

14 February 2022

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Aurizon Holdings Ltd

Industrials

HOLD

AZJ A\$3.64 **TARGET PRICE A\$4.04**

Aurizon Holdings Limited (AZJ) provides access to, and operation and management of, the Central Queensland Coal Network (CQCN) and provides design, construction, overhaul, maintenance and management services to Aurizon Holdings Limited and its subsidiary entities (the Aurizon Group) as well as external below rail customers.

Company Data

Number of shares	1,840.7
Market Capitalisation	\$6,700.2
Free float (%)	99.9
12-month high/low	\$4.13/\$3.32
Average Daily Turnover (\$m)	33.069401
% S&P/ASX200	0.314
DDM Ranking	176
% All Ordinaries	0.272
GICS Industry Group	Railroads

Source: FactSet, Barclay Pearce Capital

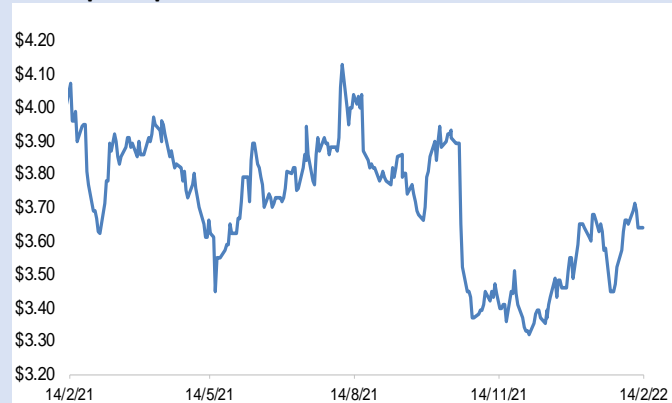
Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	3,019.0	3,081.6	3,411.4	3,496.8
EBITDA (\$M)	1,482.2	1,470.4	1,479.0	1,410.3
Reported NPAT (\$M)	730.3	511.3	557.3	548.7
Adjusted NPAT (\$M)	533.2	516.1	541.2	527.1
Reported EPS (c)	32.4	28.5	30.1	28.6
Adjusted EPS (c - FD)	28.5	27.9	29.2	28.5
Adjusted EPS growth (%)	4.8	-2.0	4.5	-2.5
Adjusted P/E (x)	12.8	13.0	12.5	12.8
Dividend (c/sh)	28.8	23.1	23.6	26.3
Gross yield (%)	8.9	7.2	7.3	8.1
Net yield (%)	7.9	6.4	6.5	7.2
ROIC (%)	6.8	5.6	6.0	5.9

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

1HY2022 Results

On 14th February 2022, Aurizon Holdings (AZJ) announced its 1HY2022 Results with the following highlights:

Financial Highlights:

- EBITDA \$727m, down 1%;
- Statutory NPAT \$257m, down 4%;
- ROIC 10.4%, down 0.4ppts;
- Free Cashflow \$362m, up 26%;
- Bulk Revenue Share 33%, up 1ppt;
- Interim Dividend 10.5cps, down 27% - Record 1-Mar-22, Payment 30-Mar-22

FY2022 Outlook:

- Group EBITDA guidance remains \$1,425 - \$1,500m
- Group Capex guidance %540m - \$580m including \$100m supporting Bulk growth

Commentary from Managing Director & CEO, Andrew Harding: *“The business has remained resilient and Aurizon’s earnings have remained stable despite challenges in markets that have seen reduced demand due to COVID-19 and customer-related issues. As an essential service, we have been able to continue to operate the freight supply chains sustainably that are vital for our communities, farmers, manufacturers and the resources sector. Aurizon teams across the country have done an outstanding job in delivering safely and reliably for customers throughout the pandemic.*”

“Cashflow from our operations remains strong at \$362 million for the half. While we have adjusted our payout ratio as we prepare for completion of the One Rail acquisition, Aurizon continues to provide an attractive dividend return for shareholders.”

“Subject to regulatory approval, we are targeting the completion of the One Rail acquisition in CY2022. This includes integration of the One Rail bulk haulage and freight assets into our Bulk business, whilst also divesting the One Rail coal business that operates in Queensland and New South Wales.”

“Aurizon’s aim is to double the size of the Bulk business by 2030 through organic growth and acquisitions, delivering a significant change in our portfolio mix and continuing to increase non-coal revenues.”

Earnings changes

AZJ has advised that FY22 Group EBITDA guidance remains \$1,425m - \$1,500m. This compares to current market expectations OF \$1,470m. Hence, we do not expect any significant earnings revisions for FY22 or future periods.

Valuation

We are updating our 12-month price target for AZJ from \$4.16 to \$4.04 and maintaining a HOLD recommendation. The price target is underpinned by our valuation.

Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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Buy	36.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	31.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	31.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)