

## James Hardie Industries Plc

# Lots to like but as good as it gets?

## Downgrade JHX to Neutral

Rating Change: NEUTRAL | PO: 51.00 AUD | Price: 46.97 AUD

### Downgrade James Hardie to Neutral

We downgrade James Hardie (JHX) to Neutral (from Buy) with a revised PO of A\$51.00/US\$34.00 (from A\$48.60/US\$32.50). Our long-term view on JHX remains unchanged: (1) We have a positive view on fiber cement & JHX's competitive positioning; (2) We like JHX's mix shift towards the resilient R&R market. However, in the near-term, we believe risk-reward is fairly balanced given: (1) Near term caution on earnings: While 2Q results/3Q guide were solid (& we raise our estimates), we do believe that some caution is warranted in the near-term as higher rates bite into demand. Our 3Q NPAT estimate is towards the lower-end of guidance. (2) Significant earnings upgrades unlikely: Consensus estimates for JHX have moved up significantly. While we have been well ahead of consensus in the past, we note that consensus has caught up & we are now largely in-line with consensus (FY24/FY25 NPAT +0.2%/+0.1% vs. consensus). (3) Valuation fair: JHX is now trading at 51% premium vs peers (average: 47%) & we now view the valuation as fair.

### Raise FY24 NPAT by 7%; PO to A\$51.00 but upside limited

We raise our FY24 NPAT estimates by 7%. The changes to our estimates driven mainly by higher volume for North America. Our updated PO of A\$51.00 offers c.9% return potential. As we highlighted in our First Take note, JHX reported 2QFY24 largely in-line results with NPAT (adjusted) of \$179mn in-line with Cons. at \$179mn (BofAe at \$185mn). More importantly JHX issued 3Q guidance well ahead of our (and consensus) expectations and expects 3Q NPAT in the range of \$165-185mn :(well above BofAe).

### Neutral on JHX; risk-reward balanced

We believe risk-reward remains balanced with our near-term caution on earnings balanced by a long-term positive view on fiber cement and repair & remodel markets which is aided by the structural tailwind of an aging household stock. Valuation appears fair with JHX trading at 51% premium versus the sector (compared to historical average premium of 47%) and now close to its historical mean.

Estimates (Mar)	2022A	2023A	2024E	2025E	2026E
Net Profit - Ex. Asbestos Expense (US\$m)	620.70	605.50	679.44	720.66	768.67
Net Profit - Inc. Asbestos Expense (US\$m)	535.14	529.80	604.18	648.91	701.22
EPS - Ex. Asbestos Expense (US\$)	1.392	1.365	1.539	1.647	1.774
EPS Change (YoY)	35.4%	-1.9%	12.7%	7.1%	7.7%
Dividend / Share (US\$)	0.700	0	0	0	0
Free Cash Flow / Share (US\$)	1.120	0.037	0.448	1.246	1.430
Valuation (Mar)					
P/E - Ex. Asbestos Expense	24.9x	22.5x	20.1x	18.8x	17.5x
P/E - Inc. Asbestos Expense	25.8x	23.4x	20.9x	19.5x	18.1x
Dividend Yield	2.0%	0%	0%	0%	0%
EV / EBITDA*	17.0x	15.8x	13.0x	11.8x	10.7x

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 10.

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**Refer to important disclosures on page 11 to 14. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.**

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Timestamp: 09 November 2023 12:21AM EST

09 November 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	A\$48.60	A\$51.00
2024E EPS	1.44	1.54
2025E EPS	1.59	1.65
2026E EPS	1.70	1.77
2024E EBITDA (m)	1,043.8	1,095.1
2025E EBITDA (m)	1,139.4	1,171.3
2026E EBITDA (m)	1,211.3	1,247.0

