

Buy (More) Brickworks (ASX:BKW)



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Why Buy:

- Attractive valuation at discount to asset backing
- Strong Financial Position
- Growing 2.5% fully franked yield

Headquarters	Sydney, NSW
Website	www.brickworks.com.au
Industry	Building Products
Recent Price	\$25.64
Yield	2.5% (100% franked)
DRP	No
Data as of 15/08/2023	

When it comes to a consideration of what companies we consider good value on the market each and every month, we're increasingly finding that many of the recommendations we have already made deserve another look. This is because value, as we see it, is sometimes sitting right there in front of us and, as in the case this month, compares more than favourably with other alternatives that have not yet made it to the scorecard.

While we're looking intensely at other investment ideas that have not yet been formally recommended by Dividend Investor, we want to give these companies another look. The value investor has to take time and give the market a chance to see... [Full report available exclusively to members of Motley Fool *Dividend Investor*](#)

In that vein, we're bringing to you a recommendation of [Brickworks \(ASX:BKW\)](#), a company we have high confidence to give its solid financial earnings and excellent management.

Read on for a brief description of the business and why we like Brickworks at the current price.

The Brickworks Business

We first recommended Brickworks in December 2021, and although the business hasn't radically changed, there have been some important developments.

The company continues to operate across four divisions - Building Products in Australia and North America, Property, and Investments.

In Australia, Brickworks is one of the country's largest and most diverse building material manufacturers, with products including clay bricks and pavers, roof tiles and concrete pavers, and which are sold across leading brands such as Austral Bricks and Bricks Building.

Building Products North America was established with the acquisition of the Clayco North America brick manufacturer in the US in 2018. Since then, Brickworks has also been pleased that both our acquisitions and continued focus on the third largest manufacturer in the US market, as leading positions in the Midwest, West Coast, and Northeast regions, in addition to the substantial brick market, the US is much larger around than even the...

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As for the company's Property Division, Brickworks is once again effectively 50/50 between the joint venture partners with **Bedford Group** (ASX:BDG). Combined, the industrial of Trust Industrial Trusts and Manufacturing Trust made up just over \$1.2 billion of net assets. Brickworks shares as at 27 January 2017 – a significant amount in the context of the

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company's market. **Washington R. Seal Partners** (ASX:WSP), which itself also owns 49.7% of Brickworks in a cross-shareholding arrangement. This represents the vast majority of assets within Brickworks' Investment Assets.

Brickworks' recent financial performance

As can be expected from a company of Brickworks' pedigree, its recent results have been solid. For the half year to the end of January, revenue grew by 17% to \$264 million, underlying \$27.6 million earnings before interest, tax, depreciation and amortisation (EBITDA) or \$217 million and underlying net profit (before 20% to \$215 million).

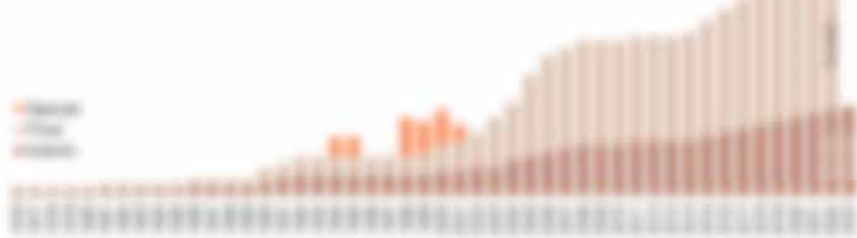
Its underlying net profit, however, fell by 20% to \$204 million though this was not unexpected. The reason for this is because the prior period was boosted by a significant one-off profit in relation to the deemed disposal of its shares in Seal Partners upon its merger with WSP. When this is excluded, we have a better understanding of the company's overall performance which, again, was pleasing, leading to an increase in underlying earnings per share of 20% to \$1.03 per share.

The interim dividend was increased by 4.2% to 20 cents per share fully franked, which at the time we believed reflected Brickworks' excellent outlook. Managing Director Andrew Kerridge was reporting a strong outlook in housing construction and innovation by the end of the year but that for 2016 doesn't look to have been as hot as first thought.

