

24 September 2020

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Brickworks Limited

Materials

Underperform

BKW A\$18.86 **TARGET PRICE A\$16.67**

Brickworks Limited (BKW) is engaged in the manufacture of a diverse range of building products across Australia and North America and is also involved in development and investment activities to realize surplus manufacturing property and participate in diversified investments as an equity holder.

Company Data

Number of shares	149.9M
Market Capitalisation	\$2827.8M
Free float (%)	49.3
12-month high/low	\$20.65/\$12.17
Average Daily Turnover (\$m)	4.4757
% S&P/ASX200	0.17%
DDM Ranking	304
% All Ordinaries	0.15%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end	2020A	2021F	2022F
Revenue (\$M)	953.4	883.6	1,010.8
EBITDA (\$M)	280.9	203.7	261.4
Reported NPAT (\$M)	298.9	91.2	138.9
Adjusted NPAT (\$M)	146.3	90.8	133.3
Reported EPS (c)	199.4	58.0	94.1
Adjusted EPS (c - FD)	97.6	56.1	87.3
Adjusted EPS growth (%)	-37.6	-42.6	55.7
Adjusted P/E (x)	19.3	33.6	21.6
Dividend (c/sh)	59.0	60.0	61.7
Gross yield (%)	4.5	4.5	4.7
Net yield (%)	3.1	3.2	3.3
ROIC (%)	5.8	3.5	5.0

Source: Barclay Pearce Capital

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

Share price performance



FY20 Results

On 24 September Brickworks Limited (BKW) announced their FY20 results with the following highlights:

- **Statutory NPAT up by 93% to \$299 million.** (statutory result included a significant one-off profit in relation to Brickworks' shareholding in WHSP, triggered by the merger of its associate TPG with Vodafone). Excluding the impact of this, underlying NPAT was \$146 million, down 38% from last year;

Building Products

- Building Products Australia revenue was \$687 million for the year, down 9%. EBIT from continuing operations was \$33 million, down by 43%, and EBITDA was \$91 million;

Property Division

- Property generated **EBIT of \$129 million**, due primarily to earnings from the 50/50 joint venture property trust with the Goodman Group ("Property Trust"). For the year, net trust income increased by 15% to \$30 million;
- Secured a **lease pre-commitment for 20 years with Amazon** at the Property Trust's Oakdale West Estate in Western Sydney. Post completion of the Amazon and Coles facilities, the gross assets held within the various Property Trust assets across Western Sydney and Brisbane is expected to exceed \$3 billion, with sufficient remaining land to provide at least a further five-year development pipeline;

Investments

- EBIT from Investments was **down 51% to \$51 million** for the year, primarily due to the impact of lower coal prices on earnings from New Hope Corporation;

North America

- North America delivered EBIT of \$10 million for financial year 2020, up 63% on the prior year. EBITDA was \$27 million, an increase of 122%;

Outlook

- **Property division:** earnings will depend on the timing of development activity and land sale transactions. No major land sales planned in financial year 2021;
- **Building Products AU:** stimulus package measures have increased orders and sales in September however they will be less effective due to high land prices in Sydney and lockdown in Melbourne. Building activity is increasing nationwide nonetheless;
- **North America:** COVID-19 pandemic has impacted short term demand and may continue to cause rolling delays across the network for some time. However, the improved efficiency and cost reductions delivered by plant rationalisation activities, together with plant upgrades to enhance performance, are expected to result in improved earnings as building conditions normalise post the pandemic; and
- **Investment in WHSP:** stable and growing stream of earnings and dividends expected over the long term.

Earnings changes

BKW's FY20 NPAT was \$146.3m compared to market expectations of \$152.9m. However, BWK's outlook statement suggests building activity will remain strong nationwide. Hence, we do not expect any significant earnings revisions.

We are initiating research coverage on BKW with a 12-month price target of \$16.67 and with an UNDERPERFORM recommendation. The price target is underpinned by our DDM valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 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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