

Austal Ltd

(ASB \$3.50) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	24 th August 2020	\$4.53/sh ▲ from \$4.33/sh

Full Year 2020 results

Investment case

ASB has delivered a very strong set of full year 2020 results, delivering revenues of \$2.08b up 13% on pcp, EBIT of \$130.4m, up 41% on pcp and NPAT of \$89m up 45% on pcp. Net cash was \$221.4m (inc AASB 16 leases) at year end and driven by very strong operating cashflow of \$164.5m. The results are all the more impressive in light of Covid. ASB has not provided EBIT guidance and the stock is down a little post a good recent run. We believe however big picture ideas remain intact and, as we explore below, ASB is positioned to continue to grow, over the medium term, across numerous fronts. Buy maintained

Key points

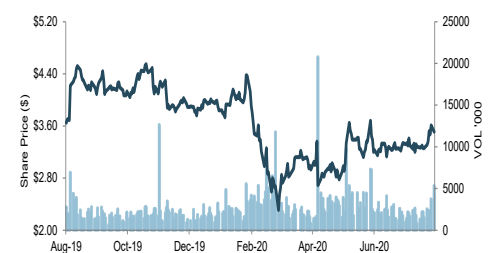
ASB has released full year 2020 results as follows:

- Revenue of \$2.08b, up 13% on pcp (ESL \$2.07b).
- EBIT \$130.4m, up 41% on pcp (ESL \$129.4m).
- Cashflow from operations was \$164.6m and ASB was net cash \$221.4m at year end (inc AASB 16 leases).
- A final dividend of 5c has been declared; for 8c per share in total 2020 dividends.
- On a segment basis:
 - US division revenues were \$1.6b, up from \$1.47b pcp and EBIT was \$123m, up from \$106.4m.
 - Australasian revenues were \$496.8m, up from \$393.3m pcp and EBIT was \$31m, well up on \$11.7m pcp.
- There is no guidance provided; ASB will look to provide a further market update with the AGM in October.
- Big picture themes remain:
 - The strong balance sheet facilitates exploration of strategic investment opportunities to drive the next phase of growth.
 - On this front ASB has commenced development of a modern steel ship building capability, which will enable ASB to access opportunities estimated at three times the size of potential new aluminium projects; to which end ASB see circa US \$2b per year in ship building requirement/opportunity from 2022 onwards.
 - Support in both Australasia and the US in defence offers significant further opportunity on top of an already demonstrable growth trend (up by factor of 10 over the last 6 years).
 - Recently published Aust Force structure plan offers significant further opportunity.
 - Recent award of Cape Class Patrol boats was an important win demonstrative of Commonwealth commitment.

Austal Ltd	Year End 30 June	
Share Price	3.50	A\$/sh
Price Target	4.53	A\$/sh
Valuation (NPV)	4.53	A\$/sh
WACC	10%	
Terminal Growth	2%	
Shares on issue	359.1	m, diluted
Market Capitalisation	1,256.7	A\$m
Enterprise Value	1,035.3	A\$m
Debt (inc leases)	175.3	A\$m
Cash	396.7	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	2086.0	2064.0	2157.9
EBITDA (A\$m)	176.2	183.3	196.7
EBIT (A\$m)	130.4	134.9	145.6
Reported NPAT (A\$m)	89.0	92.4	100.1
Normalised NPAT (A\$m)	86.5	89.8	97.3
Gross Cashflow (A\$m)	154.0	134.3	144.7
Capex (A\$m)	-18.2	-63.9	-63.9
Op. Free Cashflow (A\$m)	145.6	70.6	74.4
Revenue Growth (%)	11%	-1%	5%
EBITDA Growth (%)	31%	4%	7%
Norm. NPAT Growth (%)	44%	4%	8%
Normalised EPS (Ac)	25.0	25.7	27.9
Norm. EPS growth (%)	43%	3%	8%
PER (x)	14.3	13.9	12.8
EV:EBITDA (x)	6.0	5.8	5.4
EV:EBIT (x)	8.1	7.9	7.3
DPS (Ac)	8.0	9.0	10.0
Dividend Yield (%)	2.2%	2.5%	2.8%
Net Cash (A\$m)	221.4	274.1	328.4
Net Debt:Equity (%)	-30%	-33%	-36%
Interest Cover (x)	25.6	27.7	29.8

