

Austal Ltd

(ASB \$2.17) Buy

EUROZ

Analyst	Date	Price Target
Ben Laird	8 th February 2019	\$2.63/sh ▲ from \$2.56/sh

Lift in FY'19 Rev Guidance - Profit upgrade

Investment case

Further to our quick comment released on 4th Feb 2019 relating to ASB's strong 1H Earnings guidance, we have pushed through upgrades to our FY'19 forecasts which incrementally lift our valuation and price target.

ASB's 1H EBIT guidance of \$39-41m EBIT is evidence of ASB's positive rhetoric around operations and order intake coming through in the numbers. While the material revenue lift is positive, in our view it is the orderbook visibility that we think can rerate the stock. The recently announced LCS and EPF contract extensions provide orderbook visibility out to 2025 and increase our confidence ASB can maintain stronger run rates for longer out of their US facility on solid margins. After a surge in large ferry and defence orders over the past 12-18mths ASB also expect a significant increase in throughput and hence margin in their Australian and Asian operations in FY'19 and 20.

Looking longer term, the recent award by the US DoD for ASB to undertake dry docking support for LCS 14 as prime contractor is also significant. This award fleshes out recent management commentary with regard to upside to ASB's support business.

We maintain our BUY recommendation with a new price target of \$2.63/sh ▲ from \$2.56/sh previously.

Key points

ASB recently lifted their FY'19 revenue guidance to A\$1.9b vs A\$1.3-1.4b previously. The company also provided 1H FY'19 EBIT guidance of \$39-41m. These numbers were materially above our previous FY'19 estimates and have driven upgrades to our forecasts and price target.

The impact on our FY'19 forecasts is outlined below:

New vs Old Forecasts			
	FY'19		
	\$m		Variance
	Old	New	
Revenue	1,380.5	1,866.6	35.2%
EBITDA	117.5	126.8	7.9%
EBIT	77.0	86.3	12.0%
Normalised NPAT	48.3	54.8	13.4%

- Our price target has increased to \$2.63/sh vs \$2.56/sh previously
- The drivers of this significant volume bump vs previous expectations have been broad based
- The US business experienced greater procurement volumes related to previously won LCS and EPF vessels, better than expected progress on current LCS vessels under construction and a lift in support revenue
- ASB stated that a FY'19 shipbuilding margin of 7-8% is still projected (as per our forecasts)
- An uptick in commercial vessel activity drove a better performance from the Australasian business
- A lower USD/AUD exchange rate also helped ASB
- The 1H EBIT guidance of \$39-41m EBIT is up on previous ESL forecasts for FY'19 1H EBIT of \$34.7m

Austal	Year End 30 June	
Share Price	2.17	A\$/sh
Price Target	2.63	A\$/sh
Valuation	2.82	A\$/sh
WACC	10%	
Terminal Growth	1.0%	
Shares on issue	350.9 m, diluted	
Market Capitalisation	761.4	A\$m
Enterprise Value	807.9	A\$m
Debt FY'18	185.3	A\$m
Cash FY'18	162.0	A\$m

Key Financials	2018a	2019f	2020f
Revenue (A\$m)	1419.1	1866.6	1445.0
EBITDA (A\$m)	102.3	126.8	132.4
EBIT (A\$m)	65.0	86.3	89.3
Reported NPAT (A\$m)	39.5	54.0	56.1
Normalised NPAT (A\$m)	39.5	54.8	56.9
Gross Cashflow (A\$m)	87.0	94.5	99.2
Capex (A\$m)	-28.9	-60.0	-45.0
Op. Free Cashflow (A\$m)	12.2	-16.8	98.6
Revenue Growth (%)	8%	32%	-23%
EBITDA Growth (%)	13%	24%	4%
Norm. NPAT Growth (%)	10%	39%	4%
Normalised EPS (Ac)	11.3	15.6	16.2
Norm. EPS growth (%)	9%	38%	4%
PER (x)	19.2	13.9	13.4
EV:EBITDA (x)	7.9	6.4	6.1
EV:EBIT (x)	12.4	9.4	9.0
DPS (Ac)	5.0	7.0	7.3
Dividend Yield (%)	2.3%	3.2%	3.4%
Net Debt (A\$m)	46.5	51.6	-28.5
Net Debt:Equity (%)	8%	9%	-5%
Interest Cover (x)	12.0	15.8	16.5

