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Institutional Research & Dealing

stock brief

Recommendation: LONG TERM BUY

Stock Code: BKW
Last Sale: $9.26
Market Cap : $1367m
Net Tangible Assets: $9.42
Risk Level: Low

Brickworks Limited

BKW's Building Materials/Land divisions valued by sharemarket <$150m

23 Sep 2011

Mike Ryan
61 2 9232 1822

Risk Factors

1. The housing cycle continues to slow due to affordability and the level of interest rates.
2. A Carbon Tax will raise building material prices affecting housing affordability/demand.

BACKGROUND

- Brickworks Ltd (BKW) holds a 42.85% interest in Washington H Soul Pattinson (SOL) which in turn holds 44.59% interest in BKW. The Building Materials products range from bricks to roof tiles while land sales are the result of moving brick operations. The market value of BKW's SOL holding is $1,244m (SOL at $12.17) or $8.43 per BKW share with the sharemarket valuing building materials/land divisions of BKW at <$150m. This 'difference' was >$850m in 2007.

FY11 RESULT SNAPSHOT (released 22-Sep-11)

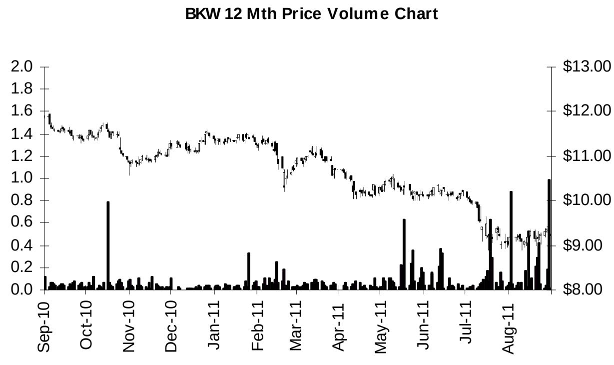
- Revenue for the 12 months to 31-Jul-11 was $656.5m (-3.2% pcp) with Building Products up 4.2% to $604.9m. **Normalised** EBIT and net profit was $132.0m (-12.3% pcp) and $100.8m (-8.5% pcp) respectively. Building Products EBIT was $42m (-21.3% pcp), while EBIT from Investments (mainly SOL) was $67.9m (-11.2% pcp). Land and Development EBIT was $29.2m (+2.8% pcp). Significant items after tax of $41.8 m were due mainly to SOL associate NHC's profit on the sale of shares in AOE of $62.1m and $15.7m for various plant write-offs.
- Sales revenue for Austral Bricks fell 4.7% to $330m, Bristile Roofing fell 4.2% to $124m, Austral Masonry rose 14.8% to $55m, Auswest Timbers rose 6% to $36m and Austral Precast was $57m. EBIT/Sales margin was 6.9% (pcp 9.2%) due to higher unit production costs from plant shutdowns and the pre-cast acquisitions that have lower margins than bricks. Inventories increased by $14.3m to $153.6m due to wet weather/poor trading conditions.
- Net cash from operating activities was $89.0m ($146.5m pcp) due mainly to lower proceeds from land sales. Net debt was higher at $249.4m ($226.6m pcp). Capex of $35.7m ($25.2m pcp) was greater than depn/amort of $27.3m ($25.8m pcp) reflecting the expansion of the Wollert brick plant and upgrades to precast plants. Tax paid was $1.4m ($15.0m pcp) and an unchanged final ff dividend of 27c was declared making 40.5 c (40 c ff pcp) for the year.
- Total Australian dwelling commencements for the 12 months to 30-Jun-11 decreased 5.5% to 156,411. Performance by state varied with NSW down 3.1% to 35,261, QLD down 20.3% to 26,443, VIC up 8.5% to a record 59,116, WA down 18% to 20,617, SA down 10.6% to 10,732 and TAS down 3.9% to 2,997. NZ building consents decreased 16.3% to 13,539.
- The second manufacturing line at Wollert (VIC), doubling the capacity to 170 million bricks pa, was commissioned in July 2011. Costs will be reduced by 22% for manufacturing with the staff reduced by 96 to 58. Emissions will be reduced by 58k tonnes.
- BKW's share of the net assets of the Property Trust (jv with the Goodman Group) was up $8m to $184m with a higher EBIT of $12.5m ($10.3m pcp). Land holdings for Operations (3,859 ha) were disclosed at a valuation of $300m (book value $135m), and Development (1,139 ha) at a current value of $141m (book value $65m) with potential value at $344m.

