

stock brief

Recommendation: LONG TERM BUY

Brickworks Limited

 Adverse 2nd Qtr weather impact on Building Materials

 Stock Code: BKW
 Last Sale: \$10.95
 Market Cap : \$1,619m
 Net Tangible Assets: \$9.48
 Risk Level: Low

28 Mar 2011
BACKGROUND

- Brickworks Ltd (BKW) holds a 42.85% interest in Washington H Soul Pattinson & Company Ltd (SOL), which in turn holds a 44.59% interest in BKW. The market value of BKW's SOL holding as at 31-Jan-11 was equal to \$1,268m (SOL at \$12.40) or **\$8.59 per BKW share**. The AGM 1QFY11 trading update for Building Materials was a 20% increase in revenue to \$160m and an EBIT up 17% to \$13.2m over the pcp.

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1H11 RESULT SNAPSHOT (released 24-Mar-11)

- Revenue for the 6 months to 31-Jan-11 was \$327.7m (+2.7% pcp) with Building Products up 15.4% to \$303.5m. **Normalised EBIT** and net profit was \$77.0m (+7.8% pcp) and \$61.0m (+7.0% pcp) respectively. Building Products EBIT was \$22.4m (+2.8% pcp), while EBIT from Investments (mainly SOL) was \$37.9m (-7.8% pcp). Land and Development EBIT was higher at \$20.6m (\$12.3m pcp). Non-regular items of \$56.1m (\$31.2m pcp) were due mainly to SOL associate New Hope Corporation's sale of shares in Arrow Energy that BKW's equity accounted share was a pre-tax profit of \$83.4m.
- Net cash from operating activities was \$55.1m (-13.2% pcp) due to lower dividends received. Net debt was \$246.7m (\$195.1m pcp). Capex of \$21.5m (\$9.7m pcp) was greater than depn/amort of \$13.2m (\$12.8m pcp) reflecting the expansion of the Wollert brick plant. In 1H11, tax paid was \$3.3m (\$10.9m pcp).
- The 1H11 EBIT/Sales margin was 7.4% (pcp 8.3%), contraction was due to the pre-cast acquisitions that have lower margins (say 10% compared to 20% for bricks) due to the supply/install nature of the business.
- A higher interim fully franked dividend of 13.5c (13c ff pcp) was declared.
- The 6 months to Jan-11 were the wettest on record for Australia and led to significant delays in construction schedules and was estimated to have reduced the division's earnings by \$1.7m.
- Total Australian dwelling commencements for the 6 months to 31-Dec-10 increased 3.4% to 79,472. Performance by state varied with NSW up 5.7% to 16,014, QLD decreased 15.7% to 14,218, VIC increased 18.2% to a record 31,061, WA declined 5.3% to 10,816, SA was steady at 5,795 and TAS decreased 4.1% to 1,568. NZ building consents decreased 12.6%. **Brick sales volumes increased 5.5% compared to pcp and net average selling prices increased 1.9% compared to pcp.**
- BKW's share of the net assets of the Property Trust (jv with the Goodman Group) was up \$6.8m to \$182.8m with a higher EBIT of \$5.5m (\$4.0m pcp). Land and Development EBIT was higher overall at \$20.6m (\$12.3m) with major transactions being the sale of 2 lots in the M7 Business Hub. The two new DHL facilities on the Oakdale estate should be completed in calendar 2011.

Risk Factors

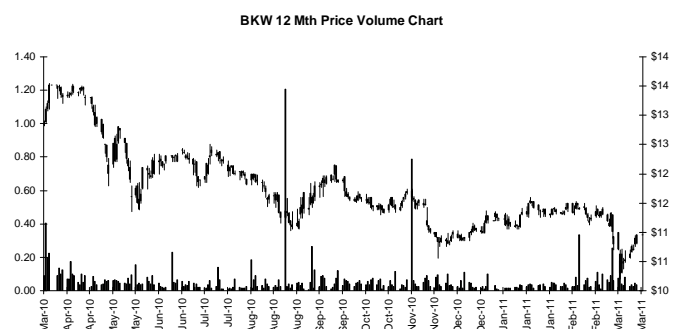
- The upturn in the housing cycle is slowed by further interest rate increases.
- If the lack of land supply and high govt. charges in NSW continues then this will continue to impact on house prices and affordability
- A Carbon Tax will raise building material prices affecting housing affordability.