Share Price Chart



Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Austal Ltd

(ASB \$2.17) Buy

Analysis

Our new medium term group forecasts out to FY'21 for ASB are outlined in the table below:

Austal Group Forecasts to EBIT level by Geography							
	Units	FY18a	1H	2H	FY19f	FY20f	FY21f
	A\$m	A\$m			A\$m	A\$m	A\$m
US operations							
Revenue	A\$m	1162.7	672.1	821.5	1493.6	1034.8	1165.0
EBIT	A\$m	83.0	43.7	46.8	90.5	75.9	86.7
Australian operations							
Revenue	A\$m	198.5	99.6	121.7	221.3	250.2	260.7
EBIT	A\$m	-6.7	3.1	3.8	7.0	17.5	20.6
Asian operations							
Revenue	A\$m	57.9	68.3	83.4	151.7	160.0	160.0
EBIT	A\$m	-1.6	1.7	2.1	3.8	11.2	16.0
Corporate EBIT*	A\$m	-9.7	-7.5	-7.5	-15.0	-15.3	-15.6
Group Revenue	A\$m	1419.1	840.0	1026.6	1866.6	1445.0	1585.7
Group EBIT	A\$m	65.0	41.0	45.3	86.3	89.3	107.6
Group EBIT Margin	%	4.6%	4.9%	4.4%	4.6%	6.2%	6.8%
*US Ship building + Support margin	%	7.5%	7.4%	7.4%	7.2%	7.8%	7.9%

Key Features:

- We forecast US shipbuilding margins to continue to improve before plateauing at 9.0% in FY'20
- We note ASB will now report a combined US shipbuilding and support margin and have guided 7-8% going forward. This compares to our forecasts of 7.4% & 7.8% in FY'18 & 19 respectively.
- The dip in US revenue in FY'20 depicts a roll off of the pace of LCS program to 1 LCS pa
- The decline in revenue is partly mitigated by an increase in the price ASB will receive for LCS vessels 28 and beyond (a US\$584m cap).
- As per management guidance we see Australian operations margin improvement in FY'19 followed by further revenue and margin growth in FY'20.
- Asian operations are forecasts to double revenue in FY'19 as per management guidance.

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Austal Ltd

(ASB \$2.17) Buy

Valuation

We maintain our Buy recommendation with a new price target of \$2.63/sh vs \$2.56/sh previously.

This increase has been driven by increased FY'19 forecasts.

The components of our new blended valuation approach are outlined below:

Price Target	Units	Implied Shareprice	Weight	Valuation
NPV	\$/sh	2.82	50%	1.41
SOP blended FY19/20	\$/sh	2.43	50%	1.22
Blended Total	\$/sh			2.63

NPV

We derive a NPV for ASB of \$2.82/sh. This is driven by our group forecasts and capex forecasts outlined above and in the summary page of this note. We use a WACC of 10.3% and a terminal growth rate of 1%.

SOP

We apply a blended FY'19/20 EV/EBIT multiple to ASB's Shipbuilding and Support division and subtract a NPV of ASB's corporate costs. Valuation tab line 53

SOP Valuation		FY18a	FY19f	FY20f
		A\$m	A\$m	A\$m
Shipbuilding				
EBIT	A\$m		86.2	82.3
EV/EBIT	x		10.0	10.0
Implied EV	A\$m		861.8	822.6
Support				
EBIT	A\$m		15.1	22.4
EV/EBIT	x		12.0	12.0
Implied Value	A\$m		181.0	268.2
SOP Valuation				
Ship Building	A\$m		861.8	822.6
Support	A\$m		181.0	268.2
Corp O/H	A\$m		-189.5	-189.5
Net cash(debt)	A\$m	-23.3	-23.3	-23.3
Total market cap	A\$m		830.0	878.1
SOI	m		350.9	350.9
Inferred value per share	\$/sh		2.37	2.50
Premium/Discount to Current Shareprice	%		9%	15%
FY/19/20 Blended	\$/sh		2.43	

We forecast ASB's corporate O/H to be \$15m in FY'19 growing at 2%pa. We use a WACC of 10.3%.

