

15 May 2018

Austal Limited (ASB)

OPV decision in-line with expectations

Following an announcement from German designer Luerssen, late last week, Austal will not participate in the Offshore Patrol Vessel (OPV) program. This was in-line with our expectations, as outlined in our recent Austal report, *Shipshape*. As a result, we have made no changes to our forecasts or target price. We continue to see strong upside in Austal, underpinned by long-term military contracts and an expanding pipeline of fast ferry contracts. We reiterate our Buy recommendation and A\$2.53 target price.

Key takeaways from announcement

- Following the conclusion of negotiations with Luerssen, Austal will not participate in the OPV program.
- Austal's Australian business continues to be supported by the Pacific Patrol Boats (PPB) program.

Significant potential upside in the US and Asia

- In the US, Austal's revenue is forecast to contract over the next decade as key programs conclude. However, with the US Navy embarking on an expansion program (+20% increase in fleet) while looking to maintain industry competition, we see limited risk to the longer term prospects for ASB's largest division.
- As one of a few large fast ferry shipbuilders globally, Austal Asia is well placed to participate in the likely forthcoming replacement cycle, driven by regulatory changes.

No change to forecasts

- The OPV program was not in our forecasts, hence, we have made no changes following this announcement.
- Our near term forecasts are supported by ASB's current order book, which leads to a high level of confidence.
- Beyond our near term forecast period (FY18F-FY20F) we have incorporated some additional contracts for ASB, however, our assumptions are conservative.

Valuation

- We have used a variety of forecast approaches to determine a fair value for Austal.
- Our most conservative method is a DCF assuming ASB does not replace the anticipated revenue gap from its largest contract, which generates a fair value of A\$2.17.
- Less conservative methods provide a valuation range of A\$2.30 (PE multiple) to A\$3.46 (EBITDA multiple).
- A blended average of these approaches generates our target price of A\$2.53. We reiterate our Buy recommendation.

BUY

Share Price: \$1.75

Target Price: A\$2.53

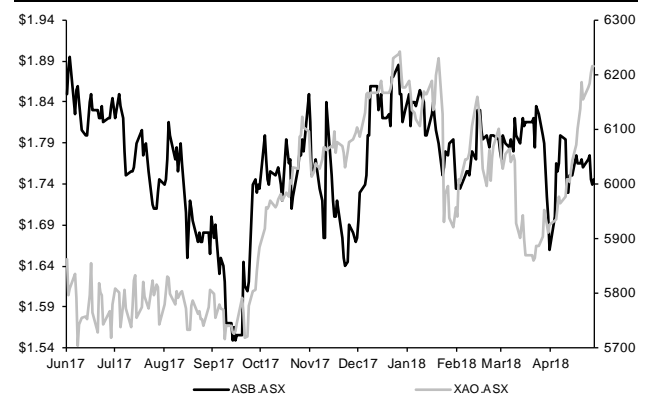
Company Data

Shares – ordinary (M)	350.9
Dilution (M)	0.0
Total (fully diluted) (M)	350.9
Market capitalisation (\$M)	612.3
12 month low/high (\$)	1.50/ 2.02
Average monthly turnover (\$M)	13.7
Index	All Ords
GICS Industry	Aerospace & Defense

Financial Summary (fully diluted/normalised)

Year end Dec	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue (\$M)	1340	1310	1358	1472	1350
Costs (\$M)	-1275	-1220	-1263	-1368	-1242
EBITDA (\$M)	65.0	90.2	95.0	103.4	108.1
NPAT (\$M)	25.0	32.7	44.8	45.3	49.9
EPS (¢ps, U/L)	7.1	9.3	12.7	12.9	14.2
EPS Growth (%)	-0.4%	31.1%	36.8%	1.2%	10.1%
PER (x)	24.9	19.0	13.9	13.7	12.5
Free Cashflow (\$M)	(25.0)	(91.4)	49.6	48.6	77.5
FCFPS (¢ps)	(7.1)	(26.0)	14.1	13.9	22.1
PFCFPS (x)	nm	nm	12.5	12.8	8.0
Enterprise Value (\$M)	569.8	667.4	630.8	596.2	532.7
EV / EBITDA (x)	8.8	7.4	6.6	5.8	4.9
Payout ratio (%)	55.8	42.7	31.4	31.0	28.2
Dividends (¢ps)	4.0	4.0	4.0	4.0	4.0
Yield (%)	2.3	2.3	2.3	2.3	2.3
Franking (%)	100.0	100.0	0.0	100.0	100.0

