

Big River Industries Ltd

Growth driven by demand and acquisitions

Big River Industries (ASX:BRI) has operated as an integrated timber products business for over 100 years. BRI is a manufacturer and seller of softwood and hardwood form-ply and plywood, consumable formwork, and supplier of structural timber to the building trade. The company listed on the ASX in 2017 and operates six manufacturing sites and more than 20 sales locations across Australia and New Zealand. Big River aims to expand its network via two to three acquisitions per year with a medium-term goal of expanding sales locations by 10-13 sites. Results have been affected by bushfires in 2019 and COVID-related building industry disruption in 2020 and 2021. Following the fires, the company consolidated manufacturing to Grafton, incurring an impairment on the Wagga Wagga plant and assets in FY21. During H1 FY22 BRI acquired four businesses for cash and shares totalling \$18.3m. These businesses contributed \$27m in revenue and circa \$4m in EBITDA for FY22. A third panels business was acquired after period end - intended to provide a solid base for expansion in the Sydney market. Big River has weathered the trials of bushfires and COVID since listing and is demonstrating a resilient ability to focus on margin while maintaining growth.

Business model

Construction products made up 71% of Big River's revenue in FY22 with 44% of revenue earned via building trade centres and 27% via sale of formwork and other commercial products. Interior panels bring in the remaining 29% of sales. Big River manufactures 25% of product by revenue with 25% imported and the remainder sourced from Australian suppliers. The business is exposed to detached house building demand (41%) and commercial and civil construction activity.

FY22 delivers a record financial result

During the year BRI realigned into panels and construction divisions, aiming to achieve better management of an increasing number of sites and strong focus on costs and synergies. New CFO John O'Connor was also appointed in August. Underlying EBITDA margins rose in construction products, fell due to acquisitions in panels and overall rose from 8.0% to 11.7%. Revenue was boosted by acquisition, rising 45%, but was underpinned by 20% store-on-store organic growth. FY22 dividends rose to a record 15.5cps, reflecting a 60% payout ratio. The first eight weeks of FY23 trading has shown like-for-like revenue growth of 23%. Management expects lower inventory levels as supply chains improve and cash conversion in line with FY22.

Large peers but profitability compares well

Big River's latest result compares well with peers, however, since the company is much smaller, PE ratings are lower with BRI priced on 8.5x FY22 earnings. Return on funds and price/book ratios are currently problematic comparisons due to the eventful past year for the industry. Big River has less debt on the balance sheet, improving margins and - due to the company's smaller size - several meaningful acquisition targets available. There are few companies with directly comparable businesses, however, all those noted are exposed to the same demand cycles in construction.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/19a	217.8	9.8	5.3	3.9	0.084	0.2	4.7	13.3
06/20a	248.9	17.3	6.1	4.4	0.083	0.2	3.0	18.0
06/21a	281.4	22.5	7.8	1.8	0.026	0.5	5.8	85.3
06/22a	409.3	48.0	22.7	21.3	0.260	0.4	3.3	8.5

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items

Building materials

9th September 2022

Share Details

ASX code	BRI
Share price (8-Sept)	\$2.20
Market capitalisation	\$181M
Shares on issue	82.2M
Net cash at 30-Jun-2022	-\$21.3M
Free float	~84%

Share Performance (12 months)



Upside Case

- Continued strong building demand
- Cost/sales synergies achieved from acquisitions
- New products and acquisitions underpin growth

Downside Case

- Supply constraints restrict economic growth and building activity
- Acquisitions take longer to integrate
- Reliant on broader economic growth

Catalysts

- Expansion in Sydney panels market
- Further acquisitions

Comparable companies (Aust/NZ)

CSR Ltd (ASX:CSR), Boral Ltd (ASX:BLD), James Hardie Industries Plc (ASX:JHX), Adbri (ASX:ABC), Brickworks (ASX:BKW), Wagners (ASX:WGN)

Board and Management

Malcolm Jackman	Ind. Non-Exec. Chairman
James (Jim) Bindon	Managing Director/CEO
Vicky Papachristos	Ind. Non-Exec. Director
Martin Kaplan	Non-Exec. Director
Brendan York	Non-Exec. Director
Brad Soller	Ind. Non-Exec. Director
Martin Monro	Ind. Non-Exec. Director

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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