

6 December 2021

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## Vulcan Steel Ltd (VSL)

### Wholesale Distributors

#### BUY

**VSL A\$8.58**
**TARGET PRICE A\$9.94**

Vulcan Steel Ltd, founded in Auckland over 25 years ago, supplies and processes steel and steel products to about 12,000 customers in Australia and New Zealand, with over 800 staff. Its products are used in a broad range of market segments, including engineering, manufacturing, fabricating, transport and mining.

#### Company Data

Number of shares	131.4M
Market Capitalisation	\$1064.4M
Free float (%)	-
12-month high/low	\$8.18/\$7.08
Average Daily Turnover (\$m)	-
% S&P/ASX200	0.05%
DDM Ranking	-
% All Ordinaries	0.004%
GICS Industry Group	-

Source: FactSet, Barclay Pearce Capital

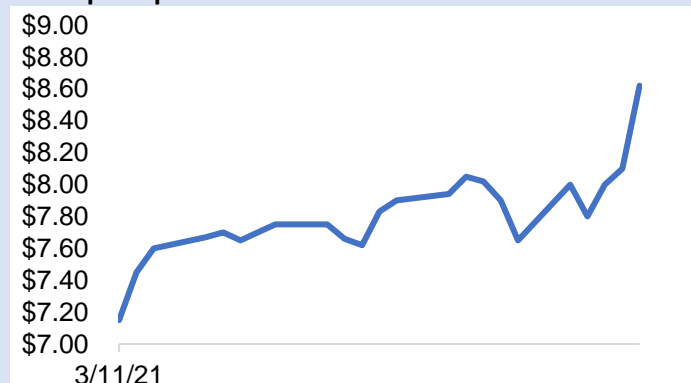
#### Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	701.8	926.5	873.2	915.5
EBITDA (\$M)	124.4	193.6	178.4	189.6
Reported NPAT (\$M)	62.2	97.0	86.4	93.4
Adjusted NPAT (\$M)	58.5	97.7	90.4	98.3
Reported EPS (c)	47.3	74.3	68.8	74.8
Adjusted EPS (c - FD)	44.5	74.3	68.8	74.8
Adjusted EPS growth (%)	N/A	37.0	0.4	10.5
Adjusted P/E (x)	18.2	18.4	16.9	15.6
Dividend (c/sh)	0.0	52.1	50.1	54.4
Gross yield (%)	0.0	9.2	8.8	9.6
Net yield (%)	0.0	6.4	6.2	6.7
ROIC (%)	20.7	31.0	30.7	30.0

Source: Barclay Pearce Capital

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

#### Share price performance



Source: FactSet, Barclay Pearce Capital

## Trading and Earnings Update

On 6th December, Vulcan Steel Limited (VSL) reported its trading and earnings update, with the following highlights:

#### Summary

- Vulcan's overall revenue is up 35% year-on-year ("yoy") for the five months to 30 November 2021;
- The Company's Steel segment revenue lifted 42% yoy while its Metals segment revenue grew 22% yoy during this period;
- Overall sales volume recorded an 11% yoy increase for the same period;
- Steel volume lifted 12% yoy while Metals volume grew 7% yoy during this period;

#### Outlook

- Following the conclusion of stronger than expected October and November trading and reflecting the volume uncertainty of the December and January holiday period, Vulcan is revising its FY22 earnings forecasts contained in the Company's Prospectus to the range outlined below; and

In million NZ\$ (before offer costs <sup>4</sup> )	Pro Forma EBITDA* <sup>3</sup>		Pro Forma NPAT** <sup>3</sup>	
	Post-IFRS 16 <sup>5</sup>	Pre-IFRS 16 <sup>6</sup>	Post-IFRS 16 <sup>5</sup>	Pre-IFRS 16 <sup>6</sup>
New Guidance Range	174-184	150-160	93-100	97-104
Prospectus	147	123	74	78
Dollar Change***	27-37	27-37	19-26	19-26
% Upgrade***	18%-25%	22%-30%	26%-35%	24%-33%

\* EBITDA - Earnings Before Interest, Tax, Depreciation and Amortisation

\*\* NPAT - Net Profit After Tax

\*\*\* Compared with Prospectus

- The Company also notes there will be fewer trading days in the second half of FY22 compared with previous corresponding period in FY21 due to the timing of public holidays and an additional national holiday in New Zealand.

VSL's MD and CEO Rhys Jones said "Trading has been stronger than anticipated and has been broad-based across all our Australasia business units, especially in October and November as Sydney and Melbourne emerged from COVID19 restrictions. As an industrial distributor and value-added processor, we remain confident of our ability to maintain our high service level and product availability to meet the needs of our growing and diverse customer base."

## Earnings changes

For FY22, VSL expects earnings before interest, tax, depreciation, and amortisation (EBITDA) to be \$174m-\$184m. This compares to current market expectations of \$148.9m. Also, VSL expects net profit after tax (NPAT) to be \$93m-\$100m. This compares to market expectations of \$74.6m. Hence, we expect positive earnings revisions of 30% for FY22 and 20% for future periods.

## Valuation

We are initiating research coverage on VSL with a 12-month target price of \$9.94 and a BUY recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital Management provides research services to its clients. 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 2020 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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**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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### Valuation Methodology

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Buy	45.6%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	18.6%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.8%	( 0.0% of stocks with recommendations are Barclay Pearce clients)