ASB – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

Killian Murphy
+61 2 9239 9607

Analysis

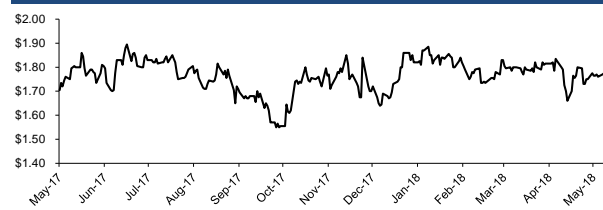
Austal Limited

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	1.75
Price target (12-month)	\$	2.53
52 week high / low	\$	1.495 - 2.02
Market capitalisation (fully diluted)	\$m	612.3
Shares on issue (basic)	no.	350.9
Options / rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	350.9

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS	FY16A	FY17A	FY18F	FY19F	FY20F
Reported NPAT	\$m (84.2)	19.3	44.8	45.3	49.9
NPAT normalised	\$m 25.0	32.7	44.8	45.3	49.9

Reported EPS (undiluted)	¢ (24.0)	5.5	12.8	12.9	14.2
EPS normalised (undiluted)	¢ 7.1	9.3	12.8	12.9	14.2
...Growth	% 0%	31%	37%	1%	10%
PER normalised/undiluted	x 24.5	18.7	13.7	13.5	12.3
Operating cash flow per share	¢ 0.0	(10.8)	27.4	20.1	25.3
Free cash flow per share	¢ (7.1)	(26.0)	14.1	13.9	22.1
Price to free cash flow per share	x nm	nm	12.4	12.6	7.9
FCF yield	% (4.1%)	(14.9%)	8.1%	7.9%	12.7%

Dividend	¢ 4.0	4.0	4.0	4.0	4.0
Payout	% 55.8	42.7	31.4	31.0	28.2
Yield	% 2.3	2.3	2.3	2.3	2.3
Franking	% 100.0	100.0	0.0	100.0	100.0

Enterprise value	\$m 560.6	658.2	621.6	587.0	523.5
EV/EBITDA	x 8.6	7.3	6.5	5.7	4.8
EV/EBIT	x 16.0	11.2	10.3	8.7	7.2
Price to book (NAV)	x 1.3	1.3	1.3	1.2	1.1
Price to NTA	x 1.5	1.5	1.4	1.3	1.2

KEY RATIOS	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA margin	% 4.9%	6.9%	7.0%	7.0%	8.0%
EBIT margin	% 2.6%	4.5%	4.4%	4.6%	5.4%
NPAT margin	% 1.9%	2.5%	3.3%	3.1%	3.7%
ROE	% 5.5%	7.2%	9.3%	8.8%	9.1%
ROA	% 3.5%	6.1%	6.0%	6.5%	6.9%
Net tangible assets per share	¢ 2.8	2.6	2.7	2.8	2.9
Net debt / (cash)	\$m (51.7)	45.9	9.2	(25.4)	(88.8)
Interest cover (EBIT / net interest)	x (6.4)	(10.3)	(8.1)	(10.3)	(11.8)
Gearing (net debt / EBITDA)	x nm	0.5	0.1	nm	nm
Leverage (net debt / (net debt + equity))	x nm	0.1	0.0	nm	nm

DUPONT ANALYSIS	FY16A	FY17A	FY18F	FY19F	FY20F
Net Profit Margin	% 1.9	2.5	3.3	3.1	3.7
Asset Turnover	x 1	1.4	1.4	1.4	1.3
Return on Assets	% 2	3.4	4.5	4.4	4.7
Financial Leverage	x 2.2	2.1	2.1	2.0	1.9
Return on Equity	% 5	7.2	9.3	8.8	9.1

INTERIM SUMMARY	1H17A	2H17A	1H18A	2H18F	1H19F
Total revenue	\$M 649.2	660.9	652.9	705.1	782.3
Operating expenses	\$M (602.8)	(616.9)	(606.4)	(656.6)	(729.0)
EBITDA	\$M 46.4	44.0	46.5	48.5	53.3
Depreciation & amortisation	\$M (15.2)	(16.5)	(17.3)	(17.6)	(18.1)
EBIT	\$M 31.2	27.5	29.2	30.9	35.2
Net interest	\$M (3.0)	(3.2)	(3.9)	(3.5)	(3.2)
Pretax profit	\$M 28.2	24.3	25.3	27.4	32.0
Tax expense	\$M (9.6)	(10.7)	0.2	(8.2)	(8.1)
Minorities/preference dividend	\$M (1.0)	0.0	0.0	0.0	0.0
Operating NPAT	\$M 18.6	13.6	25.5	19.2	23.9
Significant items	\$M (9.3)	(4.1)	0.0	0.0	0.0
Reported NPAT	\$M 9.3	9.4	25.5	19.2	23.9
Reported EPS (diluted)	¢ 2.7	2.7	7.3	5.5	6.8
Normalised EPS	¢ 5.3	3.9	7.3	5.5	6.8

