Stock Journal

Adelaide Brighton

Important
I am publishing stock investment journals of stocks I own only to provide examples to teach the way I think about investing. In doing so, I am neither making nor implying any recommendation for anyone to invest in this or any other stock.

Therefore, the stock discussed in this journal may not be a suitable investment for you at this or any other time. I will only be discussing its suitability, or otherwise, for my investment plan.

You need to assess the relevance of anything in this journal to your investment plan, seeking advice from a licensed adviser if you are not able to make such an assessment for yourself.

Navigation

To navigate this PDF file, open the navigation bar by clicking this icon at the left of the screen:

Terms and acronyms used in this journal
See the Glossary page on the Free Resources menu for definitions. There are also articles on some of the ratios on the Fundamental Analysis Articles page on the Copyright Materials page.

If I use a term or acronym that is not in the Glossary, please email me for an explanation and I will add it to the Glossary page.

The ratios used in my analysis are set out in the document Ratios Used in my Analysis on the Stock Investment Journals page on the Building Wealth Resources menu. It includes a basic definition of annualised data.
Understanding the Business

Company Profile

Scope of Operations
Adelaide Brighton is a leading integrated construction materials and lime producer which supplies a range of products into building, construction, infrastructure and mineral processing markets throughout Australia. The Company’s principal activities include the production, importation, distribution and marketing of clinker, cement, industrial lime, premixed concrete, construction aggregates and concrete products. Adelaide Brighton is well positioned to supply cement to all mainland states from its domestic manufacturing base, coastal supply and import facilities.

Adelaide Brighton originated in 1882 and is now an S&P/ASX100 company with 1,400 employees and operations in all Australian states and territories. Adelaide Brighton has a number of significant investments in joint ventures and associates in construction materials production and distribution.

Cement and Lime

Adelaide Brighton is the second largest supplier of cement and clinker products in Australia with major production facilities and market leading positions in the resource rich states of South Australia and Western Australia. It is also market leader in the Northern Territory. In addition to domestic production, the Company is the largest importer of cement, clinker and slag into Australia with an unmatched supply network that enables efficient access to every mainland capital city market. This network includes significant distribution joint ventures in Victoria and Queensland.

Sunstate Cement Limited (50%) is a joint venture between Adelaide Brighton and Boral. A leading supplier to Queensland’s construction industry, Sunstate has a cement milling, storage and distribution facility at Fisherman Islands, Port of Brisbane. Clinker is supplied to Sunstate via seaborne shipments from the Adelaide Brighton Angaston plant and imports from Asia.

Independent Cement and Lime Pty Ltd (50%) is a joint venture between Adelaide Brighton and Barro Group Pty Ltd, is a specialist supplier of cement and cement blended products throughout Victoria.
and New South Wales and is the exclusive distributor of cement for Adelaide Brighton and any related body corporate in these states.

Aalborg Portland Malaysia Sdn. Bhd. (30%) is a joint venture between Cementir (70%) and Adelaide Brighton. APM manufactures and sells white cement and clinker. It sells products to the domestic Malaysian market and exports to markets throughout southeast Asia and Australia.

Concrete and Aggregates

Adelaide Brighton has a growing presence in the premixed concrete and aggregates industry extending from South Australia, through Victoria and New South Wales to south east and northern Queensland. It has strategic aggregates reserves west of Sydney in regional New South Wales, south east Queensland, South Australia and regional Victoria through its wholly owned and joint venture operations.

Mawson Group (50%) is a joint venture between Adelaide Brighton and BA Mawson Pty Ltd. Mawsons is the largest premixed concrete and quarry operator in northern regional Victoria. Mawsons also operates in southern regional New South Wales where it holds leading market positions.

Batesford Quarry (50%) is an unincorporated joint
venture between Adelaide Brighton, E&P Partners and Geelong Lime Pty Ltd. Batesford Quarry, situated at Fyansford Quarry near Geelong in Victoria, undertakes quarrying and manufacturing, marketing and distribution of various limestone and quarry products.

Concrete Products

Adelaide Brighton holds the leading position in the Australian concrete products market, with operations in Queensland, New South Wales, Victoria, Tasmania and South Australia.

In 2014 Adelaide Brighton completed the upgrade of its production plant at Stapylton in Queensland. The installation of a latest generation HESS masonry machine has lowered production costs and, with its fast product change over times, improves production flexibility to meet customer demand.

Production tolling on behalf of other distributors has also been an important factor in improving earnings, enabling Adelaide Brighton to offer their innovative products cost effectively in new markets. They have also licensed a range of their products overseas, in New Zealand and South Africa.

New products and new methods of installation, such as their Versaloc technology, have opened up valuable new markets. Versaloc, a dry-stack walling system, opened opportunities in the residential and multistorey dwelling market, for example, and Their automated process for laying pavers has made their use viable in large scale applications such as ports and truck yards.

Burrell Mining Services (50%) is an unincorporated joint venture between Adelaide Brighton and Burrell Mining Products. With operations in New South Wales and Queensland, Burrell Mining Services manufactures a range of concrete products exclusively for the coal mining industry.

General

Adelaide Brighton’s acquisition strategy continues to strengthen its vertically integrated business model, enabling it to participate throughout the entire value chain, from the raw material stage through to finished products in buildings and infrastructure projects.

Adelaide Brighton spent $172 million in 2014 securing highly valuable and strategic aggregate and concrete businesses in South Australia and Queensland which will deliver synergies and enhance future earnings. Organic growth and growth through profitable acquisitions remain important strategies for increasing shareholder value.

Adelaide Brighton also continues to be a leading, low cost supplier of lime to the resources sector. It has very strong, long term supply relationships in the alumina sector and is well positioned to take advantage of the next upswing in the non-alumina sector. It has made a significant investment in the past two years to improve production capacity and environmental performance in its lime business.

Following the rationalisation of clinker manufacture at Munster, Adelaide Brighton’s imports of cementitious products, including clinker, cement and blast furnace slag, increased to more than two
million tonnes in 2014, which represents approximately 20% of Australian industry demand. Since the mid-1990s, the growth of import capacity to replace ageing, less efficient domestic manufacturing has been a key element of Adelaide Brighton’s strategy to secure its long term position in the Australian market and grow value for shareholders. The use of imported materials allows Adelaide Brighton to supply customers with competitively priced product into a range of markets where demand exceeds the Company’s manufacturing capacity.

Adelaide Brighton continues to make progress on its downstream strategic plan. The Group now produces more than 1.5 million cubic metres per annum of premix concrete and more than 6 million tonnes per annum of aggregates. The footprint of this business now reaches from South Australia through Victoria and New South Wales, to south east and northern Queensland.

In 2014, Adelaide Brighton acquired BM Webb Construction Materials in Queensland, and Penrice Quarry & Minerals and Direct Mix/Southern Quarries in South Australia at an overall enterprise value of $172 million. These acquisitions are consistent with the strategy of focused and relevant vertical integration.

The assets acquired include strategic quarrying operations producing approximately 2 million tonnes per annum of aggregates. The acquired businesses also produce more than 250,000 cubic metres of concrete annually, securing a significant volume of the Company’s cement sales in the South Australian market.

Adelaide Brighton has a significant investment in aggregates in the Sydney market through its Austen Quarry at Hartley, New South Wales. Aggregates earnings increased in 2014 in New South Wales supported by a recovery in the Sydney construction materials market. The Sydney market is transitioning to aggregate sources supplied from outside the metropolitan area, following the exhaustion of reserves at existing competitor quarries. Due to this structural change it is expected that Sydney aggregate prices will increase above the CPI rate in the short to medium term.

Activity Cycle
The activity cycle would be on the long side.

Industry
The industry comprises establishments that manufacture clinker, hydraulic cement (Portland, masonry, slag and pozzolan cement) and lime. Major participants:
The Cement and Lime Manufacturing industry has currently has excess local productive capacity. This, combined with the threat of low-cost imports from neighbouring Asian producers, ensures that intensely competitive conditions prevail across the industry, containing prices and profit growth.

The industry has a high concentration of ownership and cross-ownership, and also features strong vertical integration with the downstream concrete manufacturing industries. Together, the four leading manufacturers in the industry account for 77.4% of industry revenue in 2014-15.

The commissioning of the Wagners Group cement-grinding operations in Brisbane in early 2009 partly diluted the industry's concentration, although this has been partly offset by the closure of the Kandos plant by Cement Australia in late 2011 and the move by Heidelberg Cement to take a 50:50 joint venture position in Cement Australia from March 2013.

### Market Share

<table>
<thead>
<tr>
<th>#1</th>
<th>Lime producer in the minerals processing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>#2</td>
<td>Cement and clinker supplier to the Australian construction industry</td>
</tr>
<tr>
<td>#1</td>
<td>Cement and clinker importer with unmatched channels to market</td>
</tr>
<tr>
<td>#1</td>
<td>Market share in concrete products</td>
</tr>
<tr>
<td>#4</td>
<td>Market share in concrete and aggregates</td>
</tr>
</tbody>
</table>

Other than this I was not able to find any market share data.
Suppliers
I was not able to find any information here beyond the fact that Adelaide Brighton owns raw material sources and has established relationships with suppliers of imported materials.

Customers
Vertical integration reduces the pressure from customers. Nevertheless, this is an extremely competitive industry.

Competitors/Substitutes/Disruptors
The threat of small scale lime imports in Western Australia and the Northern Territory remains, however the weaker Australian dollar is likely to reduce the competitiveness of imports relative to Adelaide Brighton’s low cost operations.

Management
Adelaide Brighton seems to have strong management.

Competitive Advantage
Rivalry among Existing Competitors
High. Cartel-like structure with excess capacity.
Bargaining Power of Customers
Strong.

Bargaining Power of Suppliers
I don’t have a good insight here.

Threat of New Entrants
Low except for imports. The falling Australian dollar will have reduced the pressure somewhat. Adelaide Brighton is a major importer.

Threat of Substitute Products or Services
I don’t have any insights here.

2015 outlook

- Sales volume of cement and clinker to be similar to, or slightly higher than 2014
- Reduced cement sales from Jan 2015 in SA are expected to be offset by new contracts and improving demand
- Lime sales volume anticipated to be similar to, or slightly higher in 2015 with average prices likely to increase
- Price increases announced for March and April 2015 in cement, clinker, aggregates, concrete and concrete products; increases in 2015 are expected to exceed last year
- Earnings in Concrete and Aggregates and Concrete Products expected to improve; acquisitions, improved demand and pricing
- At Yen90 and USD0.75, import costs could increase by approximately $7 million in a full year, prior to mitigation through price increases
Financial Risk and Liquidity

Working Capital

These ratios are quite high, which is consistent with a long activity cycle. There are no concerning trends.

Days stock held is reasonably high, consistent with a long activity cycle. The trend is down, which suggests good management.

