

James Hardie Industries Plc

2Q preview: US demand better than feared (albeit Europe weak) & JHX oversold; Buy

Reiterate Rating: BUY | PO: 48.60 AUD | Price: 39.19 AUD

Raise 2Q NPAT to \$185mn; FY24 largely unchanged

We remain buyers of James Hardie (JHX) ahead of 2Q results (due Nov 8) and raise our 2Q NPAT to \$185mn (prior: \$178mn). Our updated 2QFY24 NPAT is towards the upper end of company guidance of \$170mn-190mn (consensus: \$178mn). The change to our 2Q estimates is driven by higher North America volume/margin assumptions and now forecast 2Q NA EBIT of \$241mn (prior: \$234mn) partly offset soft Europe. However, we trim 2H to reflect lower volumes as we expect demand to soften as higher rates bite. Our FY24 estimates remain largely unchanged (NPAT down 0.6%). We view recent macro/rates driven sell off (JHX -17% since Aug peak) as an attractive opportunity.

US demand (stubbornly) solid; input costs (still) helping

Our higher 2Q estimates are driven mainly by slightly higher volume/margin assumptions for North America business where recent datapoints suggest that demand remains better-than feared. We forecast 2Q NA volume of 786 mmsf (guide: 740-770; cons: 758). As we also highlighted in our BofA siding monthly (see our [Edition 5](#) and [Edition 6](#)), according to BAC US aggregated credit and debit card data, spending on roofing & siding, sheet metal work contractors was up 3.3% yoy for third quarter (Q2 spending was up +0.9% YoY). Finally input costs remain favourable (especially pulp and freight), with pulp prices down c.25% yoy in 2Q and freight down c.9% yoy. However, we trim our 2H estimates to reflect lower volumes as we expect demand to soften as higher rates bite (see State of US Housing call: demand slowing as higher rates pressure affordability). Our FY24 estimates remain largely unchanged (NPAT down 0.6%). We also fine-tune our FY25/26 estimates.

Reiterate Buy on JHX; valuation particularly attractive

We reiterate Buy with an updated PO of A\$48.60/US\$32.50 (A\$49.20/US\$32.90 prior) based on our revised estimates. Our positive view is driven by: (1) a long-term positive view on fiber cement and JHX's competitive positioning; (2) JHX's mix shift towards the resilient repair and remodel market (67% of NA volumes), which we believe is underappreciated by the market. Finally, valuation appears particularly attractive with JHX trading at 1s.d. below its historical mean.

Estimates (Mar)	2022A	2023A	2024E	2025E	2026E
Net Profit - Ex. Asbestos Expense (US\$m)	620.70	605.50	637.03	696.06	741.49
Net Profit - Inc. Asbestos Expense (US\$m)	535.14	529.80	561.77	624.31	674.04
EPS - Ex. Asbestos Expense (US\$)	1.392	1.365	1.443	1.587	1.702
EPS Change (YoY)	35.4%	-1.9%	5.7%	10.0%	7.2%
Dividend / Share (US\$)	0.700	0	0	0	0
Free Cash Flow / Share (US\$)	1.120	0.037	0.360	1.193	1.366
Valuation (Mar)					
P/E - Ex. Asbestos Expense	24.8x	22.5x	21.5x	19.5x	0x
P/E - Inc. Asbestos Expense	25.7x	23.3x	22.2x	20.2x	0x
Dividend Yield	2.4%	0%	0%	0%	0%
EV / EBITDA*	14.3x	13.3x	11.5x	10.1x	9.1x

* For full definitions of *IQmethod*SM measures, see page 7.

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Refer to important disclosures on page 8 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 01 November 2023 06:00AM EDT

01 November 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	A\$49.20	A\$48.60
2024E EPS	1.45	1.44
2024E EBITDA (m)	1,057.0	1,043.8
2025E EBITDA (m)	1,150.9	1,139.4
2026E EBITDA (m)	1,219.6	1,211.3

