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# EQUITY RESEARCH

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## BUY

Current Price \$3.51  
Valuation \$4.00

Monday, 24 August 2020

## Austal (ASB)

### Expect more defence related work

Analyst | Ian Christie, CFA

#### Quick Read

FY20 EBIT of \$130.4m was better than recent guidance of \$125m+, and well ahead of original guidance (\$110m+) and the FY19 result (\$92.8m). Good cash conversion meant ASB ended the year with net cash of \$272.4m, an excellent position to support investment into steel shipbuilding capabilities and enhanced support infrastructure. We remain attracted to ASB's high exposure to defence spend, especially given increasing geopolitical risks, and think this provides a strong base for future performance. We retain a BUY call.

#### View | Performing in all regions

**Record results:** ASB delivered impressive FY20 performance, with revenue of \$2.1b up 13% on FY19, and EBIT of \$130.4m and NPAT of \$89.0m up 41% and 45% respectively. Cash from operations was \$164.5m, ahead of our expectations, and the Company ended the financial year in a strong net cash position of \$272.4m (excluding notional CCPB debt). It allowed the declaration of a 5cps final dividend, taking full year dividends to 8cps.

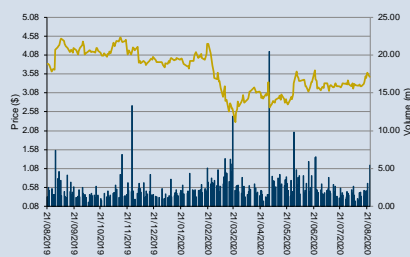
**Outlook upbeat:** Commentary was positive, underpinned by a \$4.3b order book and a pipeline of longer-term growth opportunities, which are now more evident given commitment to building steel shipbuilding capability in Mobile and the support of the US Department of Defence (DoD). The Company stopped short of providing FY21 guidance however, and we believe this, together with the weaker FY20 margin in the US Support business and a likely drop off in commercial work took the gloss off the strong result.

**Flat forecast:** We understand reticence in providing guidance and have kept our prior FY21 forecast unchanged given the uncertain environment. There is upside to this; for example, absent the negative impact on margin from what ASB believes were one-offs, US Support alone could deliver an EBIT swing of \$5m+ at target margins. Still, the currency direction is unclear, and COVID-19 is not yet under control, so caution is warranted.

**Reasons to be positive:** The significant swing in Australasian performance has been a key recent strategic success, and ASB is well situated regionally to support our expectation of more defence related work. Geopolitical tensions are growing, and we have little doubt the US will continue a steady drumbeat of naval defence spend to maintain and upgrade its fleet. The investment into a steel capability in the US could dovetail well with medium term US programs, and the US DoD's proposed investment into Mobile provides a clear indication of strong support for the shipyard. Further, as more and more ASB built ships enter service, so does the need for ongoing Support work. We expect this to be a growing contributor to ASB's earnings in coming periods. Importantly, ASB's cash position of just under \$400m puts it in a good position to take advantage of growth opportunities.

Ticker:	ASB.ASX		
Sector:	Ship Construction		
Shares on Issue (m):	358.5		
Market Cap (\$m):	1,258.2		
Net Debt / (Cash) (\$m):*	-272.4		
Enterprise Value (\$m):	985.8		
* Excludes notional CCPB debt			
52 wk High/Low:	4.55	2.31	
12m Av Daily Vol (m):	2.48		
<b>Key Metrics</b>			
	21F	22F	
EV/EBITDA (x)	5.8	5.8	
EV/EBIT (x)	8.0	8.0	
P/E (x)	15.2	15.1	
<b>Ratios</b>			
	20A	21F	22F
ND / Equity	-30.9%	-29.6%	-32.5%
EBIT Mgn	6.3%	5.9%	6.1%
RoA	12.9%	12.4%	12.1%
RoE	12.9%	10.6%	10.0%
<b>Financials*:</b>			
	20A	21F	22F
Revenue (\$m)	2,086	2,104	2,037
EBITDA (\$m)	176.1	170.1	169.5
EBIT (\$m)	130.4	123.3	123.8
NPAT (\$m)	89.0	82.2	82.8
Rep. EBIT (\$m)	130.4	123.3	123.8
Rep. NPAT (\$m)	89.0	82.2	82.8
* Normalised			
Net Assets (\$m)	748.7	802.4	856.7
Op CF (\$m)	164.5	87.7	124.5
<b>Per Share Data:</b>			
	20A	21F	22F
Norm. EPS (cps)	24.7	23.1	23.2
DPS (cps)	8.0	8.0	8.0
Div Yield	2.3%	2.3%	2.3%
NTAPS (cps)	203.9	219.8	235.9
CFPS (cps)	45.6	24.6	34.9

#### Share Price Graph



Please refer to important disclosures at the end of the report (from page 4)

#### Recommendation

We maintain our BUY call on an unchanged \$4.00 valuation.