Days receivables are steady and relatively high. No problem though. Days payables have been reduced in the last three years and steady. These ratios may be determined by contractual terms.
Debt and Equity

Overall gearing increased in the last year, reflecting some acquisitions and restructuring. The overall level does not seem to be a problem and is likely to be reduced going forward.

Net interest cover is very strong and improving.

Debt to EBITDA is low. Debt to Free Cash Flow jumps around partly due to Capex in recent years.
**Profitability**

**Trend of Sales and Earnings**

Sales revenue is increasing gradually and steadily.

Statutory profit had been static for four years, but the most recent year has seen a good increase.

EBITDA basically mirrors NPAT. Cash flow is more variable, but remains reasonably strong.
Level and Trend of Profit Margins

Operating margins are steady over the last three years. Net margin showed an increase in the last year towards where it was in 2010 and 2011.

Shareholder Return

Return on equity has lifted above my hurdle rate again. Use of debt contributes to return on equity.
Earnings per share echoes the NPAT chart. Regular dividends have been static, but were increased slightly in the latest year. The payout ratio provides some security of the dividend and scope for it to be raised.

Adelaide Brighton has paid special dividends in 2006, 2007, 2010 and 2013. These have been included in the graph below:

The company provides this chart of total shareholder return for Adelaide Brighton since June 2010 compared to the ASX 200 Total Return index.
The company also provides this comparison of the Adelaide Brighton share price to the Adelaide Brighton Total Shareholder return, which brings out the value of dividends compared to price growth over the period.

**Margin of Safety: Price versus Value**

<table>
<thead>
<tr>
<th>Margin of Safety - Price versus Value</th>
<th>Ratios</th>
<th>Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chart Model</strong></td>
<td>Value</td>
<td></td>
</tr>
<tr>
<td><strong>Market-based Criteria</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-year Govt. Bond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price/Coupon</td>
<td>0.00</td>
<td>Coupon/Price x</td>
</tr>
<tr>
<td>All Ordinaries Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>15.65</td>
<td>Earnings yield 6.39%</td>
</tr>
<tr>
<td><strong>Data for</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adelaide Brighton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Price</td>
<td>$4.63</td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>16.68</td>
<td>Earnings yield 6.00%</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>10.0</td>
<td>EBITDA yield 10.03%</td>
</tr>
<tr>
<td>Return on Equity v Cost of Capital</td>
<td>My Plan</td>
<td>Stock</td>
</tr>
<tr>
<td>Cost of Capital</td>
<td>12.5%</td>
<td>Return on Equity 15.80%</td>
</tr>
<tr>
<td>My Hurdle Rate</td>
<td>15.0%</td>
<td>Recent ROE trend rising</td>
</tr>
<tr>
<td><strong>Grossed up Dividend Yield</strong></td>
<td>All Ords Av</td>
<td>Stock</td>
</tr>
<tr>
<td>Dividend/Price</td>
<td>5.21%</td>
<td>5.25%</td>
</tr>
</tbody>
</table>

Adelaide Brighton is not cheap at the present price on my criteria, but neither is it wildly overvalued.

Return on equity is above my hurdle rate and the dividend yield is above the market average.
Market Liquidity

Market Capitalisation $3bil
Av traded daily last month $8.3mil

Adelaide Brighton is very liquid for my portfolio size.

Timing and Risk Management

How I Found This Stock
Adelaide Brighton had been coming up on my technical analysis scan as it made new 52-week highs.

Which Model?

While there are some characteristics of either model, I am strongly of the view that it is in a cyclical industry and the chart should be seen as value model.
**Chart Analysis**

Adelaide Brighton has made a new all-time high above a broad sideways pattern.

**Set Stops**

<table>
<thead>
<tr>
<th>Low price used to base stops</th>
<th>$3.73</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft stop (one minimum bid lower)</td>
<td>$3.72</td>
</tr>
<tr>
<td>Hard stop (2% below soft stop)</td>
<td>$3.65</td>
</tr>
</tbody>
</table>

While it could be argued the stops should be under the 2014 lows, I feel that any decline should find support at the top of the sideways pattern, so chose the minor trough where it found support after the breakout from the 2014 double bottom pattern and which was also the tops in 2010 and 2013.
**Calculate Position Size**

<table>
<thead>
<tr>
<th>Position size</th>
<th>1st tranche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Capital</td>
<td>2,623,659</td>
</tr>
<tr>
<td>Buy Price</td>
<td>4.630</td>
</tr>
<tr>
<td>Hard Sell-Stop</td>
<td>3.650</td>
</tr>
<tr>
<td>Risk</td>
<td>0.980</td>
</tr>
<tr>
<td>% Capital to Invest</td>
<td>2</td>
</tr>
<tr>
<td>Position it buys</td>
<td>11,333</td>
</tr>
<tr>
<td>Max % Capital to Risk</td>
<td>0.5</td>
</tr>
<tr>
<td>Maximum Position</td>
<td>13,386</td>
</tr>
<tr>
<td>Position allowed</td>
<td>11,330</td>
</tr>
<tr>
<td>% capital at risk this tranche</td>
<td>0.42</td>
</tr>
<tr>
<td>Cumulative % capital at risk</td>
<td>2.00</td>
</tr>
<tr>
<td>% capital invested</td>
<td>2.00</td>
</tr>
</tbody>
</table>

To invest 2% of capital, I am risking 0.42% of capital back to my hard stop.

On 13 April 2015 I bought 11,330 shares at $4.59.
Managing the Investment

Updated to 8 May 2015

Since I bought Adelaide Brighton the share price has moved only slightly in a continuation of the sideways pattern it was in:

The chief executive has recently made presentations to two investment forums, the most recent one today. This repeated the earlier one which I took into account in my initial analysis, so nothing new seemed to have been advised. These presentations are available on the ASX Announcements page.

There has not been any price movement that would warrant review of my stops.
Updated to 19 June 2015
Since the last update the company held its AGM at which the Chairman outlined progress in some significant areas.

Recent financial results had been underpinned by:

- Increased sales volumes
- Price increases
- Cost savings from operational improvement

The long term growth strategy continues, built around:

1. Cost reduction and continuous improvement across the Company, saving $50 million in the last three years. Vertical integration from raw material to finished goods has seen $172 million invested in the last year to acquire valuable and strategic aggregate and concrete businesses in South Australia and Queensland.
2. Growth in the lime business to supply the resources sectors in Western Australia, South Australia and the Northern Territory. Adelaide Brighton is a low cost supplier of lime to the resources industry, with long term supply relationships in the alumina sector and they are well positioned to take advantage of the next upswing in the non-alumina mining sector.
3. Focused and relevant vertical integration into downstream aggregates, concrete and concrete products businesses. The recent upgrade of the lime kilns in Munster, Western Australia, has resulted in an increase in production capacity of approximately 250,000 tonnes and improved the environmental performance.

The chief executive’s report covered many areas in more detail and is worth reading on the ASX website. One important long term strategic issue discussed was:

A key element of the Company’s strategy to secure its long term position in the Australian market and grow value for shareholders is the increased use of imported product.

Since the mid 1990s, Adelaide Brighton has been increasing the use of imported product to replace higher cost domestically manufactured material.

This has involved developing very strong relationships with reliable Asian suppliers and investing in import related facilities around the country. We now have an unmatched network of import terminals around the country that enable us to bring in clinker and slag from Japan, white clinker from our joint venture in Malaysia and cement from various south east Asian suppliers. This import capability allows us to maximise efficiency by operating our clinker manufacturing plants, such as at Birkenhead, at full capacity and to use imported product to meet varying sales demand, wherever in the country that may be.

Another element highlighted was the ongoing program of selling unwanted land, which is expected to release significant capital. Media speculation has been that this might be used for a special dividend, but the company did not comment on that issue.

Concerning outlook the chief executive advised:
... we expect sales volume of cement and clinker to be similar to or greater than the results achieved in 2014. Reduced cement sales from January 2015 to a major customer in South Australia are expected to be offset by increased demand in key markets and sales of other products.

Lime sales volume in 2015 is anticipated to be similar to or slightly higher than 2014 volume and average realised prices are likely to increase. The threat of small scale lime imports in Western Australia and the Northern Territory remains, however the weaker Australian dollar is likely to reduce the competitiveness of these imports.

Price increases for all products were announced for the first half of 2015. A number of factors are supportive of price increases, including strengthening demand and capacity utilisation and the weakening Australian dollar, which increases the cost of import substitutes.

Aggregate prices are anticipated to increase significantly above CPI, particularly in Sydney where average delivered costs have increased significantly as the industry moves to supply from further afield as traditional sources are depleted.

Assuming the Australian dollar remains at around Yen90 and USD 0.75, import costs are expected to increase $7 million over the full year, prior to mitigation through price increases. Gas related fuel costs in South Australia are expected to increase $2 million in 2015, which is below earlier expectations.

There are a number of external and internal factors that are expected to deliver significant financial benefits for Adelaide Brighton in 2015. These include:

- The unwinding of the carbon tax;
- Potential transport costs savings from lower fuel costs;
- Further Munster rationalisation benefits; and
- Full year benefits of the 2014 corporate rationalisation.

No new guidance was given on 2015 earnings.

In a general market correction over the last month, the Adelaide Brighton share price has fluctuated, forming a sideways pattern generally above previous highs:
There is nothing in the charts to warrant revision of my stops.
Updated to 15 July 2015
Since the last update, there have been no news announcements for Adelaide Brighton.

During the recent market correction, the Adelaide Brighton share price slipped only slightly below recent lows and has again moved up into the recent trading range:

Based on the strength in the share price and supported by the short term divergence on the new high – new low index (see the Automotive Holdings Group journal updated today), I decided to increase my holding from 2% of capital by buying two further tranches each of 2% of capital. I bought in two tranches, because to fund the second of the tranches, I needed to sell down my holding in Whitefield (I am holding Listed Investment Companies rather than much cash in order to stay exposed to the market).
These were my position size calculations for the two additional tranches:

<table>
<thead>
<tr>
<th>Position size</th>
<th>1st tranche</th>
<th>2nd tranche</th>
<th>3rd tranche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Capital</td>
<td>2,623,659</td>
<td>2,500,531</td>
<td>2,500,531</td>
</tr>
<tr>
<td>Buy Price</td>
<td>4.630</td>
<td>4.600</td>
<td>4.600</td>
</tr>
<tr>
<td>Hard Sell-Stop</td>
<td>3.650</td>
<td>3.650</td>
<td>3.650</td>
</tr>
<tr>
<td>Risk</td>
<td>0.980</td>
<td>0.950</td>
<td>0.950</td>
</tr>
<tr>
<td>% Capital to Invest</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Position it buys</td>
<td>11,333</td>
<td>10,872</td>
<td>10,872</td>
</tr>
<tr>
<td>Max % Capital to Risk</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Maximum Position</td>
<td>13,386</td>
<td>13,161</td>
<td>13,161</td>
</tr>
<tr>
<td>Position allowed</td>
<td>11,330</td>
<td>10,870</td>
<td>10,870</td>
</tr>
<tr>
<td>% capital at risk this tranche</td>
<td>0.42</td>
<td>0.41</td>
<td>0.41</td>
</tr>
<tr>
<td>Cumulative % capital at risk</td>
<td>0.84</td>
<td>1.26</td>
<td></td>
</tr>
<tr>
<td>% capital invested</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
</tr>
</tbody>
</table>

I am risking 0.41% of capital back to my hard stop on each of the tranches and my total risk on the entire holding is now 1.26% of capital.

