

New Hope Corporation Limited
Equity Analysis
April 2022

Kapitales Research Rating	★★★★
Recommendation	Buy
Current Market Price	\$3.45
Risk	Moderate

Average volume	4,166.045 K	52 Week Range (AUD)	1.130 - 4.060
Shares outstanding	832.36 M	Dividend amount	0.300
Free float	462.0 M	Dividend Yield	11.21%
P/E (TTM)	6.3	Ex date	14-Apr-22
Market cap (AU\$)	2.74 B	Record date	19-Apr-22
EPS (TTM)	0.513	Pay date	4-May-22
ROE	25.31%	Franking	100%

Source: (ASX and Refinitiv), Analysis by Kapitales Research

New Hope Corporation Limited (ASX: NHC) is an Australia-based diversified energy company. The Company's principal activities include coal exploration and project development, coal extraction, processing, marketing and logistics, agriculture and oil and gas exploration, development, production and processing.

Pros

- Top-line registered a CAGR growth of 8.41% during FY17 to FY21.
- Debt to equity ratio improved to 0.14x in H1FY22 from 0.34x in H2FY21.

Cons

- Cash conversion period in H1FY22 stood lower than the industry median.
- Increase in input costs like raw material and logistics expense has resulted to higher cost of sales.

Outlook

- Demand for high quality, lower emission thermal coal is likely to remain strong in FY22 on account of strong demand dynamics. Due to ongoing geopolitical tensions along with disruption in supply, coal prices are likely to remain elevated in the coming days, which would support the company's top-line.

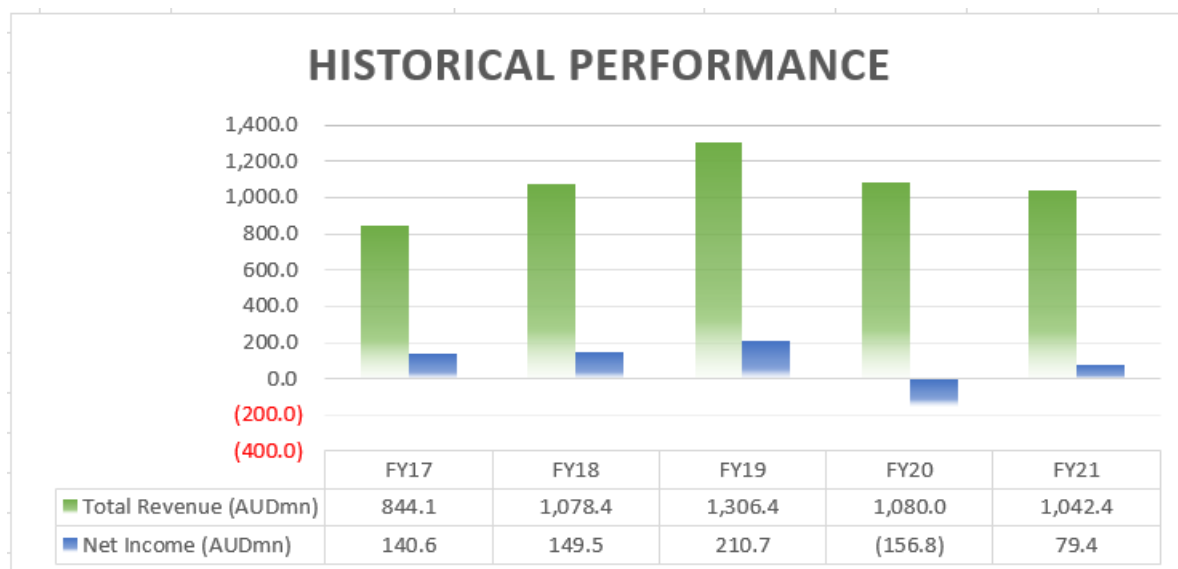
Risk

- The company's operations might be impacted due to any adverse weather conditions along with new restrictions imposed on account of COVID-19.

Source: Company Reports, Analysis by Kapitaless Research

Historical Performance:

The company's revenue stood at AUD 1,042.4 million in FY21, as compared to AUD 844.1 million in FY17. Top line registered a CAGR growth of 8.41%. On the other hand, the net earnings stood at AUD 79.4 million in FY21, as compared to a net loss of AUD 156.8 million in FY20.

