on Issue (m):		351.2		
Market Cap (\$m):		619.9		
Net Debt / (Cash) (\$m):*		-33.9		
Enterprise Value (\$m):		586.0		
* Excludes notional CCPB debt				
52 wk High/Low:	1.89	1.55		
12m Av Daily Vol (m):		0.23		
Key Metrics				
	19F	20F		
EV/EBITDA (x)	5.1	4.7		
EV/EBIT (x)	7.8	7.0		
P/E (x)	13.0	11.6		
Ratios				
	18A	19F	20F	
ND / Equity	4.2%	1.4%	-6.9%	
EBIT Mgn	4.7%	5.4%	5.8%	
RoA	7.3%	7.7%	8.6%	
RoE	7.8%	8.5%	9.1%	
Financials*:				
	18A	19F	20F	
Revenue (\$m)	1,392	1,392	1,434	
EBITDA (\$m)	102.6	115.8	125.2	
EBIT (\$m)	65.3	75.1	83.6	
NPAT (\$m)	39.0	47.5	53.6	
Rep. EBIT (\$m)	65.3	75.1	83.6	
Rep. NPAT (\$m)	39.0	47.5	53.6	
* Normalised				
Net Assets (\$m)	549.0	575.4	604.5	
Op CF (\$m)	65.6	64.9	84.7	
Per Share Data:				
	18A	19F	20F	
Norm. EPS (cps)	11.2	13.5	15.3	
DPS (cps)	5.0	6.0	7.0	
Div Yield	2.8%	3.4%	4.0%	
NTAPS (cps)	152.5	158.5	167.3	
CFPS (cps)	18.9	18.5	24.2	

Share Price Graph



Please refer to important disclosures at the end of the report (from page 5)

Thursday, 30 August 2018

Austal (ASB)

Australasia to drive FY19

Analyst | Ian Christie, CFA

Quick Read

US shipbuilding margins have improved in each of the last 4 halves, and averaged 8.5% in FY18 (well ahead of ASB's 6-8% target and FY17's 6.8%). With 60% of group revenue from US ships, and another 15% (and growing) from Support work, we feel this helps underpin earnings. Meanwhile, investment in new designs and technology, and expanding capacity in Australasia, sets ASB up to take advantage of growing demand in the commercial ferry market. We expect a turnaround from FY18 losses in Australasia to help drive up EBIT by 15% in FY19. BUY maintained on a \$2.25 blended valuation (prior \$2.10).

Event & Impact | Positive

US delivers: As was the case in the 1H, the US shipbuilding margin was the standout number in the full year results. ASB had previously given 6-8% EBIT margin guidance for US ships. However, this ratio climbed from 6.8% in FY17 to 8.5%, driving underlying group EBIT up 11% to \$65.0m. It helped offset EBIT losses in other segments. In Australia, OPV tender costs and deferred profit recognition on new build programmes were partly responsible for the weak result, while Asia experienced growth pains related to capacity expansion. Positively, group operating cash flow of \$65.6m benefited from strong inflows in the 2H, and the Company ended the year with a solid net cash position of \$33.9m.

Upbeat outlook: Results commentary has reinforced our view that FY19 will be a strong year. The order book remains ~\$3.0b, but importantly has greater diversity. Sixteen new ships were ordered in FY18 and the commercial ferry order book is now \$444m. A variety of vessels are being constructed at various shipyards for customers in Europe, the US and Asia. The commercial ferry market, where ASB has little competition at the larger end (and none in trimaran hulls), is a significant opportunity. It presents itself not only because the market itself is growing, but also as a result of the effort and investment ASB has made in new designs and technologies. Further, by early 2019 Australasian capacity will have expanded fourfold, and ASB will be able to build 2 large vessels a year at lower-cost shipyards in the Philippines and Vietnam.

