

20 August 2021

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S32 Limited

Materials

BUY

S32 A\$2.89
TARGET PRICE A\$3.69

S32's Principal Activity is the mining and metal production from a portfolio of assets including alumina, aluminium, bauxite, energy and metallurgical coal, manganese ore, manganese alloy, nickel, silver, lead and zinc.

Company Data

Number of shares	4,780.8 M
Market Capitalisation	\$12,955.9 M
Free float (%)	99.2
12-month high/low	\$2.79/\$1.665
Average Daily Turnover (\$m)	39.4116
% S&P/ASX200	0.67%
DDM Ranking	95
% All Ordinaries	0.58%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year End June	2021A	2022F	2023F
Revenue (\$M)	8,635.9	8,735.5	9,098.5
EBITDA (\$M)	2,131.4	2,335.7	2,529.0
Reported NPAT (\$M)	-265.7	872.1	1,030.3
Adjusted NPAT (\$M)	666.4	853.4	1,027.7
Reported EPS (c)	-4.1	18.9	19.9
Adjusted EPS (c - FD)	10.3	18.8	22.3
Adjusted EPS growth (%)	182.8	55.3	30.6
Adjusted P/E (x)	26.3	14.4	12.2
Dividend (c/sh)	6.7	8.5	9.8
Gross yield (%)	3.5	4.5	5.2
Net yield (%)	2.5	3.2	3.6
ROIC (%)	6.2	6.7	8.0

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 Yearly Report

On 19th August, S32 Limited (S32) released their yearly results for the year ended 30 June 2021 with the following highlights:

Financial Performance

- The Group's statutory profit after tax declined by US\$130M to a loss of US\$195M in FY21 following the recognition of impairment charges totalling US\$728M (US\$510M post-tax) in relation to Illawarra Metallurgical Coal and a loss on sale of US\$159M following divestment of South Africa Energy Coal;
- Excluding these one-off charges, strong operating performance and higher prices for most of our commodities translated into a 153% increase in Underlying earnings to US\$489M;
- The production performance, including three records, partially offset cyclical inflation and stronger producer currencies; and
- Accordingly, the cost base(13) remained largely unchanged and the Operating margin increased to 26% with Underlying EBITDA improving by 32% to US\$1.6B.
- A 9% increase in production at Illawarra Metallurgical Coal with the return to a three longwall configuration delivering greater efficiencies.
- First ore from the higher-grade Q&P project and successful refurbishment of a furnace at Cerro Matoso, laying the foundation for 28% nickel production growth in FY22.
- The announcement of our target to achieve a 50% reduction in operational carbon emissions (Scope 1 and 2) by FY35(15), which steps up the ambition on climate change and supports a pathway to net zero by 2050.
- Successful divestment of South Africa Energy Coal, the TEMCO manganese alloy smelter and a portfolio of non-core precious metals royalties during FY21, simplifying and improving our portfolio.

Guidance

Production

- In FY21 S32 achieved record production at Worsley Alumina, Brazil Alumina and Australia Manganese while beating the initial market guidance at South Africa Manganese, Cerro Matoso and Cannington; and
- While remaining subject to further potential impacts from COVID-19, FY22 guidance is unchanged with the exception of non-operated Brazil Alumina and the underground base metals operation Cannington.

Operating unit cost guidance

- S32 continue to pursue cost and volume efficiencies across the business to offset the impact of stronger producer currencies and cyclical inflation in labour, price-linked royalties and raw materials;
- While these factors are expected to have an effect on unit costs, steepening industry cost curves, our business is well placed to realise volume improvements and pursue productivity benefits to partially offset their impact, and capture additional margins from improved market conditions.

Earnings changes

For FY21 S32 reported NPAT of US\$489M compared to market expectations of US\$501.4M. Hence, we do not expect any significant earnings revisions.

Valuation

We are updating our coverage on S32 and revising our price target from 3.04 to \$3.69 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 (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.

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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.

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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)