

Analyst

Daniel Laing 612 8224 2886

Authorisation

Chris Savage 612 8224 2835

Austal Limited (ASB)

Super sub

Recommendation

Buy (unchanged)

Price

\$2.71

Target (12 months)

\$3.15 (previously \$2.75)

Sector

Capital Goods

Expected Return

Capital growth	16.2%
Dividend yield	0.0%
Total expected return	16.2%

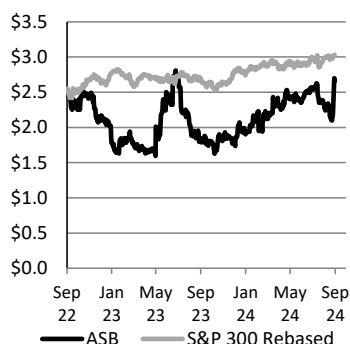
Company Data & Ratios

Enterprise value	\$984.7m
Market cap	\$982.3m
Issued capital	362.5m
Free float	94%
Avg. daily val. (52wk)	\$1.5m
12 month price range	\$1.61 - \$2.74

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	2.38	2.38	1.87
Absolute (%)	11.55	11.55	42.36
Rel market (%)	7.88	6.15	28.71

Absolute Price



SOURCE: IRESS

Boost to submarine module production capacity

Austal has received a US\$450m/ A\$670m contract from General Dynamics Electric Boat (GDEB) to expand its shipyard in Mobile, Alabama by designing and constructing a new module fabrication and outfitting facility to support the U.S. Navy Submarine Industrial Base (SIB). This contract further strengthens ASB's relationship with GDEB and is necessary to support the U.S. Navy goal of delivering one Columbia-class and two Virginia-class submarines annually. Construction of the new facility will begin this calendar year and be completed in 2026.

Key contributor to US naval industrial base

Nuclear-powered submarines are recognised as the 'Crown Jewel' of the US naval fleet and, as such, participation in the SIB is highly restricted. In recent years, ASB has played a small role in supporting GDEB in the construction of submarine modules, however, this contract demonstrates a material increase in its contribution to the SIB. In our view, this contract is a major development because 1) submarine module fabrication provides a long-term pipeline of sustainable work, 2) funding from GDEB for the major expansion alleviates any potential BS concern, and 3) it reiterates ASB's standing as a responsible contractor to the US Navy and likely removes any risk to this position changing following the conclusion of DOJ investigations.

Investment View: 15% increase in PT to \$3.15

We have not factored this contract into our estimates at this stage as we await further updates regarding the recognition of the associated income and costs. However, we believe this is a significant development for ASB that will diversify its shipbuilding operations, drive long-term revenue growth and reinforce its position as a key contributor to the US naval industrial base. As such, we have reduced the WACC in our DCF valuation from 11.0% to 10.5% and increased the multiples in our EV/EBIT and PE valuations to 15.0x and 20.0x, respectively. The net result is a 15% increase in our price target to \$3.15, which remains a >15% premium to the current share price so we retain our BUY recommendation.

Earnings Forecast

Year End 30 Jun	FY24	FY25e	FY26e	FY27e
Revenue (\$m)	1,468.9	1,726.1	1,932.3	2,164.6
EBIT (Statutory) (\$m)	56.5	79.7	103.2	135.5
NPAT (Statutory) (\$m)	14.9	50.6	70.1	92.5
EBIT (Underlying) (\$m)	55.9	79.7	103.2	135.5
EPS (cps)	nm	13.9	19.2	25.3
EPS growth (%)	nm	nm	38%	32%
PE (x)	66.5	19.6	14.1	10.7
EV/EBIT (x)	17.4	12.4	9.5	7.3
FCF Yield (%)	nm	nm	-1%	4%
Dividend (eps)	0.0	0.0	4.0	6.0
Yield (%)	0.0	0.0%	1.5%	2.2%
Franking (%)	0.0	0.0	0.0	0.0
ROE(%)	1.5%	4.8%	6.3%	7.8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Austal Limited (ASB)

Company Description

Austal Limited (ASB) is an Australian shipbuilder and defence contractor providing design, manufacturing and support capabilities for defence and commercial customers. The company is Australia's largest defence exporter, and in the last 35 years, it has contracted more than 350 vessels for over 120 customers across 59 countries. The company is headquartered in Henderson, Western Australia and operates 5 shipyards across 4 countries (Australia, USA, Philippines and Vietnam). ASB operates two major divisions, Austal Australasia and Austal USA (AUSA).