EBIT uplift: ASB has provided some clarity on FY19. Revenue is expected to be in the \$1.3-1.4b range, and the US Shipbuilding & Systems margin is expected to be 7-8%. Both Australia and Asia are expected to return to profit (the former on similar revenue, and the latter after doubling revenue). We lift our FY19 EBIT forecast to \$75.1m, although our NPAT forecast is slightly lower on an assumed 30% effective tax rate (prior 25%).

Recommendation

In our view consistent margins and earnings in the US, together with a growing level of group Support work (>\$200m in FY18), helps underpin earnings. Meanwhile, expanded capacity and growing commercial work in Australasia provides a key growth driver in the coming years. Our blended valuation climbs to \$2.25 (prior \$2.10). BUY maintained.

Austal

Equity Research

Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	1.765
Valuation (\$)	2.25

Sector	Shipbuilding
Market Cap (\$m)	619.9
Date	30 August 2018

Trading Metrics	FY17A	FY18A	FY19F	FY20F
EV / EBITDA (x)	6.5	5.7	5.1	4.7
EV / EBIT (x)	10.0	9.0	7.8	7.0
P/E (x)	18.8	15.7	13.0	11.6
Dividend Yield (%)	2.3%	2.8%	3.4%	4.0%

Per Share Data	FY17A	FY18A	FY19F	FY20F
Reported EPS (cps)	4.4	11.2	13.5	15.3
Adjusted EPS (cps)	9.4	11.2	13.5	15.3
Div. per share (cps)	4.0	5.0	6.0	7.0
NTA per share (cps)	129.8	152.5	158.5	167.3
CF per share (cps)	-10.9	18.9	18.5	24.2

Profit and Loss (\$m)*	FY17A	FY18A	FY19F	FY20F
Revenue	1,308.6	1,391.7	1,391.5	1,434.0
EBITDA	90.2	102.6	115.8	125.2
D&A	(31.5)	(37.3)	(40.7)	(41.7)
EBIT	58.7	65.3	75.1	83.6
PBT	52.9	56.8	67.9	76.6
NPAT	32.7	39.0	47.5	53.6
Reported EBIT	45.6	65.3	75.1	83.6
Reported NPAT	15.4	39.0	47.5	53.6

* Normalised, unless otherwise stated

Cash Flow (\$m)	FY17A	FY18A	FY19F	FY20F
Receipts	1,256.2	1,343.2	1,342.1	1,424.9
Payments	(1,302.8)	(1,265.9)	(1,243.1)	(1,309.7)
Other	8.7	(11.7)	(34.0)	(30.4)
Cash from Operations	(37.9)	65.6	64.9	84.7
Property, Plant & Equip	(52.0)	(19.9)	(35.3)	(16.7)
Payment for Subsidiary	-	(9.8)	-	-
Other	(1.5)	(4.1)	-	-
Cash From Investing	(53.5)	(33.9)	(35.3)	(16.7)
Issue of Shares	-	-	-	-
Net Borrowing	24.6	(9.2)	-	-
Dividends / Other	(12.3)	(12.8)	(21.1)	(24.6)
Cash From Financing	12.4	(22.0)	(21.1)	(24.6)
Net Cash Flow	(79.0)	9.7	8.6	43.5
Ending Cash	150.5	162.0	170.6	214.1

Balance Sheet (\$m)	FY17A	FY18A	FY19F	FY20F
Cash	150.5	162.0	170.6	214.1
Receivables	91.1	97.3	114.4	117.9
Inventory	170.4	246.5	216.4	222.0
Other	10.4	13.7	20.0	20.5
Current Assets	422.4	519.6	521.4	574.4
Property, Plant & Equip	500.3	565.8	562.1	538.8
Intangibles	8.9	20.8	19.2	17.5
Other NC Assets	28.4	42.6	42.6	42.6
Non-Current Assets	537.6	629.2	623.9	598.9
Total Assets	960.0	1,148.8	1,145.3	1,173.4
Payables	141.5	177.8	180.3	185.0
Progress Claims / Dep	15.6	53.8	27.8	28.7
Borrowings	196.4	185.3	178.8	172.3
Provisions	62.9	71.6	71.6	71.6
Other	86.8	111.4	111.4	111.4
Total Liabilities	503.1	599.8	569.9	568.9
Net Assets	456.9	549.0	575.4	604.5
Ordinary Equity	116.4	118.3	118.3	118.3
Reserves	91.6	156.7	156.7	156.7
Retained Earnings	248.9	273.9	300.4	329.4
Total Equity	456.9	549.0	575.4	604.5