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### Stock Data

Price (Common / ADR)	46.97 AUD / 30.66 USD
Price Objective	51.00 AUD / 34.00 USD
Date Established	9Nov-2023 / 9Nov-2023
Investment Opinion	B-2-7 / B-2-7
52-Week Range	2584 AUD-4840 AUD
Market Value (mn)	13,192 USD
Market Value (mn)	20,562 AUD
Shares Outstanding (mn)	437.8 / 437.8
Average Daily Value (mn)	38.16 USD
Free Float	100.0%
BofA Ticker / Exchange	JHIUF / ASX
BofA Ticker / Exchange	JHX / NYS
Bloomberg / Reuters	JHX AU / JHXAX
ROE (2024E)	35.7%
Net Dbt to Eqty (Mar-2023A)	58.7%

# 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>3,792</b>	<b>4,145</b>	<b>4,479</b>
Operating Expenses	(2,638)	(2,825)	(2,697)	(2,973)	(3,232)
<b>EBITDA</b>	<b>977</b>	<b>952</b>	<b>1,095</b>	<b>1,171</b>	<b>1,247</b>
Depreciation & Amortization	(162)	(173)	(183)	(196)	(209)
<b>EBIT</b>	<b>816</b>	<b>780</b>	<b>912</b>	<b>976</b>	<b>1,038</b>
Net Interest & Other income	(39)	(31)	(25)	(34)	(33)
Associates	NA	NA	NA	NA	NA
Pretax Income	776	749	887	942	1,005
Tax (expense) / Benefit	(156)	(144)	(208)	(221)	(236)
<b>Net Profit b/f Abnormals</b>	<b>621</b>	<b>606</b>	<b>679</b>	<b>721</b>	<b>769</b>
Non-Recurring Items	0	(94)	0	0	0
Net Income (Reported)	621	512	679	721	769
Avg F Diluted Shares Outstanding	446	444	442	437	433

## Key Cash Flow Statement Data

EBITDA	977	952	1,095	1,171	1,247
Change in Working Capital	24	(91)	0	0	0
Deferred Taxation Charge	16	(6)	32	7	7
Other Adjustments, Net	250	(98)	(115)	(101)	(88)
<b>Cash Flow from Operations</b>	<b>757</b>	<b>608</b>	<b>748</b>	<b>815</b>	<b>890</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>198</b>	<b>545</b>	<b>620</b>
<b>Net Debt</b>	<b>752</b>	<b>946</b>	<b>848</b>	<b>553</b>	<b>184</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	211	506	875
Other Current Assets	321	263	263	263	263
<b>Total Assets</b>	<b>4,243</b>	<b>4,479</b>	<b>4,944</b>	<b>5,313</b>	<b>5,743</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>2,191</b>	<b>2,661</b>	<b>3,180</b>
Total Equity & Liabilities	4,243	4,479	4,944	5,313	5,743

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

Return on Capital Employed	19.6%	17.5%	17.4%	16.9%	16.5%
Return on Equity	51.9%	41.1%	35.7%	29.7%	26.3%
Operating Margin	22.6%	20.6%	24.0%	23.5%	23.2%
EBITDA Margin	27.0%	25.2%	28.9%	28.3%	27.8%

## iQmethod<sup>SM</sup> - 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%	23.4%	23.5%	23.5%
Net Debt-to-Equity Ratio	56.4%	58.7%	38.7%	20.8%	5.8%
Interest Cover	20.3x	22.3x	36.2x	28.3x	29.4x

## 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 iQmethod<sup>SM</sup> measures, see page 10.

## 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 Neutral-rated on JHX. While we have a positive long-term view on fiber cement and repair & remodel end-markets, we believe risk-reward is fairly balanced given: (1) Near term caution on earnings: we do believe that some caution is warranted in the near-term as higher rates bite into demand. (2) Significant earnings upgrades unlikely: Consensus estimates for JHX have moved up significantly. We are now largely in-line with consensus. (3) Valuation fair.

