

16 February 2021

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Sims Limited

Materials

HOLD

SGM A\$13.80 **TARGET PRICE A\$12.87**

Sims Limited (SGM) is the global metals and electronics recycling company, involved in the buying, processing and selling of ferrous and non-ferrous recycled metals and providing solutions for the disposal of post-consumer electronic products, including IT assets recycled for commercial customers. The company operates in North America, Australasia, and Europe.

Company Data

Number of shares	201.3 M
Market Capitalisation	\$2,577.0 M
Free float (%)	77.9
12-month high/low	\$14.27/\$5.74
Average Daily Turnover (\$m)	19.55
% S&P/ASX200	0.13%
DDM Ranking	260
% All Ordinaries	0.11%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

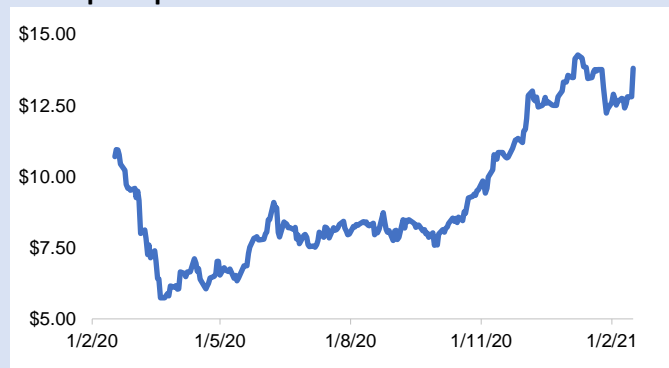
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	4,908.5	6,088.4	6,745.3	6,468.8
EBITDA (\$M)	144.9	336.7	407.0	433.1
Reported NPAT (\$M)	-265.3	90.8	128.4	144.0
Adjusted NPAT (\$M)	-58.1	90.7	138.2	154.6
Reported EPS (c)	-131.2	45.0	63.6	71.9
Adjusted EPS (c - FD)	-28.7	43.2	67.7	73.9
Adjusted EPS growth (%)	-136.4	-250.6	56.7	9.0
Adjusted P/E (x)	-44.6	29.6	18.9	17.3
Dividend (c/sh)	6.0	16.4	29.6	32.5
Gross yield (%)	0.7	1.8	3.3	3.6
Net yield (%)	0.5	1.3	2.3	2.5
ROIC (%)	-2.9	4.4	6.6	7.3

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

1HFY21 Results Release

On 16th February, SIMS Limited (SGM) released their financial results for the half year ended 31 December 2020 with the following highlights:

Summary

- Sales revenue of \$2,452.0 million, a decrease of 9.5% from prior corresponding period;
- Statutory EBIT of \$78.5 million, up \$173.7 million from prior corresponding period;
- Underlying EBIT of \$56.4 million, up \$79.6 million from prior corresponding period;
- Interim dividend of 12.0 cents per share, fully franked; and
- Net cash position of \$165.4 million as at 31 December 2020

Commentary

Group CEO & Managing Director, Alistair Field, on the first half FY21 results said, "We delivered significantly better results in first half FY21 due to improved margins, higher prices and lower operating costs. Pleasingly, the cost reduction programme is on track to achieve annualised cost savings in excess of \$70 million in FY21 compared to FY19."

Furthermore, and on the progress of strategic initiatives, Mr Field said, "I'm pleased with the substantial progress made in advancing our growth strategy during first half FY21. This provides a strong foundation to make further headway in FY21 and in future years."

Market Conditions and Outlook

- Signs of positive ferrous intake volume growth continued as January 2021 proprietary ferrous intake was higher than the corresponding periods in 2019 and 2020;
- Ferrous liquidity and price volatility risks are likely to persist in 2H FY21 but, over the medium term, prices should remain resilient due to infrastructure stimulus;
- Global auto production is expected to normalise and support zobra-related prices;
- China has commenced the importing of high quality recycled ferrous. Volumes are starting to increase from a low base and may tighten demand / supply;
- Retail non-ferrous proprietary intake volumes remain inconsistent. January 2021 proprietary retail non-ferrous intake was lower than January 2020 but similar to January 2019; and
- The Company is on track to achieve annualised cost savings in excess of \$70 million in FY21 compared to FY19.

Earnings changes

For H1 FY21 SGM reported NPAT of \$37.3m. This performance appears in line with market expectations. Hence, we do not expect any significant earnings revisions.

Valuation

We are initiating on SGM with a price target of \$12.87 and a HOLD 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.

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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)