

Bisalloy Steel Group Ltd (BIS.ASX)

Pricing and Volume Recovery in Domestic Operations

Event:

- Interim result; revised earnings, valuation, and PT.

Investment Highlights:

- BIS announced its interim result on 28 February.** Highlights include the strong performance and margin expansion in the domestic market, partially offset by weaker demand in China and Indonesia.
- Return to top line growth from strong domestic operations, offset by weaker international segment:** group revenue of \$56.4M for 1H20a was +12% vs pcp, driven by stronger volume and pricing in the domestic market. Gross profit was +8.5% vs pcp, though GP margin compressed 0.5% to 18.5%. An increase in administrative expenses was the principal cause for reported 1H20a NPAT falling 12.7% to \$2.2M; we expect this to normalise in 2H20e.
- The company reiterated FY20e operating EBITDA guidance of \$12-13M:** this is a 30-41% increase on FY19a, +12% on our expectations at the midpoint (prior +19%), and implies a \$7.3-8.3M 2H20e EBITDA. We note price increases in the domestic market would go a long way to helping to achieve 2H20e guidance (\$2.5M+), and also note price impacts were limited to the final two months of 1H20a. Furthermore, we expect a full contribution in the second half from improved prices as a result of the anti-dumping measures.
- Qualification heats for submarine program to contribute to 2H20e:** the company expects to supply two further qualification heats in 2H20e, and has noted the supply is commercially rewarding, without disclosing the precise quantum due to commercial sensitivity.
- No impact from Coronavirus in 1H20a and no material impact on 2H20e at this stage,** with the first two months' trading in support of the company's view.

Earnings and Valuation:

- We have updated forecast underlying earnings of \$4.6M, \$5.5M, and \$5.6M in FY20-FY22e** (previously \$4.6M, \$5.6M, and \$5.8M) respectively, and **EPS of 9.9cps, 11.6cps, and 11.7cps** (previously 9.9, 11.9, and 12.1 cps). We have increased revenue forecasts to account for domestic volume growth and pricing improvement in FY20e, offset by moderated growth in the international division over the forecast horizon.
- We continue to hold the view **success in defence projects will support the company's growth in armour plate into the medium term**, while capacity flexibility from the Chinese JV will allow BIS to make production decisions to focus on higher margin specialist plate at its domestic operations.
- We value BIS at \$1.40/share** (prior \$1.45) using DCF. We view the stock as trading at undemanding valuation on a FY21e EV/adjusted EBITDA of 2.9x.

Recommendation:

- We reiterate our Buy recommendation for BIS with a decreased price target of \$1.40/share (prior \$1.45),** in line with our DCF valuation.
- Catalysts for the share price** include: 1) updates on pricing for domestic sales post anti-dumping measure implementation; 2) progress on Defence pilots and projects and subsequent sales conversion; 3) progress towards management five year targets; 4) continued sales volume growth.

Disclosure

The analyst does not own BIS securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 17,400 BIS shares. Cranport Pty Ltd does not own BIS securities. Refer to end of report for details.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.40
Previous	\$1.45

Share Price (A\$)	\$0.925
ASX Code	BIS
52 week low - high (A\$)	0.92-1.20

Capital structure

Shares on Issue (M)	45.1
Market Cap (A\$M)	42
Net Cash/(Debt) (A\$M)	-12
EV (A\$M)	54
12mth Av Daily Volume ('000)	19

Y/e Jun A\$	FY19a	FY20e	FY21e	FY22e
Sales adj.* \$M	124.5	133.2	139.9	146.6
EBITDA adj. \$M	8.6	11.1	12.5	13.0
NPAT adj. \$M	3.7	4.6	5.5	5.6
EPS adj c	8.0	9.9	11.6	11.7
PER (x)	11.6	9.4	8.0	7.9
Dividend c	3.6	4.3	4.7	5.0
Div Payout Ratio %	45%	44%	41%	43%
Dividend yield %	3.9%	4.7%	5.1%	5.4%

* includes CJV share.

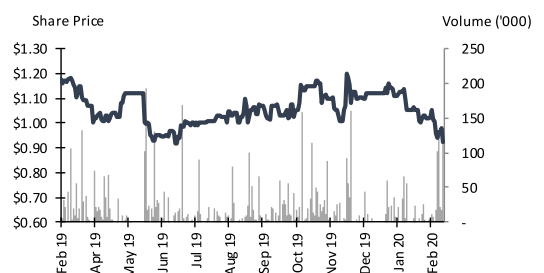
Board

Phillip Cave	Chairman
Greg Albert	MD and CEO
Kym Godson	Non-Executive Director
Richard Grellman	Non-Executive Director

Major Shareholders

Balron Nominees	17.3%
Anchorage (BSG)	17.0%
Samuel Terry Asset Management	11.1%

Share Price Graph



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