SELECT EQUITIES FORECASTS/CARBON TAX

- BKW is estimating a 9% fall in housing starts to 141k in FY12. Based on Select Equities FY12e **normalised** earnings forecasts, BKW is trading on a PE ratio of 13.7 times, an EV/EBITDA multiple of 9.7 times and a ff yield of 4.4%.
- On 11-Jul-11, BKW forecast that the Carbon Tax due to be introduced from 1-Jul-12 would have an impact of $12.8m on EBIT at a price of $23 per tonne. A price rise of up to 6% is planned to recover the cost of the tax. Total emissions were 431k tonnes in FY11. No adjustment has been made to FY13e for the Carbon Tax.

July Year End	FY10A	FY11A	FY12E	FY13E
Net Profit ($m) incl assoc	138.8	142.6	95.5	115.0
EBITDA ($m)	180.7	143.9	166.8	175.2
EBIT ($m)	154.9	116.6	139.5	147.9
EPS (¢) normalised	74.7	68.3	67.7	77.2
DPS (¢)	40.0	40.5	41.0	42.0
PER (x) normalised	12.4	13.6	13.7	12.0
PER Rel All Ords (%)	91%	99%	100%	88%
Ent. Value/EBITDA (x)	8.9	11.2	9.7	9.2
Ent. Value/EBIT (x)	10.4	13.9	11.6	10.9
Yield (%)	4.3%	4.4%	4.4%	4.5%
Issued Shares (m)				147.6
Avg. Mthly Volume (m)				1.5
Mkt Cap ($m)				1366.5
Net Debt ($m)				249.4
Enterprise Value ($m)				1615.9

Source: Company Reports and Select Equities Research



Source: Iress

Brickworks Limited

Select Equities Research
Mid Caps

Code				BKW
Last sale ($)	22-Sep-11			9.26
# shares (m)				147.6
# options				0.0
Mkt cap ($m)				1366.5
Cash (FY11A)				50.6
Net Debt (FY11A)				249.4
Enterprise Value				1615.9

July Year End	FY10A	FY11A	FY12E	FY13E
Financial Perfomance ($m)				
Sales Revenue	584.0	606.1	624.3	649.3
Other	72.6	29.5	30.0	30.0
Total Revenue	656.5	635.6	654.3	679.3
Gross Profit	192.3	182.8	209.1	217.5
EBITDA	180.7	143.9	166.8	175.2
D&A	25.8	27.3	27.3	27.3
EBIT	154.9	116.6	139.5	147.9
Net Interest	22.1	19.4	18.0	15.4
PBT	132.9	97.1	121.6	132.5
Associates/Abnormals	89.9	172.1	90.7	100.7
Total Pre-Tax Profit	132.9	97.1	121.6	132.5
Tax	27.1	28.0	31.0	32.4
NPAT (incl associates)	138.8	142.6	95.5	115.0
NPAT normalised	110.2	100.8	99.8	113.8
EPS(¢)	96.7	96.7	64.7	78.0
EPS (normalised) (¢)	74.7	68.3	67.7	77.2
DPS (¢)	40.0	40.5	41.0	42.0
NTA (¢)	927.8	942.0	992.0	1029.5
Book Value / Share (¢)	1120.6	1135.6	1185.6	1223.1
Valuation/Performance Ratios				
PER (x)	9.6	9.6	14.3	11.9
PER (normalised)	12.4	13.6	13.7	12.0
Ent. Value/EBITDA (x)	8.9	11.2	9.7	9.2
Ent. Value/EBIT	10.4	13.9	11.6	10.9
Sales Growth (%)	19.0%	3.8%	3.0%	4.0%
Gross Profit Growth	17.2%	-4.9%	14.4%	4.0%
EBITDA Growth	26.4%	-20.4%	16.0%	5.0%
NPAT Growth	-57.9%	0.0%	-33.0%	20.4%
P/NTA (x)	1.0	1.0	0.9	0.9
P/BV	0.8	0.8	0.8	0.8
Yield (%)	4.3%	4.4%	4.4%	4.5%
Franking	100.0%	100.0%	100.0%	100.0%
Payout Ratio	41.4%	41.9%	63.3%	53.9%
Gross Profit/Sales (%)	32.9%	30.2%	33.5%	33.5%
EBITDA/Tot Revenue	27.5%	22.6%	25.5%	25.8%
EBIT/Tot Revenue	23.6%	18.3%	21.3%	21.8%
NPAT/Tot Revenue	13.7%	27.1%	13.9%	14.8%
Current Ratio (x)	3.3	3.2	3.2	3.2
Days Debtors	61.8	54.9	48.9	47.0
Days Creditors	63.6	55.1	56.2	58.3
Interest Cover (x)	7.0	6.0	7.8	9.6
Net debt/equity (%)	13.7%	14.9%	10.4%	8.3%
ROE (%)	8.4%	8.5%	5.5%	6.4%
ROA	6.8%	5.1%	6.0%	6.4%