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Austal Ltd

(ASB \$2.17) Buy

EUROZ

Financial Statements	2017a	2018a	2019f	2020f	Performance Ratios	2017a	2018a	2019f	2020f
Income Statement					Growth & Margins				
Revenue	1319.6	1419.1	1866.6	1445.0	Revenue Growth	-3%	8%	32%	-23%
Operating Expenses	-1229.4	-1316.8	-1739.8	-1312.6	EBITDA Growth	39%	13%	24%	4%
EBITDA	90.2	102.3	126.8	132.4	EBIT Growth	67%	11%	33%	4%
Depreciation	-30.4	-35.7	-39.6	-42.2	Normalized Net Profit Growth	81%	10%	39%	4%
EBITA	59.8	66.6	87.2	90.2	EBITDA margin	7%	7%	7%	9%
Amortisation	-1.1	-1.6	-0.9	-0.9	EBIT margin	4%	5%	5%	6%
EBIT	58.7	65.0	86.3	89.3	Normalized net profit margin	3%	3%	3%	4%
Abnormals	-11.6	0.3	0.0	0.0	Effective tax rate	61%	31%	31%	31%
Net interest expense	-7.2	-8.5	-8.0	-8.0	Liquidity				
NBPT	39.9	56.8	78.3	81.3	Capex/depreciation (x)	1.8	0.8	1.5	1.1
Tax (expense)/ credit	-24.5	-17.8	-24.3	-25.2	Current ratio (x)	1.8	1.3	1.3	1.5
NPAT	15.4	39.0	54.0	56.1	Quick ratio (x)	1.7	1.5	1.1	1.8
Significant items after tax	0.0	0.0	0.0	0.0	Receivable days	30	24	22	29
Minorities	0.0	0.0	0.0	0.0	Inventory days	-41	-58	-60	-80
Reported NPAT	15.4	39.0	54.0	56.1	Payable days	-6	-2	-2	-2
Analyst adj: g/w & amortisation	0.0	0.0	0.0	0.0	Risk Measures				
Analyst adj: significant items (a/t)	20.7	0.6	0.8	0.8	Dividend Cover (x)	0.7	1.4	0.9	1.3
Normalised NPAT	36.1	39.5	54.8	56.9	Payout ratio (%)	91%	45%	45%	45%
					Net interest cover (x)	13	12	16	17
					Net debt/equity (%)	9%	8%	9%	-5%
Cash flow (A\$m)	2017a	2018a	2019f	2020f	Returns				
Pretax profit	39.9	56.8	78.3	81.3	Return on average capital employed (%)	13%	12%	14%	14%
+ Depreciation & Amort	31.5	37.3	40.5	43.1	ROIC	5%	5%	7%	7%
-/+ associates profit/loss	0.0	0.0	0.0	0.0	ROA %	6%	6%	7%	7%
+ associates dividends	0.0	0.0	0.0	0.0	Return on average equity (%)	3%	8%	9%	9%
+ Provisions	0.0	0.0	0.0	0.0					
- Tax Paid	12.2	-7.1	-24.3	-25.2	Share Data/Valuation	2017a	2018a	2019f	2020f
Gross Cashflow	83.6	87.0	94.5	99.2	Share Data				
- Capital Expenditure	-53.6	-28.9	-60.0	-45.0	Issued shares (m)	349	351	351	351
- Change in Working Capital	-112.6	-45.9	-51.3	44.5	Weighted ave shares (m)	349	350	351	351
Operating Free Cashflow	-82.6	12.2	-16.8	98.6	Fully diluted shares (m)	349	350	351	351
- acq of subs/other investments	0.0	0.0	0.0	0.0	Basic EPS (c)	4.4	11.1	15.4	16.0
+ proceeds from disp of FA/subs	0.1	0.0	0.0	0.0	YoY change (%)	-118%	153%	38%	4%
- Dividends Paid	-12.3	-12.8	-11.6	-18.5	Fully diluted EPS (c)	4.4	11.1	15.4	16.0
+ Equity issued	0.0	0.0	0.0	0.0	YoY change (%)	-118%	153%	38%	4%
+/- Other	1.1	0.0	0.0	0.0	Fully diluted normalised EPS (c)	10.3	11.3	15.6	16.2
Net Cashflow	-93.6	-0.6	-28.4	80.1	YoY change (%)	80%	9%	38%	4%
Opening Net (Debt)/Cash	51.7	-45.9	-23.3	-51.6	Dividend/share (c)	4	5	7	7
Closing Net (Debt)/Cash	-41.9	-46.5	-51.6	28.5	Franking (%)	100%	100%	50%	50%
					Gross cashflow/share (c)	24.0	24.9	26.9	28.3
Balance Sheet (\$m)	2017a	2018a	2019f	2020f	NBV/share (c)	130.7	156.5	168.5	179.3
Cash	150.5	162.0	133.7	213.8	NTA/Share (c)	128.2	150.5	162.8	173.8