On 15 July 2015 I bought both tranches of 10,870 shares at $4.59.
Updated to 11 September 2015
Since my last update, Adelaide Brighton has updated its advice on land sales:

ADELAIDE BRIGHTON LAND SALES
Adelaide Brighton refers to previous announcements about potential for land transactions to be completed in 2015. By way of update:

- In the first half of 2015 land transactions are expected to generate cash proceeds of approximately $16 million and net profit after tax of circa $12 million.
- Due diligence has been completed and contracts have been signed and exchanged for two further land transactions, that subject to necessary approvals, are expected to be completed in the second half of 2015. It is expected that these transactions will deliver further cash proceeds of approximately $32 million with a net profit after tax benefit of circa $20 million in the second half of 2015.

On 20 August 2015, Adelaide Brighton announced their half-year earnings report.

<table>
<thead>
<tr>
<th></th>
<th>A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from continuing operations</td>
<td>up 12.6% to 678.1</td>
</tr>
<tr>
<td>Earnings before interest and tax</td>
<td>up 49.2% to 116.8</td>
</tr>
<tr>
<td>Net profit for the period attributable to members</td>
<td>up 61.3% to 82.6</td>
</tr>
</tbody>
</table>

The strong earnings increase combined with land sales has resulted in Adelaide Brighton again paying a special dividend. This is a game that some companies play and it makes analysis more difficult because so many market statistics ignore special dividends. I include special dividends in my analysis, so that I see the dividend for the latest period as 12c compared to 7.5c previously and my dividend yield calculations (see later) are based on 12c, not 8c.

From the company’s summary of results:

Net Profit After Tax:

Adelaide Brighton Limited reported net profit after tax (NPAT) for the half year ended 30 June 2015 of $82.6 million, an increase of 61.3% compared to the previous corresponding period (pcp). Adjusted for significant items, underlying NPAT of $83.0 million was 35.6% higher than the pcp. Property transactions contributed $12 million to NPAT.

I calculate that NPAT excluding the effect of property transactions was $71 million, an increase of 16% on the 2014 interim NPAT.
Sales Revenue:

Revenue of $678.1 million was 12.6% higher than the pcp supported by higher cement and lime volumes, improved prices, property revenue and the contribution from acquisitions completed in the second half of 2014.

I found it difficult to find exactly what the property revenue number was to adjust the report. It seems that sales of property plant and equipment yielded $17.6 million. Assuming all of this was property, Revenue before property sales was $660.5 million, which was an increase of 9.7%.

Earnings Before Interest and Tax:

Earnings before interest and tax (EBIT) increased 49.2% to $116.8 million. EBIT was constrained in the pcp by significant items totalling $14.2 million, including the rationalisation of clinker production at Munster, acquisition expenses and corporate restructuring costs.

Underlying EBIT of $117.3 million increased 26.8% on the pcp, supported by $13 million pre-tax profit (pcp $1 million) from property transactions. Excluding property, underlying EBIT increased 14% on pcp, which was approximately in line with revenue growth. The underlying EBIT margin improved to 17.3% from 15.4% in the pcp. Excluding property earnings, the underlying EBIT margin was 15.4% up slightly from 15.2% in the pcp.

So, Adelaide Brighton tells us the effect of property transactions on NPAT and EBIT, but not Sales Revenue. From my calculations, excluding property transactions:

Sales were up 9.7%

EBIT was up 14%

NPAT was up 16%

Adelaide Brighton suggests that margins increased slightly:

The geographic mix of cement sales, lower earnings from joint ventures and rising import costs due to the weaker Australian dollar, all adversely impacted margins. However, these pressures were more than offset by increased volumes, and like-for-like selling prices and rationalisation benefits, allowing modest margin expansion (excluding property earnings).

This was summarised in a slide from their investor presentation:
Adelaide Brighton’s investor presentation included some slides that update its operations by division:

**Adelaide Brighton operations**

- Cementitious sales in excess of 3.7 million tonnes per annum
- Cementitious imports to exceed 2.1 million tonnes in 2015
- Lime sales: 1 million tonnes per annum
- More than 1.5 million cubic metres of concrete and more than 6 million tonnes of aggregates per annum
- Leading producer of concrete masonry products

**Cement**

- Cement and clinker volumes increased on pcp
- Price increases achieved in majority of markets
- Average realised cement and clinker prices softer due to change in sales mix towards lower priced markets
- Import volumes continued to grow with 2015 imported cementitious material to exceed 2.1 million tonnes
- Excluding property, underlying cement margins increased on pcp
- Margins supported by sales volumes; improved Birkenhead production; WA clinker rationalisation, lower energy costs and other cost initiatives
- WA clinker rationalisation on track to meet 2015 target of $5 million pre-tax savings

**Lime**

- Lime profit improved versus pcp supported by resumption of sales to major customer in NT
- Lime sales volumes increased approximately 5% on pcp
- Improved demand from non-alumina sector
- Average selling prices increased
- Small scale lime imports continue, but softening currency increases cost of imports
- Business continues to benefit from investment in environmental performance, which also benefits cost and capacity
Concrete and Aggregates

- Improved demand across all markets supported by residential construction and commercial projects
- Average selling prices for concrete improved by more than CPI on pcp while aggregate selling prices improved significantly more than CPI
- Acquisitions completed in 2014 in SA and north QLD added approximately 9% to Group revenue versus pcp. Earnings from these acquisitions were in line with expectations
- Acquisition synergies have been delivered on an accelerated program, on target for $4.4 million in 2015, in line with prior guidance

Concrete Products

- Adhri Masonry revenue increased 8.2% and increased EBIT by $1.2 compared to the pcp
- Demand improvement from residential and commercial construction segments
- Prices increased in line with CPI
- Business improvement program – rationalisation of production facilities and restructuring – assisted earnings as market demand improved

Joint arrangements

ICL (50%)
- Cement and lime distribution
- Lower contribution due to higher input costs impacting margins
- Victorian demand improved and high level of demand maintained in New South Wales

Sunstate Cement (50%)
- Cement milling and distribution
- Although the south east Queensland market remains competitive, improved demand in the region supported improved volumes
- Price increases assisted earnings

Aalborg Portland Malaysia (APM) (30%)
- Speciality cement manufacturer
- Earnings declined due to slower than anticipated commissioning of capacity expansion

Mawsons (50%)
- Concrete and aggregates
- Earnings declined slightly from strong levels due to a slowdown in major projects, weaker residential and competitive pressures across markets
Next, my analysis of the results. Note that the 2015 numbers are annualised.

**Trend of Sales and Earnings**

Considering that property is included, the growth in sales has slipped somewhat.

Which is reflected in statutory profit

And in EBITDA. Cash flow is up, but this includes property sales.

**Financial Risk and Liquidity**

**Working Capital**

Both these ratios have strengthened again in the last period
This ratio remains within the 10-year range

Both these ratios also remain within the 10-year range

**Debt and Equity**

There is little change here and gearing remains not excessive

Interest cover is strong and has strengthened again
Both these ratios have strengthened, though this is partly from property sales. Nevertheless the ten-year picture shows significant improvement.

**Profitability**

**Level and Trend of Profit Margins**

The gross margin has been essentially static over the last four years. The net margin has improved over that period, but hardly moved in the last period.

**Shareholder Return**

All three returns have moved a little higher again in the last period. Debt contributes to return on equity.
Earnings per share increased again in the last period. The dividend bars include special dividends.

Over the last three periods, free cash flow has covered dividends. Note though:

1. Free cash flow includes property sales.
2. The special dividend is not reflected in the 2015 bar.

**Margin of Safety: Price versus Value**

<table>
<thead>
<tr>
<th>Margin of Safety - Price versus Value</th>
<th>Ratios</th>
<th>Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chart Model</td>
<td>Value</td>
<td></td>
</tr>
<tr>
<td>Market-based Criteria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Ordinaries Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>15.62</td>
<td>Earnings yield 6.40%</td>
</tr>
<tr>
<td>Data for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adelaide Brighton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Price</td>
<td>$4.41</td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>15.29</td>
<td>Earnings yield 6.54%</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>8.8</td>
<td>EBITDA yield 11.30%</td>
</tr>
<tr>
<td>EV/FCF</td>
<td>13.9</td>
<td>FCF yield 7.18%</td>
</tr>
</tbody>
</table>

Adelaide Brighton seems to be trading at around fair value.
Adelaide Brighton’s return on equity is above my cost of capital and has improved in the most recent period.

<table>
<thead>
<tr>
<th>Grossed up Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Ordinaries index Average</td>
</tr>
<tr>
<td>Adelaide Brighton</td>
</tr>
</tbody>
</table>

| My Average Cost $      | 4.59  |
| Dividend per share $   | 0.215 |
| Effective yield        | 6.69% |

The Adelaide Brighton yields above include the special dividend and are strong.

<table>
<thead>
<tr>
<th>Growth %</th>
<th>10 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>80.9%</td>
<td>30.9%</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>59.1%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>7.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Dividends per Share</td>
<td>17.0%</td>
<td>30.3%</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>507.9%</td>
<td>228.6%</td>
</tr>
</tbody>
</table>

This table shows how key metrics have moved over the last five and ten years. The best investments should show growth in all metrics to some extent. Increases in revenue have flowed through into rises in earnings and dividends per share. Free cash flow has also increased strongly. Operating revenue has also been translated into higher return on equity.

