

Building Materials - Australia

BofA siding monthly edition #9: Further moderation in spend; +1.6% YoY in Dec

Industry Overview

Dec roofing & siding spending: up 1.6%YoY

For the month of December, spending on roofing and siding, sheet metal work contractors increased 1.6% year-on-year (YoY) but down 11.7% month-on-month (MoM) (+58.8% vs December 2019) per BAC US aggregated debit and credit card data. For context, October/November card spend was up 8.3%/1.9% yoy. For CY23, BAC US card spending on the category is +2.6%. 4Q23 spending was up 4.2% YoY vs. a +3.3 YoY increase in 3Q23.

Building product spend down YoY for 16 straight months

For the month of December, spending at home improvement retailers (a proxy for do-it-yourself spending) fell (7.5%) YoY (+17% compared to December 2019) vs. a (4.6%) YoY decline in November (and worsened compared to +20% 4-year stack in November). Spending on housing-related services (a proxy for pro contractor spending) fell (4.1%) YoY in December (+41.4% compared to December 2019) vs. a (0.5%) YoY decrease in November (as compared to +43.5% 4-year stack in November).

High correlation between card spending & siding revenues

As we highlighted in our inaugural edition of BofA siding monthly (for details see our June 02 report), our analysis indicates that there is a high correlation between revenues of the two biggest siding companies by market share in the US under our coverage (James Hardie (JHX) and Louisiana Pacific (LPX)) and BAC US aggregated card spending on roofing and siding, sheet metal work contractors. Please refer to the report [Monthly Building Products Spending Snapshot](#) for broader details on the monthly BAC aggregated US credit and debit card data for building products spending. Also see the latest [BofA on USA](#) note for an explanation of the methodology, disclaimers and limitations of BAC data.

U/P on JHX, U/P on LPX

We are Underperform-rated on JHX (see our Jan 23 report [Solid demand outlook but high bar to beat & JHX priced for perfection: d/g to U/P](#)). 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) Rich valuation. (3) Consensus appears optimistic. Meanwhile, we maintain our Underperform rating on Louisiana Pacific based on relative returns and catalysts we see for LPX versus others in our NA packaging & paper/forest coverage. We are also a bit cautious on the potential for still-high rates and slow existing home sales to impact siding demand in 2024. LPX believes that destocking is largely over in its siding business though revenue trends for 2023 will remain negative. Longer term, we like LPX's capital allocation strategy and management, and SmartSide® siding is a value-added, high-performing product.

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Refer to important disclosures on page 6 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

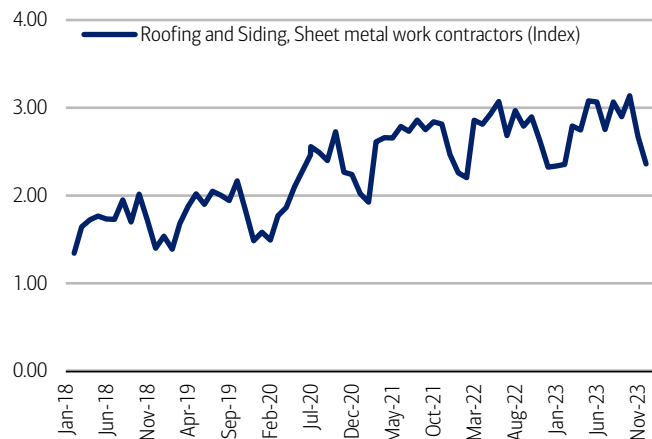
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Tracking siding trends

Exhibit 1: Monthly BAC US aggregated card data for roofing and siding, sheet metal work contractors (indexed; base =1 (Jan'15))

December 2023 spending rose 1.6% YoY but down 11.7% MoM

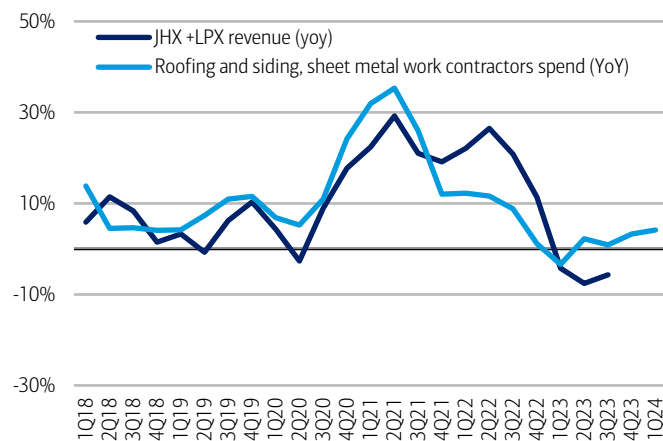


Source: BAC internal data (Data through December 2023)

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Exhibit 3: 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- 3Q' 23, the correlation between BAC US aggregated card spending on the category (YoY) & JHX + LPX North America revenues (yoy) was 74%