Investment Thesis

We maintain our BUY recommendation on Austal. Our investment thesis is based on:

- **Record contract book:** Austal currently has a record contract book of ~\$12.7b AUD, with recent contracts such as the OPC (~\$4.3b), T-AGOS (~\$4.7b) and EMS (~\$1.25b), providing a deep pipeline of work for the next decade. These contracts were vital to replace the two major programs, the LCS and EPF, which were historically the foundation of the company's contract book, with both programs scheduled to deliver their final vessels in FY26.
- **Macro tailwinds driving structural growth:** Austal has solidified its position as a key contributor in both the Australian and US naval industrial bases. Thus, we have identified ASB as one of the major beneficiaries of the macro tailwinds driving structural growth in these markets, including 1) record defence expenditure globally, 2) renewed emphasis on maritime capabilities due to potential conflict in the Pacific and 3) increased work domestically in light of the AUKUS agreement and the likely signing of a Strategic shipbuilding Agreement with the Australian Government.
- **Acquisition target:** ASB rejected a NBIO from Hanwha Ocean Co. (\$2.825 per share bid) in Apr-24 as the Austal board were not satisfied Hanwha would receive the necessary approval to complete the transaction. Conversations with Hanwha are ongoing, and media reports have previously speculated multiple North American Private Equity firms (Arlington Capital Partners, Cerberus Capital Management and JF Lehman Co.) are interested in a potential takeover of ASB.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Regulatory risk:** Austal has now resolved all investigations by the DoJ and SEC relating to allegations former Austal USA employees made false and misleading statements about Austal USA's performance between 2012 and 2016. However, whilst unlikely, if Austal USA were unable to maintain its standing as a presently responsible contractor to the US Government – a requirement for eligibility to undertake contracts for the US Navy and Coast Guard- the operational performance of the company will be severely impacted.
- **Contract risk:** Contract risk refers to the potential for negative outcomes or uncertainties associated with the performance or execution of a contract. If Austal were to not fulfil the terms of their contract due to quality or timing concerns, the company will likely be exposed to unfavourable terms under the contract, which would affect the financial performance of the company.

