



Source – Company's Website

3<sup>rd</sup> November 2020

## Mid Cap

### Aurizon Holdings Limited: Delivered Solid result with EBIT in Line with Guidance Range

Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: AZJ
Shares O/S	1.89 billion
Closing Price	AUD 3.78
Market Cap	7.05 billion
52 High/Low	0.60/0.045
One Year Stock Performance	-34.94%
Avg volume (TTM)	7.90 million
EPS (TTM)	0.308
P/E	12.3
Annual Dividend Yield	7.32%
Franking	70%
Last Dividend Ex-Date	24 Aug 2020
Last Dividend Pay Date	21 Sept 2020
DPS (AUD)	0.27
ROE %	6.21%

#### COMPANY OVERVIEW

Aurizon Holdings Limited (**"Aurizon Holdings" or the "Company"**) is Australia's largest rail freight operator and a top 50 ASX company. The Company transport more than 250 million tonnes of Australian commodities — connecting miners, primary producers, and industry with international and domestic markets.

**On 10<sup>th</sup> August 2020**, the Company reported EBIT of \$909 million for the year ended 30 June 2020 (FY2019 \$829 million). This is 10% higher than the prior comparable period (FY2019). NPAT was \$531 million, a 12% increase from FY2019.

The Company declared a final dividend of 13.7 cents per share. This takes the full year dividend to 27.4 cents per share, representing 100% of NPAT for the fifth consecutive year. The Company also announced a further \$300 million on-market share buy-back to be completed in FY 2021.

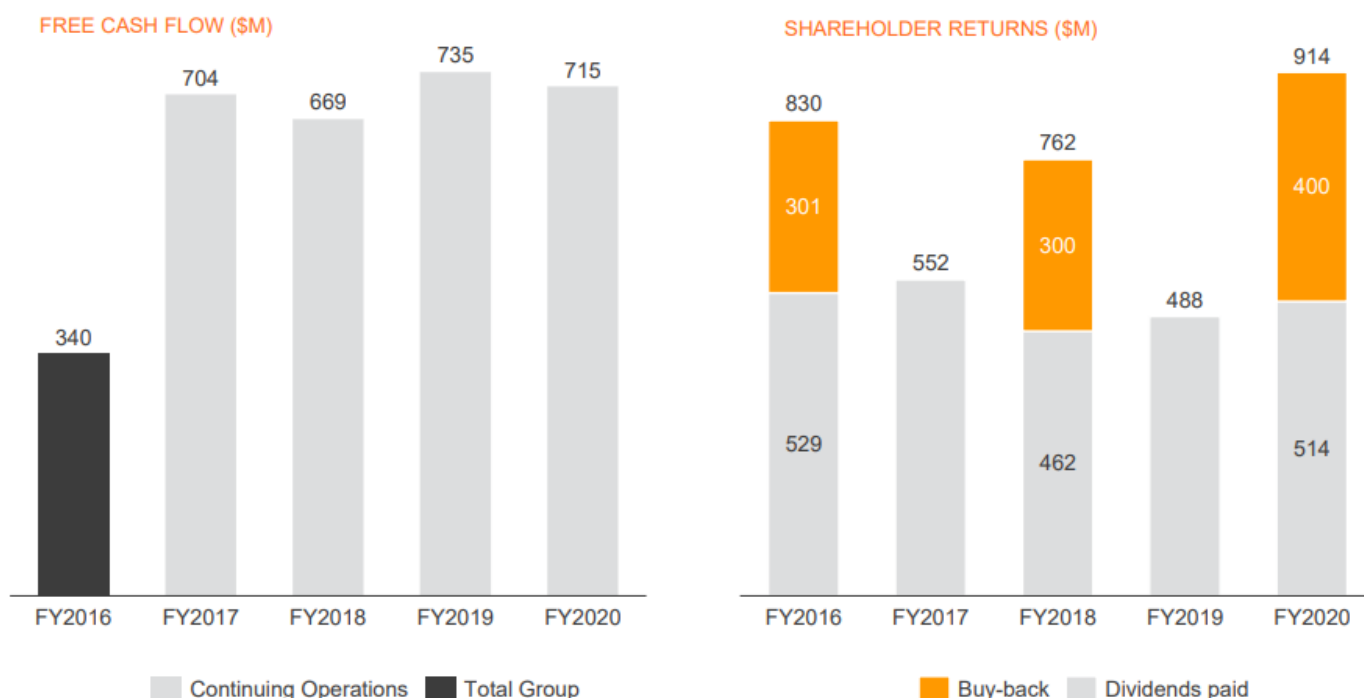
A \$400 million on-market share buyback was completed in FY2020.

