



# Adelaide Brighton Limited (ABC)

Hold

Very Well Placed, Valuation Reflective of Buoyant Demand Conditions

\$6.63

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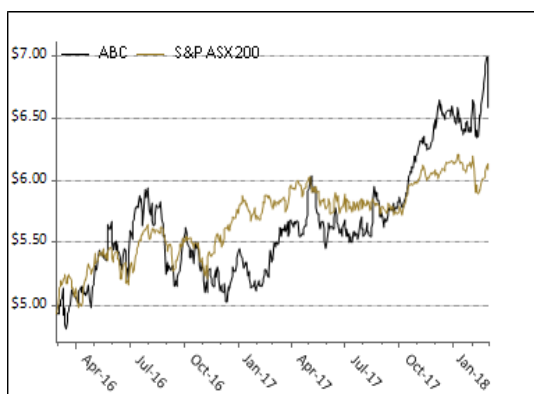
## Summary (AUD)

Market Capitalisation	\$4,308M
Share Price	\$6.63
52 week low	\$5.34
52 week high	\$7.05
Ave Monthly Vol (year rolling)	42.368M

## Key Financials (AUD)

Year End 31 Dec (\$m)	FY17 Actual	FY18 Est.	FY19 Est.
<b>Revenue</b>	<b>1,569.2</b>	<b>1,648.5</b>	<b>1,714.1</b>
EBIT	278.4	297.3	312.8
<b>NPAT</b>	<b>189.3</b>	<b>203.7</b>	<b>215.7</b>
EPS (c)	29.1	31.3	33.2
Growth (pcp)	6.0%	7.6%	5.9%
<b>PE Ratio (x)</b>	<b>22.8</b>	<b>21.1</b>	<b>20.0</b>
DPS (c)	20.5	22.0	23.0
<b>Div Yield</b>	<b>3.1%</b>	<b>3.3%</b>	<b>3.5%</b>
Franking	100%	100%	100%
<b>EV</b>	<b>4,679.7</b>	<b>4,653.3</b>	<b>4,602.3</b>
EV/EBIT (x)	16.8	15.7	14.7
ROE	15.3%	15.9%	16.0%
EBIT Margin	17.9%	18.1%	18.4%
Payout Ratio	70.4%	70.2%	69.3%

## Share Price Graph (AUD)



## Our View – Downgrade to Hold on Valuation

Healthy top line growth was not replicated fully enough at the EBIT level for some, focusing attention on ABC's lack of operational leverage. With expectations high, and trading above historic forward multiples (albeit in line with inflated peers), ABC retraced its recent share price spike. That reaction appears harsh for a business continuing to successfully negotiate the cost pressures inherent of an energy intensive domestic manufacturer. Without the tailwind of east coast infrastructure, there is no doubting ABC looks expensive. But it is difficult to ignore the boom demand conditions of the next few years, particularly when backed by a sound and disciplined management team. We move to a Hold recommendation on valuation grounds, but would willingly maintain an exposure to ABC as a high quality construction material player.