## Stock Data

Shares / ADR	1.00
Price to Book Value	6.0x

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	32.50	34.00
2024E EPS	1.44	1.54
2025E EPS	1.59	1.65
2026E EPS	1.70	1.77

## Downgrade JHX to Neutral from Buy

We downgrade James Hardie (JHX) to Neutral (from Buy) with an updated PO of A\$51.00 (prior: A\$48.60). We believe the risk-reward is more balanced post the sharp rally off following 2Q results/3Q outlook. While we raise our estimates and PO to reflect strong company guidance, our updated PO offers limited upside (c.9%). Our long-term positive view on fiber cement remains unchanged given its ability to gain market share over vinyl. Similarly, we are sanguine on long-term prospects of repair & remodel market (c. 65% of JHX North America volumes) which is aided by the structural tailwind of an aging household stock. However, we are cautious on the near-term and see limited share price upside. Key drivers of our downgrade:

### Near-term caution on earnings

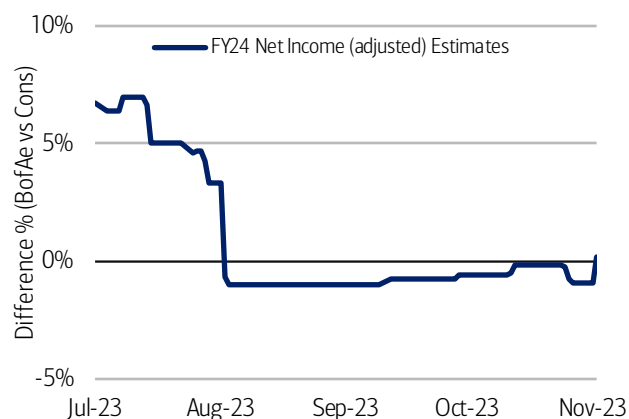
While 2Q results and 3Q guide were solid (and we raise our estimates), we do believe that some caution is warranted in the near-term as higher rates bite into demand. Our 3Q NPAT estimate of US\$166mn is towards the lower-end of company guidance (\$165-185mn). See [State of US Housing call: demand slowing as higher rates pressure affordability](#), where our US analysts noted a cautious tone on current US housing market trends from this end-Oct call with Ali Wolf, the Chief Economist at Zonda given recent rate hikes. In October, 35% of homebuilders said demand is slower than expected, but not worrisome and 30% said demand is slower and causing concern. Builders are seeing a slowdown beyond normal seasonality as consumers move to the sideline with rising interest rates. Demand has slowed but remain well above Sep 2022 levels.

### Significant earnings upgrades unlikely

Consensus estimates for JHX have moved up significantly. While we have been well ahead of consensus in the past (cf FY25 NPAT c. 8% ahead of consensus in July 2023), we note that consensus has caught up & we are now largely in-line with consensus (FY24/FY25 NPAT +0.2%/+0.1% vs. consensus).

#### Exhibit 1: FY24 Net Income (adjusted) BofA estimates vs Consensus

Consensus estimates have moved closer to BofAe for FY24...

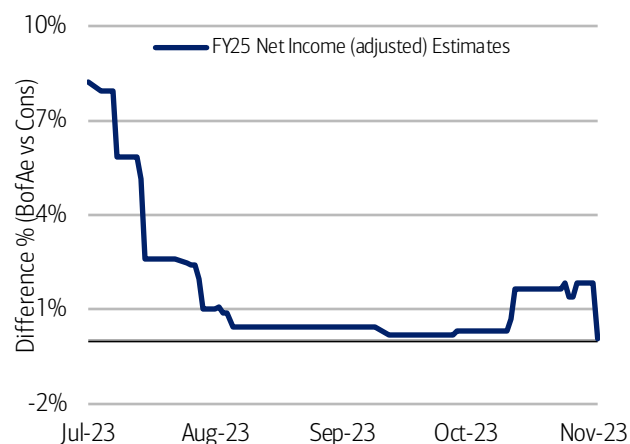


Source: Bloomberg, BofA Global Research estimates

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#### Exhibit 2: FY25 Net Income (adjusted) BofA estimates vs Consensus

...as well as for FY25.



