

## James Hardie Industries Plc

## Read across from International Builders' Show (positive NC; soft R&amp;R)

Maintain Rating: UNDERPERFORM | PO: 53.35 AUD | Price: 61.51 AUD

## Builders positive on new 2024/25 single family starts

Our US colleagues attended the International Builders' Show (IBS) in Las Vegas and hosted 15+ corporate / industry expert meetings and booth tours recently (see report [What happened in Vegas? Takeaways from International Builders' Show 2024](#)). Builders were positive on single family (SF) new construction and expect c.5% single-family (SF) starts growth in CY24 with potential upside if the supply chain cooperates. After lagging public builders in 2023, private builders are now also increasing the pace of starts. Our team heard from multiple companies that 2025 starts growth could exceed 2024. We continue to forecast 9% growth in single-family starts in 2024. For context, JHX noted its US SF new construction market is expected to grow +3% to +12% (average: +5%) in CY24 based on consensus. While we are positive on new construction (NC), we believe our positive outlook on US new construction is adequately reflected in our estimates. We forecast JHX's FY24/FY25/FY26 North America (NA) NC volume to grow at 12%/9%/5%.

## Soft R&amp;R with potentially better 2H given lower rates

Companies noted that repair and remodel (R&R) trends continue to decline year-to-date. However, they were hopeful that sales could improve in 2H24 with lower rates and easier comparisons. Exterior products such as siding, have been more resilient than interiors (e.g. flooring). For context, JHX noted its NA R&R market is expected to grow -5% to +3% (average: -2%) in CY24 based on consensus. We forecast JHX's NA R&R volumes to grow at +4.1% in FY25 after a weak FY24 (volumes down 5%) as R&R demand recovers.

## Maintain our Underperform rating on JHX

We believe risk-reward is unfavourable as positive outlook on US housing is adequately reflected in our estimates. We continue to like fiber cement as a product and JHX's competitive positioning, as well as JHX's mix shift towards the resilient R&R market. However, we see several reasons that warrant a more cautious view: (1) Solid US demand outlook reflected in estimates. (2) expensive valuation. (3) consensus appears optimistic.

Estimates (Mar)	2022A	2023A	2024E	2025E	2026E
Net Profit - Ex. Asbestos Expense (US\$m)	620.70	605.50	708.12	744.86	807.30
Net Profit - Inc. Asbestos Expense (US\$m)	535.14	529.80	632.86	673.11	739.85
EPS - Ex. Asbestos Expense (US\$)	1.392	1.365	1.604	1.703	1.863
EPS Change (YoY)	35.4%	-1.9%	17.5%	6.2%	9.4%
Dividend / Share (US\$)	0.700	0	0	0	0
Free Cash Flow / Share (US\$)	1.120	0.037	0.513	1.301	1.519
Valuation (Mar)					
P/E - Ex. Asbestos Expense	29.5x	26.8x	23.0x	21.6x	19.8x
P/E - Inc. Asbestos Expense	30.4x	27.6x	23.7x	22.3x	20.4x
Dividend Yield	1.5%	0%	0%	0%	0%
EV / EBITDA*	22.0x	20.3x	16.6x	15.1x	13.6x

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

05 March 2024

## Equity

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## Stock Data

Price (Common / ADR)	61.51 AUD / 4021 USD
Price Objective	53.35 AUD / 3520 USD
Date Established	13-Feb-2024 / 13-Feb-2024
Investment Opinion	B-3-7 / B-3-7
52-Week Range	29.74 AUD-61.85 AUD
Market Value (mn)	17,470 USD
Market Value (mn)	26,799 AUD
Shares Outstanding (mn)	435.7 / 435.7
Average Daily Value (mn)	50.99 USD
Free Float	100.0%
BofA Ticker / Exchange	JHIUF / ASX
BofA Ticker / Exchange	JHX / NYS
Bloomberg / Reuters	JHX AU / JHX.AX
ROE (2024E)	37.0%
Net Dbt to Eqty (Mar-2023A)	58.7%

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**Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 04 March 2024 10:01PM EST

# iQprofile<sup>SM</sup> James Hardie Industries Plc

## Key Income Statement Data (Mar)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
<b>Sales</b>	<b>3,615</b>	<b>3,777</b>	<b>3,940</b>	<b>4,307</b>	<b>4,650</b>
Operating Expenses	(2,637)	(2,825)	(2,814)	(3,104)	(3,352)
<b>EBITDA</b>	<b>977</b>	<b>952</b>	<b>1,125</b>	<b>1,203</b>	<b>1,297</b>
Depreciation & Amortization	(162)	(173)	(183)	(196)	(209)
<b>EBIT</b>	<b>816</b>	<b>780</b>	<b>942</b>	<b>1,007</b>	<b>1,088</b>
Net Interest & Other income	(39)	(31)	(25)	(33)	(33)
Associates	NA	NA	NA	NA	NA
Pretax Income	776	749	917	974	1,055
Tax (expense) / Benefit	(156)	(144)	(209)	(229)	(248)
<b>Net Profit b/f Abnormals</b>	<b>621</b>	<b>606</b>	<b>708</b>	<b>745</b>	<b>807</b>
Non-Recurring Items	0	(94)	0	0	0
Net Income (Reported)	621	512	708	745	807
Avg F Diluted Shares Outstanding	446	444	442	437	433