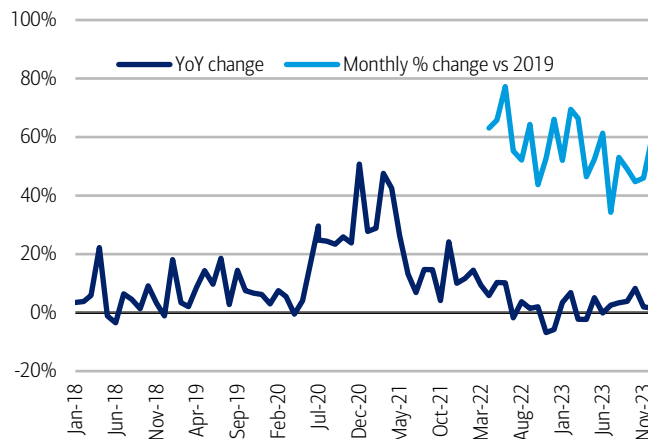


Source: BAC internal data (Data through December 2023), Company filings

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Exhibit 2: Monthly BAC US aggregated card data for roofing and siding, sheet metal work contractors (YoY and change vs 2019)

December 2023 spending was up 1.6% YoY and +58.8% vs Dec 2019

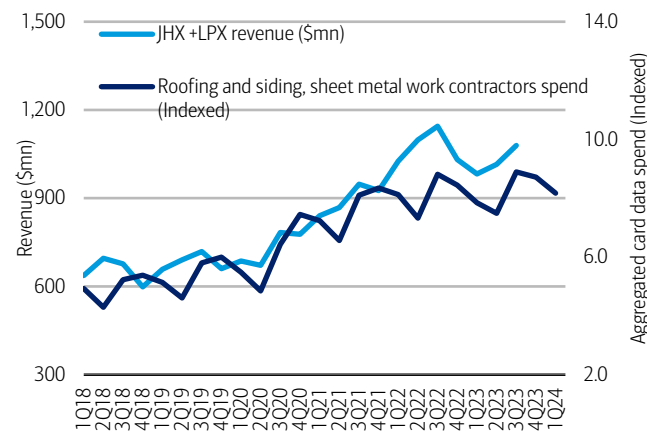


Source: BAC internal data (Data through December 2023)

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Exhibit 4: BAC US aggregated card spending data for roofing and siding, sheet metal work contractors (Indexed; base =1 (Jan'15)) lagged by a quarter vs JHX + LPX siding revenue (QoQ, \$mn)

Siding revenues have closely tracked BAC US aggregated card spending on the category



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

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Disclaimer and Methodology regarding BAC internal data

Selected Bank of America ("BAC") transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of BAC data and may reflect a degree of selection bias and limitations on the data available.

Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Our methodology for calculating the growth rates for daily data: we calculate the %yoy growth, the 2-year, 3-year and 4-year % change by matching calendar days (Jan 1 '23 matched to Jan 1 '22, Jan 1, 2021, Jan 1 '20 and Jan 1 '2019, respectively). The % change is calculated based on the 7-day moving average of spending levels.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Additional information about the methodology used to aggregate the data is available upon request.

Exhibit 5: Stocks mentioned

Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
JHIUF	JHX AU	James Hardie	A\$ 57.45	B-3-7
JHX	JHX US	James Hardie	US\$ 38.21	B-3-7
LPX	LPX US	Louisiana-Pacific	US\$ 68.19	C-3-7

Source: BofA Global Research

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Price objective basis & risk**James Hardie Industries Plc (JHIUF / JHX)**

Our 12-month PO of A\$53.80/US\$35.50 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.

Louisiana-Pacific Corp. (LPX)

Our \$65 PO is based on an average of (a) a normalized free cash flow (FCF) estimate of \$383mn, a calculated cost of equity of 13% and forecast rate of growth of 4%, (b) a SOTP value, using our evaluation of normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E. We project LPX's OSB segment will be valued at 5x our 2024E EBITDA forecast and its Siding segment will be valued at 10x EBITDA given building product/siding peer comps. We apply 6-8x EBITDA multiples to its other businesses. Separately, we value LPX's OSB business at 1.5x sales, its siding business at 2.5x sales and its other businesses at 1-2x sales. We assume the average of our EV/EBITDA and EV/Sales valuations, and then discount this to derive our 12-month PO.

Downside risks: (1) the broader housing picture, (2) weak demand and supply-chain, (3) changes in average home size, (4) OSB supply/demand dynamics, (5) cost volatility (wood fiber, resin, and foreign exchange), (6) operational risks associated with the expansion of LPX's siding segment, (7) should trends reverse in the policy outlook for the current Administration, that would be a source of volatility for the shares, and (8) should the trends in supply/demand for its products prove worse-than-expected, then LPX stock could perform below our forecasts.

Upside risks: Should housing and related demand trends or supply/demand in LPX's various product markets prove better-than-expected, LPX stock could exceed our PO.