Source: Bloomberg, BofA Global Research estimates

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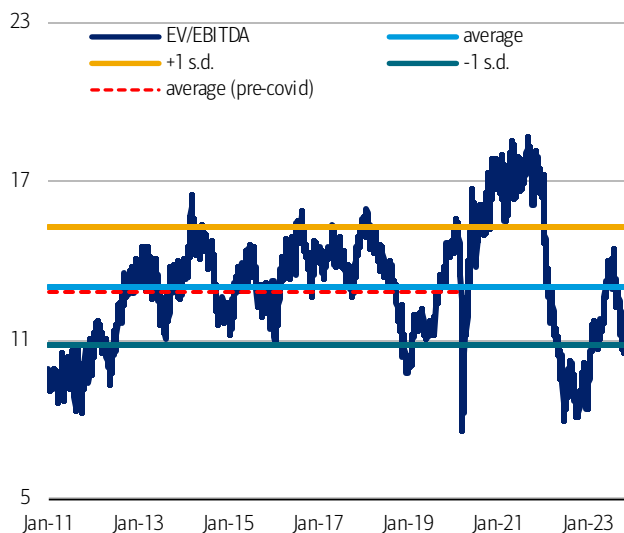
### Risk-reward balanced; valuation fair

Valuation appears fair with JHX trading at 51% premium versus the sector (compared to historical average premium of 47%) and now close to its historical mean. Furthermore, JHX shares have been up sharply this year and have significantly outperformed the US Homebuilders (JHX: +78%; XHB: +28% year-to-date).



**Exhibit 3: JHX EV/EBITDA multiple over time**

JHX is trading close to its historical mean

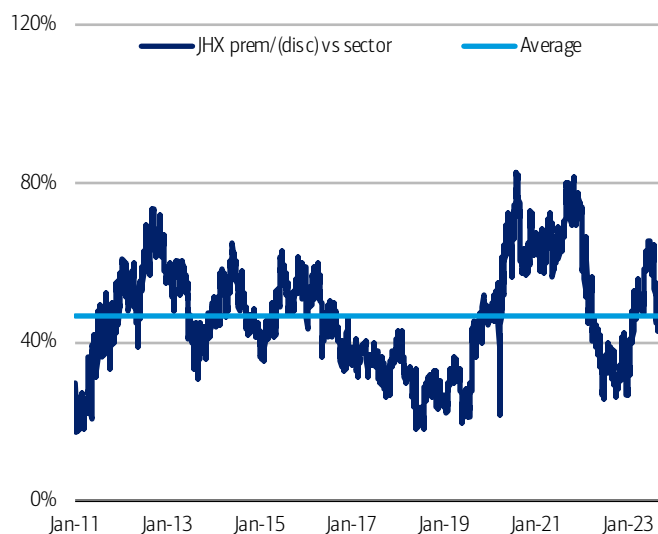


Source: Bloomberg, BofA Global Research

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**Exhibit 4: JHX EV/EBITDA premium/(discount) vs. peers over time**

JHX is trading at 51% premium versus peers (compared to historical average premium of 47%)

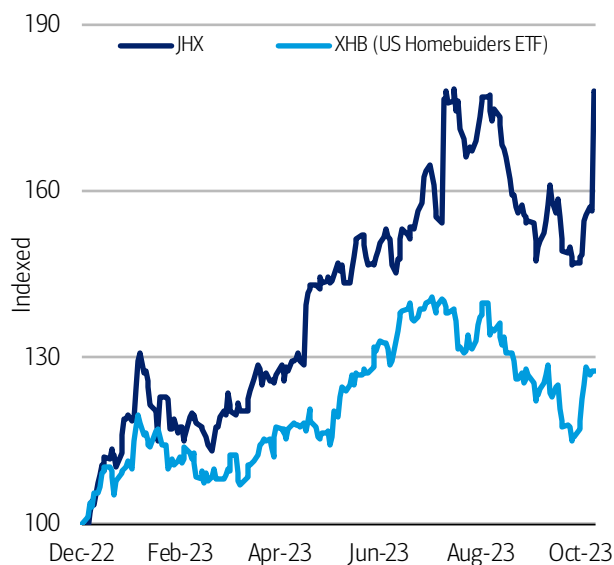


Source: Bloomberg, BofA Global Research

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**Exhibit 5: Price performance of JHX vs. XHB indexed (YTD)**