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Stock Data

Price (Common / ADR)	39.19 AUD / 24.87 USD
Price Objective	48.60 AUD / 32.50 USD
Date Established	1-Nov-2023 / 1-Nov-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	25.84 AUD-48.40 AUD
Market Value (mn)	10,863 USD
Market Value (mn)	17,156 AUD
Shares Outstanding (mn)	437.8 / 437.8
Average Daily Value (mn)	33.84 USD
Free Float	100.0%
BofA Ticker / Exchange	JHIUF / ASX
BofA Ticker / Exchange	JHX / NYS
Bloomberg / Reuters	JHX AU / JHXAX
ROE (2024E)	33.9%
Net Dbt to Eqty (Mar-2023A)	58.7%

iQprofileSM James Hardie Industries Plc

Key Income Statement Data (Mar)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	3,615	3,777	3,615	3,985	4,306
Operating Expenses	(2,638)	(2,825)	(2,571)	(2,846)	(3,095)
EBITDA	977	952	1,044	1,139	1,211
Depreciation & Amortization	(162)	(173)	(183)	(196)	(209)
EBIT	816	780	860	944	1,002
Net Interest & Other income	(39)	(31)	(33)	(34)	(33)
Associates	NA	NA	NA	NA	NA
Pretax Income	776	749	827	910	969
Tax (expense) / Benefit	(156)	(144)	(190)	(214)	(228)
Net Profit b/f Abnormals	621	606	637	696	741
Non-Recurring Items	0	(94)	0	0	0
Net Income (Reported)	621	512	637	696	741
Avg F Diluted Shares Outstanding	446	444	442	439	436

Key Cash Flow Statement Data

EBITDA	977	952	1,044	1,139	1,211
Change in Working Capital	24	(91)	0	0	0
Deferred Taxation Charge	16	(6)	23	12	7
Other Adjustments, Net	250	(98)	(112)	(98)	(86)
Cash Flow from Operations	757	608	709	793	865
Capital Expenditure	(258)	(591)	(550)	(270)	(270)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(90)	(83)	0	0	0
Cash Flow from Investing	(348)	(660)	(550)	(270)	(270)
Shares Issue / (Repurchase)	0	(78)	(100)	(150)	(150)
Cost of Dividends Paid	(484)	(130)	0	0	0
Cash Flow from Financing	(450)	(25)	(100)	(150)	(150)
Free Cash Flow	499	16	159	523	595
Net Debt	752	946	887	514	69
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	1,457	1,840	2,206	2,280	2,341
Other Non-Current Assets	1,300	1,214	1,214	1,214	1,214
Trade Receivables	398	355	355	355	355
Cash & Equivalents	125	113	172	545	990
Other Current Assets	321	263	263	263	263
Total Assets	4,243	4,479	4,905	5,352	5,858
Long-Term Debt	877	1,059	1,059	1,059	1,059
Other Non-Current Liabilities	1,145	988	876	778	692
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	312	310	310	310	310
Total Liabilities	2,910	2,868	2,756	2,658	2,572
Total Equity	1,333	1,611	2,148	2,694	3,286
Total Equity & Liabilities	4,243	4,479	4,905	5,352	5,858

iQmethodSM - Bus Performance*

Return on Capital Employed	19.6%	17.5%	16.6%	16.3%	15.7%
Return on Equity	51.9%	41.1%	33.9%	28.7%	24.8%
Operating Margin	22.6%	20.6%	23.8%	23.7%	23.3%
EBITDA Margin	27.0%	25.2%	28.9%	28.6%	28.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.2x	1.0x	1.1x	1.1x	1.2x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate (Reported)	20.0%	19.2%	23.0%	23.5%	23.5%
Net Debt-to-Equity Ratio	56.4%	58.7%	41.3%	19.1%	2.1%
Interest Cover	20.3x	22.3x	25.6x	27.4x	28.4x

Key Metrics

Franking	0%	0%	0%	0%	0%
Asbestos Expense (post tax)	86	76	75	72	67

Note: Income Statement includes annual asbestos cash payment as an operating item. See bottom of table for pre asbestos metrics.

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Building Materials

Company Description

James Hardie is the largest fibre cement manufacturer in NA. Majority of JHX's products are used for exterior siding (c. 88% of NA volume in FY22), while the remaining products are used in interiors (e.g. backerboards). JHX is domiciled in Ireland but derives majority of its earnings from the US, Europe, and APAC (mainly Australia). Roughly two-thirds of JHX's NA volumes are driven by R&R and the remaining one-third by new construction. JHX sells c. 80% of its NA volumes to its top 20 customers.