\$ million (continuing operations)	FY2020	FY2019	Variance
Revenue	3,065	2,908	5%
EBIT – Underlying	909	829	10%
NPAT – Underlying	531	473	12%
EPS – Underlying (cps)	27.2	23.8	15%
DPS – Final (cps)	13.7	12.4	10%
DPS – Total (cps)	27.4	23.8	15%

Source – Company's Report

#### INVESTMENT RATIONALE/CONCERNS

- Strong Track Record of Shareholders Return** – The Company has maintained its commitment to disciplined capital management and strong shareholder distributions, including a \$400 million buy-back completed during the year. Consistent free cash flow generation over the past five years has delivered \$3.5 billion in distributions for Aurizon shareholders including \$1 billion in buybacks, with dividends maintained at 100% of underlying NPAT.



Source – Company's FY 2020 Presentation

- Strong Liquidity Position** – During the year, the Company has successfully completed the refinancing of Aurizon Network's bank facilities, extending the maturity to 2023- 2025 and increasing the facility size to \$1.3 billion, an increase of \$420 million. With the completion of this refinancing, the Aurizon Group now has more than \$1.1 billion of available liquidity (30 June 2020). After the October 2020 maturity of the \$525 million Medium Term Note (which will be repaid from the proceeds of this refinancing), the Aurizon Group has no further refinancing requirements until 2023.
- New Contract Wins Across Segments** – The Bulk business has delivered a strong result in FY2020, winning new and extended haulage contracts and delivering ongoing transformation benefits. It achieved EBIT of \$90 million, a major turnaround from the loss-making position it was in three years ago. Contract wins include South32 Cannington (11-year extension to 2032 on the Mt Isa corridor), Incitec Pivot (contract extension commencing January 2020 on the Mt Isa corridor), and BGC (new contract commencing June 2020 on the Kalgoorlie Freighter).
 

**Aurizon Coal** – Aurizon's Coal business provides a critical supply chain link for the majority of Australia's coal producers. The Coal business delivered 214 million tonnes (mt) of coal for customers during FY2020, which is broadly in line with FY2019. Contract wins during FY2020 include: Peabody (extension of all existing volumes and new business on the Central Queensland Coal Network (CQCN) and NSW); Coronado (contract variation with additional volumes and term extension for Curragh mine, CQCN), Bluescope (commenced railings in April 2020 installing Aurizon into the Illawarra region. NSW). With the Bluescope contract, Aurizon Coal now operates in all coal systems across Australia.
- Acquisition of Townsville Bulk Storage and Handling** – During the year, the Company completed the acquisition of Townsville Bulk Storage and Handling which operates bulk transport, handling and stevedoring services in North Queensland. The acquisition – now known as **Aurizon Port Services** – allow to extend supply chain services beyond its core rail capability on the Mt Isa line corridor, connecting the Port of Townsville to the commodity-rich North West Minerals province.
- FY 2021 Outlook** - Aurizon expects FY 2021 Group Underlying EBIT to be in the range of \$830-880 million.

#### ACE's RECOMMENDATION

The Company delivered solid result given the uncertain business environment that unfolded during the second half of FY2020. The Company was able to deliver on EBIT guidance in FY2020. Aurizon made strong progress on on several key priorities, including the approval from the Queensland Competition Authority for the 10-year Access Undertaking (UT5) for the Central Queensland Coal Network. This agreement is a major achievement for Aurizon and the coal industry, providing long-term investment certainty for one of Australia's most important export infrastructure assets.

The turnaround of the operational and financial performance of the Bulk business is continuing strongly and ahead of plan, with new customer contracts and ongoing efficiency improvements. The Company initiated a turnaround plan in 2017 following a strategic review of the loss-making freight business. Over the years, the Company has simplified its business model, focussing on its core capabilities in bulk haulage and rail infrastructure. The Company has exited loss-making businesses, turned around under-performing areas, extended key above rail contracts and secured longer-term regulatory certainty for the Central Queensland Coal Network.

The Company has also made changes in its capital structure and has established independent gearing levels for each business, consistent with their different risk profiles, which has made available additional funding capacity of approximately \$1.2 billion. By progressively adding debt over time, the Company can optimise the balance sheet and unlock additional value for shareholders. Aurizon is well-positioned from a funding perspective, with a strong balance sheet and long-dated contracted revenue streams. At current levels, we would like to recommend **HOLD** rating on the stock.

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