

James Hardie Industries Plc

Flash: 3Q beat (NPAT +5% vs cons); 4Q guide (NPAT -8% vs cons.at mid-point)

Maintain Rating: UNDERPERFORM | PO: 54.20 AUD | Price: 59.20 AUD

3Q NPAT ahead; 4QFY24 net income guide of \$165-185mn

- James Hardie (JHX) reported solid 3Q results with Net Income (adjusted) of \$180mn vs Cons. at \$172mn (BofAe at \$172mn). More importantly JHX issued 4Q guidance slightly below our (and VA consensus) expectations and expects 4Q Net Income (adjusted) in the range of \$165-185mn range (consensus: \$189mn; BofAe: \$190mn). JHX expects North American volumes to be in the range of 750-780 mmsf (consensus: 775 mmsf; BofAe: 778 mmsf). We expect the stock to react negatively to soft guidance. Key points:
- Net Income (adjusted) of \$180mn vs. Cons. at \$172mn vs BofAe at \$172mn (3Q guidance: \$165-185mn); Net Income margin of 18.4% (Cons: 18.1%; BofAe:18.8%).
- North America (NA) volume of 767 mmsf vs. Cons at 749 mmsf vs BofAe at 750 mmsf). NA EBIT margin of 32.7% vs. Cons at 31.5% vs BofAe at 32.0%.

Exhibit 1: JHX 3QFY24 results BofA and consensus estimates

JHX reported Net Income (adjusted) of \$180mn vs Cons. at \$172mn vs BofAe at \$172mn

Results summary (US\$m)	3QFY23	3QFY24	3QFY24 v 3QFY23 y/y	3QFY24 BofAe	3QFY24 consensus	3QFY24 vs BofAe	3QFY24 vs consensus
Total Revenue	861	978	14%	915	951	7%	3%
Net Income (adjusted)	129	180	39%	172	172	5%	5%
Net Income margin	15.0%	18.4%	338 bps	18.8%	18.1%	-37 bps	31 bps

Source: Visible Alpha, BofA Global Research, Company Data

BofA GLOBAL RESEARCH

Our Underperform rating on JHX

We believe risk-reward is unfavourable as positive outlook on US housing is adequately reflected in our estimates. We see several reasons that warrant a more cautious view: (1) Solid US demand outlook reflected in estimates. (2) Rich valn.. (3) Consensus optimistic.

Estimates (Mar)	2022A	2023A	2024E	2025E	2026E
Net Profit - Ex. Asbestos Expense (US\$m)	620.70	605.50	715.04	763.90	830.68
Net Profit - Inc. Asbestos Expense (US\$m)	535.14	529.80	639.78	692.15	763.23
EPS - Ex. Asbestos Expense (US\$)	1.392	1.365	1.619	1.746	1.917
EPS Change (YoY)	35.4%	-1.9%	18.6%	7.8%	9.8%
Dividend / Share (US\$)	0.700	0	0	0	0
Free Cash Flow / Share (US\$)	1.120	0.037	0.529	1.345	1.573
Valuation (Mar)					
P/E - Ex. Asbestos Expense	29.5x	26.8x	22.7x	21.1x	19.2x
P/E - Inc. Asbestos Expense	30.4x	27.6x	23.4x	21.7x	19.8x
Dividend Yield	1.6%	0%	0%	0%	0%
EV / EBITDA*	21.2x	19.6x	15.8x	14.3x	12.7x

* For full definitions of *IQmethod*SM measures, see page 4.

13 February 2024

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Stock Data

Price (Common / ADR)	59.20 AUD / 38.93 USD
Price Objective	54.20 AUD / 35.80 USD
Date Established	8-Feb-2024 / 8-Feb-2024
Investment Opinion	B-3-7 / B-3-7
52-Week Range	28.98 AUD-60.04 AUD
Market Value (mn)	16,844 USD
Market Value (mn)	25,793 AUD
Shares Outstanding (mn)	435.7 / 435.7
Average Daily Value (mn)	43.43 USD
Free Float	100.0%
BofA Ticker / Exchange	JHIUF / ASX
BofA Ticker / Exchange	JHX / NYS
Bloomberg / Reuters	JHX AU / JHX.AX
ROE (2024E)	37.3%
Net Dbt to Eqty (Mar-2023A)	58.7%

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Timestamp: 12 February 2024 04:58PM EST

iQprofileSM James Hardie Industries Plc

Key Income Statement Data (Mar)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	3,615	3,777	3,867	4,242	4,584
Operating Expenses	(2,637)	(2,825)	(2,725)	(3,014)	(3,257)
EBITDA	977	952	1,142	1,228	1,328
Depreciation & Amortization	(162)	(173)	(183)	(196)	(209)
EBIT	816	780	958	1,032	1,119
Net Interest & Other income	(39)	(31)	(25)	(33)	(33)
Associates	NA	NA	NA	NA	NA
Pretax Income	776	749	933	999	1,086
Tax (expense) / Benefit	(156)	(144)	(218)	(235)	(255)
Net Profit b/f Abnormals	621	606	715	764	831
Non-Recurring Items	0	(94)	0	0	0
Net Income (Reported)	621	512	715	764	831
Avg F Diluted Shares Outstanding	446	444	442	437	433