JHX has significantly outperformed XHB year-to-date



Source: Bloomberg, BofA Global Research

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# Estimate changes summary & PO revision

## Raise FY24 Net Profit by 7%; PO to A\$51.00

We raise our FY24 net profit estimates by 7% post solid 2QF24 results. The changes to our estimates driven mainly by higher estimates for North America while tweaks to our APAC and EMEA estimates are minor. We forecast FY24 NA volumes of 2,975 mmsf (vs. 2,887 mmsf earlier), implying a 2% yoy decrease (vs.-5% earlier). We also raise our NA FY24E EBIT to \$879mn (vs. \$837mn earlier). We now forecast net profit of \$679mn. We also raise FY25/FY26 net profit estimates both by 4% driven mainly by higher North America volume assumptions. Our updated PO is A\$51.00/US\$34.00 (prior: A\$48.60/US\$32.50) which offers 8.6% return potential.

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 remain unchanged. Our target EV/EBITDA multiple applied to FY24E EBITDA is 16.8x and remains unchanged.

### Exhibit 6: JHX summary of estimate changes

We raise our FY24 net profit estimates by 7%

	New			Old			New vs Old		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Revenue (US\$m)	3,792	4,145	4,479	3,615	3,985	4,306	5%	4%	4%
EBITDA (US\$m)	1,095	1,171	1,247	1,044	1,139	1,211	5%	3%	3%
Net profit (US\$m)	679	721	769	637	696	741	7%	4%	4%

Source: BofA Global Research estimates

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### Exhibit 7: JHX P&L summary

We forecast FY24E Net profit of \$679mn

P&L summary	2021A	2022A	2023A	2024E	2025E	2026E
Revenue	2,909	3,615	3,777	3,792	4,145	4,479
- growth	12%	24%	4%	0%	9%	8%
Operating costs	2,145	2,638	2,825	2,697	2,973	3,232
EBITDA	764	977	952	1,095	1,171	1,247
- Margin	26%	27%	25%	29%	28%	28%
- growth	21%	28%	-3%	15%	7%	6%
D&A	135	162	173	183	196	209
EBIT	629	816	780	912	976	1,038
- Margin	22%	23%	21%	24%	24%	23%
- growth	26%	30%	-4%	17%	7%	6%
Net interest income/(expense)	48	39	31	25	34	33
Profit before tax	581	776	749	887	942	1,005
Income tax benefit/(expense)	123	156	144	208	221	236
NPAT (Underlying)	458	621	606	679	721	769
NPAT (Reported)	263	621	512	679	721	769
EPS (cps)	86	120	119	137	165	177
- growth	36%	40%	0%	15%	20%	8%

Source: Company Data, BofA Global Research estimates

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**Exhibit 8: JHX divisional summary**