**Market Liquidity**

<table>
<thead>
<tr>
<th>Market Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation $m</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
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<td>Av trade/day last year $000</td>
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<tr>
<td>Av trade/day last 20 days $000</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
</tr>
</tbody>
</table>

Adelaide Brighton is very liquid for my portfolio size.
Timing and Risk Management

Chart Analysis

Although showing slight weakness during the market correction, Adelaide Brighton has generally maintained its breakout above the all-time highs:

My stops were not based in the usual way, but represent an important support level on the chart. As such there is no basis for revision at this time.
Updated to 30 November 2015

A presentation in New York on 5 October 2015 included some useful sides in a divisional review:

**Cement**

- Cement and clinker **volumes increased** in 1H2015 compared to pcp
- 1H 2015 **price increases achieved** in majority of markets
- Average realised cement and clinker prices softer due to change in sales mix towards lower priced markets
- **Import volumes continued to grow** with 2015 imported cementitious material to exceed 2.1 million tonnes
- Excluding property, underlying cement margins **increased** in 1H2015 compared to pcp
- Margins supported by sales volumes; improved Birkenhead production; WA clinker rationalisation, lower energy costs and other cost initiatives
- WA clinker rationalisation on track to meet 2015 target of $5 million pre-tax savings

**Lime**

- **1H 2015 lime profit improved** versus pcp supported by resumption of sales to major customer in NT
- Lime sales volumes **increased approximately 5%** in 1H 2015 compared to pcp
- Improved demand from non-alumina sector
- Average selling prices in 1H 2015 **increased**
- **Small scale lime imports continue**, but softening currency increases cost of imports
- Business continues to benefit from investment in environmental performance, which also benefits cost and capacity
Concrete and Aggregates

- Improved demand across all markets supported by residential construction and commercial projects
- 1H 2015 average selling prices for concrete improved by more than CPI on pcp while aggregate selling prices improved significantly more than CPI
- Acquisitions completed in 2014 in SA and north QLD added approximately 9% to Group revenue versus pcp. Earnings from these acquisitions were in line with expectations
- Acquisition synergies have been delivered on an accelerated program, on target for $4.4 million in 2015, in line with prior guidance

Concrete Products

- Adbri Masonry 1H 2015 revenue increased 8.2% and increased EBIT by $1.2 compared to the pcp
- Demand improvement from residential and commercial construction segments
- 1H 2015 prices increased in line with CPI
- Business improvement program – rationalisation of production facilities and restructuring – assisted earnings as market demand improved
The market in Adelaide Brighton Shares has been dull and continues its sideways pattern:
There does not seem to be any action necessary at this time.
Updated to 29 January 2016
Since my last update Adelaide Brighton have announced the concluding of two land sales:

**ADELAIDE BRIGHTON CONCLUDES TWO LAND SALES**

Adelaide Brighton refers to the Company’s ASX announcement on 27 July 2015 in relation to its long term land sales program and advises that it has now completed the sale of the two properties.

These two land sales bring the total cash proceeds from land sales during the year to circa $48 million, which is in line with previous guidance.

The share price has continued to form a sideways pattern:

My stops are in a non-standard position, but I see no reason to adjust them now. That said depending on what happens a fall below the late 2015 low could be judged to trigger one of my alternative sell signals.
Updated to 24 March 2016
Since the last update, Adelaide Brighton announced its annual result, which I will analyse below.
Some slides from their investor presentation:

### 2015 full year result
- Healthy residential construction activity and acquisitions lifted revenue
- Excluding property, EBIT supported by acquisitions, volume growth, price increases and cost reduction
- Our core businesses are all performing well with operational improvement a driver
- Acquisitions delivering in line with expectations
- Strong cash flow and reduced gearing to 24.6%
- Fully franked dividends 27.0 cents for the year
- Positive outlook supported by market demand, cost initiatives and further property sales
- Continue to assess opportunities for implementing the strategy
- Financial stability, flexibility and prudent capital management remain key

### Demand overview – 2015
#### NSW
- Demand strong
  - Strength in residential
  - Infrastructure projects

#### VIC
- Improved demand
  - Led by multi-residential

#### WA
- Stable market
  - Residential subdued
  - Project volumes declined
  - Lime sales increased

#### South East QLD
- Improving market
  - Supported by residential
  - Favourable geographic mix; Gold Coast and Sunshine Coast

#### SA
- Stable – bottom of cycle
  - Residential stable
  - Decline in sales to mining operations
  - Infrastructure projects commenced early 2016

#### NT
- Demand weaker
  - Declining cement sales to resource projects
  - Lime sales recovered to large customer

### Diversified business
#### 2015 Revenue by market
- Mining 14%
- Non-residential 21%
- Residential 30%
- Engineering 35%

#### Australian industry position
**#1**
- Lime producer in the minerals processing industry
- Concrete products producer
- Cement and clinker importer with unmatched channels to market

**#2**
- Cement and clinker supplier to the Australian construction industry

**#4**
- Concrete and aggregates producer
Adelaide Brighton operations

Cement

- Cement and clinker volumes increased on strong demand across NSW, Victoria and Queensland
- Price increases in majority of markets but changing sales mix constrained revenue and margin
- Excluding property, margins increased slightly helped by sales volumes; improved Birkenhead production; Munster clinker rationalisation and other cost initiatives
- Imports exceeded 2.1 million tonnes in 2015
- Munster rationalisation met 2015 target of a further $5 million pre-tax savings, taking overall saving to $10 million

Lime

- Lime profit supported by resumption of sales to major customer in NT and improved demand from gold sector
- Lime sales volumes grew 2.3% in 2015
- Average selling prices increased at CPI
- Small scale lime imports continue, but softening currency increases cost of imports
- Short term energy cost rise of $3.5 million from coal but otherwise operations performed well
Concrete and Aggregates

- Improved demand across all markets supported by residential construction and commercial projects
- Average selling prices for concrete up by more than CPI while aggregate selling prices improved significantly more than CPI
- Earnings from 2014 acquisitions in SA and north QLD are in line with expectations
- SA concrete volumes have been slightly lower than anticipated, however aggregates prices are better
- Acquisition synergies delivered on an accelerated program with $4.4 million achieved in 2015, in line with plan
- Synergies in overheads, systems, logistics, procurement and marketing

Concrete Products

- Adhri Masonry revenue up 7.8% and full year EBIT up 75% to $11.4 million
- Second half EBIT $8.2 million
- Strong demand from residential and commercial construction
- Prices increased ahead of CPI
- Business improvement program – rationalisation of production facilities and restructuring assisted earnings as demand improved

Joint arrangements

ICL (50%)
Cement distribution
- Lower contribution due to higher input costs
- Better second half performance with volumes and prices rising and costs down
- Victorian demand improved and high level of demand maintained in New South Wales

Sunstate Cement (50%)
Cement milling and distribution
- Stronger demand, however reduced sales to shareholders
- Price increases assisted but markets remain competitive

Aalborg Portland Malaysia (APM) (30%)
Specialty cement manufacturer
- Earnings declined due to slower than anticipated commissioning of capacity expansion

Mawsons (50%)
Concrete and aggregates
- Earnings declined marginally from strong 2014 levels due to a slowdown in major projects, weaker residential and competitive pressures across markets
Outlook

- Sales volume of cement, clinker and lime expected to be slightly higher in 2016
- Price increases anticipated in cement, clinker, aggregates, concrete, concrete products and lime
- Price increases supported by improving industry utilisation and weaker A$.
- Import costs are expected to increase by approximately $8 million; hedged to November 2016.
- Gas costs are expected to decrease overall.
- Efficiency improvements remain a priority.
- Property proceeds of $30 million to $40 million anticipated over the next two years and in excess of $140 million over next decade.
- As always, we will look to participate in industry consolidation where it adds value.
- We seek to ensure the balance sheet is efficiently utilised while retaining the flexibility to fund long term growth.
- Prudent capital management remains an important part of this approach.

Revenue segments - 2014

By market

- Mining 14%
- Non-residential 29%
- Residential 29%
- Engineering 9%

By State

- WA 27%
- Vic 18%
- NSW 18%
- SA 15%
- Qld 15%
- Other 7%

By product group

- Cement 51%
- Concrete Products 10%
- Concrete and Aggregates 26%
- Lime 13%

NB: estimate of the end market

My analysis of the 2015 annual report:
**Trend of Sales and Earnings**

The rising trend continued.

Statutory profit increases have been more variable.

EBITDA is increasing more steadily.
Operating cash flow increases have been more variable.

Free cash flow generation has improved in the last three years.
Financial Risk

Working Capital

No problem here.

Well under control.

Receivables are at the top of the range of the last six years, but no real problem.
No sign of problems here.

Within the ten-year range.

Working capital days is tending to edge upward recently.
Cost of doing business has been reduced.

*Debt and Equity*

Overall leverage is low, which is desirable, and has been edged lower.

Confirms the previous ratios.
Net interest cover is strong and has strengthened again.

**Profitability**

**Level and Trend of Profit Margins**

Margins have generally held, but seem under pressure.
Shareholder Return

Strong, steady asset management.

Return on equity has slipped a bit. Debt contributes.

Earnings per share are variable. The last year includes two special dividends.
The payout ratio is quite variable. Graph includes special dividends.

The last three years have seen free cash flow cover dividends, including special dividends.

Summary: Price versus Value and Returns
Adelaide Brighton is around fair value.

Return on Equity is above my required return, but not by much and has slipped a bit in the last year.

Adelaide Brighton is a strong income stock.

A rather mixed picture.

### Ratios

<table>
<thead>
<tr>
<th>Chart Model</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market-based Criteria</strong></td>
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<tr>
<td>All Ordinaries Average</td>
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</tr>
<tr>
<td>Price/Earnings</td>
<td>15.62</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Data for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelaide Brighton</td>
</tr>
<tr>
<td>Market Price</td>
</tr>
</tbody>
</table>

| Price/Earnings | 15.29 |
| EV/EBITDA | 8.9 |

<table>
<thead>
<tr>
<th>Margin of Safety - Price versus Value</th>
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</table>

<table>
<thead>
<tr>
<th>Return on Equity v Cost of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>My Cost of Capital</td>
</tr>
<tr>
<td>Return on Equity</td>
</tr>
<tr>
<td>Recent ROE trend</td>
</tr>
</tbody>
</table>

<table>
<thead>
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<th>Grossed up Dividend Yield</th>
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<td>All Ordinaries index Average</td>
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<tr>
<td>Adelaide Brighton</td>
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</tbody>
</table>

| Note: Adjusted for special dividends |
| My Average Cost $ | 4.59 |
| Dividend per share $ | 0.27 |
| Effective yield | 8.40% |

| Note: Includes special dividends |

Adelaide Brighton is a strong income stock.

Growth %

<table>
<thead>
<tr>
<th>Growth %</th>
<th>10 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>78.0%</td>
<td>28.8%</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>38.3%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>-9.7%</td>
<td>-12.9%</td>
</tr>
<tr>
<td>Dividends per Share</td>
<td>47.0%</td>
<td>63.6%</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>466.3%</td>
<td>206.1%</td>
</tr>
</tbody>
</table>

A rather mixed picture.
Market Liquidity

Market Liquidity

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation $m</td>
<td>2,784</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
<td>0.4</td>
</tr>
<tr>
<td>Annual Turnover %</td>
<td>57.2</td>
</tr>
<tr>
<td>Annual Turnover $m</td>
<td>1,592</td>
</tr>
<tr>
<td>Av trade/day last year $000</td>
<td>6,370</td>
</tr>
<tr>
<td>Av trade/day last 20 days $000</td>
<td>7,140</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
<td>69.2</td>
</tr>
</tbody>
</table>

A mid-cap with plenty of liquidity for my account size.

Timing and Risk Management

Chart Analysis

ABC - ADELAIDE BRIGHTON LTD > -0.6% -0.03 to 5.10
EXP MOV AVS 12(0) mnth 4.5696
The share price has moved up nicely recently.