Share Price Chart



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Analysis

We provide below a build up of our current forecasts:

\$m	FY2019 A	1H2020 A	2H2020 A	FY2020 A	FY21 F	FY22 F
US						
Ship Building						
Revenue	1248	675	636	1311	1237	1237
EBIT	99	55	52	107	102	102
Margin	7.90%	8.1%	8.2%	8.1%	8.2%	8.2%
Support						
Revenue	225	130	164	293	350	402
EBIT	16	12	5	17	28	32
Margin	7.26%	9.4%	2.9%	5.8%	8.0%	8.0%
Total - US						
Revenue	1473	805	799	1604	1587	1639
EBIT	106	66	57	123	130	134
Margin	7.23%	8.1%	7.2%	7.7%	8.2%	8.2%
Australasia						
Ship Building						
Revenue	323	210	216	426	377	400
EBIT	6	5	13	18	24	29
Margin	1.98%	2.3%	6.0%	4.2%	6.4%	7.2%
Support						
Revenue	70	31	40	71	100	119
EBIT	5	3	10	13	9	11
Margin	7.56%	10.7%	24.4%	18.4%	9.0%	9.0%
Total - Australasia						
Revenue*	393	241	256	497	477	519
EBIT	12	8	23	31	33	40
Margin	2.97%	3.4%	8.8%	6.2%	6.9%	7.6%
Corporate						
EBIT	-25	-14	-10	-23	-28	-28
Group						
Revenue*	1852	1039	1062	2101	2064	2158
EBIT	93	60	70	130	135	146
Margin	5.01%	5.8%	6.6%	6.2%	6.5%	6.7%

*includes intercompany revenue

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We note:

- ASB have not provided guidance at this stage.
- We have tweaked our numbers as follows:
 - We look to US ship building being fairly consistent in \$US
 - The impact of \$US/\$AUS will clearly play a part
 - We look to US ship building margin within range
 - We look to support revenues continuing to grow
 - We look to Australasian revenue off a little as commercial ferries slow and support revenues continuing to grow.
 - In addition, ASB will benefit from better margin from the Cape Class build program.
- The reality is a range of factors will impact 2021 and on balance we look to modest growth at this stage.
- Our investment case is however, as we discuss above, about a much larger landscape available to ASB over the medium to longer term.

Investment Thesis

ASB trades on 2020 EV/EBIT of 7.9x which is in our opinion undemanding in the context of very strong recent growth, strong balance sheet, on going revenues supported to the tune of 85% by defence is contracts and despite some short term uncertainties, a big picture that difficult to ignore.

We increase our PT to \$4.53, reflecting tweaks made to earnings post result (around the edges) and based on our DCF based valuation.

Catalysts going forward include future contract wins (Offshore Patrol Vessels for the Philippines Government would be a good example) and further in roads on support capability (San Diego, Philippines).