Investment Rationale

We are Buy-rated on JHX. Our positive view is driven by our long-term positive view on fiber cement, JHX's strong competitive positioning and mix shift towards the resilient repair & remodel segment which we believe is underappreciated by the market. We view valuation as attractive with JHX trading at the lower end of its historical trading range.

Stock Data

Shares / ADR	1.00
Price to Book Value	5.1x

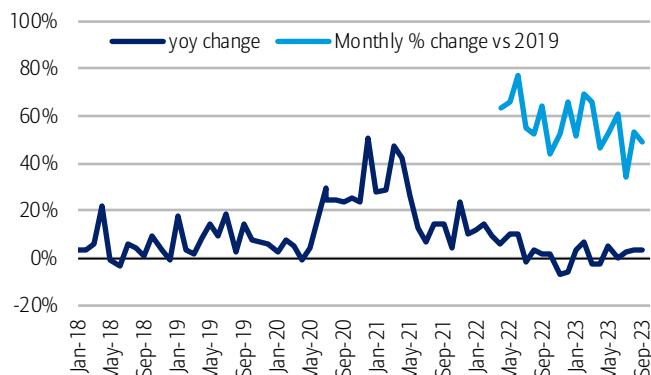
Key Changes

(US\$)	Previous	Current
Price Obj.	32.90	32.50
2024E EPS	1.45	1.44

Siding and commodities price trend

Exhibit 1: Monthly BAC US aggregated card data for roofing and siding, sheet metal work contractors (YoY and change vs 2019)

September 2023 spending was up 3.9% YoY and +49.1% vs Sep 2019



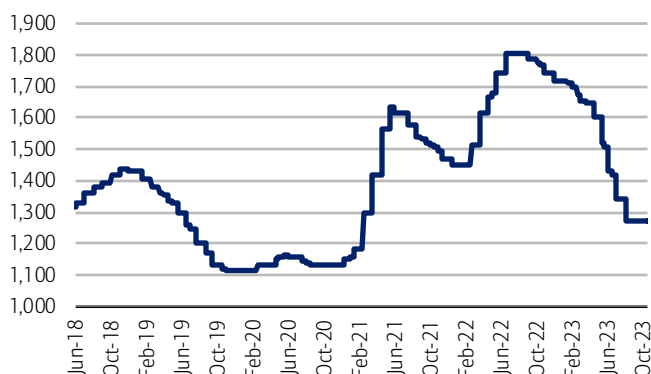
Source: BAC internal data (Data through September 2023)

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Please see the latest [BofA on USA](#) note for an explanation of the methodology, disclaimers, and limitations regarding BAC card data

Exhibit 3: US SW pulp price

Pulp prices are down significantly yoy

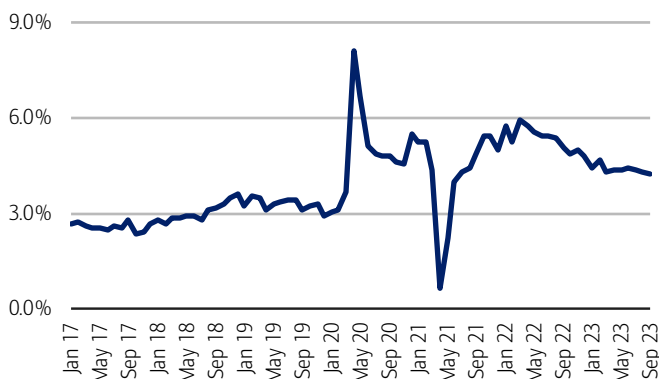


Source: RISI, BofA Global Research

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Exhibit 5: US average hourly earnings (private) yoy seasonally adjusted

Labour costs remain stable

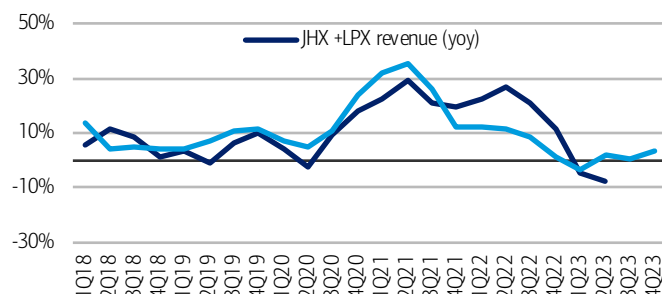


Source: US Bureau of Labour Statistics, BofA Global Research

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Exhibit 2: BAC US aggregated card spending data for roofing and siding, sheet metal work contractors (YoY) lagged by a quarter vs JHX +LPX siding revenue (YoY)