**Set Stops**

I think it is now time to move my stops up under the mid-2015 trough low.

<table>
<thead>
<tr>
<th>Low price used to base stops</th>
<th>$4.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft stop (one minimum bid lower)</td>
<td>$3.99</td>
</tr>
<tr>
<td>Hard stop (2% below soft stop)</td>
<td>$3.91</td>
</tr>
</tbody>
</table>

This is how the new stops look on the chart:
Updated to 21 July 2016

It has been a while since I reviewed this journal, mainly because of my long absence travelling overseas.

Since the last review in March, the chief executive made a presentation at a Credit Suisse conference in Asia in April. Some of the slides update/improve the company profile and particularly the segment information:

![Adelaide Brighton – an industry leader](image1)

![Diversified business](image2)
Adelaide Brighton operations

2015 Revenue by product group
- Cement 47%
- Concrete and Aggregates 31%
- Concrete Products 10%
- Lime 12%

2015 Revenue by state
- WA 25%
- NSW 18%
- VIC 15%
- SA 15%
- QLD 17%
- Other 6%

1 Percentage of 2015 revenue of $1,413.1 million

Demand overview – 2015

NSW
Demand strong
- Strength in residential
- Infrastructure projects

VIC
Improved demand
- Led by multi-residential

WA
Stable market
- Residential subdued
- Project volumes declined
- Lime sales increased

South East QLD
Improving market
- Supported by residential
- Favourable geographic mix; Gold Coast and Sunshine Coast

SA
Stable – bottom of cycle
- Decline in sales to mining operations
- Infrastructure projects commenced early 2016

NT
Demand weaker
- Declining cement sales to resource projects
- Lime sales recovered to large customer
2015 financial results

- Healthy residential construction activity and acquisitions lifted revenue
- Excluding property, EBIT supported by acquisitions, volume growth, price increases and cost reduction
- Our core businesses are all performing well with operational improvement a driver
- Acquisitions delivering in line with expectations
- Strong cash flow and reduced gearing to 24.6%
- Fully franked dividends 27.0 cents for the year
- Positive outlook supported by market demand, cost initiatives and further property sales
- Continue to assess opportunities for implementing the strategy
- Financial stability, flexibility and prudent capital management remain key

Consistent long term strategy

Strategy has delivered strong shareholder returns

1. Cost reduction and improvement across the business
   - Corporate restructure
   - Rationalisation of inefficient production
   - Import strategy
2. Grow the lime business to supply the resources sector
   - Environmental and capacity upgrades
     - Lowest cost producer
     - Long term customer contracts
3. Focused and relevant vertical integration
   - Acquisition synergies achieved
   - Aggregates focus to underpin returns

Continual improvement – Cement

Manufacture and import strategy

- World class production facility in SA fully utilised
- Model provides supply flexibility through cycle
- Imports exceeded 2.1mt in 2015; more than 20% of market demand
- Unmatched logistics footprint with highly competitive and flexible long term supply arrangements
- Virtual capacity: variable import cost structure allows full loading of Birkenhead through cycle
- Further opportunities for business improvement
Lime – unique position in growth market

- Alkaline neutralising agent in mineral processing
- Growth through expansion of globally competitive WA resources sector
  - Kilns amongst the largest in the world and low cost resource reserves with long term statutory approvals
- Critical input to WA alumina and gold sectors
- Alumina (70% of WA demand)
  - Assessing further 15% upgrade to production underpinned by low cost position
  - Contracted price increases
- Gold (20% of WA demand)
  - Projects restarting/expanding given gold price rise and A$ decline
  - Smaller customers attract selling price premium

ABL WA lime sales history

- Consistent demand growth driven long term improvement
- 7% of WA market supplied by dumped imports
- WA alumina 12% of global supply
- Bottom quartile costs globally – long term supply contracts
- Gold sector improving
- WA ~80% of Australian gold production and ~8% of global production
Vertical Integration – Concrete and Aggregates

- Leading positions in highly localised heavy materials markets
- Improved demand supported by residential construction and commercial projects
- Earnings from 2014 acquisitions in line with expectations and positioned for demand recovery
- Synergies in overhead, systems, logistics, procurement and marketing in line with plan
- Adelaide Brighton systems and processes supported rapid and efficient integration of new businesses and operational improvement
- Continue to look for further growth opportunities where it adds value for shareholders

Concrete Products

- Very positive turnaround story in Concrete Products
  - The leading supplier of concrete masonry products to the residential and commercial construction sectors in eastern part of Australia
  - Business improvement program – rationalisation of production facilities and restructuring assisted earnings
  - Strong demand from residential and commercial construction
  - Industry rationalisation and improving asset utilisation has improved industry fundamentals
  - Full year EBIT up 75% and further improvement possible
**Outlook**

- Sales volume of cement, clinker and lime expected to be slightly higher in 2016
- Price increases anticipated in cement, clinker, aggregates, concrete, concrete products and lime
- Price increases supported by improving industry utilisation and weaker A$.
- Import costs are expected to increase by approximately $8 million; hedged to December 2016.
- Gas costs are expected to decrease overall.
- Efficiency improvements remain a priority.
- Property proceeds of $30 million to $40 million anticipated over the next two years and in excess of $140 million over the next decade.
- As always, we will look to participate in industry consolidation where it adds value.
- We seek to ensure the balance sheet is efficiently utilised while retaining the flexibility to fund long term growth.
- Prudent capital management remains an important part of this approach.

**Lime demand drivers – alumina**

- Alumina represents 70% of WA lime demand.
- WA refineries are in the bottom quartile of the cash cost curve with lower cost of manufacture on global scale.

![Graph showing Alumina cash cost curve vs. WA alumina producers.](chart)

- WA alumina represents ~12% global capacity. Major customer’s largest bauxite reserves are in Australia.
- Long term lime supply contracts with two alumina customers.
- Lower AUD and lower cost of gas in WA further improves competitiveness.
- Environmental approval granted for capacity expansion by major Alumina customer – potential for 40ktpa lime sales.
The 2015 Annual Report was released later in April and contained a god updated company profile:

Adelaide Brighton is a leading integrated construction materials and industrial lime producer which supplies a range of products into building, construction, infrastructure and mineral processing markets throughout Australia. The Company’s principal activities include the production, importation, distribution and marketing of clinker, cement, industrial lime, premixed concrete, construction aggregates and concrete products. Adelaide Brighton originated in 1882 and is now an S&P/ASX100 company with 1,400 employees and operations in all Australian states and territories.

Cement

Adelaide Brighton is the second largest supplier of cement and clinker products in Australia with major production facilities and market leading positions in the resource rich states of South Australia and Western Australia. It is also market leader in the Northern Territory. In addition to domestic production, the Company is the largest importer of cement, clinker and slag into Australia with an unmatched supply network that enables efficient access to every mainland capital city market. This network includes significant distribution joint ventures in Victoria and Queensland.

Lime

Adelaide Brighton is the largest producer of industrial lime in Australia, with production assets in Western Australia, South Australia and Northern Territory. Industrial lime is an important product for the mineral processing industry in resource rich markets, particularly for the production of alumina and gold, of which Australia is a leading producer.

Concrete and aggregates

Adelaide Brighton has a growing presence in the premixed concrete and aggregates industry with strong market shares in South Australia, Victoria, New South Wales and south east and northern Queensland augmented by joint venture operations.
Concrete Products

Adelaide Brighton holds the leading position in the Australian concrete products market, with operations in Queensland, New South Wales, Victoria, Tasmania and South Australia.

Joint ventures and associates

Adelaide Brighton has a number of significant investments in joint ventures and associates in construction materials production and distribution. These include major cement distribution joint ventures in Queensland (Sunstate Cement), Victoria (Independent Cement and Lime) and New South Wales; regional concrete and aggregates positions in Victoria, Queensland and New South Wales; and a 30% investment in a Malaysian white cement and clinker producer (Aalborg Portland Malaysia), which supplies the Australian market.

And from the Chairman’s Report:

Our acquisition strategy, as evidenced by the incremental benefits delivered in 2015, remains in place. The $172 million we invested in 2014 to secure highly valuable and strategic aggregate and concrete businesses in South Australia and Queensland has delivered synergies and enhanced 2015 earnings in line with our expectations. These benefits will continue to accrue in 2016 and beyond with several major South Australian infrastructure projects to assist this year.

From the Chief Executive’s Report:

Outlook

In 2016, Adelaide Brighton expects sales volume of cement and clinker to be slightly higher than 2015. Sales volumes of premixed concrete, aggregates and concrete products are also expected to increase.

Price increases have been announced for March and April 2016 in cement, clinker, aggregates, concrete and concrete products. Price increases achieved in 2016 are expected to exceed those achieved last year. A number of factors are supportive of higher prices including strengthening demand and capacity utilisation and the weakening Australian Dollar, which increases the cost of import substitutes.

Aggregate prices are anticipated to increase significantly above CPI, particularly in Sydney where average delivered costs have risen substantially as the industry moves to source supply from further afield as traditional sources have depleted.

Lime sales volumes are expected to be slightly higher and average realised prices are likely to increase. The weaker Australian Dollar reduces the competitiveness of imports relative to Adelaide Brighton’s low cost operations, however the threat of small scale lime imports in Western Australia and the Northern Territory remains.

From the Chief Financial Officer’s Report:

Notwithstanding increased margins in the cement, concrete, aggregates and concrete products businesses, the average EBIT margin for the Company, excluding property earnings, decreased
slightly from 18.3% to 18.1%. This reflected a change in the mix of sales, joint venture earnings, changing import costs (due to currency movements) and an increased proportion of lower margin concrete revenue of total sales. These factors were almost fully offset by benefits from volume growth, price rises and operating efficiencies.

Since the last review, the share price has moved up strongly:
There is a temptation to move my stops up under the last trough just above $5. However, looking at the price history, normal corrections in the long term trend have tended to be fairly deep, so moving my stops up at this point might invite being stopped out prematurely. Of course, I can always re-assess the situation at any time, including my other two sell signals, should the picture change.

Adelaide Brighton is due to release its half-year earnings report on 31 August 2016.
Updated to 8 September 2016
Since the last update, Adelaide Brighton have announced their half year results.

An updated slide from the investor presentation:

My analysis of the interim results follows. First half 2016 flow numbers are annualised. Dividends shown exclude special dividends.

*Trend of Sales and Earnings*

Sales edged higher, continuing the rising trend, but momentum has slackened off.
This flowed through to gross profit from operations

Statutory profit was up also, but the trend has been more uneven

Likewise, operating cash flow
Free cash flow was down slightly, and has been uneven due to lumpy capex.

Financial Risk

Working Capital

Working capital liquidity has strengthened again.