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Financial Statements	2019a	2020a	2021f	2022f	Performance Ratios	2019a	2020a	2021f	2022f
Income Statement					Growth & Margins				
Revenue	1873.3	2086.0	2064.0	2157.9	Revenue Growth	32%	11%	-1%	5%
Operating Expenses	-1738.3	-1909.8	-1880.7	-1961.3	EBITDA Growth	32%	31%	4%	7%
EBITDA	135.0	176.2	183.3	196.7	EBIT Growth	43%	41%	3%	8%
Depreciation	-39.9	-42.9	-45.5	-48.2	Normalized Net Profit Growth	52%	44%	4%	8%
EBITA	95.1	133.3	137.8	148.5	EBITDA margin	7%	8%	9%	9%
Amortisation	-2.3	-2.8	-2.8	-2.8	EBIT margin	5%	6%	7%	7%
EBIT	92.8	130.4	134.9	145.6	Normalized net profit margin	3%	4%	4%	5%
Abnormals	0.0	0.0	0.0	0.0	Effective tax rate	28%	28%	28%	28%
Net interest expense	-7.2	-6.9	-6.6	-6.6	Liquidity				
NBPT	85.6	123.5	128.3	139.0	Capex/depreciation (x)	1.0	0.4	1.4	1.3
Tax (expense)/ credit	-24.2	-34.5	-35.9	-38.9	Current ratio (x)	1.4	2.0	2.1	2.2
NPAT	61.4	89.0	92.4	100.1	Quick ratio (x)	2.5	3.4	3.6	3.7
Significant items after tax	0.0	0.0	0.0	0.0	Receivable days	44	25	33	33
Minorities	0.0	0.0	0.0	0.0	Inventory days	35	27	24	24
Reported NPAT	61.4	89.0	92.4	100.1	Payable days	42	30	35	35
Analyst adj: significant items (a/t)	-1.5	-2.5	-2.6	-2.8	Risk Measures				
Normalised NPAT	59.9	86.5	89.8	97.3	Dividend Cover (x)	5.2	5.3	4.9	4.7
Cash flow (A\$m)					Payout ratio (%)	34%	32%	35%	36%
Pretax profit	85.6	123.5	128.3	139.0	Net interest cover (x)	19	26	28	30
+ Depreciation & Amort	42.2	45.7	48.3	51.0	Net debt/equity (%)	-16%	-30%	-33%	-36%
-/+ associates profit/loss	0.0	0.0	0.0	0.0	Returns				
-Lease Expense	0.0	-6.4	-6.4	-6.4	ROIC	8%	10%	9%	9%
+ Provisions	0.0	0.0	0.0	0.0	ROA	5%	6%	6%	6%
- Tax Paid	-7.3	-13.6	-35.9	-38.9	ROE	10%	12%	11%	11%
Gross Cashflow	120.6	154.0	134.3	144.7	Share Data/Valuation				
- Capital Expenditure	-41.5	-18.2	-63.9	-63.9	Share Data				
- Change in Working Capital	59.6	9.8	0.2	-6.4	Issued shares (m)	353	359	359	359
Operating Free Cashflow	138.7	145.6	70.6	74.4	Weighted ave shares (m)	352	356	359	359
- acq of subs/other investments	0.0	0.0	0.0	0.0	Fully diluted shares (m)	352	356	359	359
+ proceeds from disp of FA/subs	0.0	0.2	0.0	0.0	Basic EPS (c)	17.5	25.0	25.7	27.9
- Dividends Paid	-11.6	-16.2	-18.5	-20.8	YoY change (%)	57%	43%	3%	8%
+ Equity issued	0.0	0.0	0.0	0.0	Fully diluted EPS (c)	17.5	25.0	25.7	27.9
+/- Other	0.0	0.0	0.0	0.0	YoY change (%)	57%	43%	3%	8%
Net Cashflow	127.1	129.5	52.1	53.5	Fully diluted normalised EPS (c)	17.5	25.0	25.7	27.9
Opening Net (Debt)/Cash	-25.3	101.9	221.3	274.1	YoY change (%)	57%	43%	3%	8%
+/- Net Cashflow	127.1	129.5	52.1	53.5	Dividend/share (c)	6	8	9	10
+/- AASB16 Adj.	0.0	-10.1	0.7	0.7	Franking (%)	50%	0%	50%	50%
Closing Net (Debt)/Cash	101.9	221.3	274.1	328.4	Gross cashflow/share (c)	34.2	42.9	37.4	40.3
Balance Sheet (\$m)					NBV/share (c)	178.9	208.5	229.1	251.1
Cash	275.7	396.7	449.4	503.6	NTA/Share (c)	173.0	202.4	223.7	246.6
Receivables	225.3	144.2	185.8	194.2	Valuation				