We forecast North America FY24 EBIT to \$879mn

<b>Divisional summary</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>North America</b>						
<b>Revenue</b>	<b>2,040</b>	<b>2,551</b>	<b>2,788</b>	<b>2,811</b>	<b>3,073</b>	<b>3,335</b>
- growth	12%	25%	9%	1%	9%	9%
<b>EBITDA</b>	<b>677</b>	<b>856</b>	<b>894</b>	<b>1,015</b>	<b>1,082</b>	<b>1,142</b>
- Margin	33%	34%	32%	36%	35%	34%
- growth	21%	26%	4%	14%	7%	6%
<b>EBIT</b>	<b>588</b>	<b>741</b>	<b>768</b>	<b>879</b>	<b>935</b>	<b>983</b>
- Margin	29%	29%	28%	31%	30%	29.5%
- growth	25%	26%	4%	15%	6%	5%
<b>APAC</b>						
<b>Revenue</b>	<b>458</b>	<b>575</b>	<b>539</b>	<b>523</b>	<b>554</b>	<b>592</b>
- growth	10%	25%	-6%	-3%	6%	7%
<b>EBITDA</b>	<b>142</b>	<b>174</b>	<b>158</b>	<b>172</b>	<b>171</b>	<b>182</b>
- Margin	31%	30%	29%	33%	31%	31%
- growth	32%	23%	-10%	9%	-1%	6%
<b>EBIT</b>	<b>128</b>	<b>161</b>	<b>143</b>	<b>157</b>	<b>156</b>	<b>166</b>
- Margin	28%	28%	26%	30%	28%	28%
- growth	35%	25%	-11%	10%	-1%	7%
<b>Europe</b>						
<b>Revenue</b>	<b>410</b>	<b>489</b>	<b>450</b>	<b>458</b>	<b>517</b>	<b>552</b>
- growth	10%	19%	-8%	2%	13%	7%
<b>EBITDA</b>	<b>71</b>	<b>93</b>	<b>55</b>	<b>76</b>	<b>78</b>	<b>83</b>
- Margin	17%	19%	12%	17%	15%	15%
- growth	26%	31%	-41%	40%	3%	5%
<b>EBIT</b>	<b>43</b>	<b>63</b>	<b>27</b>	<b>47</b>	<b>48</b>	<b>51</b>
- Margin	10%	13%	6%	10%	9%	9%
- growth	40%	47%	-58%	76%	2%	8%

Source: Company Data, BofA Global Research estimates

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## Q2 FY24 results and call summary

As we highlighted in our First Take note (see [2QFlash: Strong 3Q guide driven by NA volumes; 2Q in-line; Buy](#)), JHX reported 2QFY24 largely in-line results with Net Income (adjusted) of \$179mn in-line with Cons. at \$179mn vs BofAe at \$185mn (prior guidance: \$170-190mn); revenue of \$999mn (Cons: \$972mn; BofAe: 975mn) and net income margin of 17.9% (Cons: 18.4%; BofAe: 19.0%). More importantly JHX issued 3Q guidance well ahead of our (and consensus) expectations and expects 3Q Net Income (adjusted) in the range of \$165-185mn (consensus: \$138mn; BofAe: \$144mn). Management noted a **new share buyback plan** of up to US\$250mn through 31 Oct 2024 approved this month (prior share buyback program for Nov 2022-Oct 2023: US\$200mn). Key points at segment level:

- **North America Fiber Cement Segment:** Revenue declined 2% (ASP: +2%; volume: -5%). Volume of 773mmsf was slightly above the top end of prior guidance (740-770 mmsf). EBIT increased 9% to US\$232.7mn driven by higher ASP and lower freight & pulp costs despite lower volume and higher SG&A. EBIT margin was 31.7% (+330 bps). The management noted that JHX's US TAM is expected to decline 7% to 14% in CY23 based on consensus. By segment, US single family new construction (NC) end market to decline 4% to 12% in CY23 (+5% vs. prior quarter expectations), US multi-family NC to decline 10% to 25% in CY23 (-3% vs. prior quarter expectations) and US R&R to decline 8% to 15% in CY23 (+1% vs. prior quarter expectations). **3Q guidance:** (1) Volume: 730-760 mmsf (cons: 684 mmsf); (2) EBIT margin: 30%-32%; (3) Net Income (adjusted): US\$165-185mn.
- **APAC Fiber Cement Segment:** Revenue increased 7% (ASP: +15%; volume: -9%). Australia performed the best. EBIT was up 21% to A\$67.9mn driven by higher ASP that offset higher COGS. EBIT margin was 30.2% (+360 bps).
- **Europe Building Products Segment:** Revenue increased 5% (ASP: +20%; volume: -15%). Volume reduction was driven by declined market activity in Fiber Gypsum. EBIT increased 161% to €11.5mn due to higher ASP that partially offset higher COGS (higher labor/energy costs) and increased SG&A investment for growth initiatives. EBIT margin was 10.7% (+640 bps).