Analyst Certification

We, Shaurya Visen and George L. Staphos, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPX	GPX US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	Sealed Air Corp.	SEE	SEE US	George L. Staphos
	Silgan Holdings Inc.	SLGN	SLGN US	George L. Staphos
	Sonoco Products Co.	SON	SON US	George L. Staphos
	Sylvamo Corp.	SLVM	SLVM US	George L. Staphos
	WestRock	WRK	WRK US	George L. Staphos
	Weyerhaeuser Co.	WY	WY US	George L. Staphos
NEUTRAL				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
UNDERPERFORM				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
	Avery Dennison Corp.	AVY	AVY US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

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



Australia - Materials & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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	XVXGF	VNT AU	Roy Harrison
	Whitehaven Coal Limited	WHITF	WHC AU	Chen Jiang
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	James Redfern
	Sims Limited	SMUPF	SGM AU	Chen Jiang
	Transurban Group	XTRAF	TCL AU	Reinhardt van der Walt
	Transurban Group	TRAUF	TRAUF US	Reinhardt van der Walt
	Worley Limited	WYGPF	WOR AU	Cameron Taylor
UNDERPERFORM				
	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

Disclosures

Important Disclosures

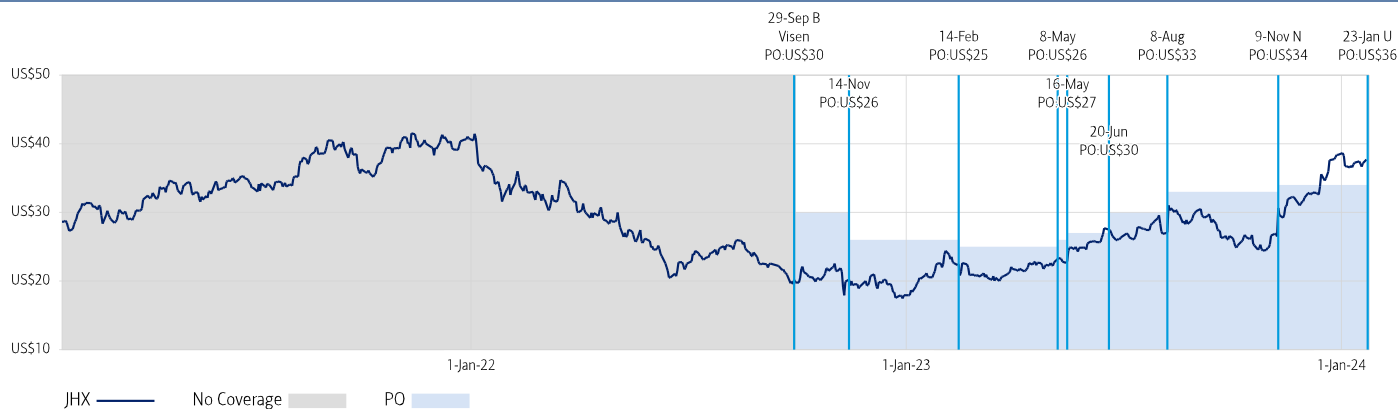
James Hardie (JHIUF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

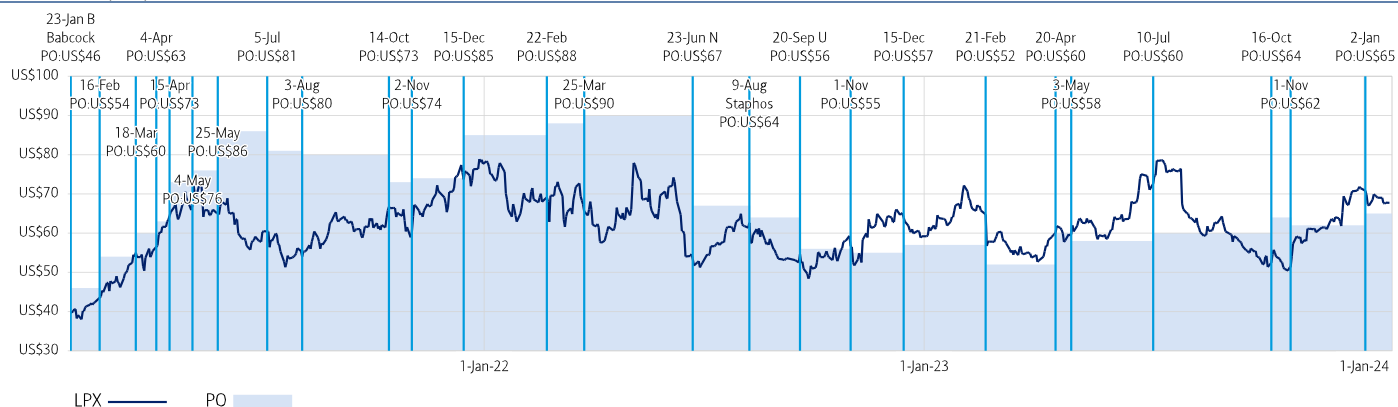
James Hardie (JHX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Louisiana-Pacific (LPX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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: Paper/Forest Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	45.00%	Buy	8	88.89%
Hold	2	10.00%	Hold	1	50.00%
Sell	9	45.00%	Sell	5	55.56%

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}
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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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