

23 October 2020

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BlueScope Steel Limited (BSL)

Mining

HOLD

BSL A\$16.20

TARGET PRICE A\$14.86

BlueScope Steel Limited produces and sells metal coated and painted steel building products in Australia, Thailand, Indonesia, Malaysia, Vietnam, North America, and China. It offers steel slabs, plates, hot and cold rolled coils, coated and painted strip products, roof and wall claddings, and purlins and house framings under the LYSAGHT steel building products, COLORBOND steel, COLORSTEEL, ZINCALUME steel, GALVABOND steel, GALVSPAN steel, BlueScope Zacs, and SuperDyma brands.

Company Data

Number of shares (M)	503.8
Market Capitalisation	\$ 7,234.3M
Free float (%)	99.3
12-month high/low	\$16.17/\$8.03
Average Daily Turnover (\$m)	47.0412
% S&P/ASX200	0.42%
DDM Ranking	261
% All Ordinaries	0.36%
GICS Industry Group	Iron/Steel

Source: FactSet, Barclay Pearce Capital

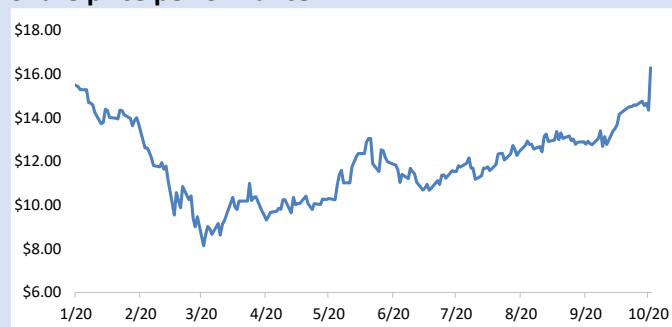
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	11,284.4	13,837.4	11,805.3	12,240.7
Reported NPAT (\$M)	96.5	351.8	488.1	611.4
Adjusted NPAT (\$M)	353.0	367.7	502.2	640.4
Reported EPS (c)	19.0	73.7	95.7	122.0
Adjusted EPS (c - FD)	69.6	72.7	99.3	127.9
Adjusted EPS growth (%)	-61.5	4.4	36.7	28.8
Adjusted P/E (x)	20.6	19.8	14.5	11.2
Dividend (c/sh)	14.0	16.8	14.7	17.2
Gross yield (%)	1.4	1.3	1.4	1.7
Net yield (%)	1.0	0.9	1.0	1.2
ROIC (%)	5.3	4.1	6.9	8.8

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

Update on expected 1H FY21 Earnings

On 23 October 2020 BlueScope Steel Ltd (BSL) announced an update on 1HFY21;

1HFY21 Expectations Trading Update

- Expecting underlying earnings before interest and tax (EBIT) of around \$340m for 1HFY21 – an increase of around 30% over 2HFY2020;
- Looking at segment performance;
 - Australian Steel Products:** Expected to deliver slightly better results than 2HFY20 driven by construction and distribution agreements;
 - East Asian spot steel prices in recent months have improved;
 - Contribution from export coke remains elevated and is expected to be similar to 2HFY20;
 - US North Star:** North Star continues to despatch at full capacity with automotive volumes normalising across the half;
 - Since end of 2HFY20, realised steel spreads have bottoms and are improving driven by a significant increase in benchmark Midwest hot rolled coil prices in recent months;
 - 1HFY21 underlying EBIT is expected to be lower than 2HFY20;
 - Building Products Asia & NA:** Expected to deliver considerably better performance than 2HFY20;
 - Outlook for ASEAN and India has improved significantly, although remains a subject to risk of disruption to operations and supply chains from further COVID-19 impacts
 - On track to deliver performance similar to 2HFY20 and expect China to deliver a similar performance to 1HFY20 on favourable seasonality.

CEO Mark Vassella commented "Despite the global disruption caused by COVID-19, we've had a solid performance from all our operating segments for the three months to 30 September. This is a clear demonstration of the effectiveness of BlueScope's strategy and the resilience of our asset portfolio".

He also made remarks on the current environment "Nonetheless, there remains uncertainty in the current environment given the risks of:

- Evolving impact of COVID-19, and potential for second and third waves, which could disrupt demand, supply chains and operations
- Broader macroeconomic weakness dampening demand."

Earnings changes

BSL has announced their update on 1HFY21 expectations, highlighting an EBIT of \$340m. Whilst markets were expecting \$267m for 1HFY21, this is an understatement of the firm's expected performance thus we have made positive earnings revision of 27% for FY21 and further revisions of 10% for future periods.

We are initiating on BSL with a 12-month price target of \$14.86 and a HOLD recommendation. The price target is underpinned by our DDM Valuation.

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Barclay Pearce Capital 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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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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