Interim Results ($m)	1H10	2H10	1H11	2H11
Revenue	263.0	320.9	303.5	302.6
Other	56.1	16.5	24.2	5.3
Total Revenue	319.1	337.4	327.7	307.9
EBITDA	91.1	89.6	94.2	49.7
D&A	12.8	12.9	13.2	14.1
EBIT	78.2	76.7	80.9	35.6
Net Interest	11.1	10.9	8.2	11.3
PBT	67.1	65.7	72.8	24.4
NPAT (incl associates)	88.2	50.6	117.1	25.5

July Year End	FY10A	FY11A	FY12E	FY13E
Financial Position ($m)				
Cash	73.4	50.6	67.5	50.1
Trade Debtors	98.8	83.6	83.6	83.6
Inventory	139.3	153.6	150.0	150.0
Prop.,Plant&Equip. (net)	432.1	450.5	473.2	495.9
Intangibles	283.9	285.7	285.7	285.7
Investments/Other	1237.6	1254.5	1254.5	1254.5
Total Assets	2265.0	2278.5	2314.5	2319.8
Trade Creditors	68.8	58.9	69.0	69.0
Debt	300.0	300.0	250.0	200.0
Provisions	55.9	60.2	60.2	60.2
Other	191.1	185.8	185.8	185.8
Total Liabilities	615.1	602.7	564.9	514.9
Net Assets	1649.9	1675.7	1749.5	1804.8
Issued Capital	322.7	325.0	325.0	325.0
Reserves	367.2	296.4	335.1	337.4
Retained Earnings	960.1	1054.3	1089.4	1142.4
Total Equity	1649.9	1675.7	1749.5	1804.8
Cash Flows ($m)				
Net Receipts	113.0	32.4	120.0	130.0
Net Interest	-18.8	-17.8	-18.0	-15.4
Tax Paid	-15.0	-1.4	-10.0	-20.0
Dividends/Other	67.4	75.9	62.6	50.0
Operating Cash Flow	146.5	89.0	154.6	144.6
Capex & Acquisitions	-94.4	-55.9	-50.0	-50.0
Asset Sales & Divest	8.7	4.7	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cash Flow	-85.7	-51.3	-50.0	-50.0
Change in Equity (net)	174.0	0.0	0.0	0.0
Change in Debt (net)	-100.0	0.0	-50.0	-50.0
Dividends	-58.2	-59.8	-60.5	-62.0
Other	-21.2	-0.7	0.0	0.0
Financing Cash Flow	55.4	-22.7	-110.5	-112.0
Net Inc/Dec Cash	17.9	73.4	-5.9	-17.4
Cash at Yr End	73.4	73.4	67.5	50.1

Divisional Split ($m)	FY09A	FY10A	FY11A	FY12E
Revenue				
Building Products	489.3	580.3	604.9	624.3
Land & Development	103.0	73.8	29.0	30.0
Investments	1.2	2.4	1.7	2.0
Total Revenue	593.5	656.5	635.6	654.3
EBIT(normalised)				
Building Products	37.0	53.4	42.0	44.0
Land & Development	40.6	28.4	29.2	28.0
Investments	95.4	76.5	67.9	70.0
Other & H.O.	-7.2	-7.8	-7.1	-7.0
Total EBIT (normalised)	165.8	150.5	132.0	135.0

Substantial Shareholders	%
Soul Pattinson (SOL)	44.6%
Perpetual	12.0%
Perennial	5.9%

The top 20 Shareholders hold 80.0% as at 31/08/10.

On 2/11/09, a substantial shareholder notice from SOL for BKW included the interests of the Millner family as associates that increased the SOL holding by 6.813m shares to 48.15%.

Source: Company Reports and Select Equities Research

Institutional Research & Dealing

Select Equities Directory

Sydney Office

Level 4, 350 George Street
SYDNEY NSW 2000

P +61 2 9232 1833
F +61 2 9232 1933
E info@selectequities.com.au
W www.selectequities.com.au

Melbourne Office

Level 19, 90 Collins Street
MELBOURNE VIC 3000

P +61 3 9481 2833
F +61 2 9232 1933
E info@selectequities.com.au
W www.selectequities.com.au

Mark Southwell-Keely msk@selectequities.com.au	Institutional Dealer/Research	(02) 9232 1833
Danny Goldberg dannyg@selectequities.com.au	Institutional Dealer/Research	(02) 9232 1833
Mike Ryan mryan@selectequities.com.au	Institutional Dealer/Research	(02) 9232 1822
David Spotswood dspotswood@selectequities.com.au	Institutional Research Adviser	(03) 9481 2833
Michael Iwaniuk michaeli@selectequities.com.au	Institutional Research	(02) 9232 1833
Aidan Brooksby aidanb@selectequities.com.au	Institutional Research	(02) 9232 1833