Table 1 - Financial summary

Profit & Loss (A\$m)	FY23	FY24	FY25e	FY26e	FY27e	Austral Limited					
Year Ending 30 June								Year End 30 Jun			
Revenue	1,585.0	1,468.9	1,726.1	1,932.3	2,164.6	Share Price:	\$2.71	Target Price:	\$3.15		
<i>Change</i>	10.9%	-7.3%	17.5%	11.9%	12.0%	No. of issued shares (m):	362.5	Market cap:	\$982.3m		
Cost of sales	(1,485.9)	(1,296.4)	(1,510.4)	(1,671.5)	(1,861.6)	Valuation Ratios					
Gross profit	99.1	172.5	215.8	260.9	303.0	FY23	FY24	FY25e	FY26e	FY27e	
<i>Gross margin</i>	6%	12%	13%	14%	14%	Basic EPS (cps)	-3.8	4.1	13.9	19.2	25.3
Other income/(expense)	24.0	23.5	-	-	-	Diluted EPS (cps)	-3.8	4.1	13.9	19.2	25.3
Expenses (excl. D&A, int.)	(68.2)	(71.7)	(63.3)	(81.9)	(89.2)	<i>EPS growth (%)</i>	<i>nm</i>	<i>nm</i>	240%	38%	32%
Statutory EBITDA	55.0	123.7	152.5	179.0	213.8	PE(x)	NM	nm	19.6	14.1	10.7
Depreciation and amortisation	(59.8)	(67.3)	(72.8)	(75.8)	(78.3)	EV/Sales (x)	0.6	0.7	0.6	0.5	0.5
Statutory EBIT	(4.8)	56.5	79.7	103.2	135.5	EV/EBITDA (x)	17.9	8.0	6.5	5.5	4.6
Net interest (expense)/revenue	(10.7)	(15.1)	(13.1)	(9.7)	(7.0)	EV/EBIT (x)	NM	nm	12.4	9.5	7.3
Pre-tax profit	(15.5)	41.3	66.6	93.5	128.5	FCF per share	nm	nm	-1.7	-2.7	10.3
Income tax benefit /(expense)	1.7	(26.5)	(16.0)	(23.4)	(36.0)	FCF yield %	nm	nm	-0.6%	-1.0%	3.8%
Statutory NPAT	(13.8)	14.9	50.6	70.1	92.5	NTA per share (\$ps)	2.51	2.66	2.80	2.96	3.15
Cashflow (A\$m)						P/NTA (x)	1.1	1.0	1.0	0.9	0.9
EBITDA	55.0	123.7	152.5	179.0	213.8	Book value (\$ps)	2.62	2.77	2.91	3.06	3.26
Change in working capital	-38.8	80.1	8.1	29.5	10.5	Price/Book (x)	1.0	1.0	0.9	0.9	0.8
Gross cash flow	93.7	43.7	144.5	149.4	203.3	DPS (cps)	7.0	0.0	0.0	4.0	6.0
Income tax refunded/(paid)	3.6	(41.6)	(16.0)	(23.4)	(36.0)	Payout ratio % of NPAT	nm	0.0%	0.0%	20.7%	23.5%
Operating cash flow	86.7	-13.0	115.4	116.4	160.4	Dividend Yield %	2.6%	0.0%	0.0%	1.5%	2.2%
Payments for PPE	(126.6)	(66.4)	(117.6)	(122.4)	(119.1)	Performance Ratios					
Payments for Intangibles	(2.1)	(3.5)	(4.0)	(3.8)	(3.9)	FY23	FY24	FY25e	FY26e	FY27e	
Investing cash flow	(102.8)	(12.7)	(121.6)	(126.2)	(123.0)	EBITDA Margin (%)	3.5%	8.4%	8.8%	9.3%	9.9%
Net Proceeds from issue of shares	-	-	-	-	-	EBIT Margin (%)	-0.3%	3.8%	4.6%	5.3%	6.3%
Net proceeds of borrowings	0.0	40.4	0.0	0.0	0.0	NPAT Margin (%)	-0.9%	1.0%	2.9%	3.6%	4.3%
Repayment of borrowings	-	(0.5)	0.0	0.0	0.0	Net debt/(cash)	(49.7)	(3.9)	2.3	26.7	11.0
Payment of lease liabilities	(9.1)	(9.5)	0.0	0.0	0.0	ROE (%)	-1.5%	1.5%	4.8%	6.3%	7.8%
Dividends	(29.0)	(10.9)	-	(14.5)	(21.7)	Segmentals (A\$m)					
Other	0.0	0.0	0.0	0.0	0.0	FY23	FY24	FY25e	FY26e	FY27e	
Financing cash flow	(38.1)	19.5	-	(14.5)	(21.7)	Revenue					