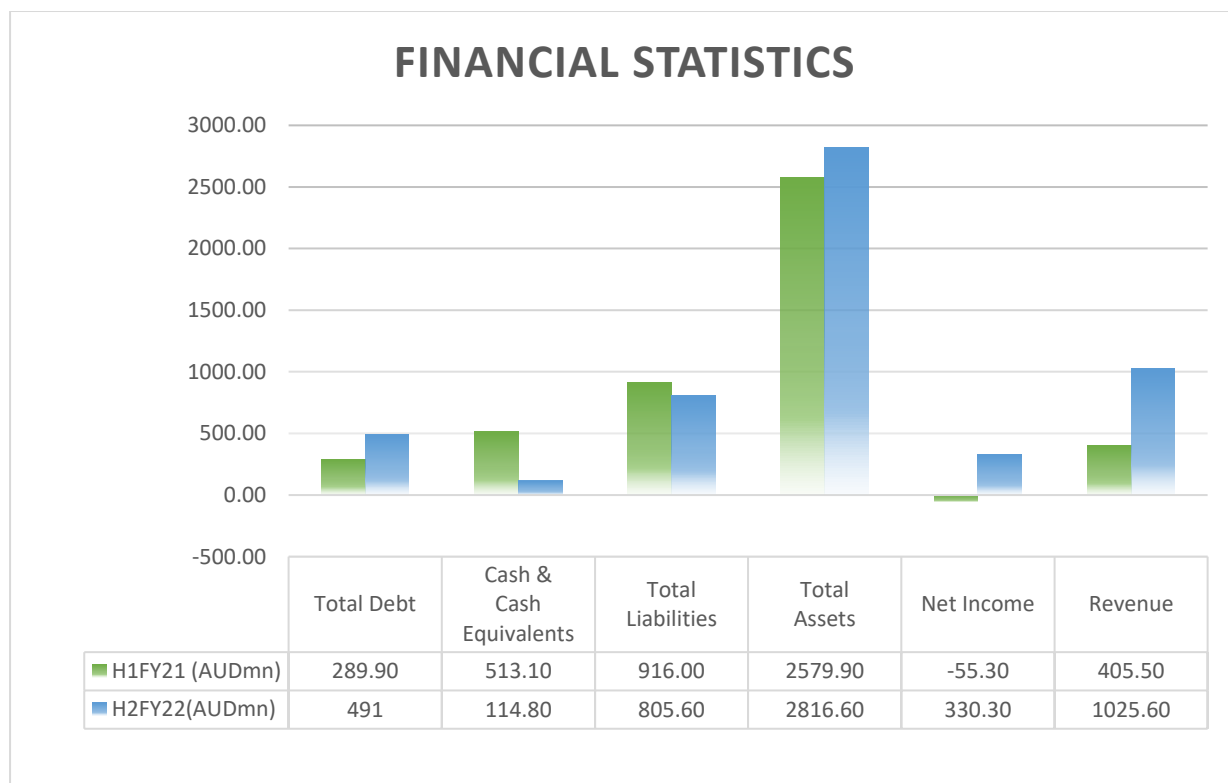


Source: Company Reports and Refinitiv, Analysis by Kapitales Research

H1FY22 Performance (Ended 31 January 2022):

In H1FY22, the company reported its revenue of AUD 1,025.6 million, surged from AUD 405.5 million in H1FY21. The growth was primarily attributable to higher sales volumes along with an increase in the realization price. The period was marked by an increase in cost of sales, partially offset by lower marketing & transportation costs and a decline in the administrative expense. Moreover, a lower finance costs of AUD 13.7 million v/s AUD 14.2 million supported the company's profitability. The group reported a profit of AUD 330.3 million in H1FY22, as compared to the net loss of AUD 55.3 million in pcp.

The company ended the period with a cash balance of AUD 491 million, while its total assets were recorded at AUD 2,816.6 million.



Source: Company Reports, Analysis by Kapitales Research

Dividend:

The business announced the payment of interim and special dividend of 17 cent/share and 13 cent/share respectively, in H1FY22, which is higher than the final dividend of 7 cent/share, which was distributed on FY21. Moreover, the stock of NHC is carrying a dividend yield of ~11.21%, which looks attractive considering the ongoing interest rate scenario.

Ratio Analysis:

The company's EBITDA and net margins stood at 54.6% and 32.2%, respectively, in H1FY22, higher than the industry median of 52.7% and 20%, respectively. This indicates improved operational efficiencies due to lower input costs and better cost management. Notably, the group reported a higher ROE of 17.6% in H1FY22, as compared to the industry median of 7.8%. NHC's cash conversion period stood at 15.1 days in H1FY22, improved from 30.1 days in H2FY21. This indicates that the company is taking a lower time to convert its investment to cash flows. D/E ratio also stood lower at 0.14x in H1FY22, as compared to the industry median of 0.47x, which indicates higher financial flexibility.

		2022	2021		2020	
	Industry Median	Jan-2022	Jul-2021	Jan-2021	Jul-2020	Jan-2020
Gross Margin	61.6%	54.3%	44.4%	24.9%	23.1%	34.4%
EBITDA Margin	52.7%	54.6%	44.1%	21.7%	14.0%	35.4%
Operating Margin	-	47.3%	32.0%	(15.8%)	(69.9%)	17.8%
Net Margin	20.0%	32.2%	21.2%	(13.7%)	(49.1%)	11.3%
Asset Turnover	0.18	0.37	0.24	0.16	0.17	0.22
ROE	7.8%	17.6%	7.9%	(3.3%)	(12.3%)	3.6%
Quick Ratio	1.28	2.52	3.38	1.56	1.39	1.09
Current Ratio	1.53	2.68	3.82	2.04	1.97	1.67
Times Interest Earned	10.2	-	-	-	(0.8)	-
Cash Cycle (Days)	6.1	15.1	30.1	40.1	42.9	34.1
Assets/Equity	1.91	1.40	1.59	1.55	1.48	1.47
Debt/Equity	0.47	0.14	0.34	0.30	0.25	0.22
% LT Debt to Total Capital	23.2%	12.1%	25.0%	22.1%	19.8%	17.6%
(Total Debt - Cash) / EBITDA	1.22	-	0.98	4.22	5.71	1.53
ROIC	-	12.9%	5.4%	(2.3%)	(8.9%)	2.6%