Inventory turnover has slowed to near the top of its decade range.
Receivables collection slowed, but it remains within the decade range

Trade creditors were being paid slightly faster

This is all reflected in an increase in working capital
**Debt and Equity**

Debt is quite low but increased slightly

This is reflected in the low leverage ratio

Interest cover is very strong
**Profitability**

**Level and Trend of Profit Margins**

Margins improved slightly

**Shareholder Return**

Return on assets improved slightly

Return on equity was stable at a low level for the decade
Earnings per share rose as did the dividend. This graph includes special dividends, which are shown here for recent years:

Payout ratio is within the decade range. Special dividends are included.
Free cash flow has not covered the last dividend.

**Summary: Price versus Value and Returns**

<table>
<thead>
<tr>
<th>Margin of Safety - Price versus Value</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chart Model</strong></td>
<td>Value</td>
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<tr>
<td><strong>Market-based Criteria</strong></td>
<td></td>
</tr>
<tr>
<td>All Ordinaries Average</td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>15.94</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Data for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelaide Brighton</td>
</tr>
<tr>
<td>Market Price</td>
</tr>
<tr>
<td>Price/Earnings</td>
</tr>
<tr>
<td>EV/EBITDA</td>
</tr>
</tbody>
</table>

Adelaide Brighton seems to be somewhat above fair value in the current market.

<table>
<thead>
<tr>
<th>Return on Equity v Cost of Capital</th>
</tr>
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<tbody>
<tr>
<td>My Cost of Capital</td>
</tr>
<tr>
<td>Return on Equity</td>
</tr>
<tr>
<td>Recent ROE trend</td>
</tr>
</tbody>
</table>

Return on equity is just above my cost of capital and steady.
The dividend yield is OK when including special dividends.

**Market Liquidity**

<table>
<thead>
<tr>
<th>Market Liquidity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation $m</td>
<td>3,362</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
<td>0.3</td>
</tr>
<tr>
<td>Annual Turnover %</td>
<td>64.4</td>
</tr>
<tr>
<td>Annual Turnover $m</td>
<td>2,165</td>
</tr>
<tr>
<td>Av trade/day last year $000</td>
<td>8,661</td>
</tr>
<tr>
<td>Av trade/day last 20 days $000</td>
<td>10,177</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
<td>72.1</td>
</tr>
</tbody>
</table>

Adelaide Brighton has a liquid market

**Timing and Capital Preservation**

**Chart Analysis**

The stock price has moved up strongly, but come back somewhat in the recent market weakness:
I see no clear case to raise my stops at this time.
Updated to 6 December 2016
There have not been any substantive news announcements since the last review.

After coming off an all-time high the share price has corrected slightly:

There is no reason at this stage to raise my stops on my investment plan.
Updated to 6 March 2017

Since the latest review, Adelaide Brighton announced their final report for 2016. Some slides from their investor presentation that refreshes our understanding of the business:

**Diversified business**

<table>
<thead>
<tr>
<th>FY2016 Revenue by market</th>
<th>Australian industry position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining 13%</td>
<td>#1 Lime producer in the minerals processing industry</td>
</tr>
<tr>
<td>Office 12%</td>
<td>#2 Cement and clinker supplier to the Australian construction industry</td>
</tr>
<tr>
<td>Non-residential 22%</td>
<td>#4 Concrete and aggregates producer</td>
</tr>
<tr>
<td>Engineering 34%</td>
<td></td>
</tr>
<tr>
<td>Residential 31%</td>
<td></td>
</tr>
</tbody>
</table>

**Cement**

- Cement and clinker sales volume declined 4%
- Continued strong east coast demand and return to growth in South Australia
- Demand declined more than 20% in Western Australia and the Northern Territory
- Cement price rises achieved in most markets but geographic mix affected average price
- Lower average price, reduced volume, import costs due to A$ and SA electricity costs impacted margins
- SA gas prices up but cost savings provided some buffer
- Energy cost in South Australia up $13 million, $9 million due to electricity market disruptions
- Import costs increased $7 million before tax, due to decline in the Australian dollar compared to pcp
Lime

- Lime sales volumes similar to pcp
- Non-alumina demand was stable at higher levels in 2H16; alumina sector affected in first half by customer operational requirements
- Average selling price increased in line with inflation
- Margins improved supported by significant cost savings in energy, maintenance and transport
- Significant reduction in gas price
- Renegotiation of maintenance and transport contracts
- Demand stable, import pressures remain
- Increases in the alumina price a positive for expansion

Concrete and Aggregates

- Sales volumes of concrete and aggregates strong in New South Wales, Victoria and Queensland
- South Australia volumes up
- Premix concrete prices up 3.7%
- Aggregate prices up significantly ahead of CPI, particularly in Sydney
- Margins improved on higher volumes and prices and cost reductions
- Focus on efficiency, logistics and margin improvement
- Profitability of acquisitions in South Australia and Queensland that were completed in 2014 and 2015 ahead of expectations
Concrete Products

- Revenue up 0.9% on stronger residential and commercial sales and CPI selling price rises.
- Second half revenue softer due to weather, project delays and competitive markets.
- EBIT (excluding property) increased 20% on FY15 with margins higher on prices and operational efficiency.
- Further efficiency to come from tolling, general improvements, transport efficiencies.
- Product innovation offers exciting revenue opportunities.
- Growing customer for the cement, sand and aggregates businesses.

Strategic developments

Concrete and aggregates acquisition

- Agreed to acquire Central Pre-Mix Concrete (Central), an integrated concrete and aggregate operation with five concrete plants and a hard rock aggregate quarry serving the metropolitan Melbourne market.
- The $81 million acquisition is expected to complete in March 2017.
- Provides an entry into the aggregates market and increases the downstream concrete presence providing a strategic position in the attractive Melbourne market.
- The high quality operation which offers an industry consolidation opportunity and the prospect of further bolt-on investments.

• The purchase represents 7.0 times 2016 EBITDA. Expected 2017 EBITDA will increase on 2016.

My analysis of the final report follows:
**Trend of Sales and Earnings**

Sales revenue was almost unchanged on the previous year as weak states undermined the growth areas.

Consequently, there was no growth in gross profit either.

However, there was a rise in statutory profit.
Operating cash flow, like EBITDA, was flat.

Free cash flow was a bit lower.

Financial Risk

Working Capital

Working capital liquidity was stable.
Inventory turnover worsened slightly to the top of the nine-year range.

Credit control weakened.

Payables were basically unchanged.
Debt & Equity

Debt was reduced slightly with the overall level satisfactory for this business.

The erstwhile strong interest cover strengthened again.

The leverage ratio is quite low and was reduced in the latest period.
Debt to free cash flow is stable at a reasonable level.

**Profitability**

**Level and Trend of Profit Margins**

Overall gross margin is static and the net margin improved after dipping last year.

**Shareholder Return**

Return on assets was steady.
Return on equity improved after a dip the previous year.

EPS and DPS (including special dividend) was up again, though more slowly than the previous year.

Payout ratio is high because of the special dividends in the last two years.
Free cash flow did not cover the total dividend.

**Summary: Price versus Value and Returns**

<table>
<thead>
<tr>
<th>Margin of Safety - Price versus Value</th>
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</thead>
<tbody>
<tr>
<td>Chart Model</td>
<td>Value</td>
</tr>
<tr>
<td><strong>Market-based Criteria</strong></td>
<td></td>
</tr>
<tr>
<td>All Ordinaries Average</td>
<td>18.48</td>
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<tr>
<td>Price/Earnings</td>
<td></td>
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<tr>
<td><strong>Data for</strong></td>
<td></td>
</tr>
<tr>
<td>Adelaide Brighton</td>
<td></td>
</tr>
<tr>
<td>Market Price</td>
<td>$5.50</td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>20.18</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Adelaide Brighton looks to be fairly fully valued.

<table>
<thead>
<tr>
<th>Return on Equity v Cost of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>My Cost of Capital</td>
</tr>
<tr>
<td>Return on Equity</td>
</tr>
<tr>
<td>Recent ROE trend</td>
</tr>
</tbody>
</table>

Return on equity is above my cost of capital.
Dividend yield remains attractive.

**Market Liquidity**

<table>
<thead>
<tr>
<th>Market Liquidity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation $m</td>
<td>3,589</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
<td>0.3</td>
</tr>
<tr>
<td>Annual Turnover %</td>
<td>65.3</td>
</tr>
<tr>
<td>Annual Turnover $m</td>
<td>2,344</td>
</tr>
<tr>
<td>Av trade/day last year $000</td>
<td>9,374</td>
</tr>
<tr>
<td>Av trade/day last 20 days $000</td>
<td>6,813</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
<td>72.1</td>
</tr>
</tbody>
</table>

Adelaide Brighton stock is reasonably liquid.

**Timing and Capital Preservation**

**Chart Analysis**

![Chart showing stock performance over time]

ABC - ADELAIDE BRIGHTON LTD > +0.7% +0.04 to 5.51  M @ M 270397-310317
EXP MOV AVS 12(0) mnth  5.2787

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Copyright © Colin Nicholson
The share price has pulled back from its all-time high in 2016 and is forming a sideways pattern.

My investment plan does not call for me to raise my stops at this time.
Adelaide Brighton has announced its interim results to 30 June 2017. Slides from investor briefing:

### Results highlights 1H17

- Revenue growth of 4.7% despite weakness in WA and NT
- Concrete and aggregates now a significant earnings contributor
- Strong east coast markets
- Margins lower in cement and concrete products, slightly lower in lime and higher in concrete and aggregates
- Joint ventures earnings up 26%
- Reported NPAT down 10.9% due to number of one-offs including transaction and restructuring costs and product quality issue

- Underlying NPAT (excluding transaction and restructuring costs) down 4.0%
- Underlying NPAT excluding property down 2.7%
- Operating cash flow impacted by working capital increase to fund strong sales late in the half
- $64.9m in concrete and aggregates acquisitions in half
- Conservative gearing, flexible balance sheet and strong shareholder returns
- Interim ordinary dividend of 8.5 cents

### Demand environment – supportive

<table>
<thead>
<tr>
<th>State</th>
<th>Demand</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Residential strong</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-residential up</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Infrastructure</td>
<td></td>
</tr>
<tr>
<td>VIC</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Led by multi-residential</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-residential improving</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Infrastructure in pipeline</td>
<td></td>
</tr>
<tr>
<td>WA</td>
<td>Weaker</td>
<td>Stabilising</td>
</tr>
<tr>
<td></td>
<td>Construction weaker</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Residential and non-residential weak</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Resources subdued</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lime stable</td>
<td></td>
</tr>
<tr>
<td>South east QLD</td>
<td>Up</td>
<td>Strengthening</td>
</tr>
<tr>
<td>Demand up</td>
<td>Gold Coast and Sunshine Coast markets better</td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>Return to growth</td>
<td>Strengthening</td>
</tr>
<tr>
<td></td>
<td>Major infrastructure projects commenced with solid pipeline</td>
<td></td>
</tr>
<tr>
<td>NT</td>
<td>Weaker</td>
<td>Weaker</td>
</tr>
<tr>
<td>Demand weaker</td>
<td>Construction of major resource projects completed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lime stable</td>
<td></td>
</tr>
</tbody>
</table>
Adelaide Brighton is a highly focused construction materials and lime business

