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## Boral Limited

### Materials

#### UNDERPERFORM

**BLD A\$3.79**      **TARGET PRICE A\$3.06**

Boral Ltd. engages in the provision of building and construction materials. It operates through the following segments: Boral Australia, USG Boral, Boral North America, and Unallocated. The company was founded on March 4, 1946 and is headquartered in North Sydney, Australia.

#### Company Data

Number of shares	1,103.1
Market Capitalisation	\$4,180.7
Free float (%)	30.1
12-month high/low	\$7.41/\$3.79
Average Daily Turnover (\$m)	4.469101
% S&P/ASX200	0.196
DDM Ranking	396
% All Ordinaries	0.170
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

#### Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	5,346.0	4,446.5	3,783.9	3,933.1
Reported NPAT (\$M)	640.0	184.4	181.0	219.9
Adjusted NPAT (\$M)	251.0	203.9	222.7	261.6
Reported EPS (¢)	52.5	13.7	14.2	17.5
Adjusted EPS (¢ - FD)	20.6	17.4	19.3	22.6
Adjusted EPS growth (%)	132.3	-20.7	14.9	17.4
Adjusted P/E (x)	18.4	24.1	20.4	17.4
Dividend (¢/sh)	0.0	12.4	14.5	16.8
Gross yield (%)	0.0	4.7	5.5	6.3
Net yield (%)	0.0	3.3	3.8	4.4
ROIC (%)	4.8	7.2	8.2	9.9

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

## First Half FY2022 Results

On 14th February 2022, Boral Limited (BLD) announced its First Half FY2022 Results with the following highlights:

#### Continuing Operations:

- Sales revenue of \$1.5 billion up 1%, and up 3% on a comparable basis reflecting stronger underlying demand despite impact of COVID-related construction shutdowns, and exceptionally wet weather in the second quarter;
- Net profit after tax (NPAT) before significant items of \$145 million down 12%;
- Earnings before interest and tax (EBIT) of \$238 million down 10%;
- A pre-tax gain of \$931 million for significant items primarily relating to profit on sale of North American Building Products;
- Operating cash flow of \$185 million down 52%; and
- Adjusted EPS2 of 13.1 cents, compared to 13.3 cents in 1H FY2021.

#### FY22 Outlook:

- BLD expects revenue in the 2H FY22 to be higher than the 1H FY22
  - Price increases are expected to offset the impact of energy cost increases, which are anticipated to continue to be elevated in the 2H FY22;
  - The revenue benefit of no construction shutdowns in the 2H FY22 is expected to be offset by the typical 2H seasonality due to fewer trading days;
- Supply chain constraints and labour shortages which impacted the 1H FY22 are expected to continue in the 2H FY22;
- The company is targeting FY2022 Transformation benefits of ~A\$60-75M net of inflation; In addition, BLD expects:
  - No significant property sales in 2H;
  - Financing costs for FY22 to be approximately 4.2% p.a. on gross debt value (including leases);
  - Its effective tax rate to move closer to the Australian corporate tax rate of 30% in the 2H FY22;
  - Capital expenditure for FY22 in its continuing operations to be about A\$300M (including new leases)

Commenting on the 1H FY2022 result, Mr Todorcevski added:

*“Revenue benefited from higher residential housing activity which was bolstered by government stimulus measures and improved infrastructure activity. There was, however, a less favourable geographic revenue shift away from NSW, where Boral has its strongest integrated position. To recover the impact of higher energy costs and other cost increases on our business, we’ve implemented out-of-cycle national price increases. These, together with further Transformation benefits and less expected disruption to construction activity, should deliver stronger earnings in the 2H FY2022.”*

## Earnings changes

BLD has reported an EBITDA of A\$347M – this compares to current market expectations of A\$288.0M. However, BLD’s outlook statement alludes to increased revenue, cost reductions and supply chain issue. Hence, on balance, we expect positive earnings revisions of 5% for FY22 and 2% for future periods.

## Valuation

We are updating our 12-month target price from \$6.18 to \$3.06 and retaining our UNDERPERFORM recommendation. The price target is underpinned by our 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 (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.

### Conflicts of Interest

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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.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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**Barclay Pearce Capital Recommendation Proportions**

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)