Inventory	167.0	143.8	123.8	129.5	PER (Basic) (x)	20.0	14.0	13.6	12.6
Other financial assets	9.5	11.4	11.4	11.4	PER (Fully diluted) (x)	20.0	14.0	13.6	12.6
Current tax assets	1.7	0.0	0.0	0.0	PER (Fully diluted, normalized) (x)	20.0	14.0	13.6	12.6
Other	1.9	1.2	1.2	1.2	P/CFPS (x)	10.2	8.2	9.4	8.7
Total current assets	681.1	697.3	771.6	840.0	Price/NBV (x)	2.0	1.7	1.5	1.4
Equity accounted investments	11.9	13.2	13.2	13.2	Price/NTA (x)	2.0	1.7	1.6	1.4
Receivables	0.0	0.0	0.0	0.0	Dividend Yield (%)	1.7%	2.3%	2.6%	2.9%
Property, plant and equipment	588.3	610.2	634.4	655.8	Fully diluted normalized 3 yr EPS Cagr (%)	44%	33%	30%	17%
Right of Use Asset	0.0	9.7	9.7	9.7	PEG ratio (x)	0.5	0.4	0.4	0.8
Intangibles	20.8	22.2	19.3	16.5	EV/EBITDA (x)	7.7	5.9	5.6	5.3
Other	16.8	10.7	10.7	10.7	EV/EBIT (x)	11.2	7.9	7.7	7.1
Deferred Tax Assets	8.4	4.8	4.8	4.8	EV/Revenue (x)	0.6	0.5	0.5	0.5
Total non current assets	646.2	670.8	692.0	710.6	Other Information				
Total assets	1327.3	1368.1	1463.7	1550.6	Major Shareholders:				
Payables	202.3	156.9	178.7	186.3	HSBC Custody Nominees (Australia) Ltd				
Interest bearing liabilities	51.2	8.7	8.7	8.7	JP Morgan Nominees Australia Pty Ltd				
Provisions	85.3	80.1	80.1	80.1					
Current Lease Liabilities	0.0	2.6	2.7	2.7	12-mth High/Low (A\$/sh)				
Other	135.8	101.3	101.3	101.3	4.99/2.25				
Current tax liabilities	0.0	0.0	0.0	0.0	Average daily volume (A\$m)				
Total current liabilities	474.7	349.7	371.5	379.2	3.4				
Other	63.8	60.1	60.1	60.1	ASX Code				
Interest bearing liabilities	122.5	156.5	156.5	156.5	ASB				
Provisions	1.7	2.5	2.5	2.5	Next result				
Non-Current Lease Liabilities	0.0	7.4	7.4	7.4	Feb'21				
Deferred tax liabilities	33.8	43.1	43.1	43.1	Company Description				
Total non current liabilities	221.9	269.6	269.6	269.6	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.				
Total liabilities	696.6	619.4	641.1	648.8					
Net Assets	630.8	748.7	822.6	901.8					
Contributed equity	130.6	135.3	135.3	135.3					
Reserves	189.5	235.1	235.1	235.1					
Accumulated profit / (losses)	310.7	378.2	452.1	531.3					
Non controlling interests	0.0	0.0	0.0	0.0					
Total equity	630.8	748.7	822.6	901.7					

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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
Steven Clark - Resources Analyst	+61 8 9488 1430
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
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
Jayne Walsh - Institutional Adviser	+61 8 9488 1418

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
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
Ian Harrison - Investment Adviser	+61 8 9488 1422
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Tom Kenny - Investment Adviser	+61 8 9488 1431
Zac Vinten - Associate Adviser	+61 8 9488 1473
Laurence Grescos - Associate Adviser	+61 8 9488 1419
Katrina Ryan - Associate Adviser	+61 8 9488 1453
Brandon Oosthuizen - Associate Adviser	+61 8 9488 1471

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