

8 August 2019

# James Hardie Industries

## Louisiana Pacific result read-through

Louisiana Pacific, a key competitor of James Hardie Industries (JHX) in the US siding market, reported a soft second-quarter CY19 result.

Siding volumes fell 3% year-on-year (YoY) in the quarter, with management noting that pre-buying in the first quarter and heavy rainfall in second quarter had weighed on growth. The company suggested the softer siding performance this quarter was more a market-related issue than a "significant competitive issue".

Ord Minnett notes two positive comments with respect to James Hardie: 1) the repair and remodel (R&R) market was seeing some resilience (60% of James Hardie's North America fibre cement (NAFC) volume is to the R&R market); 2) management said demand conditions had improved in the third quarter to date. With Louisiana Pacific's result on hand, we believe 2% volume growth for James Hardie's NAFC for the June quarter (as we forecast) should be taken positively when it reports this Friday.

Louisiana Pacific's North America siding volumes fell 3% YoY in the quarter and grew 2% on a four-quarter rolling basis (second-quarter volume growth YoY breakdown: SmartSide strand: flat; SmartSide fibre: -12% and CanExel: -46%). Management lowered its longer-term revenue growth target for SmartSide Strand to 10–12% (from 12–14% previously) and 10% in 2019. The revised guidance is based on slower sales growth in first-half CY19 and expectations of flatter housing starts growth from here. We estimate Louisiana Pacific has 7% share of the North America siding market (excluding sheds) versus James Hardie at 18%.

**We maintain our Accumulate rating on James Hardie with a \$21.75 target price.**

### Recommendation

Accumulate

Risk

Higher

Target price

\$21.75

Last price

\$19.16

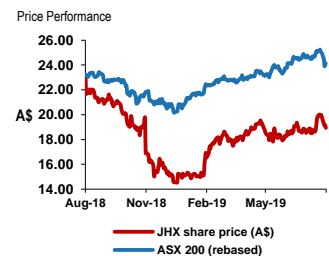
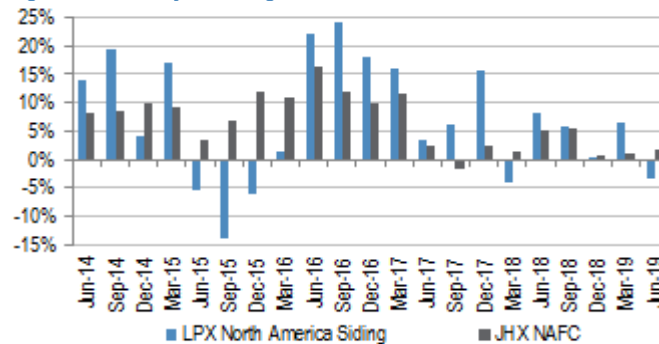
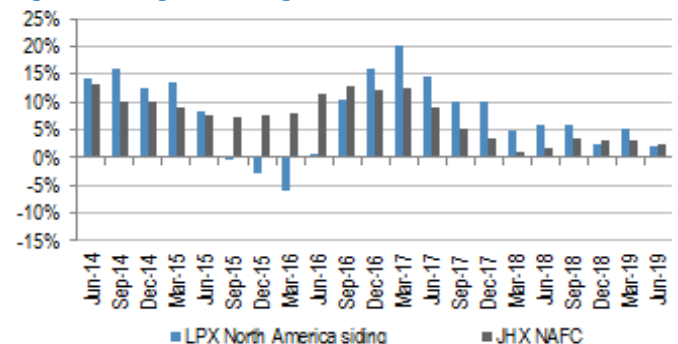


Figure 1: Quarterly volume growth – LPX vs JHX



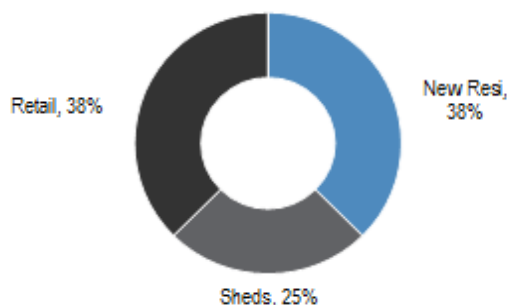
Source: Ord Minnett estimates

Figure 2: Rolling 4Q volume growth – LPX vs. JHX



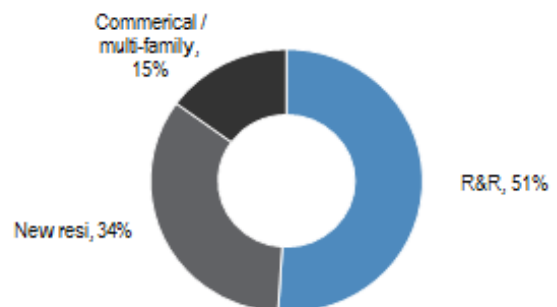
Source: Ord Minnett estimates

Figure 3: LPX SmartSide end market exposure



Source: Ord Minnett estimates

Figure 4: JHX North America end market exposure



Source: Ord Minnett estimates

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<b>SPECULATIVE BUY</b>	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
<b>BUY</b>	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
<b>ACCUMULATE</b>	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
<b>HOLD</b>	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
<b>LIGHTEN</b>	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
<b>SELL</b>	We expect the total return to lose 15% or more.
<b>RISK ASSESSMENT</b>	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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