Between 1Q '18- 2Q' 23, the correlation between BAC US aggregated card spending on the category (YoY) & JHX + LPX North America revenues (yoy) was 73%

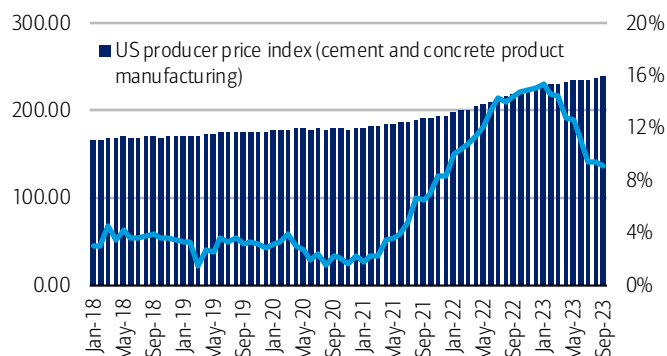


Source: BAC internal data (Data through September 2023), Company filings

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Exhibit 4: US producer price index (cement and concrete product manufacturing)

Cement price increases have moderated



Source: US Bureau of Labour Statistics, BofA Global Research

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Exhibit 6: FTR truckload rates net of fuel surcharge yoy

Freight rates have recovered from Feb 2023 bottom but still remain down yoy



Source: Bloomberg, BofA Global Research

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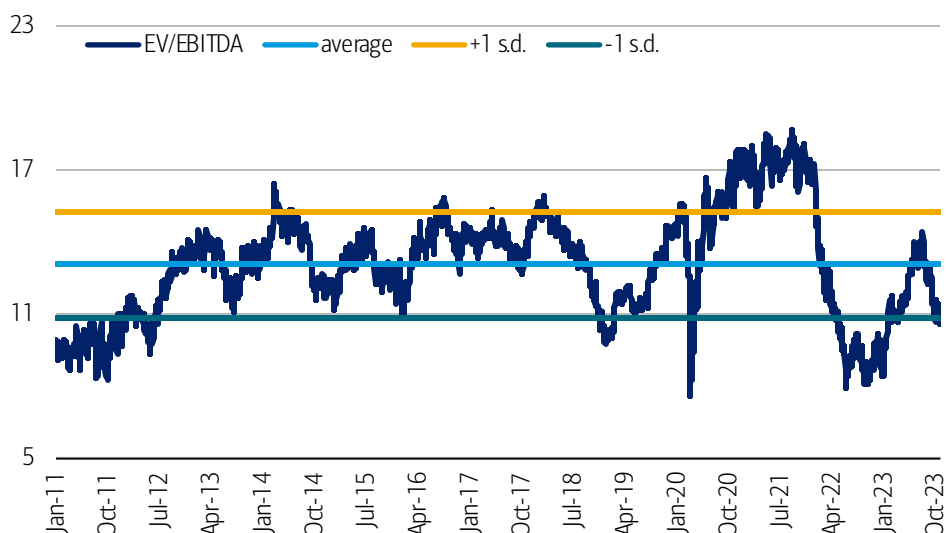
Estimate changes/valuation & PO revision

We raise our 2Q NPAT to \$185mn. Our higher 2Q estimates are driven mainly by slightly higher volume/margin assumptions for North America business where recent datapoints suggest that demand remains better-than expected. We now forecast 2Q NA EBIT of \$241mn (prior: \$234mn). However, we trim 2H to reflect lower volumes as we expect demand to soften as higher rates bite. Our FY24 estimates remain largely unchanged (NPAT down 0.6%). We also fine-tune our outer year estimates (FY25/26 NPAT down 0.4%/0.2%). Our revised PO is A\$48.60/US\$32.50 (prior: A\$49.20/US\$32.90).

Our PO is based on an equal weighted blend of DCF and EV/EBITDA multiple based valuation. The key assumptions of our DCF are WACC: 8.0%; debt/equity split: 35%/65%; terminal growth rate: 3% which remains unchanged. Our target EV/EBITDA multiple applied to FY24E EBITDA is 16.8x and remains unchanged.