Net change in cash	(54.1)	(6.2)	(6.2)	(24.3)	15.6	Shipbuilding	1,217.6	1,008.7	1,218.2	1,391.3	1,578.7
Cash at start of period	240.1	179.2	173.5	167.3	142.9	Support	371.0	468.4	507.9	541.1	585.9
Exchange rate impact	(6.8)	0.5	0.0	0.0	0.0	Total Revenue	1,588.7	1,585.0	1,726.1	1,932.3	2,164.6
Cash at end of period	179.2	173.5	167.3	142.9	158.6	Revenue Breakdown					
Balance Sheet (A\$m)						Shipbuilding	<i>na</i>	68.3%	70.6%	72.0%	72.9%
Cash and cash equivalents	179.2	173.5	167.3	142.9	158.6	Support	<i>na</i>	31.7%	29.4%	28.0%	27.1%
Trade and other receivables	135.0	171.6	155.4	173.9	173.2	Shipbuilding- USA	<i>na</i>	84.7%	84.1%	84.7%	85.8%
Inventories	329.1	401.5	397.0	396.1	368.0	Shipbuilding- Australasia	<i>na</i>	15.3%	15.9%	15.3%	14.2%
PPE	962.5	1,045.8	1,094.3	1,144.7	1,189.3	Support- USA	<i>na</i>	68.4%	69.4%	68.4%	67.9%
Goodwill and intangibles	38.3	39.1	39.5	39.5	39.5	Support- Australasia	<i>na</i>	31.6%	30.6%	31.6%	32.1%
Right-of-use assets	160.5	154.6	154.6	154.6	154.6						
Other	122.7	107.0	107.0	107.0	107.0						
Total assets	1,927.4	2,093.2	2,115.0	2,158.8	2,190.2						
Trade and other payables	134.6	253.2	224.4	212.6	173.2						
Provisions	202.2	152.6	152.6	152.6	152.6						
Lease liabilities	111.0	111.5	111.5	111.5	111.5						
Borrowings	129.5	169.6	169.6	169.6	169.6						
Other liabilities	401.4	401.7	401.7	401.7	401.7						
Total liabilities	978.6	1,088.6	1,059.8	1,047.9	1,008.5						
Net Assets	948.8	1,004.7	1,055.3	1,110.9	1,181.6						
Share capital	144.5	145.1	145.1	145.1	145.1						
Other reserves	369.1	416.6	416.6	416.6	416.6						
Accumulated losses	435.2	443.0	493.6	549.2	620.0						
Total shareholders' equity	948.8	1,004.7	1,055.3	1,110.9	1,181.6						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Rob Crookston	Strategy	612 8224 2813	rcrookston
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Martyn Jacobs	Healthcare	613 9235 1683	mjacobs
Thomas Wakim	Healthcare	612 8224 2815	twakim
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Joseph House	Industrials	613 9325 1624	jhouse
Baxter Kirk	Industrials	613 9235 1625	bkirk
Daniel Laing	Industrials	612 8224 2886	dlaing
Hayden Nicholson	Industrials	613 9235 1757	hnicholson
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
Connor Eldridge	Real Estate	612 8224 2893	celdridge
Andy MacFarlane	Real Estate	612 8224 2843	amacfarlane
Regan Burrows	Resources	618 9236 7677	rburrows
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
James Williamson	Resources	613 9235 1692	jwilliamson
Associates			
Leo Armati	Associate Analyst	612 8224 2846	larmati
Kion Sapountzis	Associate Analyst	613 9235 1824	ksapountzis
Ritesh Varma	Associate Analyst	613 9235 1658	rvarma