## Key Cash Flow Statement Data

EBITDA	977	952	1,125	1,203	1,297
Change in Working Capital	24	(91)	0	0	0
Deferred Taxation Charge	16	(6)	33	10	10
Other Adjustments, Net	250	(98)	(115)	(101)	(88)
<b>Cash Flow from Operations</b>	<b>757</b>	<b>608</b>	<b>777</b>	<b>839</b>	<b>928</b>
<b>Capital Expenditure</b>	<b>(258)</b>	<b>(591)</b>	<b>(550)</b>	<b>(270)</b>	<b>(270)</b>
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(90)	(83)	0	0	0
<b>Cash Flow from Investing</b>	<b>(348)</b>	<b>(660)</b>	<b>(550)</b>	<b>(270)</b>	<b>(270)</b>
Shares Issue / (Repurchase)	0	(78)	(100)	(250)	(250)
Cost of Dividends Paid	(484)	(130)	0	0	0
<b>Cash Flow from Financing</b>	<b>(450)</b>	<b>(25)</b>	<b>(100)</b>	<b>(250)</b>	<b>(250)</b>
<b>Free Cash Flow</b>	<b>499</b>	<b>16</b>	<b>227</b>	<b>569</b>	<b>658</b>
<b>Net Debt</b>	<b>752</b>	<b>946</b>	<b>819</b>	<b>500</b>	<b>92</b>
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	240	559	967
Other Current Assets	321	263	263	263	263
<b>Total Assets</b>	<b>4,243</b>	<b>4,479</b>	<b>4,972</b>	<b>5,366</b>	<b>5,835</b>
Long-Term Debt	877	1,059	1,059	1,059	1,059
Other Non-Current Liabilities	1,145	988	873	771	683
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	312	310	310	310	310
<b>Total Liabilities</b>	<b>2,910</b>	<b>2,868</b>	<b>2,753</b>	<b>2,651</b>	<b>2,563</b>
<b>Total Equity</b>	<b>1,333</b>	<b>1,611</b>	<b>2,220</b>	<b>2,714</b>	<b>3,272</b>
Total Equity & Liabilities	4,243	4,479	4,972	5,366	5,835

## iQmethod<sup>SM</sup> - Bus Performance\*

Return on Capital Employed	19.6%	17.5%	18.1%	17.2%	17.0%
Return on Equity	51.9%	41.1%	37.0%	30.2%	27.0%
Operating Margin	22.6%	20.6%	23.9%	23.4%	23.4%
EBITDA Margin	27.0%	25.2%	28.6%	27.9%	27.9%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.2x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate (Reported)	20.0%	19.2%	22.8%	23.5%	23.5%
Net Debt-to-Equity Ratio	56.4%	58.7%	36.9%	18.4%	2.8%
Interest Cover	20.3x	22.3x	37.4x	29.3x	30.9x

## 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 iQmethod<sup>SM</sup> measures, see page 4.

## 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. backboards). 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 Underperform on JHX. While we have a positive view on fiber cement and repair & remodel end-markets, we believe risk-reward is unfavourable with a cautious view given: (1) Solid US demand outlook reflected in estimates. (2) Rich valuation. (3) Consensus appears optimistic.

## Stock Data

Shares / ADR	1.00
Price to Book Value	7.9x

## Price objective basis & risk

### James Hardie Industries Plc (JHIUF / JHX)

Our 12-month PO of A\$53.35/US\$35.20 is based on 17.3x target multiple applied to an average of FY24E and FY25E EBIT. Our target multiple is 0.5 standard deviation above JHX's long term historical mean. We believe a higher multiple versus mean is warranted given the improving earnings profile.