## Austal

## Equity Research

Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	3.51
Valuation (\$)	4.00

Sector	Shipbuilding
Market Cap (\$m)	1,258.2
Date	24 August 2020

Trading Metrics	FY19A	FY20A	FY21F	FY22F
EV / EBITDA (x)	7.3	5.6	5.8	5.8
EV / EBIT (x)	10.6	7.6	8.0	8.0
P/E (x)	20.2	14.2	15.2	15.1
Dividend Yield (%)	1.7%	2.3%	2.3%	2.3%

Per Share Data	FY19A	FY20A	FY21F	FY22F
Reported EPS (cps)	17.3	24.7	23.1	23.2
Adjusted EPS (cps)	17.3	24.7	23.1	23.2
Div. per share (cps)	6.0	8.0	8.0	8.0
NTA per share (cps)	174.5	203.9	219.8	235.9
CF per share (cps)	46.5	45.6	24.6	34.9

Profit and Loss (\$m)*	FY19A	FY20A	FY21F	FY22F
Revenue	1,851	2,086	2,104	2,037
EBITDA	135.0	176.1	170.1	169.5
D&A	(42.2)	(45.7)	(46.8)	(45.7)
EBIT	92.8	130.4	123.3	123.8
PBT	85.6	123.5	115.8	116.6
NPAT	61.4	89.0	82.2	82.8
Reported EBIT	92.8	130.4	123.3	123.8
Reported NPAT	61.4	89.0	82.2	82.8

\*Normalised, unless otherwise stated

Cash Flow (\$m)	FY19A	FY20A	FY21F	FY22F
Receipts	1,865.4	2,165.3	2,037.0	2,033.5
Payments	(1,688.9)	(1,982.6)	(1,919.5)	(1,868.0)
Other	(12.0)	(18.2)	(29.8)	(41.0)
Cash from Operations	164.5	164.5	87.7	124.5
Property, Plant & Equip	(41.5)	(16.7)	(53.3)	(55.3)
Payment for Subsidiary	-	-	-	-
Other	3.8	(1.5)	-	-
Cash From Investing	(37.7)	(18.2)	(53.3)	(55.3)
Issue of Shares	8.6	-	-	-
Net Borrowing	(10.7)	(6.7)	(5.7)	(5.7)
Dividends / Other	(19.2)	(20.6)	(28.5)	(28.5)
Cash From Financing	(21.3)	(27.2)	(34.3)	(34.3)
Net Cash Flow	105.5	119.1	0.1	35.0
Ending Cash	275.7	396.7	396.8	431.7

Balance Sheet (\$m)	FY19A	FY20A	FY21F	FY22F
Cash	275.7	396.7	396.8	431.7
Receivables	225.3	144.2	172.9	167.4
Inventory	167.0	143.8	162.8	157.2
Other	13.1	12.7	1.2	1.2
Current Assets	681.1	697.3	733.6	757.5
Property, Plant & Equip	588.4	610.2	626.9	645.6
Intangibles	20.7	22.2	18.5	15.1
Other NC Assets	37.1	38.4	38.4	38.4
Non-Current Assets	646.2	670.8	683.8	699.1
Total Assets	1,327.3	1,368.1	1,417.4	1,456.6
Payables	202.3	156.9	189.9	183.4
Progress Claims / Dep	120.4	94.5	63.1	61.1
Borrowings	173.8	165.2	159.4	152.9
Provisions	87.0	82.7	82.7	82.7
Other	113.0	120.1	119.9	119.9
Total Liabilities	696.5	619.4	614.9	599.9
Net Assets	630.8	748.7	802.4	856.7
Ordinary Equity	130.6	135.3	135.3	135.3
Reserves	189.5	235.1	235.1	235.1
Retained Earnings	310.7	378.3	432.0	486.2
Total Equity	630.8	748.7	802.4	856.7

Valuation	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
Discount Rate / WACC (%)		9.5%	
PV Free Cash Flow (\$m)		1,233.8	
Less Net Debt / Plus Cash (\$m)		231.5	
Unpaid Capital (\$m) / Notional CCPB Debt		40.9	
Equity Value (\$m)		1,506.2	4.20
<b>Multiple Valuation:</b>			
FY21 EV/EBIT multiple	10.0	1,505.0	4.20
FY21 PE multiple	15.0	1,289.3	3.60
Valuation (\$ per share) - blended DCF and multiple valuations			4.00

Profit and Loss (\$m)*	1H19A	2H19A	1H20A	2H20A
Revenue	851	1,000	1,039	1,047
EBITDA	60.7	74.3	84.4	91.8
D&A	(20.3)	(21.9)	(24.4)	(21.3)
EBIT	40.4	52.4	59.9	70.5
PBT	36.3	49.3	57.1	66.5
NPAT	23.7	37.7	40.8	48.2
Reported EBIT	40.4	52.4	59.9	70.5
Reported NPAT	23.7	37.7	40.8	48.2