PROFIT AND LOSS	FY16A	FY17A	FY18F	FY19F	FY20F
Total revenue	\$m 1,339.9	1,310.1	1,358.0	1,471.6	1,350.4
Costs (COGS & opex)	\$m (1,274.9)	(1,219.9)	(1,263.0)	(1,368.2)	(1,242.3)
EBITDA	\$m 65.0	90.2	95.0	103.4	108.1
Depreciation & amortisation	\$m (29.9)	(31.5)	(34.8)	(36.3)	(35.1)
EBIT	\$m 35.1	58.7	60.1	67.1	72.9
Net interest	\$m (5.5)	(5.7)	(7.4)	(6.5)	(6.2)
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m 29.6	53.0	52.7	60.6	66.7
Tax expense	\$m (4.6)	(20.3)	(8.0)	(15.3)	(16.9)
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m 25.0	32.7	44.8	45.3	49.9
Significant items	\$m (109.2)	(13.4)	0.0	0.0	0.0
Reported NPAT	\$m (84.2)	19.3	44.8	45.3	49.9

GROWTH PROFILE	FY16A	FY17A	FY18F	FY19F	FY20F
Operating revenue	% (0.1)	(2.2)	3.7	8.4	(8.2)
EBITDA	% (0.3)	38.8	5.3	8.9	4.5
EBIT	% (0.5)	67.2	2.5	11.6	8.7
Operating NPAT	% (0.4)	31.1	36.8	1.2	10.1
Normalised EPS	% (0.4)	31.1	36.8	1.2	10.1
DPS	% 0.0	0.0	0.0	0.0	0.0

BALANCE SHEET	FY16A	FY17A	FY18F	FY19F	FY20F
Cash/(overdraft)	\$m 224.3	150.5	177.4	212.0	275.4
Receivables	\$m 128.3	91.1	94.5	102.4	93.9
Inventory	\$m 109.0	170.4	163.0	176.6	162.0
Other	\$m 8.5	10.4	9.8	9.8	9.8
Current	\$m 470.1	422.4	444.7	500.8	541.3
Prop, plant & equip	\$m 490.8	500.3	510.1	492.7	467.7
Other	\$m 52.2	37.3	43.0	43.0	43.0
Non current	\$m 543.0	537.6	553.1	535.7	510.7
Total assets	\$m 1,013.1	960.0	997.8	1,036.5	1,051.9
Accounts Payable	\$m 229.8	154.9	160.6	174.0	159.7
Borrowings	\$m 172.6	196.4	186.6	186.6	186.6
Other	\$m 153.2	151.8	169.8	163.8	157.8
Total liabilities	\$m 555.6	503.1	517.0	524.5	504.1
Net assets	\$m 457.6	456.9	480.8	512.0	547.9
Equity	\$m 114.7	116.4	116.8	116.8	116.8
Retained earnings/other	\$m 342.8	340.5	364.0	395.2	431.0
Shareholder's equity	\$m 457.6	456.9	480.8	512.0	547.9

CASH FLOW	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA	\$m 65.0	90.2	95.0	103.4	108.1
Change in provisions	\$m 0.0	0.0	7.8	0.0	0.0
Change in working capital	\$m 213.0	(99.1)	9.8	(8.1)	8.6
Net interest	\$m (4.0)	(3.5)	(7.4)	(6.5)	(6.2)
Tax paid	\$m (4.8)	12.2	(13.5)	(18.1)	(21.8)
Other	\$m (269.1)	(37.7)	4.5	0.0	0.0
Operating cash flow	\$m 0.0	(37.9)	96.2	70.7	88.7
Stay in business capital expenditure	\$m (12.8)	(9.2)	(35.3)	(22.1)	(11.3)
Acquisitions/divestment/other	\$m (12.2)	(44.3)	(11.3)	0.0	0.0
Investing cash flow	\$m (25.0)	(53.5)	(46.6)	(22.1)	(11.3)
Equity	\$m 0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 11.1	24.6	(6.9)	0.0	0.0
Dividend/other	\$m (15.8)	(12.3)	(14.0)	(14.0)	(14.0)
Financing cash flow	\$m (4.7)	12.4	(20.9)	(14.0)	(14.0)
Free cash flow	\$m (25.0)	(91.4)	49.6	48.6	77.5

Source: Petra Capital

Petra Capital
 Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
 ACN 110 952 782
 AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	brmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Research (Resources):	Peter Chilton	+61 (0)2 9239 9634	pchilton@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Mark Tomlins	+61 (0)2 9239 9625	mtomlins@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Jamie Campbell	+61 (0)2 9239 9620	jcampbell@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Michael Casey	+61 (0)2 9239 9608	mcasey@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: www.globalalliancesecurities.com) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.