Research Coverage & Policies

For Bell Potter Securities' Research Coverage Decision Making Process and Research Independence Policy please refer to our company website: <https://bellpotter.com.au/research-independence-policy/>.

Authoring Research Analyst's Certification

The Authoring Research Analyst is responsible for the content of this Research Report, and, certifies that with respect to each security that the Analyst covered in this Report (1) all the views expressed accurately reflect the Analyst's personal views about those securities and were prepared in an independent manner and (2) no part of the Analyst's compensation was, is or will be, directly or indirectly, related to specific recommendations or views expressed by that Research Analyst in the Research Report.

Research Analyst's Compensation

Research Analyst's compensation is determined by Bell Potter Securities Research Management and Bell Potter Securities' Senior Management and is based upon activities and services intended to benefit the investor clients of Bell Potter Securities Ltd. Compensation is not linked to specific transactions or recommendations. Like all Company employees Research Analysts receive compensation that is impacted by overall Company profitability.

Prices

The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

Availability

The completion and first dissemination of a Recommendation made within a Research Report are shortly after the close of the Market on the Date of the Research Report, unless a before midday (am) time appears below the Date of the Research Report in which case the Research Report will be completed and first disseminated shortly after that am time.

Dissemination

Bell Potter generally disseminates its Research to the Company's Institutional and Private Clients via both proprietary and non-proprietary electronic distribution platforms. Certain Research may be disseminated only via the Company's proprietary distribution platforms; however such Research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the Author's previously published Research. Certain Research is made available only to institutional investors to satisfy regulatory requirements. Individual Bell Potter Research Analysts may also opt to circulate published Research to one or more Clients by email; such email distribution is discretionary and is done only after the Research has been disseminated. The level and types of service provided by Bell Potter Research Analysts to Clients may vary depending on various factors such as the Client's individual preferences as to frequency and manner of receiving communications from Analysts, the Client's risk profile and investment focus and perspective (e.g. market-wide, sector specific long term and short term etc.) the size and scope of the overall Client relationship with the Company and legal and regulatory constraints.

Disclaimers

This Research Report is a private communication to Clients and is not intended for public circulation or for the use of any third party, without the prior written approval of Bell Potter Securities Limited.

The Research Report is for informational purposes only and is not intended as an offer or solicitation for the purpose of sale of a security. Any decision to purchase securities mentioned in the Report must take into account existing public information on such security or any registered prospectus.

This is general investment advice only and does not constitute personal advice to any person. Because this Research Report has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited Broker (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this Research Report.

While this Research Report is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in this document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee expressly or impliedly, that the information contained in this Research Report is complete or accurate.

Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views, opinions or recommendations contained in this Research Report or for correcting any error or omission which may have become apparent after the Research Report has been issued.

Bell Potter Securities Research Department has received assistance from the Company referred to in this Research Report including but not limited to discussions with management of the Company. Bell Potter Securities Policy prohibits Research Analysts sending draft Recommendations, Valuations and Price Targets to subject companies. However, it should be presumed that the Author of the Research Report has had discussions with the subject Company to ensure factual accuracy prior to publication.

All opinions, projections and estimates constitute the judgement of the Author as of the Date of the Research Report and these, plus any other information contained in the Research Report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice.

Notwithstanding other departments within Bell Potter Securities Limited advising the subject Company, information obtained in such role is not used in the preparation of the Research Report.

Although Bell Potter Research does not set a predetermined frequency for publication, if the Research Report is a fundamental equity research report it is the intention of Bell Potter Research to provide research coverage of the covered issuers, including in response to news affecting the issuer. For non-fundamental Research Reports, Bell Potter Research may not provide regular updates to the views, recommendations and facts included in the reports.

Notwithstanding that Bell Potter maintains coverage on, makes recommendations concerning or discusses issuers, Bell Potter Research may be periodically restricted from referencing certain Issuers due to legal or policy reasons. Where the component of a published trade idea is subject to a restriction, the trade idea will be removed from any list of open trade ideas included in the Research Report. Upon lifting of the restriction, the trade idea will either be re-instated in the open trade ideas list if the Analyst continues to support it or it will be officially closed.

Bell Potter Research may provide different research products and services to different classes of clients (for example based upon long-term or short term investment horizons) that may lead to differing conclusions or recommendations that could impact the price of a security contrary to the recommendations in the alternative Research Report, provided each is consistent with the rating system for each respective Research Report.

Except in so far as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in the document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of the document or any other person.

In the USA and the UK this Research Report is only for institutional investors. It is not for release, publication or distribution in whole or in part in the two specified countries. In Hong Kong this Research Report is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In the United States this Research Report is being distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this Research Report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

Bell Potter Securities Limited

ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited

Room 1601, 16/F
Prosperity Tower, 39 Queens
Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC

Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited

16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929