SELECT EQUITIES FORECASTS

- For calendar 2011, activity levels in the housing construction market are expected to remain at current levels (rebuilding in Queensland and Christchurch will help). The Building Products division is likely to benefit from any improvement in its biggest market, NSW, as there remains a significant housing shortage. The significantly lower cost Victorian Wollert plant expansion should be operating by July-11.
- Based on Select Equities FY11e **normalised** earnings forecasts, BKW is trading on a FY11E PE ratio of 12.8 times, an EV/EBITDA multiple of 10.8 times and a ff yield of 3.7 %.

July Year End	FY10A	1H11A	FY11E	FY12E
Net Profit (\$m) incl.ass.	138.8	117.1	186.8	109.2
EBITDA (\$m)	180.7	94.2	172.4	178.6
EBIT (\$m)	154.9	80.9	146.0	152.2
EPS (¢) normalised	76.7	41.5	85.7	98.3
DPS (¢)	40.0	13.5	41.0	42.0
PER (x) normalised	14.3	26.4	12.8	11.1
PER Rel All Ords (%)	98%	182%	88%	77%
Ent. Value/EBITDA (x)	10.3	19.8	10.8	10.4
Ent. Value/EBIT (x)	12.0	23.0	12.8	12.2
Yield (%)	3.7%	1.2%	3.7%	3.8%
Issued Shares (m)				147.6
Avg. Mthly Volume (m)				1.3
Mkt Cap (\$m)				1615.9
Net Debt (\$m)				247.3
Enterprise Value (\$m)				1863.1