Exhibit 7: JHX EV/EBITDA multiple over time

JHX is trading at 1 s.d. below its historical mean



Source: Bloomberg, BofA Global Research

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Exhibit 8: JHX summary of estimate changes

We make minor tweaks to our estimates

	New			Old			New vs Old		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Revenue (US\$mn)	3,615	3,985	4,306	3,680	4,029	4,339	-2%	-1%	-1%
EBITDA (US\$mn)	1,044	1,139	1,211	1,057	1,151	1,220	-1%	-1%	-1%
Net profit (US\$mn)	637	696	741	641	699	743	-1%	0%	0%

Source: BofA Global Research estimates

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Exhibit 9: JHX P&L summary

We forecast FY24E Net profit of \$637mn

P&L summary	2021A	2022A	2023A	2024E	2025E	2026E
Revenue	2,909	3,615	3,777	3,615	3,985	4,306
- growth	12%	24%	4%	-4%	10%	8%
Operating costs	2,145	2,638	2,825	2,571	2,846	3,095
EBITDA	764	977	952	1,044	1,139	1,211
- Margin	26%	27%	25%	29%	29%	28%
- growth	21%	28%	-3%	10%	9%	6%
D&A	135	162	173	183	196	209
EBIT	629	816	780	860	944	1,002
- Margin	22%	23%	21%	24%	24%	23%
- growth	26%	30%	-4%	10%	10%	6%
Net interest income/(expense)	48	39	31	33	34	33
Profit before tax	581	776	749	827	910	969
Income tax benefit/(expense)	123	156	144	190	214	228
NPAT (Underlying)	458	621	606	637	696	741
NPAT (Reported)	263	621	512	637	696	741
EPS (cps)	86	120	119	127	159	170
- growth	36%	40%	0%	7%	25%	7%

Source: Company Data, BofA Global Research estimates

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Exhibit 10: JHX divisional summary

We forecast North America FY24 EBIT to \$837mn

Divisional summary	2021A	2022A	2023A	2024E	2025E	2026E
North America						
Revenue	2,040	2,551	2,788	2,735	3,018	3,274
- growth	12%	25%	9%	-2%	10%	8%
EBITDA	677	856	894	973	1,052	1,110
- Margin	33%	34%	32%	36%	35%	34%
- growth	21%	26%	4%	9%	8%	6%
EBIT	588	741	768	837	905	951
- Margin	29%	29%	28%	31%	30%	29.0%
- growth	25%	26%	4%	9%	8%	5%
APAC						
Revenue	458	575	539	484	514	549
- growth	10%	25%	-6%	-10%	6%	7%
EBITDA	142	174	158	151	160	170
- Margin	31%	30%	29%	31%	31%	31%
- growth	32%	23%	-10%	-4%	6%	6%
EBIT	128	161	143	135	144	154
- Margin	28%	28%	26%	28%	28%	28%
- growth	35%	25%	-11%	-5%	7%	7%
Europe						
Revenue	410	489	450	397	453	483
- growth	10%	19%	-8%	-12%	14%	7%
EBITDA	71	93	55	65	72	76
- Margin	17%	19%	12%	16%	16%	16%
- growth	26%	31%	-41%	20%	11%	5%
EBIT	43	63	27	36	42	45
- Margin	10%	13%	6%	9%	9%	9%
- growth	40%	47%	-58%	35%	17%	8%

Source: Company Data, BofA Global Research estimates

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Price objective basis & risk

James Hardie Industries Plc (JHIUF / JHX)

Our 12-month PO of A\$48.60/US\$32.50 is based on an equal weighted blend of: (1) DCF valuation which values JHX at A\$42.90/US\$28.50 per share. Our estimated WACC of 8.0% is based on cost of equity of 10.5% (risk free rate: 3.7%, equity risk premium: 5.25%, beta: 1.29), cost of debt of 3.5%, debt/equity split of 35%/65%. Our terminal growth rate assumption is 3%. (2) EV/EBITDA multiple based valuation which values JHX at A\$54.30/US\$36.40 per share. Our target multiple of 16.8x is above JHX's long-term average EV/EBITDA multiple (since 2010) and applied on FY24E EBITDA.

Risks are: (1) Weaker-than-expected R&R and new construction activity. (2) Higher-than-expected costs. (3) Markets share losses for fiber cement or versus competitors. (4) Unfavourable FX.