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	11.50%		
PV Free Cash Flow (\$m)	787.2		
Less Net Debt / Plus Cash (\$m)	(23.3)		
Unpaid Capital (\$m) / Notional CCPB Debt	57.1		
Equity Value (\$m)		821.1	2.34
Multiple Valuation:			
FY19 EV/EBIT multiple	10.0	785.4	2.24
FY19 PE multiple	15.0	737.4	2.10
Valuation (\$ per share) - blended DCF and multiple valuations			2.25

Profit and Loss (\$m)*	1H17A	2H17A	1H18A	2H18A
Revenue	648.5	660.0	652.9	738.8
EBITDA	46.5	43.7	46.5	56.1
D&A	(15.2)	(16.3)	(17.3)	(20.0)
EBIT	31.2	27.4	29.2	36.0
PBT	28.2	24.7	25.3	31.5
NPAT	18.6	14.1	25.6	13.5
Reported EBIT	18.1	27.6	29.2	36.0
Reported NPAT	9.3	6.0	25.6	13.5

* Normalised, unless otherwise stated

Cash Flow (\$m)	1H17A	2H17A	1H18A	2H18A
Receipts	627.2	629.0	643.6	699.6
Payments	(671.5)	(631.2)	(654.6)	(611.3)
Other	0.5	8.2	(5.8)	(5.9)
Cash from Operations	(43.8)	6.0	(16.9)	82.5
Property, Plant & Equip	(32.5)	(19.4)	(4.3)	(15.6)
Payment for Subsidiary	(0.3)	0.3	(0.3)	(9.5)
Other	0.0	(1.6)	(2.0)	(2.1)
Cash From Investing	(32.8)	(20.7)	(6.6)	(27.2)
Issue of Shares	-	-	-	-
Net Borrowing	7.2	17.4	(6.9)	(2.4)
Dividends / Other	(5.9)	(6.4)	(6.3)	(6.5)
Cash From Financing	1.3	11.0	(13.1)	(8.9)
Net Cash Flow	(75.3)	(3.8)	(36.7)	46.4
Ending Cash	153.5	150.5	112.0	162.0

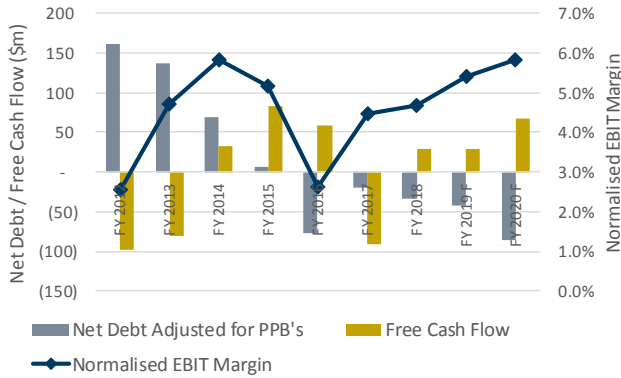
Financial Ratios	FY17A	FY18A	FY19F	FY20F
Growth				
Revenue growth (%)	-2.3%	6.3%	0.0%	3.1%
NPAT growth (%)	30.8%	19.4%	21.7%	12.8%
Norm. EPS growth (%)	30.7%	19.3%	20.8%	12.8%
Profitability Ratios				
EBITDA Margin (%)	6.9%	7.4%	8.3%	8.7%
EBIT Margin (%)	4.5%	4.7%	5.4%	5.8%
PBT Margin (%)	4.0%	4.1%	4.9%	5.3%
NPAT Margin (%)	2.5%	2.8%	3.4%	3.7%
Return on Assets (%)	7.3%	7.3%	7.7%	8.6%
Return on Equity (%)	7.2%	7.8%	8.5%	9.1%
ROIC (%)	6.6%	6.2%	6.5%	7.4%
Balance Sheet Ratios				
Net Debt (ND)	45.9	23.3	8.2	(41.8)
Net Debt (ND) / Equity (%)	10.0%	4.2%	1.4%	-6.9%
ND / ND + Equity (%)	9.1%	4.1%	1.4%	-7.4%
Current Ratio (x)	1.8	1.3	1.8	1.9
Net Interest Cover (x)	8.0	7.9	10.3	11.9
Cash Flow Ratios				
Free Cash Flow Yield (%)	-14.8%	4.7%	4.8%	11.0%
Cash Conversion (x)	(0.4)	0.6	0.6	0.7