Australian industry position

#1
- Cement and clinker importer in Australia supplying all major markets
- Cement supplier in the resource rich states WA, SA and NT
- Lime producer in Australia
- Concrete products manufacturer

#2
- Cement and clinker supplier to the Australian construction industry

#4
- Concrete and aggregates producer building presence in major markets

Geographic and economic diversification supports returns

Operations
- Cement
- Lime
- Concrete and Aggregates
- Concrete Products

FY2016 Revenue by state%

WA 22%
NSW 21%
VIC 21%
SA 14%
QLD 17%
Other 5%

FY2016 Revenue by product group%

45% Cement
11% Lime
35% Concrete and Aggregates
9% Concrete Products
Concrete and aggregates growth – vertical integration acquisitions

- Concrete and aggregates strategic acquisitions – $85.5m investment
- 6.5x EBITDA with accretive returns in year 1 (excluding transaction costs)
- Revenue and EBIT enhanced in 1H17 by March acquisition of Central Pre-Mix:
  - 5 concrete plants and 1 quarry serving Melbourne metro market
- Davalan, late June, strengthens leading SA position:
  - 4 concrete plants in Adelaide
  - Highly complementary, adds scale and synergies in overhead, logistics and raw materials
- NT concrete and aggregates acquired July:
  - 4 concrete plants and 2 quarries
  - Strong integrated business near bottom of cycle
- Davalan and NT acquisitions will benefit 2H17

Unique lime business – one of largest in the world

- One of largest and lowest cost operations globally – total capacity 1.5m tonnes per annum
- Lime sales volumes stable with slight decline in NT balanced by slight increase in WA
- Average selling prices lower due to a pricing mechanism with major customers that reflects recent production cost savings (mainly natural gas in 2016)
- Reduced cost of gas in WA further improves competitiveness of local manufacture
- Imports continue in limited quantities to the gold and other minerals sector
- Lime margins slightly lower due to alumina contracts which reflect energy cost savings in 2016
- Low cost operations well-positioned for long growth of competitive WA resources sector

Concrete Products – stronger second half expected

- Revenue down 3.9% on 1H16 with improved pricing offset by lower volumes
- Retail sales remained positive but commercial sector down due to project timing. Weaker sales early in the year due to seasonal factors
- EBIT decreased to $2.9m in 1H17 due to lower volumes
- Further efficiencies in medium term from tolling, general improvements and transport
- Product innovation offers exciting new revenue opportunities
- A growing customer for our cement, sand and aggregates businesses
- Optimistic on outlook given commercial projects in the second half and opportunity for further business improvement in the medium term
Energy

Proactive strategy to mitigate energy costs
- Reduced consumption
  - through operational improvement
  - increased use of alternative cementitious materials
- Alternative fuels – targeting 30% of 6PJ consumption in SA in medium term
- Short term electricity demand management
- Portfolio approach to energy supply
- Financial strategies, where it adds value

SA electricity supply risk expected to decline
- Higher electricity prices expected to increase costs $8m over 2017
- New electricity generation capacity announced is expected to lower supply risk going forward
  - New capacity represents circa 25% of South Australian demand
  - Engie-Origin reinsert Pelican Point to full operation increasing generation by 24MW in 2017
  - SA Government commissioning backup turbine capacity by summer 2017/18
  - AGL installing 210MW gas generation by 2019 to replace aging Torrens Island
  - Likely that world's largest lithium ion battery will be constructed in SA

Operational improvement and growth investment

Operational improvement
- Ongoing improvement key driver of value
- Greater than $85m annualised savings in 5 years from rationalisation and improvement
- Rationalisation of Angaston oil well cement to deliver $3m in annual savings
- $10m savings in 2017 from transport, shipping and materials purchasing
- Strong focus on energy costs including alternative fuels, procurement and consumption

Acquisitions
- More than $300m in acquisitions in 5 years
- Have met returns targets, diversified earnings and provided benefits to other businesses

Organic growth
- Invested more than $200m in low risk/high return organic growth projects in the last 5 years

Property – capital management
- Operational improvement program released more than $85m surplus land in 4 years
- More than $120m in proceeds expected in next decade from program

Outlook

Sales
- Sales volume of cement and clinker expected to increase in 2017
- Stronger demand in SA and the east coast to more than offset weaker markets in WA and NT
- Lime sales volumes expected to be similar to 2016
- Concrete and aggregates sales volumes expected higher on east coast and SA infrastructure
- Central, Dallavan and NT acquisitions will add further sales in VIC, SA and NT
- Prices expected to increase in cement, premixed concrete and aggregates
- Average realised cement prices likely to continue to be impacted by geographic mix
- Lime prices to decline slightly due to pricing formula
- Concrete Products to benefit from sales to large commercial projects in 2HI17

Earnings
- Growth expected to continue in joint ventures
- Rationalisation of Angaston cement to reduce costs by $3m in 2017 and subsequent years
- Shipping, materials purchasing and favourable foreign exchange to reduce import costs by $10m pre-tax in 2017
- At current market prices, electricity costs expected to be $8m pre-tax higher than 2016
- Significant items of $9m pre-tax anticipated in the full year: transaction and restructuring costs
- Property sale proceeds of $41m anticipated with $6m NPIAT in 2017
- Full year underlying NPIAT excluding property expected of $189m to $199m
My analysis of the interim report follows. Note that interim flow data have been annualised.

*Trend of Sales and Earnings*

Operating revenue has been essentially flat over the last three periods.

Likewise, EBITDA.

Statutory profit slipped slightly in the latest period.
Operating cash flow is also flat over the last three periods

But free cash flow was higher because of reduced capex

**Financial Risk**

**Working Capital**

The working capital liquidity ratios improved
Inventory turnover came back towards the mid-point of the decade range.

But the company was slower collecting its debts - the investor presentation referred to a late surge of business in one area, which could explain it.

Payables turnover was essentially flat.
Days cash conversion crept out slightly again

The trend here is for the company to require more days of working capital

**Debt and Equity**

The debt ratios have all crept out somewhat to fund the recent acquisitions. The level is not a concern and foreshadowed sales of surplus property should aid in reducing debt
Interest cover is very strong

The leverage ratio still looks quite comfortable

As does debt to free cash flow
Profitability

Level and Trend of Profit Margins

Margins are under slight pressure

Shareholder Return

Return on assets has slipped slightly

While return on capital has slipped a bit, return on equity has held up
EPS has slipped slightly. Dividends are down because the previous two years included special dividends. Ignoring special dividends, DPS were up.

The payout ratio fluctuates around 70 to 80%.

Free cash flow just covered the dividend – note that there is a lag in dividends paid, so the latest bar includes one of the special dividends.
Summary: Price versus Value and Returns

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<td>Data for</td>
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<tr>
<td>Adelaide Brighton</td>
<td></td>
</tr>
<tr>
<td>Market Price</td>
<td>$5.74</td>
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<tr>
<td>Price/Earnings</td>
<td>21.37</td>
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<tr>
<td>EV/EBITDA</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Adelaide Brighton looks to be fully priced at present.

Return on Equity v Cost of Capital

<table>
<thead>
<tr>
<th>My Cost of Capital</th>
<th>12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Equity</td>
<td>14.8%</td>
</tr>
<tr>
<td>Recent ROE trend</td>
<td>steady</td>
</tr>
</tbody>
</table>

Return on equity is above my cost of capital.

Grossed up Dividend Yield

| All Ordinaries index Average | 5.10% |
| Adelaide Brighton            | 4.99% |
| My Average Cost $            | 4.59  |
| Dividend per share $         | 0.20  |
| Effective yield              | 6.22% |

The running dividend yield is just below the market average. My yield on cost is higher.

Market Liquidity

<table>
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<td>Market Capitalisation $m</td>
<td>3,547</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
<td>0.3</td>
</tr>
<tr>
<td>Annual Turnover %</td>
<td>68.5</td>
</tr>
<tr>
<td>Annual Turnover $m</td>
<td>2,430</td>
</tr>
<tr>
<td>Av trade/day last year $000</td>
<td>9,719</td>
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<tr>
<td>Av trade/day last 20 days $000</td>
<td>9,028</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
<td>73.5</td>
</tr>
</tbody>
</table>

Adelaide Brighton is a reasonably liquid stock for my account size.
Timing and Capital Preservation

Chart Analysis

I would really like the stock price to move strongly to a new high to justify raising my stop under the December 2016/January 2017 trough.
Updated to 11 December 2017
Since the last update, Adelaide Brighton’s share price has made the new high I was looking for:

I decided to move my stops up under the mid-2017 lows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low price used to base stops</td>
<td>$5.44</td>
</tr>
<tr>
<td>Soft stop (one minimum bid lower)</td>
<td>$5.43</td>
</tr>
<tr>
<td>Hard stop (2% below soft stop)</td>
<td>$5.32</td>
</tr>
</tbody>
</table>

This is how the new stops look on the charts:
Updated to 19 March 2018

Some slides from the recent full year presentation that updates knowledge of the business:

Adelaide Brighton is a highly focused construction materials and lime business

Australian industry position

#1
- Cement and clinker importer in Australia supplying all major markets
- Lime producer in Australia
- Concrete products manufacturer

#2
- Cement and clinker supplier to the Australian construction industry

#4
- Concrete and aggregates producer building presence in major markets

FY2017 Revenue by market*
- 24% Engineering
- 37% Residential
- 24% Non-residential
- 11% Mining operations

* Percentage of FY2017 segmental revenue of $1,548 million

Geographic and economic diversification supports returns

Operations

FY2017 Revenue by state*
- WA 10%
- NSW 21%
- VIC 27%
- SA 13%
- QLD 16%
- Other 4%

FY2017 Revenue by product group*
- 41% Cement
- 11% Lime
- 39% Concrete and Aggregates
- 9% Concrete Products

* Percentage of FY2017 segmental revenue of $1,548 million
Cement production, import and distribution - strong sales growth

Efficient manufacture and import model

- Cement & clinker sales volume increased 9%
- Imports of cementitious product of 2.4 mt in 2017
- Continued strong east coast demand and return to growth in South Australia
- Demand declined in 2017 in Western Australia and the Northern Territory. Western Australia stabilised in second half
- Setting prices increased, average price stable due to geographic mix, also reflected in higher JV earnings
- Energy costs up circa $4m but mitigation helped
- Import costs declined $12m: procurement, currency
- Quality issue $3.0m impact: fully resolved
- Limestone vessel issues cost $3m
- Alkagton rationalisation reduced energy and other costs with $2.0m savings in 2017 and $1m to come