Key Cash Flow Statement Data

EBITDA	977	952	1,142	1,228	1,328
Change in Working Capital	24	(91)	0	0	0
Deferred Taxation Charge	16	(6)	37	8	10
Other Adjustments, Net	250	(98)	(115)	(101)	(88)
Cash Flow from Operations	757	608	783	858	952
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)	(250)	(250)
Cost of Dividends Paid	(484)	(130)	0	0	0
Cash Flow from Financing	(450)	(25)	(100)	(250)	(250)
Free Cash Flow	499	16	233	588	682
Net Debt	752	946	813	474	43
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	246	585	1,016
Other Current Assets	321	263	263	263	263
Total Assets	4,243	4,479	4,979	5,392	5,884
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
Total Liabilities	2,910	2,868	2,753	2,651	2,563
Total Equity	1,333	1,611	2,226	2,740	3,321
Total Equity & Liabilities	4,243	4,479	4,979	5,392	5,884

iQmethodSM - Bus Performance*

Return on Capital Employed	19.6%	17.5%	18.2%	17.6%	17.4%
Return on Equity	51.9%	41.1%	37.3%	30.8%	27.4%
Operating Margin	22.6%	20.6%	24.8%	24.3%	24.4%
EBITDA Margin	27.0%	25.2%	29.5%	28.9%	29.0%

iQmethodSM - 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%	23.4%	23.5%	23.5%
Net Debt-to-Equity Ratio	56.4%	58.7%	36.5%	17.3%	1.3%
Interest Cover	20.3x	22.3x	38.0x	30.0x	31.7x

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 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. 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 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	7.6x

Price objective basis & risk

James Hardie Industries Plc (JHIUF / JHX)

Our 12-month PO of A\$54.20/US\$35.80 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
BUY				
	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
	Boral Ltd	BOALF	BLD AU	Shaurya Visen
	Boss Energy	BQSSF	BOE AU	Cameron Taylor
	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
	Evolution Mining	CAHPF	EVN AU	Meredith Schwarz
	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	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
	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
NEUTRAL	Codan	CODAF	CDA AU	Sriharsh Singh
	CSR Limited	CSRLF	CSR AU	Shaurya Visen
	Deterra Royalties	DETRF	DRR AU	Chen Jiang
	Downer EDI Limited	DNERF	DOW AU	Roy Harrison
	Fletcher Building	FRCEF	FBU NZ	Shaurya Visen
	Fletcher Building	YFLBF	FBU AU	Shaurya Visen
	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
UNDERPERFORM	Transurban Group	TRAUF	TRAUF US	Reinhardt van der Walt
	ALS Limited	CPBLF	ALQ AU	Reinhardt van der Walt
	Alumina Limited	AWCMF	AWC AU	Chen Jiang
	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
	Vulcan Steel Limited	XVSTF	VSL NZ	Shaurya Visen

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Amortization
Operating Margin	Operating Profit	Shareholders' Equity
Earnings Growth	Expected 5 Year CAGR From Latest Actual	Sales
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
		N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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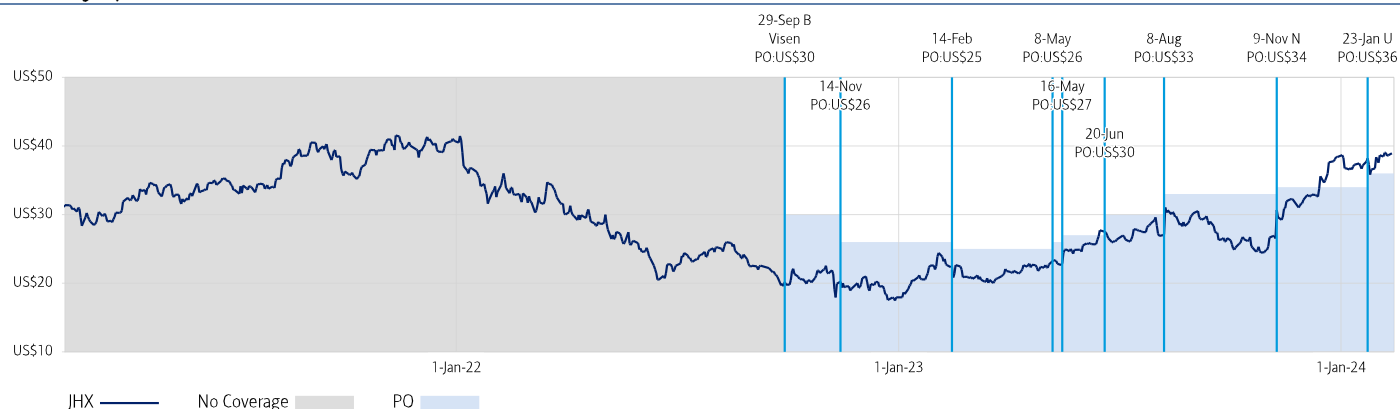
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James Hardie (JHIUF) Price Chart



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 ^{R1}	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 ^{R1}	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%

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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}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}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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