Receivables	91.1	97.3	128.0	99.1	Valuation				
Inventory	170.4	246.5	324.2	251.0	PER (Basic) (x)	49	20	14	14
Other financial assets	7.1	7.6	7.6	7.6	PER (Fully diluted) (x)	49	20	14	14
Current tax assets	0.7	4.5	4.5	4.5	PER (Fully diluted, normalized) (x)	21	19	14	13
Other	2.5	1.6	1.6	1.6	P/CFPS (x)	9	9	8	8
Total current assets	422.4	519.6	599.6	577.6	Price/NBV (x)	1.7	1.4	1.3	1.2
Equity accounted investments	11.5	12.9	12.9	12.9	Price/NTA (x)	1.7	1.4	1.3	1.2
Receivables	0.0	0.0	0.0	0.0	Dividend Yield (%)	1.8%	2.3%	3.2%	3.4%
Property, plant and equipment	500.3	565.7	586.1	589.0	Fully diluted normalized 3 yr EPS Cagr (%)	-6%	-5%	40%	16%
Intangibles	8.9	21.0	20.1	19.2	PEG ratio (x)	-3.5	-3.8	0.4	0.8
Other	11.3	21.8	21.8	21.8	EV/EBITDA (x)	9.0	7.9	6.4	6.1
Deferred Tax Assets	5.6	7.8	7.8	7.8	EV/EBIT (x)	13.8	12.4	9.4	9.0
Total non current assets	537.6	629.2	648.8	650.7	EV/Revenue (x)	0.6	0.6	0.4	0.6
Total assets	960.0	1148.8	1248.4	1228.3	NPV (\$/sh)	2.82			
Payables	141.5	177.8	235.0	177.3	WACC (%)	10%			
Interest bearing liabilities	9.9	72.8	72.8	72.8					
Provisions	60.0	70.1	70.1	70.1	Other Information				
Other	27.5	68.3	68.3	68.3	Major Shareholders:				
Current tax liabilities	0.0	0.0	0.0	0.0	Allan Gray				18.6%
Total current liabilities	238.9	389.0	446.1	388.4	John Rothwell				9.12%
Other	64.0	64.3	64.3	64.3					
Interest bearing liabilities	186.5	112.5	112.5	112.5	12-mth High/Low (A\$/sh)				1.94/0.93
Provisions	2.9	1.5	1.5	1.5	Average daily volume (A\$m)				2.5
Deferred tax liabilities	10.9	32.5	32.5	32.5	ASX Code				ASB
Total non current liabilities	264.2	210.9	210.9	210.9	Next result				Feb'19
Total liabilities	503.1	599.9	657.0	599.3					
Net Assets	456.9	548.9	591.4	629.0					
					Company Description				
Contributed equity	116.4	118.3	118.3	118.3	Austal is a West Australian based shipbuilder. The company has operations in Australia, USA, Philippines, Vietnam and China. Austal builds vessels for various military and paramilitary customers as well as commercial and international ferry operators.				
Reserves	91.6	156.7	156.7	156.7					
Accumulated profit / (losses)	248.9	273.9	316.3	353.9					
Non controlling interests	0.0	0.0	0.0	0.0					
Total equity	456.9	549.0	591.4	629.0					

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Disclaimer

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

Disclaimer & Disclosure

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

Analyst Certification

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities.

No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research.

Contact Details

Euroz Securities Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Michael Emery - Resources Analyst	+61 8 9488 1430
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Seth Lizée - Associate Research Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Steve Wood - Investment Adviser	+61 8 9346 0305
Tom Kenny - Associate Adviser	+61 8 9488 1431

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.