Austal

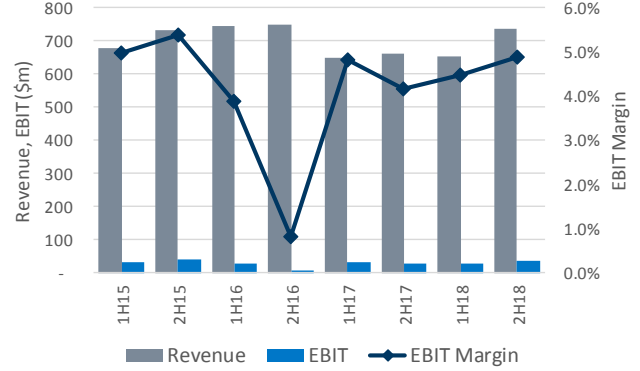
Key Charts

Equities Research

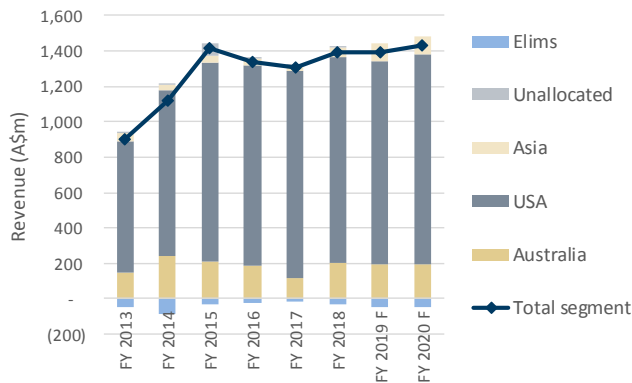
Key metrics



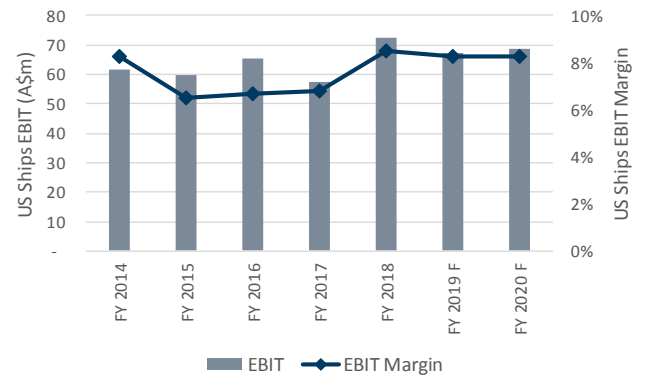
Half yearly performance - underlying



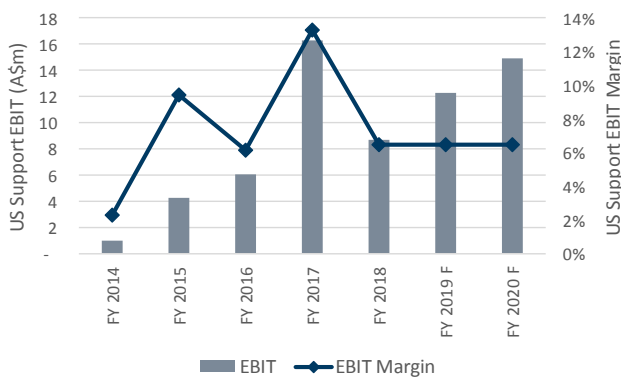
Revenue Reported - group



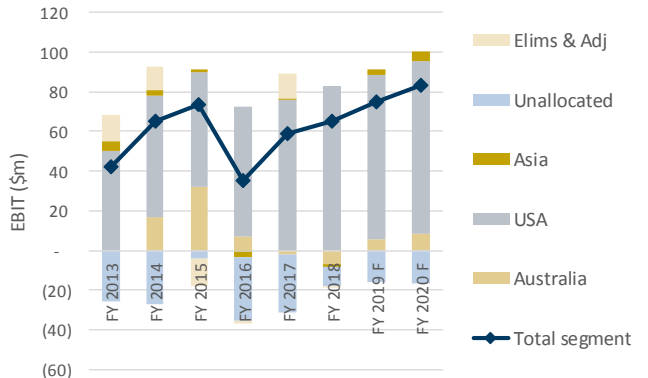
US Ships Construction Earnings



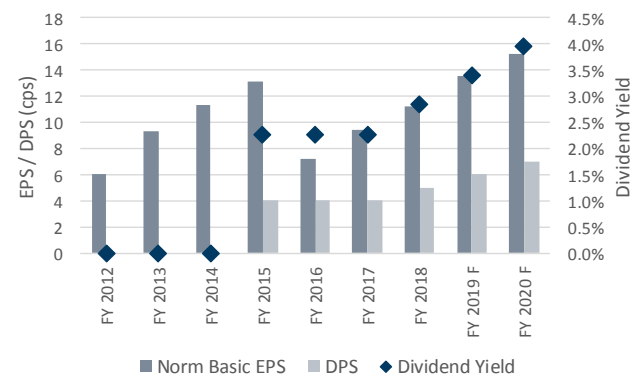
US Support Earnings



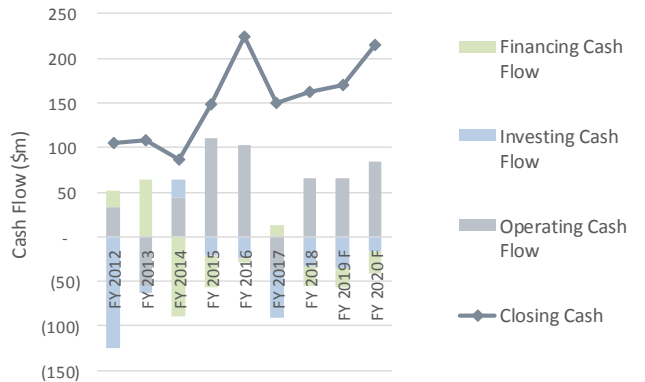
Segment EBIT



Dividends



Cash Flow



Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised	FY16	FY17	FY18	FY19F			FY20F		
	Actual	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	1,495	1,309	1,392	1,463	1,392	-5%	1,502	1,434	-4%
EBIT (\$m)	35.1	58.7	65.3	72.5	75.1	4%	81.2	83.6	3%
EBIT margin	2.4%	4.5%	4.7%	5.0%	5.4%		5.4%	5.8%	
PBT (\$m)	29.6	52.9	56.8	65.7	67.9	3%	74.9	76.6	2%
NPAT (\$m)	25.0	32.7	39.0	49.2	47.5	-4%	56.2	53.6	-5%
Rep. EBIT (\$m)	-120.9	45.6	65.3	72.5	75.1	4%	81.2	83.6	3%
Rep. NPAT (\$m)	-84.3	15.4	39.0	49.2	47.5	-4%	56.2	53.6	-5%
EPS (cps)	7.2	9.4	11.2	14.0	13.5	-4%	16.0	15.3	-5%

Source: Argonaut forecasts

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