Source: Company Reports and Select Equities Research



Source: Iress

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Brickworks Limited

 Select Equities Research
Mid Caps

Code	BKW				July Year End	FY10A	1H11A	FY11E	FY12E
Last sale (\$)	25-Mar-11				10.95				
# shares (m)	147.6				Financial Position (\$m)				
# options	0.0				Cash	73.4	53.3	66.0	68.9
Mkt cap (\$m)	1615.9				Trade Debtors	98.8	98.9	98.9	98.9
Cash (1H11A)	53.3				Inventory	139.3	148.7	150.0	150.0
Net Debt (1H11A)	247.3				Prop., Plant & Equip. (net)	432.1	454.3	477.8	481.3
Enterprise Value	1863.1				Intangibles	283.9	284.1	284.1	284.1
July Year End	FY10A	1H11A	FY11E	FY12E	Investments/Other	1237.6	1213.3	1213.3	1213.3
Financial Performance (\$m)					Total Assets	2265.0	2298.6	2290.0	2296.5
Sales Revenue	584.0	303.5	624.9	649.8	Trade Creditors	68.8	63.9	69.0	69.0
Other	72.6	24.2	50.0	50.0	Debt	300.0	300.6	250.6	200.6
Total Revenue	656.5	327.7	674.9	699.8	Provisions	55.9	24.2	24.2	24.2
Gross Profit	192.3	102.9	209.3	220.9	Other	190.3	193.6	193.6	193.6
EBITDA	180.7	94.2	172.4	178.6	Total Liabilities	615.1	615.2	537.4	487.4
D&A	25.8	13.2	26.5	26.5	Net Assets	1649.9	1683.4	1752.6	1809.1
EBIT	154.9	80.9	146.0	152.2	Issued Capital	322.7	322.0	324.0	326.0
Net Interest	22.1	8.2	19.4	17.1	Reserves	367.2	316.5	257.5	264.7
PBT	132.9	72.8	126.5	135.0	Retained Earnings	960.1	1044.9	1171.1	1218.4
Associates/Abnormals	89.9	126.4	173.1	90.7	Total Equity	1649.9	1683.4	1752.6	1809.1
Total Pre-Tax Profit	132.9	148.0	126.5	135.0	Cash Flows (\$m)				
Tax	27.1	30.9	62.3	30.8	Net Receipts	113.0	31.8	120.0	130.0
NPAT (incl associates)	138.8	117.1	186.8	109.2	Net Interest	-18.8	-9.0	-19.4	-17.1
NPAT normalised	110.2	61.0	126.5	145.0	Tax Paid	-15.0	-3.3	-12.0	-20.0
EPS (¢)	96.7	79.6	126.6	74.0	Dividends/Other	67.4	35.6	62.6	50.0
EPS (normalised) (¢)	76.7	41.5	85.7	98.3	Operating Cash Flow	146.5	55.1	151.2	142.9
DPS (¢)	40.0	13.5	41.0	42.0	Capex & Acquisitions	-94.4	-24.3	-50.0	-30.0
NTA (¢)	927.8	948.3	995.2	1033.4	Asset Sales & Divest	8.7	0.0	0.0	0.0
Book Value / Share (¢)	1120.6	1140.8	1187.7	1225.9	Other	0.0	-11.7	0.0	0.0
Valuation/Performance Ratios					Investing Cash Flow	-85.7	-36.0	-50.0	-30.0
PER (x)	11.3	13.8	8.7	14.8	Change in Equity (net)	174.0	0.0	2.0	2.0
PER (normalised)	14.3	26.4	12.8	11.1	Change in Debt (net)	-100.0	-130.0	-50.0	-50.0
Ent. Value/EBITDA (x)	10.3	19.8	10.8	10.4	Dividends	-58.2	-39.8	-60.5	-62.0
Ent. Value/EBIT	12.0	23.0	12.8	12.2	Other	-21.2	130.7	0.0	0.0
Sales Growth (%)	19.0%	15.4%	7.0%	4.0%	Financing Cash Flow	55.4	-39.1	-108.5	-110.0
Gross Profit Growth	17.2%	19.4%	8.8%	5.6%	Net Inc/Dec Cash	17.9	-20.0	-7.3	2.9
EBITDA Growth	26.4%	3.4%	-4.6%	3.6%	Cash at Yr End	73.4	53.3	66.0	68.9
NPAT Growth	-57.9%	32.7%	34.6%	-41.5%	Divisional Split (\$m)				
P/NTA (x)	1.2	1.2	1.1	1.1	FY08A	FY09A	FY10A	FY11E	
P/BV	1.0	1.0	0.9	0.9	Revenue				
Yield (%)	3.7%	1.2%	3.7%	3.8%	Building Products	520.0	489.3	584.0	624.9
Franking	100.0%	100.0%	100.0%	100.0%	Land & Development	33.0	103.0	70.1	48.0
Payout Ratio	41.4%	17.0%	32.4%	56.7%	Investments	0.7	1.2	2.4	2.0
Gross Profit/Sales (%)	32.9%	33.9%	33.5%	34.0%	Total Revenue	553.7	593.5	656.5	674.9
EBITDA/Tot Revenue	27.5%	28.7%	25.6%	25.5%	EBIT (normalised)				
EBIT/Tot Revenue	23.6%	24.7%	21.6%	21.7%	Building Products	53.6	37.0	53.4	60.0
NPAT/Tot Revenue	13.7%	38.6%	25.6%	13.0%	Land & Development	93.7	40.6	28.4	30.0
Current Ratio (x)	3.3	0.8	4.0	4.0	Investments	36.9	95.4	76.5	75.0
Days Debtors	61.8	55.1	57.7	44.2	Other & H.O.	-6.1	-7.2	-7.8	-8.0
Days Creditors	63.6	57.2	60.5	57.8	Total EBIT (normalised)	178.1	165.8	150.5	157.0
Interest Cover (x)	7.0	9.9	7.5	8.9	Substantial Shareholders				
Net debt/equity (%)	13.7%	14.7%	10.5%	7.3%					%
ROE (%)	8.4%	7.0%	10.7%	6.0%	Soul Pattinson (SOL)				44.6%
ROA	6.8%	3.5%	6.4%	6.6%	Perpetual				12.0%
Interim Results (\$m)									7.0%
Revenue	1H10	2H10	1H11A	2H11E	The top 20 Shareholders hold 80.0% as at 31/08/10				
Other	263.0	320.9	303.5	321.4	On 2/11/09, a substantial shareholder notice from SOL for				
Total Revenue	56.1	16.5	24.2	25.8	BKW included the interests of the Millner family as				
EBITDA	319.1	337.4	327.7	347.2	associates that increased the SOL holding by 6.813m				
D&A	91.1	89.6	94.2	78.3	shares to 48.15%.				
EBIT	12.8	12.9	13.2	13.2					
Net Interest	78.2	76.7	80.9	65.0					
PBT	11.1	10.9	8.2	11.3					
NPAT (incl associates)	67.1	65.7	72.8	53.8					
	88.2	50.6	117.1	69.7					

Source: Company Reports and Select Equities Research

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