Concrete and Aggregates - significant growth

- Vertical integration strategy – share of revenue more than doubled in 5 years
- Concrete volumes increased by more than one-third in 2017 on strong east coast demand and acquisitions
- Like for like concrete prices rose 3%
- Aggregate volumes strong due to acquisitions, existing volumes stable, average prices up 5%
- Recovery in South Australian infrastructure demand offset reduced volumes of lower value quarry products
- Revenue, EBIT and margins in existing business improved significantly on higher volumes, strong pricing outcomes and control of costs
- Acquisitions in Melbourne, Adelaide and Northern Territory performing to expectations
Concrete and aggregates growth – meeting expectations

Concrete and aggregates acquisitions

- Concrete and aggregates strategic acquisitions – $85.2m investment
- 0.8x EBITDA excluding transaction costs
- Revenue and EBIT enhanced in 1H17 by March acquisition of Central Pro-Mix:
  - 5 concrete plants and 1 quarry serving Melbourne metro market
- Davenport late June strengthens leading SA position:
  - 4 concrete plants in Adelaide
  - Highly complementary, adds scale and synergies in overhead, logistics and raw materials
- NT concrete and aggregates acquired July:
  - 4 concrete plants and 2 quarries
  - Strong integrated business near bottom of cycle
- Businesses performing to expectations

Unique lime business – unique world-scale assets

- Adelaide Brighton’s total lime capacity is 1.5m tonnes per annum. Munster plant is one of largest & lowest cost operations globally
- Lime sales volumes down slightly in 2017 due to reduced sales to non-alumina sector
- Average selling prices lower due to pricing mechanism with major customers that reflects recent production cost savings (mainly natural gas in 2016)
- Intensifying competition from importers constrained prices in the non-alumina sector
- Margins decreased slightly due to lower average prices, operating costs up slightly
- Prices subject to inflationary increases in 2018 under long term contract arrangements
- In addition, rising energy costs, mainly coal, anticipated in 2018 will be reflected in contract price mechanisms over subsequent periods
Concrete Products – business improvements continue

• Revenue down 1.1% to $147.6m
• Retail sales remained positive, commercial impacted by project timing and multi-residential weak
• Wet weather and delayed projects in 1H17 but recovery in 2H17
• EBIT down from $11.4m to $10.2m in 2017 due to lower sales volumes and resulting lower production efficiency
• Further efficiencies in medium term from tolling, general improvements, transport and product innovation
• New $3m automated sleeper walling plant in Staverton, Queensland, offering operating efficiencies and growth potential
• A growing customer for the cement, sand and aggregates businesses
• Optimistic on outlook in the medium term

Concrete and aggregates now 39% of group revenue - acquisitions and stronger east coast markets

My analysis of the full year financials follows:
Trend of Sales and Earnings

Sales revenue increased nicely in the latest year

As did gross profit

And likewise statutory profit
Operating cash flow was down slightly

Free cash flow was within the range of the previous four years

*Financial Risk*

*Working Capital*

Working capital liquidity remains strong
Inventory turnover increased. This could be partly caused by changes in the business mix.

Credit collection remains strong.

Payables remain in the range of the previous five years.
Debt and Equity

Debt is higher, but not excessive for a cyclical business

Interest cover was down slightly, but very strong

The leverage ratio was up (acquisitions), but remains reasonably conservative
Debt to free cash flow is near the centre of the ten-year range

**Profitability**

**Level and Trend of Profit Margins**

Margins were down, which could be partly changes in the composition of the business, but remain strong

**Shareholder Return**

Return on assets slipped slightly
Return on equity crept up a bit. Use of debt contributes.

Earnings per share were up and dividends down (my data include special dividends, which were lower this year).

The payout ratio looks more sustainable.
Dividends paid were slightly higher than free cash flow

**Summary: Price versus Value and Returns**

<table>
<thead>
<tr>
<th>Margin of Safety - Price versus Value</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chart Model</td>
<td>Value</td>
</tr>
<tr>
<td><strong>Market-based Criteria</strong></td>
<td></td>
</tr>
<tr>
<td>All Ordinaries Average</td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>15.84</td>
</tr>
</tbody>
</table>

| Data for                             |        |
| Adelaide Brighton                    |        |
| Market Price                         | $6.71  |
| Price/Earnings                       | 23.42  |
| EV/EBITDA                            | 13.0   |

Adelaide Brighton looks a bit over priced as the market prices in expectations of it operating in strongly growing markets

<table>
<thead>
<tr>
<th>Return on Equity v Cost of Capital</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>My Cost of Capital</td>
<td>12.5%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>15.0%</td>
</tr>
<tr>
<td>Recent ROE trend</td>
<td>rising</td>
</tr>
</tbody>
</table>

Return on equity is above my cost of capital and is edging upward
The running dividend yield is a bit less than the market average (my data source excludes special dividends here). My effective yield is strong and stronger if special dividends are included.

**Market Liquidity**

<table>
<thead>
<tr>
<th>Market Liquidity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation $m</td>
<td>4,388</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
<td>0.2</td>
</tr>
<tr>
<td>Annual Turnover %</td>
<td>41.9</td>
</tr>
<tr>
<td>Annual Turnover $m</td>
<td>1,839</td>
</tr>
<tr>
<td>Av trade/day last year $000</td>
<td>7,354</td>
</tr>
<tr>
<td>Av trade/day last 20 days $000</td>
<td>7,478</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
<td>73.5</td>
</tr>
</tbody>
</table>

The shares have plenty of liquidity for my capital size.

**Timing and Capital Preservation**

**Chart Analysis**

![Chart showing stock performance and moving averages](chart.png)

ABC - ADELAIDE BRIGHTON LTD > +0.7% +0.05 to 6.77

EXP MOV AVS 12(0) mnth 6.1837

M @ M 310398-300318
The share price has been rising nicely. I moved my stops up recently and they remain in the right place for my investment plan.
Updated to 25 September 2018
The following is my assessment of the interim report 30 June 2018. Flow data has been annualised.

Trend of Sales and Earnings

Operating revenue increased again, albeit a little slower than the previous year.

Gross profit increased as well.

As did statutory profit
Operating cash flow was up strongly.

Free cash flow also showed an increase.

*Financial Risk*

*Working Capital*

There was a fall in the current ratio, but I don’t see it as a problem to watch.
The company seems to have again reduced its stock holdings.

Days receivables was up slightly, but I don’t see it as a problem.

Payables shows no significant sign of stress.
Debt and Equity

Debt has been reduced a bit, but is not a problem

Interest cover looks strong

The leverage ratio appears to be quite conservative
As does debt to free cash flow

**Profitability**

*Level and Trend of Profit Margins*

Margins have tightened a bit

**Shareholder Return**

Return on assets is stable at a strong level
These return ratios have strengthened.

Earnings and dividends per share rose on the previous year. Note DPS includes special dividends which represent the return of cash from land sales.

The payout ratio has been brought back towards 80%.
The dividend was just covered by free cash flow

Summary: Price versus Value and Returns

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<td></td>
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<tr>
<td>All Ordinaries Average</td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>16.62</td>
</tr>
<tr>
<td>Data for</td>
<td></td>
</tr>
<tr>
<td>Adelaide Brighton</td>
<td>$6.19</td>
</tr>
<tr>
<td>Market Price</td>
<td></td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>20.49</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Adelaide Brighton looks fairly fully priced

Return on Equity v Cost of Capital

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<th>My Cost of Capital</th>
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<td>Return on Equity</td>
<td>16.1%</td>
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<td>Recent ROE trend</td>
<td>rising</td>
</tr>
</tbody>
</table>

The return on equity picture improved a bit, but is in any case above my cost of capital

Grossed up Dividend Yield

<table>
<thead>
<tr>
<th>All Ordinaries index Average</th>
<th>4.88%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelaide Brighton</td>
<td>4.99%</td>
</tr>
<tr>
<td>My Average Cost $</td>
<td>4.59</td>
</tr>
<tr>
<td>Dividend per share $</td>
<td>0.25</td>
</tr>
<tr>
<td>Effective yield</td>
<td>7.78%</td>
</tr>
</tbody>
</table>

The running yield is close to the market average. My effective yield on cost is stronger
**Market Liquidity**

<table>
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<tr>
<th>Market Liquidity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation $m</td>
<td>4,037</td>
</tr>
<tr>
<td>Av Buy/sell spread %</td>
<td>0.2</td>
</tr>
<tr>
<td>Annual Turnover %</td>
<td>42.4</td>
</tr>
<tr>
<td>Annual Turnover $m</td>
<td>1,712</td>
</tr>
<tr>
<td>Av trade/day last year $000</td>
<td>6,847</td>
</tr>
<tr>
<td>Av trade/day last 20 days $000</td>
<td>5,618</td>
</tr>
<tr>
<td>Top 20 Ownership %</td>
<td>74.5</td>
</tr>
</tbody>
</table>

The market for Adelaide Brighton shares is quite liquid.

**Timing and Capital Preservation**

**Chart Analysis**

The price of Adelaide Brighton shares has come under pressure as the result was not as strong as many assumed it would be.
I am comfortable with my stops where they are. I am expecting some sideways to down price action while we await their final report early next year.
Updated to 20 November 2018

I checked Adelaide Brighton early in the day yesterday and it was still above my hard stop. I checked it again after the close and it had fallen through my hard stop:

I sold it on the morning after (20/11/18), but the price had fallen further. I sold at $5.15.

<table>
<thead>
<tr>
<th>Result of investment</th>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sale proceeds</td>
<td>170,140.19</td>
<td></td>
</tr>
<tr>
<td>less Total purchase cost</td>
<td>151,905.15</td>
<td></td>
</tr>
<tr>
<td>Realised capital gain/loss</td>
<td>18,235.04</td>
<td>29</td>
</tr>
<tr>
<td>plus Dividends &amp; Franking</td>
<td>43,700.00</td>
<td>71</td>
</tr>
<tr>
<td>Net total return</td>
<td>61,935.04</td>
<td>100</td>
</tr>
<tr>
<td>% of capital</td>
<td>2.36</td>
<td></td>
</tr>
</tbody>
</table>
### Evaluation Against Investment Plan

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model identification</td>
<td>Correctly, value model</td>
</tr>
<tr>
<td>Capital invested</td>
<td>6%</td>
</tr>
<tr>
<td>Diversification</td>
<td>I did not own a competitor</td>
</tr>
<tr>
<td>Max % capital risked</td>
<td>1.26%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Adelaide Brighton has a quite liquid market</td>
</tr>
<tr>
<td>Buy Signal</td>
<td>Uptrend</td>
</tr>
<tr>
<td>Margin of safety</td>
<td>I was a bit late buying into Adelaide Brighton, so I had to pay more than I should have</td>
</tr>
<tr>
<td>Position building</td>
<td>Two lots of 2% of capital</td>
</tr>
<tr>
<td>Profit-taking</td>
<td>NA</td>
</tr>
<tr>
<td>Sell-stop</td>
<td>In hindsight (always perfect!) my stop should have been higher and I should have checked the market before the close yesterday.</td>
</tr>
</tbody>
</table>