## Key Points

- **Within guidance but below forecast** – Excluding one-off costs and land sale gains, FY17 NPAT increased 6.1% to \$189.3m, 3.6% shy of our \$196.5m forecast, and towards the bottom of ABC's \$188-198m guidance range. Cost pressures, with SA energy in particular, were to blame, limiting the translation of 11.9% revenue growth to the bottom line. Despite this or indeed perhaps because of it, ABC's pursuing of cost outs continues, recording \$11m of cost savings in FY17.
- **Continued energy battle** – Looking forward, ABC's new five year Infigen electricity supply agreement provides reliability and certainty in SA. But the \$4-5m saving is not enough to offset expected higher SA gas costs (from ABC's Beach deal) and higher WA coal renewal costs following the ending of a favourable seven year contract in December. ABC has called out \$5-6m of energy cost impacts in FY18.
- **Operational leverage absent in FY17** – Within an improving price environment, operational leverage was notably absent. FY17 margins saw unfavourable product mix, increased (lower margin) imports, and cost pressures. Acknowledging continued FY18 import and energy margin headwinds in cement and a muted lime performance, the strong pricing environment should lend itself to more than offsetting concrete and aggregate margin expansion. The market's fascination with short-term growth misses ABC's longer term success in variablising its cost base and delivering steady through the cycle margins.
- **No concerns for lime** – Lime is ABC's jewel in the crown at 11% of sales and double that of earnings. Lower gas cost pass through to alumina customers impacted FY17 margins modestly. And marginal FY18 volume declines are expected on re-emerging WA import competition. But with 70% of volumes tied to long-term alumina contracts, any volume decline should be minimal (<1%). Any FY18 cost pressures are also likely to flow out through alumina contract pricing mechanisms in FY19. Lime remains a steady, non-cyclical core offering in ABC's stable.
- **Positive outlook commentary** – If ABC's solid result was not sufficiently positive enough to meet the markets lofty expectations, its outlook commentary was. Volume uplifts in all products (except lime), and an east coast price environment as good as ABC's conservative management have seen. Out of cycle Vic concrete price increases – in the most competitive of all states – is a significant sign. Buoyed by these meaningful concrete and aggregate price increases, and with continued management of the cost base, ABC should deliver FY18 results that support its expanded multiple.

**Adelaide Brighton - Summary of Forecasts** ABC-AU \$ 6.63

<b>PROFIT &amp; LOSS SUMMARY (A\$m)</b>				
Year end Dec	FY16A	FY17A	FY18E	FY19E
<b>Total Revenue</b>	<b>1,402.3</b>	<b>1,569.2</b>	<b>1,648.5</b>	<b>1,714.1</b>
EBITDA	335.8	360.9	383.0	400.3
Dep'n/Other Amort'n	(78.1)	(82.5)	(85.7)	(87.5)
<b>EBIT</b>	<b>257.7</b>	<b>278.4</b>	<b>297.3</b>	<b>312.8</b>
Net Interest	(11.5)	(12.1)	(16.3)	(15.3)
Pre-Tax Profit	246.2	266.3	281.0	297.5
Tax Expense	(67.9)	(76.9)	(77.3)	(81.8)
<b>NPAT Adj.</b>	<b>178.4</b>	<b>189.3</b>	<b>203.7</b>	<b>215.7</b>
Abnormals	7.9	(7.3)	0.0	0.0
Reported Profit	186.3	182.0	203.7	215.7
Margins on Sales Revenue				
EBITDA	24.1%	23.2%	23.4%	23.5%
EBIT	18.5%	17.9%	18.1%	18.4%
NPAT Adj.	12.8%	12.1%	12.4%	12.7%
Change on pcp				
Revenue	-1.1%	11.9%	5.1%	4.0%
EBITDA	0.8%	7.5%	6.1%	4.5%
EBIT	0.9%	8.0%	6.8%	5.2%
NPAT Adj.	2.4%	6.1%	7.6%	5.9%

<b>PER SHARE DATA</b>				
Year end Dec	FY16A	FY17A	FY18E	FY19E
<b>EPS Adj. (c)</b>	<b>27.5</b>	<b>29.1</b>	<b>31.3</b>	<b>33.2</b>
Growth (pcp)	2.2%	6.0%	7.6%	5.9%
Dividend (c)	20.0	20.5	22.0	23.0
Special Div (c)	8.0	0.0	0.0	0.0
Franking	100%	100%	100%	100%
Gross CF per Share (c)	39.1	38.0	41.4	44.6
NTA per share (c)	146.0	146.0	155.5	166.0

<b>KEY RATIOS</b>				
Year end Dec	FY16A	FY17A	FY18E	FY19E
Net Debt : Equity (%)	23.6%	29.8%	26.3%	21.3%
EBIT Interest cover (x)	19.8	20.5	17.3	19.2
Free CF / NPAT (5 yr avg)	87.8%	93.2%	88.9%	88.3%
Current ratio (x)	2.3	2.3	2.5	2.5
ROE (%)	14.7%	15.3%	15.9%	16.0%
Dividend Payout Ratio (%)	72.8%	70.4%	70.2%	69.3%

