

10 November 2020

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Fletcher Building Limited (FBU)

Materials

BUY

FBU A\$4.88

TARGET PRICE A\$5.64

Fletcher Building Limited (FBU) delivers building products, construction materials and services across Australia, Asia, North America, Europe, and New Zealand. Its main divisions are Infrastructure products, Distribution, Steel, Concrete, Residential Development, Construction, and Australia.

Company Data

Number of shares	824.3M
Market Capitalisation	\$ 3445.4M
Free float (%)	96.2%
12-month high/low	\$5.45/\$3.00
Average Daily Turnover (\$m)	4.8902
% S&P/ASX200	0.2%
DDM Ranking	239
% All Ordinaries	0.161%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

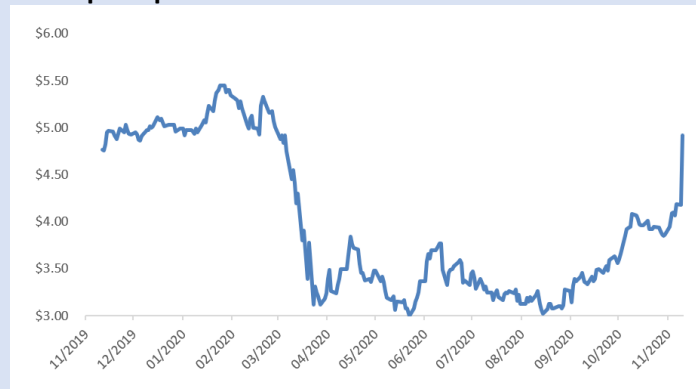
Earnings Summary (AUD)

Year end March	2020A	2021F	2022F	2023F
Revenue (\$M)	6,730.5	6,865.1	7,002.4	7,142.4
EBITDA (\$M)	484.0	679.2	715.3	782.8
Reported NPAT (\$M)	(180.5)	136.6	217.3	267.8
Adjusted NPAT (\$M)	73.7	188.1	227.1	261.9
Adjusted EPS (c - FD)	8.8	23.5	27.5	31.7
Adjusted EPS growth (%)	(78.3)	166.5	16.8	15.4
Adjusted P/E (x)	47.4	17.8	15.2	13.2
Dividend (c/sh)	-	12.2	18.8	21.1
Gross yield (%)	-	2.5	3.8	4.2
Net yield (%)	-	2.5	3.8	4.2
ROIC (%)	1.8	3.9	4.6	5.3

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 Update

On 10 November 2020 Fletcher Building Limited (FBU) announced its results for the 4 months ended 31 October 2020 with the following highlights:

- Group revenues up 1% pcp;
- Group EBIT before significant items of \$227m, up \$80m, 55% pcp;
- Group EBIT margin up 2.9% to 8.4% due to improved operating efficiency;
- Earnings in the New Zealand Core were up 30%, led by the Concrete and Building Products Division; and
- Cash flow and balance sheet remain strong: net debt \$388 million, liquidity \$1.4 billion as at 31 October 2020

Outlook

FBU's CEO Ross Taylor said: "We were heavily impacted in FY20 by the COVID-19 restrictions, resulting in a significant earnings loss for the Group of \$196 million, so we are pleased to have begun the new year well."

"As we look ahead, our customers are pointing to volumes remaining at current levels through to the start of the new calendar year. However, there is uncertainty in the second half of the financial year, with the impact of broader macro-economic factors on our markets in New Zealand and Australia not yet clear."

Earnings changes

FBU reported EBIT of \$227m for the 4 months ended 31 October 2020, up 55% on pcp.

Previously, market expectations for FY21 EBIT was \$381m. As FBU has already achieved 60% of their expected EBIT in 4 months, FBU is likely to double their EBIT to \$454m for FY21, accounting for seasonality. This represents an increase of 19% to market expectations of \$381m. Hence, we expect positive earnings revisions in the order of 17.5-20% for FY21 and future periods.

We are initiating on FBU with a 12-month price target of \$5.64 and a BUY recommendation. The price target is underpinned by our 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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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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Buy	41.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	41.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)