

13 May 2021

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CSR Limited (CSR)

Materials

BUY

CSR A\$5.91
TARGET PRICE A\$6.82

CSR Limited (CSR) is engaged in the manufacture and supply of building products in Australia and New Zealand.

Company Data

Number of shares	485.4 M
Market Capitalisation	\$2,868.6 M
Free float (%)	99.0
12-month high/low	\$6.11/\$3.45
Average Daily Turnover (\$m)	5.1469
% S&P/ASX200	0.14%
DDM Ranking	130
% All Ordinaries	0.119%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

Earnings summary

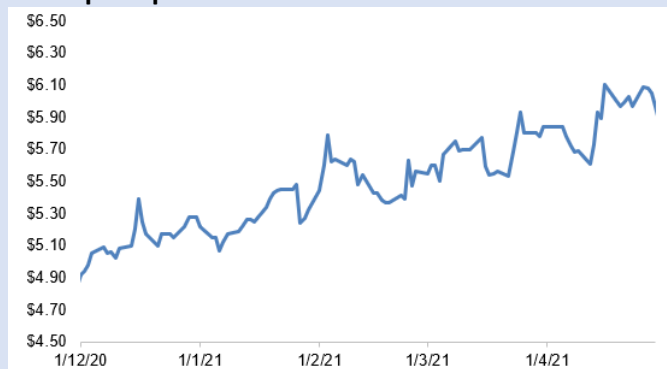
Earnings Summary (AUD)

Year end September	2021A	2022F	2023F	2024F
Revenue (\$M)	2,122.4	2,348.3	2,380.7	2,463.3
EBITDA (\$M)	324.0	327.7	347.2	384.7
Reported NPAT (\$M)	146.1	149.4	164.2	182.7
Adjusted NPAT (\$M)	160.4	154.4	165.6	N/A
Reported EPS (c)	30.1	31.6	34.6	36.1
Adjusted EPS (c - FD)	33.0	32.2	33.9	37.8
Adjusted EPS growth (%)	0.2	-1.4	5.6	11.7
Adjusted P/E (x)	19.3	19.5	18.5	16.6
Dividend (c/sh)	14.5	21.9	23.2	22.7
Gross yield (%)	2.3	3.7	3.9	3.8
Net yield (%)	2.3	3.7	3.9	3.8
ROIC (%)	15.6	14.3	15.2	N/A

Source: Barclay Pearce Capital

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

Share price performance



Source: FactSet, Barclay Pearce Capital

FY21 Trading Update

On 12th May, CSR Limited (CSR) released their results for the year ending 31st March 2021 with the following highlights:

Financial Highlights

- NPAT before significant items of 160.4 million;
- Statutory NPAT of \$146.1 million for the full year ended 31 March 2021 (YEM21), up 17% from \$125.3 million in the previous year;
- Strong cost control and operational efficiency offset the impact of slowdown in residential construction activity which declined 4% during the year;
- Property – EBIT of \$54.2 million following completion of the next stage at the Horsley Park industrial development;
- Aluminium – EBIT of \$23.4 million, consistent with previous guidance, down from \$59.6 million;
- Final dividend of 14.5 cents per share (fully franked) declared;
- Special dividend of 9.5 cents per share (fully franked) declared following settlement of the Property sale at Horsley Park;
- Strong operating cash generation of \$253 million, up 3%; and
- Net cash position of \$251 million at year end (prior to the \$117 million final and special dividend payments to be paid in July 2021);

CSR Managing Director & CEO Julie Coates said:

“CSR performed very well during the year, reflecting the breadth of our businesses and strength of our offering across diverse construction segments and markets. We increased our earnings with a strong focus on cost control and operational efficiency which leveraged trading outcomes as residential building activity improved during the second half of the year.”

“The pleasing result was achieved while making important changes to reorganise the Building Products business. We are now well positioned to deliver our strategy across more complete customer solutions, optimising our supply chain and leveraging core capabilities across all products and markets. This will further diversify our business, enabling us to maximise market opportunities and drive future growth.”

“We also delivered on a further stage of the Horsley Park project, which is a great example of our ability to complete complex redevelopments. Our Property business is well positioned to deliver strong returns over the next 10 years and beyond.”

Earnings changes

For FY21, CSR delivered NPAT before significant items of \$160.4m, which is above the market consensus of \$152.4m. Thus, we expect positive earnings revisions of 3-4% for FY22 and future periods.

Valuation

We are maintaining our price target of \$6.82 and retaining our BUY 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.

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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's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)