Analyst Certification

I, Shaurya Visen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Australia - Materials & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	29Metals Limited	XMLNF	29M AU	James Redfern
	AGL Energy	AGLNF	AGL AU	Reinhardt van der Walt
	Allkem	OROCF	AKE AU	Jonathan Mannes
	APA Group	APAJF	APA AU	Reinhardt van der Walt
	BHP Group Limited	BHPLF	BHP AU	James Redfern
	BHP Group Limited	ZBHPF	BHP LN	James Redfern
	BHP Group-ADR	BHP	BHP US	James Redfern
	BlueScope	BLSFF	BSL AU	Chen Jiang
	Boral	BOALF	BLD AU	Shaurya Visen
	Brambles Limited	BMBLF	BXB AU	Reinhardt van der Walt
	Champion Iron	CIAFF	CIA AU	Chen Jiang
	Champion Iron	YCIA	CIA CN	Chen Jiang
	Coronado	CODQL	CRN AU	Chen Jiang
	Downer EDI Limited	DNERF	DOW AU	Roy Harrison
	Gold Road Resources	ELKMF	GOR AU	Meredith Schwarz
	GWA Group	GWAXF	GWA AU	Shaurya Visen
	Incitec Pivot	ICPVF	IPL AU	Reinhardt van der Walt
	James Hardie Industries Plc	JHIUF	JHX AU	Shaurya Visen
	James Hardie Industries Plc	JHX	JHX US	Shaurya Visen
	Mineral Resources	MALRF	MIN AU	Matt Chalmers, CFA
	Monadelphous	MDPHF	MND AU	Josephine Forde
	Nickel Industries	NICMF	NIC AU	Cameron Taylor
	Northern Star Resources	NESRF	NST AU	Meredith Schwarz
	NRW Holdings	NRWWF	NWH AU	Josephine Forde
	Nufarm	NUFMF	NUF AU	Reinhardt van der Walt
	Orica	OCLDF	ORI AU	Reinhardt van der Walt
	Paladin Energy	PALAF	PDN AU	Cameron Taylor
	Regis Resources	RGRNF	RRL AU	Meredith Schwarz
	Reliance Worldwide Corporation Limited	RLLWF	RWC AU	Shaurya Visen
	Rio Tinto Ltd	RTNTF	RIO AU	James Redfern
	Seven Group Holdings	XSEVF	SVW AU	Shaurya Visen
	South32 Ltd	SHTLF	S32 AU	James Redfern
	South32 Ltd	XKTPF	S32 LN	James Redfern
	South32 Ltd	XMWTF	S32 SJ	James Redfern
	Transurban Group	XTRAF	TCL AU	Reinhardt van der Walt
	Transurban Group	TRAUF	TRAUF US	Reinhardt van der Walt
	Ventia	VXGXF	VNT AU	Roy Harrison

Australia - Materials & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Whitehaven Coal Limited	WHITF	WHC AU	Chen Jiang
NEUTRAL				
	ALS Limited	CPBLF	ALQ AU	Reinhardt van der Walt
	Codan	CODAF	CDA AU	Sriharsh Singh
	CSR Limited	CSRLF	CSRAU	Shaurya Visen
	Deterra Royalties	DETRF	DRR AU	Chen Jiang
	Orora	ORRAF	ORA AU	Roy Harrison
	Pilbara Minerals	PILBF	PLS AU	Matt Chalmers, CFA
	Qube Holdings	QUBHF	QUB AU	Reinhardt van der Walt
	Reece Limited	REECF	REHAU	Shaurya Visen
	Sandfire Resources	SFRRF	SFRAU	James Redfern
	Sims Limited	SMUPF	SGM AU	Chen Jiang
	Worley Limited	WYGPF	WOR AU	Cameron Taylor
UNDERPERFORM				
	Adbri	ADBCF	ABC AU	Shaurya Visen
	Alumina Limited	AWCMF	AWC AU	Chen Jiang
	Atlas Arteria Ltd	MAQAF	ALX AU	Reinhardt van der Walt
	Boss Energy	BQSSF	BOE AU	Cameron Taylor
	Cleanaway Waste Management	TSPCF	CWY AU	Reinhardt van der Walt
	Evolution Mining	CAHPF	EVN AU	Meredith Schwarz
	Fletcher Building	YFLBF	FBUAU	Shaurya Visen
	Fortescue Metals Group Ltd.	FSUMF	FMG AU	James Redfern
	IGO	IPGDF	IGO AU	James Redfern
	Vulcan Steel Limited	XVULF	VSL AU	Shaurya Visen

