

26 May 2021

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Fletcher Building Ltd (FBU)

Materials

BUY

FBU A\$6.89 **TARGET PRICE A\$7.89**

Manufacturer and distributor of infrastructure and building products, as well as a construction company.

Company Data

Number of shares	824.3 M
Market Capitalisation	\$ 5,530.8 M
Free float (%)	96.2
12-month high/low	\$6.93/\$3.02
Average Daily Turnover (\$m)	4.2
% S&P/ASX200	0.28
DDM Ranking	239
% All Ordinaries	0.228
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

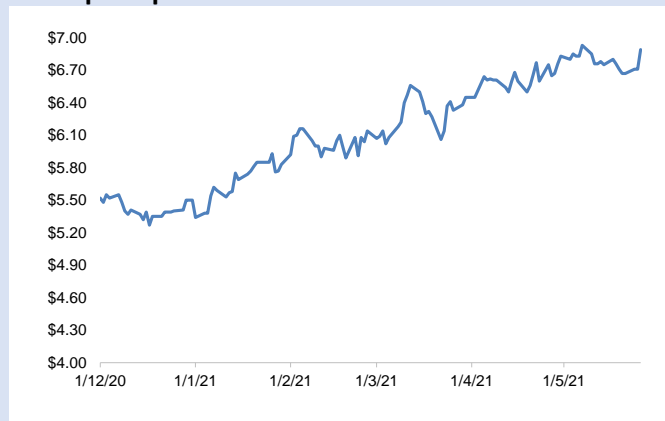
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	6,730.5	7,672.5	7,737.3	7,848.8
EBITDA (\$M)	484.0	997.9	998.6	1,014.4
Reported NPAT (\$M)	-180.5	321.6	376.4	387.3
Adjusted NPAT (\$M)	73.7	359.5	371.0	378.1
Reported EPS (c)	-21.6	38.5	44.7	45.6
Adjusted EPS (c - FD)	8.8	43.7	44.0	45.1
Adjusted EPS growth (%)	-78.3	390.5	3.0	2.5
Adjusted P/E (x)	76.1	16.9	16.1	15.7
Dividend (c/sh)	0.0	25.0	26.5	27.9
Gross yield (%)	0.0	3.7	3.9	4.2
Net yield (%)	0.0	3.7	3.9	4.2
ROIC (%)	1.8	9.4	9.3	9.2

Source: Barclay Pearce Capital

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

Share price performance



Source: FactSet, Barclay Pearce Capital

FY21 Results Update

On 26 May 2021, Fletcher Building Ltd (FBU) released a trading update with the following highlights:

- FBU intends to conduct an on-market share buyback and purchase up to NZ\$300m over the next 12 months;
- Solid revenue of approximately \$8b, trading conditions in 2H21 broadly consistent with 1H21;
- FY21 EBIT before significant items expected to be at the top end of earlier guidance, in a range of \$650-665 million;
- Cash flows remain strong, FY21F leverage of c.0.3x; and
- Management expects Board to declare an FY21 final dividend in August 2021 with a 50-75% payout ratio.

Near-Term Outlook

- Pathway to c.10% EBIT Margin in FY23;
- Australia margins lift to 5-7% on continued improvement in operating disciplines and growth initiatives;
- Construction margins lift to 3-5% as forward order book replaces nil margin legacy work;
- NZ Core margins expand slightly as adjacencies add operating leverage and continue to drive BU performance;
- Residential & Development targeting strong top-line growth at >15% margin, accretive to overall Group margin; and
- Plans to pay down debt and target leverage of 1.0x-2.0x EBITDA.

FBU CEO, Ross Taylor said:

"Fletcher Building's balance sheet is in a strong position, with leverage expected to remain below our target range in the medium term. This position provides us with capacity to recommence capital management and distribute up to NZ\$300 million to shareholders, with the most effective method being an on-market share buyback."

"We continue to make material progress on executing our strategy and achieving key financial targets. We are seeing a broadly stable market environment with trading conditions in the second half of FY21 largely consistent with the first. Despite some supply chain constraints and input cost pressures, we continue to see good margin performance from the business. Forward indicators for market activity are pointing to ongoing robust volumes in New Zealand and Australia, with our businesses focused on delivering above market growth and improved profitability in this environment."

Earnings changes

FBU updated their FY21 EBIT guidance to A\$660-665m (previously \$565-612m as of 17 Feb'21) which is significantly higher than market expectations of A\$623m. FBU are targeting a reduced gross debt (1x-2x EBITDA) so the share buyback is likely to be conducted with surplus operating cashflow rather than adding to debt. Hence, we expect positive earnings revisions in the order of 5% for FY21 and 2.7% for FY22 and future periods.

Valuation

We are initiating research coverage on FBU with a 12-month price target of \$7.89 and a 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 thirty (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	38.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	21.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.3%	(0.0% of stocks with recommendations are Barclay Pearce clients)