<b>VALUATION MULTIPLES</b>				
Year end Dec	FY16A	FY17A	FY18E	FY19E
<b>PER (x)</b>	<b>24.1</b>	<b>22.8</b>	<b>21.1</b>	<b>20.0</b>
<b>Dividend Yield (%)</b>	<b>3.0%</b>	<b>3.1%</b>	<b>3.3%</b>	<b>3.5%</b>
FCF Yield (%)	3.9%	3.7%	3.8%	4.5%
EV/EBITDA (x)	13.7	13.0	12.1	11.5
EV/EBIT (x)	17.8	16.8	15.7	14.7

NB: Div yield excludes specials. Adjusted no.'s do not include land sale gains.

<b>BALANCE SHEET SUMMARY</b>				
Year end Dec	FY16A	FY17A	FY18E	FY19E
Cash	21.5	57.6	61.6	69.3
Receivables	204.6	241.0	247.3	257.1
Inventories	160.2	174.3	177.2	184.3
Other	3.8	1.9	1.9	1.9
<b>Total Current Assets</b>	<b>390.1</b>	<b>474.8</b>	<b>488.0</b>	<b>512.6</b>
Receivables	34.4	37.3	42.9	44.6
Investments	151.2	160.3	160.3	160.3
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	978.4	1,037.2	1,056.5	1,064.0
Intangibles	270.3	299.9	299.9	299.9
Other	2.3	3.5	3.5	3.5
<b>Total Non-Current Assets</b>	<b>1,436.6</b>	<b>1,538.2</b>	<b>1,563.0</b>	<b>1,572.2</b>
<b>TOTAL ASSETS</b>	<b>1,826.7</b>	<b>2,013.0</b>	<b>2,051.0</b>	<b>2,084.8</b>
Accounts Payable	117.0	145.8	140.1	145.7
Borrowings	0.4	0.3	0.3	0.4
Provisions	31.9	33.8	33.0	34.3
Other	18.7	24.9	24.9	24.9
<b>Total Current Liab</b>	<b>168.0</b>	<b>204.8</b>	<b>198.3</b>	<b>205.2</b>
Borrowings	309.6	428.9	406.6	363.2
Provisions	39.0	45.0	49.5	51.4
Other	90.0	86.1	86.1	86.1
<b>Total Non-Current Liab</b>	<b>438.6</b>	<b>560.0</b>	<b>542.2</b>	<b>500.7</b>
<b>TOTAL LIABILITIES</b>	<b>606.6</b>	<b>764.8</b>	<b>740.5</b>	<b>706.0</b>
<b>TOTAL EQUITY</b>	<b>1,220.1</b>	<b>1,248.2</b>	<b>1,310.6</b>	<b>1,378.8</b>

<b>CASH FLOW SUMMARY</b>				
Year end Dec	FY16A	FY17A	FY18E	FY19E
<b>EBIT (excl Abs/Extr)</b>	<b>257.7</b>	<b>278.4</b>	<b>297.3</b>	<b>312.8</b>
Add: Depreciation	78.1	82.5	85.7	87.5
Change in Pay.	(5.9)	28.8	(5.7)	5.6
Less: Tax paid	(67.9)	(76.9)	(77.3)	(81.8)
Net Interest	(11.5)	(12.1)	(16.3)	(15.3)
Change in Rec.	2.2	(39.3)	(11.8)	(11.6)
Change in Inv.	1.3	(14.1)	(2.9)	(7.1)
<b>Gross Cashflows</b>	<b>254.0</b>	<b>247.3</b>	<b>269.0</b>	<b>290.1</b>
Capex (excl. acqns)	(86.5)	(89.1)	(105.0)	(95.0)
<b>Free Cashflows</b>	<b>167.5</b>	<b>158.2</b>	<b>164.0</b>	<b>195.1</b>
Dividends Paid	(176.1)	(153.7)	(137.7)	(144.1)
<b>Net Cash Flow</b>	<b>(8.6)</b>	<b>4.5</b>	<b>26.3</b>	<b>51.0</b>

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