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

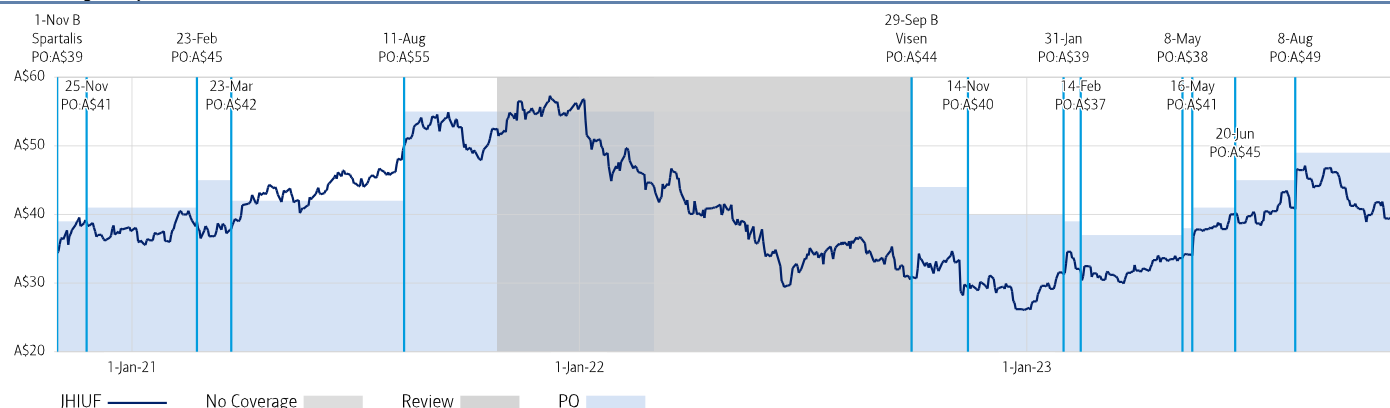
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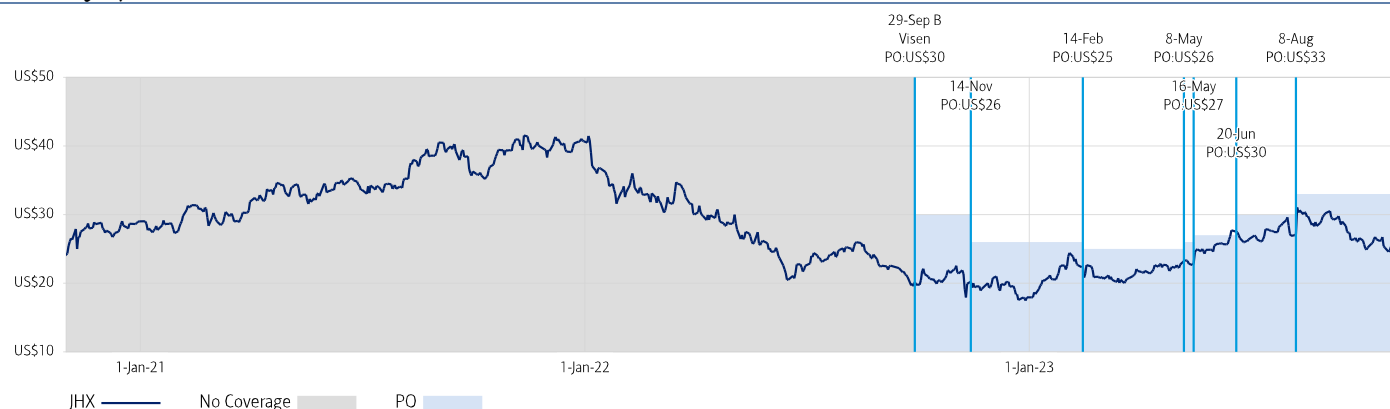
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James Hardie (JHIUF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

James Hardie (JHX) Price Chart



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Equity Investment Rating Distribution: Building Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	41	47.67%	Buy	23	56.10%
Hold	14	16.28%	Hold	8	57.14%
Sell	31	36.05%	Sell	9	29.03%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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