### Exhibit 9: JHX 2QFY24 results BofA and consensus estimates

JHX reported Net Income (adjusted) of \$179mn vs Cons. at \$179mn vs BofAe at \$185mn

Results summary (US\$m)	2QFY23	2QFY24	2QFY24 v 2QFY23 y/y	2QFY24 BofAe	2QFY24 consensus	2QFY24 vs BofAe	2QFY24 vs consensus
Total Revenue	998	999	0%	975	972	2%	3%
Net Income (adjusted)	176	179	2%	185	179	-3%	0%
Net Income margin	17.6%	17.9%	29 bps	19.0%	18.4%	-106 bps	-50 bps

Source: Visible Alpha, BofA Global Research, Company Data

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## Key risks

Key upside/downside risks to our investment view:

- (1) **Stronger/weaker-than-expected R&R and new construction activity:** Fiber cement volumes (and revenues) are exposed to construction cycle. The end markets (repair & remodel (65% of NA volumes) and new construction (35% of NA volumes)) are cyclical in nature which impacts demand for fiber cement. A strong/weaker-than-expected end-market will have a positive/negative impact on volume estimates.
- (2) **Lower/higher-than-expected costs:** Roughly 60-70% of JHX variable costs are comprised of pulp, cement, freight and labour. While input costs have been favourable (especially pulp and freight) with pulp prices down c.25% yoy and freight down c.9% yoy, we do note that freight costs have moved up sequentially. Lower/higher-than-expected costs will drive the margins higher/lower versus our expectations.
- (3) **Markets share gains/losses for fiber cement or versus competitors:** While fiber cement has made consistent market share gains over other siding alternatives, any further market share gains/losses from/to other FC competitors will also drive volume assumptions higher/lower versus our expectations.
- (4) **Favourable/unfavourable FX:** JHX has exposure to the US, Europe and Asia Pacific (mainly Australia) and reports earnings in USD. A strong/weaker-expected AUD/USD or EUR/USD will result in translation gains/losses.



## Price objective basis & risk

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

Our 12-month PO of A\$51.00/US\$34.00 is based on an equal weighted blend of: (1) DCF valuation which values JHX at A\$44.80/US\$29.70 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\$57.20/US\$38.30 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.

Key upside/downside risks are: (1) Stronger/weaker-than-expected R&R and new construction activity. (2) Lower/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
	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
	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
	Paladin Energy	PALAF	PDN AU	Cameron Taylor
	Regis Resources	RGRNF	RRL AU	Meredith Schwarz
	Reliance Worldwide Corporation Limited	RLWLF	RWC AU	Shaurya Visen
	Rio Tinto Ltd	RTNTF	RIO AU	James Redfern
	Seven Group Holdings	XSEVF	SWW 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
	Whitehaven Coal Limited	WHITF	WHC AU	Chen Jiang
<b>NEUTRAL</b>	ALS Limited	CPBLF	ALQ AU	Reinhardt van der Walt



## Australia - Materials &amp; Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	CSR Limited	CSRLF	CSRAU	Shaurya Visen
	Deterra Royalties	DETRF	DRR AU	Chen Jiang
	Downer EDI Limited	DNERF	DOW AU	Roy Harrison
	James Hardie Industries Plc	JHIUF	JHX AU	Shaurya Visen
	James Hardie Industries Plc	JHX	JHX US	Shaurya Visen
	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

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	Adbri	ADBCF	ABC AU	Shaurya Visen
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	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	FBU AU	Shaurya Visen
	Fortescue Metals Group Ltd.	FSUMF	FMG AU	James Redfern
	IGO	IPGDF	IGO AU	Matt Chalmers, CFA
	Vulcan Steel Limited	XVULF	VSL AU	Shaurya Visen

