

16 February 2021

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## GWA Group Limited

### Capital Goods

#### BUY

**GWA A\$3.71**
**TARGET PRICE A\$4.27**

GWA Group Limited (GWA) is involved in research, design, manufacture, import and marketing of building fixtures and fittings to residential and commercial premises and the distribution of these various products through a range of distribution channels in Australia, New Zealand and selected international markets GWA currently operates through business divisions: Bathrooms & Kitchens and Methven.

#### Company Data

Number of shares	264.2 M
Market Capitalisation	\$980/2 M
Free float (%)	77
12-month high/low	\$3.98/\$2.28
Average Daily Turnover (\$m)	3.57
% S&P/ASX200	0.05%
DDM Ranking	109
% All Ordinaries	0.04%
GICS Industry Group	Capital Goods

Source: FactSet, Barclay Pearce Capital

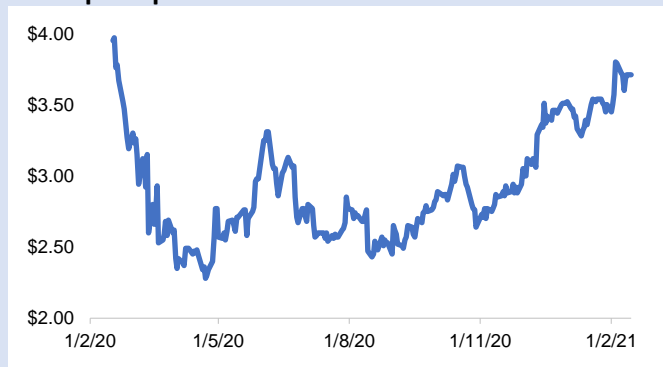
#### Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	398.7	385.3	406.2	427.8
EBITDA (\$M)	92.1	82.8	91.1	102.3
Reported NPAT (\$M)	43.9	35.8	39.7	46.2
Adjusted NPAT (\$M)	43.9	41.2	46.6	52.9
Reported EPS (c)	16.5	14.5	15.8	19.0
Adjusted EPS (c - FD)	16.9	15.4	17.6	19.8
Adjusted EPS growth (%)	-13.8	-8.8	13.9	12.5
Adjusted P/E (x)	22.0	24.1	21.1	18.8
Dividend (c/sh)	11.5	10.3	13.1	14.3
Gross yield (%)	4.4	4.0	5.0	5.5
Net yield (%)	3.1	2.8	3.5	3.9
ROIC (%)	10.1	9.3	10.3	11.6

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 Half Year Results

On 16<sup>th</sup> February, GWA Group Limited (GWA) released their interim results for the half year ended 31 December 2020 with the following highlights:

#### Financial Results

- For the half year, Group revenue reduced by 4.4 per cent to \$197.2 million;
- reflecting the overall decline in market conditions;
- Normalised Group EBIT (before significant items) was \$32.1 million compared to \$38.1 million for the prior corresponding period;
- Normalised Net Profit After Tax was \$20 million, down 17 per cent from the prior period;
- The Company reported a statutory net profit of \$18.5 million compared to \$23.6 million for the prior corresponding period;
- GWA continued to generate strong cash, despite the weaker market conditions in the first half, with operating cashflow up 18 per cent to \$49.7 million;
- Meanwhile, net debt was further reduced from \$144.8 million at 30 June 2020 to \$125 million at 31 December 2020;
- GWA's strong cash generation and financial position enabled the Board to pay an interim dividend of 6.0 cents per share, fully franked, compared to 8.0 cents per share for the prior corresponding period and 3.5 cents per share for the final dividend for FY20; and
- The dividend is payable on 20 April 2021.

Managing Director, Tim Salt, said GWA demonstrated continued discipline in responding to the challenging market conditions in the first half while continuing to execute its growth strategy. As a result, GWA remained well capitalised to manage through the current environment with a stronger platform for growth.

*"We saw signs of market improvement in the second quarter FY21 with more recent lead indicators pointing to an increase in residential detached completions and renovation and replacement activity in Q4 FY21 /FY22."*  
*"GWA maintains significant operational leverage to an improvement in the residential building cycle, while our commercial forward order bank remains in growth. That provides a very solid foundation to improve revenue and earnings momentum as market conditions improve,"*

#### FY21 Outlook – expect some market improvement in Q4 FY21 / FY22

Mr Salt said recent lead indicators in Australia (consumer sentiment, dwelling approvals, new housing loans, housing turnover) and Federal (HomeBuilder) and State Government incentives point to increased detached residential completions and renovation and replacement activity in Q4 FY21/ FY22.

GWA's commercial order bank remains strong and is ~16 per cent above 31 December 2019. However, Commercial and multi-residential completions are expected to remain subdued in 2H FY21. As confidence and activity increases in the Commercial segment, GWA remains well placed to capitalise on this improvement.

#### Earnings changes

For H1 FY21 GWA reported normalised net profit after tax of \$20.0M. This is in line with market expectations of \$19.5M. Hence, we don't expect any significant earnings revisions.

#### Valuation

We are initiating on GWA with a price target of \$4.27 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 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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**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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### Valuation Methodology

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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)