Upside/downside risks are: (1) Stronger-than-expected/weaker-than-expected R&R and new construction activity. (2) Lower-than-expected/higher-than-expected costs. (3) Markets share gains/losses for fiber cement or versus competitors. (4) Favourable/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
<b>BUY</b>				
	29Metals Limited	XMLNF	29M AU	James Redfern
	AGL Energy	AGLNF	AGL AU	Reinhardt van der Walt
	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
	Boss Energy	BQSSF	BOE AU	Cameron Taylor
	Champion Iron	CIAFF	CIA AU	Chen Jiang
	Champion Iron	YCIA	CIA CN	Chen Jiang
	Coronado	CODQL	CRN AU	Chen Jiang
	Evolution Mining	CAHPF	EVN AU	Meredith Schwarz
	Fletcher Building	FRCEF	FBU NZ	Shaurya Visen
	Fletcher Building	YFLBF	FBU AU	Shaurya Visen
	Gold Road Resources	ELKMF	GOR AU	Meredith Schwarz
	GWA Group	GWAXF	GWA AU	Shaurya Visen
	Incitec Pivot	ICPVF	IPL AU	Reinhardt van der Walt
	Mineral Resources	MALRF	MIN AU	Matt Chalmers, CFA
	Monadelphous	MDPHF	MND AU	Roy Harrison
	Nickel Industries	NICMF	NIC AU	Cameron Taylor
	Northern Star Resources	NESRF	NST AU	Meredith Schwarz
	NRW Holdings	NRWWF	NWH AU	Roy Harrison
	Nufarm	NUFMF	NUF AU	Reinhardt van der Walt
	Orica	OCLDF	ORI AU	Reinhardt van der Walt
	Origin Energy	OGFGF	ORG AU	Reinhardt van der Walt
	Orora	ORRAF	ORA AU	Roy Harrison
	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
	Ventia	VXVGF	VNT AU	Roy Harrison
	Whitehaven Coal Limited	WHITF	WHC AU	Chen Jiang
	Worley Limited	WYGPF	WOR AU	Cameron Taylor



**Australia - Materials & Industrials Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>	Brambles Limited	BMBLF	BXB AU	Reinhardt van der Walt
	Deterra Royalties	DETRF	DRR AU	Chen Jiang
	Downer EDI Limited	DNERF	DOW AU	Roy Harrison
	Pilbara Minerals	PILBF	PLS AU	Matt Chalmers, CFA
	Qube Holdings	QUBHF	QUB AU	Reinhardt van der Walt
	Reece Limited	REECF	REH AU	Shaurya Visen
	Sandfire Resources	SFRRF	SFR AU	Matt Chalmers, CFA
	Sims Limited	SMUPF	SGM AU	Chen Jiang
	Transurban Group	XTRAF	TCL AU	Reinhardt van der Walt
<b>UNDERPERFORM</b>	Transurban Group	TRAUF	TRAUF US	Reinhardt van der Walt
	ALS Limited	CPBLF	ALQ AU	Reinhardt van der Walt
	Atlas Arteria Ltd	MAQAF	ALX AU	Reinhardt van der Walt
	Cleanaway Waste Management	TSPCF	CWY AU	Reinhardt van der Walt
	Fortescue Ltd.	FSUMF	FMG AU	James Redfern
	IGO	IPGDF	IGO AU	Matt Chalmers, CFA
	James Hardie Industries Plc	JHIUF	JHX AU	Shaurya Visen
	James Hardie Industries Plc	JHX	JHX US	Shaurya Visen
	Vulcan Steel Limited	XVULF	VSL AU	Shaurya Visen
<b>RSTR</b>	Vulcan Steel Limited	XVSTF	VSL NZ	Shaurya Visen
	Alumina Limited	AWCMF	AWC AU	Chen Jiang

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**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

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**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

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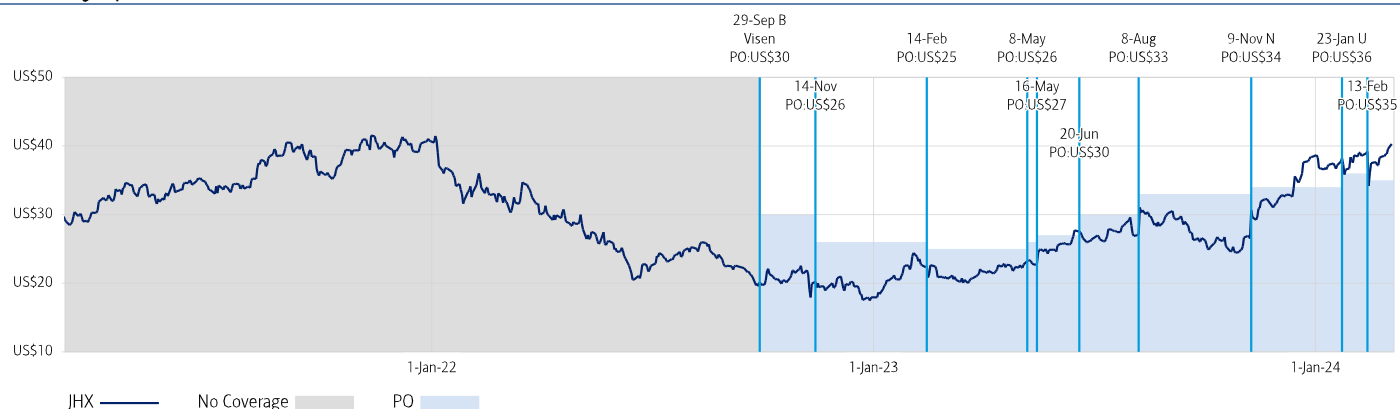
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### James Hardie (JHIUF) Price Chart



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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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