The increase in the dividend, though, continues a trend of either maintaining or increasing the dividend every year since 1974. A testament to the company's diversified business model which smoothes out much of the volatility from its Building Products Division.

Brickworks' Dividends

- Dividend history for Brickworks (ASX:BRW) from 1974 to present
- Dividend yield
- Dividend growth rate



Some Brickworks' FY17 Results Preview

Spending of its Building Products Australia Division increased revenue by 17% to \$264 million but lost \$27.6 million by 4% to \$204 million. While most of its business units improved their earnings, the decline from Brick Building and Austral Bricks Division Australia more than

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offset the gains from other divisions. The decline in earnings was due to a combination of factors, including a decline in sales volume, a decline in prices, and a decline in margins.

While earnings from its Building Products Division were steady, the Property Division more than made up for this, delivering a 47% increase in net trust income, to \$21 million and an increase in the value of net property trust assets of \$444 million. \$27 million on this deal sets out our expectations for 2017 more below.

The final source of Brickworks' earnings, of course, is its holding in Washington R. Seal Partners. Looking at its share price has since the release of its FY17 results will give you an idea of how this company's half year results fared. However, key figures of note would be its regular profit, which grew 26.4% to \$27.1 million, and its interim dividend which jumped 4.2% to a fully franked 20 cents per share. This was Brickworks' record \$25 million of cash dividends from Seal Partners, an increase of 10% compared to the previous

FORUMS

Forum	Topics	Posts
Brickworks (ASX:BRW)	187	1,712
Washington R. Seal Partners (ASX:WSP)	28	338
Bedford Group (ASX:BDG)	465	3,190
Brickworks (ASX:BRW) - Dividends	882	22,464
Brickworks (ASX:BRW) - Earnings	255	8,140

At the Brickworks event, results have been steady and consistent, just the way we like it in long-term investors.

Why we like Brickworks at today's price

Continuing with Brickworks' building in Queensland, the investment opportunities continue to deliver impressive returns, just as it has done so over the long-term over the 20 years.

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In North America, Brickworks has commitments from its brick plants down to 2025, with steadily improving its utilization rate and reducing the average age of its brick. Similarly in Australia, the new Hordley Park brick plant in Sydney is expected to be the most energy efficient in the country and replace two plants that are both more than 40 years old. With the North American rationalization program and Hordley Park program now largely complete, we should see improved performance and cash flow from the building products divisions over time.

Another interesting feature of the Building Products division is that they hold over 1,000 hectares of land outside of the trusts and 100% Brickworks controls 20% of it, not all of that land will be suitable for future developments, but Brickworks has committed these sites to trusts and could be sold into the trusts over the coming years. One alignment with Brickman Group is already taking place at the 70-hectare Westlands site in Pennsylvania while in Queensland, Victoria, Brickworks could have around 200,000sqm of gross buildable area for industrial use with the potential to extend Trusts development pipeline for over 100 years.

That would be in addition to the 70-hectare Oakdale East Stage 2 site in Western Sydney adjacent to the recently completed Stage 1, as shown in the image below that was sold into the Industrial Trust in December 2022. With development well ongoing at the Trusts Oakdale East site, Oakdale East Stage 2 could take five years to fully complete and deliver around \$1 billion in asset value.



Source: Brickworks.

As Oakdale East Stage 2 and other developments are completed and leased, the land in come from the Industrial Trust will continue to rise in value, leading to higher asset values in the five-year period ending 31 January 2025. The trusts generated \$1.5 billion (100% share in net), though this is below the \$1.75 billion annualized net for some of recently completed developments. Within five years, Brickworks believes annual net cash could grow to more than \$2.75 billion thanks to further completions and market rate increases.

Back in May, Brickworks' management team indicated that the company's asset backlog required to cover \$10 per share, providing solid support for the current share price, which trades at a discount of over 20% on this figure. Overall, we believe the value of Brickworks' real estate and building in Queensland will be fully recognized by the market. We don't expect that will continue forever, and that as the property development pipeline progresses, the company's share price should catch up to its underlying value.

Risks and When We'd Sell