**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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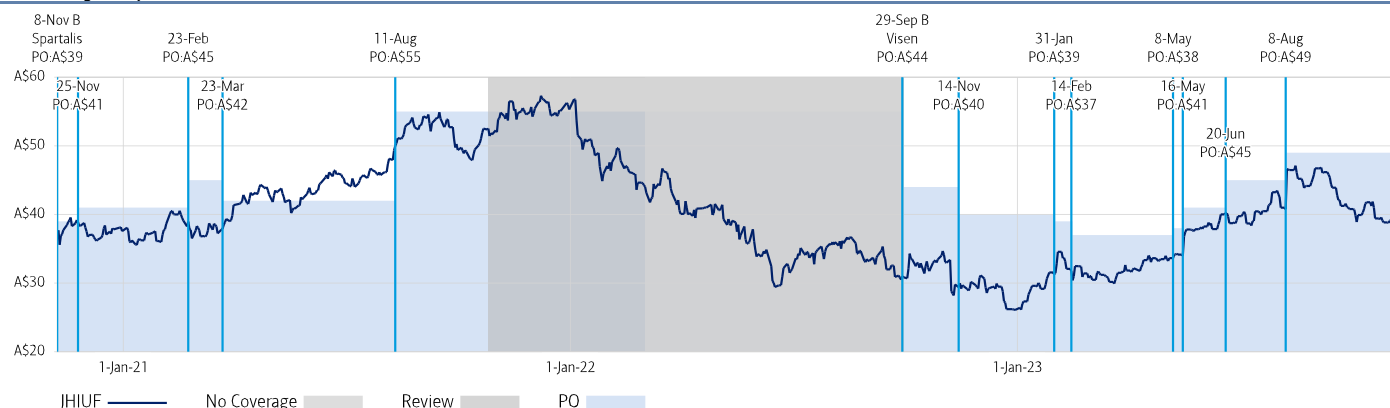
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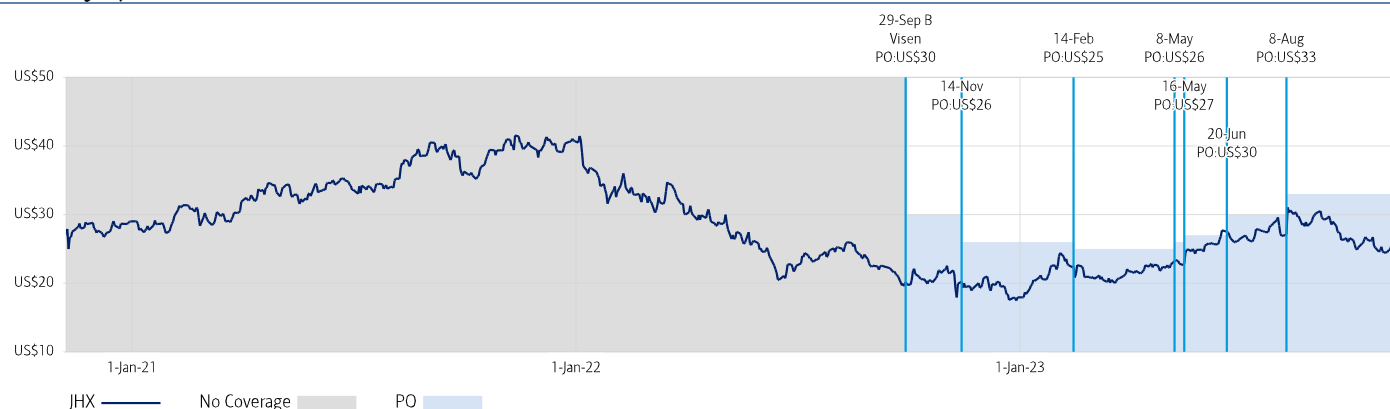
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### James Hardie (JHIUF) Price Chart



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### James Hardie (JHX) 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.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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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%

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