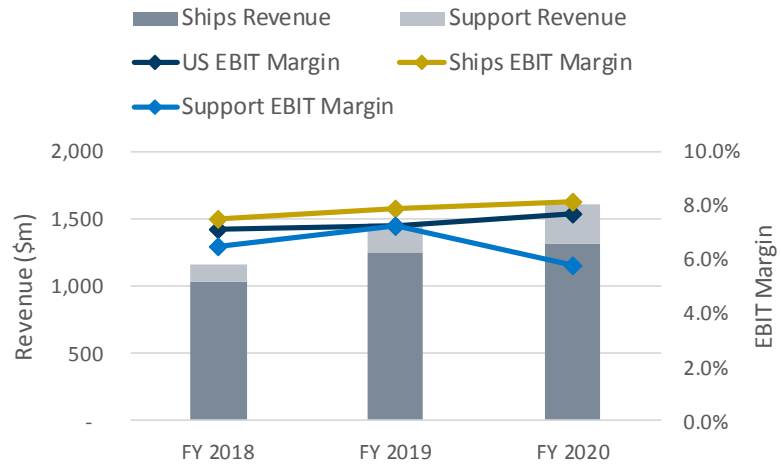
\*Normalised, unless otherwise stated

Cash Flow (\$m)	1H19A	2H19A	1H20A	2H20A
Receipts	954.5	910.9	1,049.6	1,115.6
Payments	(848.1)	(840.8)	(1,020.4)	(962.2)
Other	(4.5)	(7.5)	(7.2)	(11.1)
Cash from Operations	101.9	62.6	22.1	142.4
Property, Plant & Equip	(19.7)	(21.8)	(9.1)	(7.6)
Payment for Subsidiary	-	-	-	-
Other	0.1	3.7	(0.4)	(1.1)
Cash From Investing	(19.6)	(18.1)	(9.5)	(8.7)
Issue of Shares	-	8.6	-	-
Net Borrowing	(8.5)	(2.3)	(2.7)	(4.0)
Dividends / Other	(10.0)	(9.3)	(10.3)	(10.3)
Cash From Financing	(18.4)	(2.9)	(13.0)	(14.2)
Net Cash Flow	63.8	41.6	(0.4)	119.5
Ending Cash	233.3	275.7	274.6	396.7

Financial Ratios	FY19A	FY20A	FY21F	FY22F
<b>Growth</b>				
Revenue growth (%)	33.0%	12.7%	0.8%	-3.2%
NPAT growth (%)	57.3%	45.0%	-7.6%	0.7%
Norm. EPS growth (%)	54.6%	42.2%	-6.5%	0.7%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	7.3%	8.4%	8.1%	8.3%
EBIT Margin (%)	5.0%	6.3%	5.9%	6.1%
PBT Margin (%)	4.6%	5.9%	5.5%	5.7%
NPAT Margin (%)	3.3%	4.3%	3.9%	4.1%
Return on Assets (%)	9.1%	12.9%	12.4%	12.1%
Return on Equity (%)	10.4%	12.9%	10.6%	10.0%
ROIC (%)	7.8%	10.9%	10.5%	10.3%
<b>Balance Sheet Ratios</b>				
Net Debt (ND)	(101.9)	(231.5)	(237.3)	(278.8)
Net Debt (ND) / Equity (%)	-16.2%	-30.9%	-29.6%	-32.5%
ND / ND + Equity (%)	-19.3%	-44.8%	-42.0%	-48.2%
Current Ratio (x)	1.4	2.0	2.1	2.3
Net Interest Cover (x)	12.8	18.9	16.6	17.2
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	10.0%	11.9%	2.7%	5.5%
Cash Conversion (x)	1.2	0.9	0.5	0.7

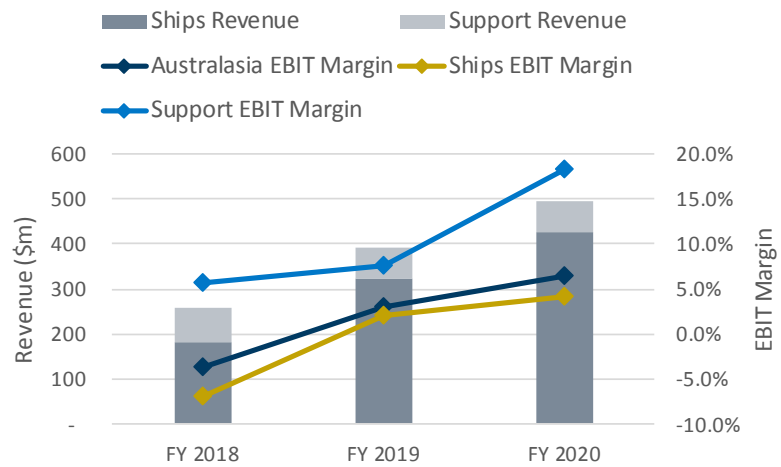
## Segment Results

Figure 1: US Performance



Source: Argonaut, ASB

Figure 2: Australasia Performance



Source: Argonaut, ASB

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