Source: Refinitiv, Analysis by Kapitales Research

Shareholding Pattern:

The Company's top 10 shareholders constitute around 55.35% of the total interest in the company. Washington H Soul Pattinson and Company Ltd, and L1 Capital Pty Ltd. hold major stakes of 39.85% and 4.83%, respectively.

Number	Investor Name	% Outstanding	Position (mn)	Position Change (mn)	Value (\$mn)	Filing Date
1	Washington H Soul Pattinson and Company Ltd	39.85%	331.70	0	575.24	14-09-2021
2	L1 Capital Pty Ltd.	4.83%	40.19	-15.95	102.21	07-03-2022
3	Mitsubishi UFJ Financial Group Inc	2.17%	18.07	+7.92	26.52	30-11-2021
4	Farjoy Pty. Ltd.	1.86%	15.50	0	26.88	14-09-2021
5	BKI Investment Company Ltd.	1.56%	12.95	-5.00	22.46	14-09-2021
6	First Sentier Investors Realindex Pty Ltd.	1.49%	12.39	-4.37	18.18	30-11-2021
7	Dimensional Fund Advisors, L.P.	1.22%	10.17	+0.78	25.87	31-03-2022
8	Vanguard Investments Australia Ltd.	0.96%	7.95	-0.70	14.67	28-02-2022
9	The Vanguard Group, Inc.	0.73%	6.05	+0.11	15.38	31-03-2022
10	BlackRock Institutional Trust Company, N.A.	0.68%	5.69	+0.01	14.48	31-03-2022

Source: Refinitiv, Analysis by Kapitales Research

Important Updates:

- The Board of directors declared a fully-franked half yearly dividend of AUD 0.30 per share with a payment date of 4th May 2022.
- During the first half of FY22, the company's sales stood at 5.1 metric tons, reflecting a growth of 7% on y-o-y basis.

Outlook:

The group expects the demand for high-quality, lower emission thermal coal to remain strong in FY22 on account of supply constraints. Due to ongoing geopolitical tensions along with disruption in supply, international coal prices are expected to remain elevated in the coming quarters, which would support the company's top-line. Moreover, demand for metallurgical coal is expected to remain robust in FY22 due to increased consumption of power across China and other developing countries. This would be expected to support the company's sales volumes as well. Elevated realization prices are likely to support the company's cash flows. The company is focusing on securing the remaining approvals for New Acland Stage 3 project in order to expand its operations across the geography.

Key Risks:

The company’s operations across the Bengalla mine witnessed disruption to production during the first half of FY22 due to adverse wether conditions. Continuation of the trend might dampen the company’s production. Moreover, any restrictions imposed on coal consumption in order to preserve the environment would lead to a decline in the sales volume.

Valuation:

Relative Valuation Based on Price/Earnings Per Share	
New Hope Corporation Limited	NHC
Earnings Per Share (FY23E AUD)	0.520
Price/EPS Multiple (NTM) (Peer Median) (approx)	8.16x
Target Share Price (AUD)	4.24
Current Market Price (AUD) (28 April 2022)	3.45
Recommendation	Buy

Source: Refinitiv, Analysis by Kapitales Research

Technical Analysis:



Source: Refinitiv, Analysis by Kapitales Research

In a daily price chart, the NHC stock closed above its 20-days, 50-days, and 200-days exponential moving averages (EMA), indicating a bullish pattern in the chart. The stock is trading on an uptrend since November 2021, which denotes higher investor’s participation. Investors can enter at the current price level of AUD 3.45 with a target price of pivot resistance R3 at AUD 3.861 and R4 at AUD 4.623, respectively. A stop-loss can be maintained at AUD 2.406, which is the 200-days exponential moving average of the stock.

Investment Summary:

The company has ample liquidity, and reported a quick ratio and current ratio of 2.52x and 2.68x, respectively, as compared to the industry median of 1.28x and 1.53x. respectively. This denotes that the company has sufficient current assets to meet its short-term liability. The company’s income was benefitted from an exponential jump in international coal prices supported by strong demand dynamics and lower inventory level. Notably, the average sales price during January 2022

stood at AUD 192.38 per tons, reflecting a growth of ~147% on y-o-y basis. This trend is expected to continue in the coming quarters due to the ongoing strong demand scenario coupled with persisting supply shortage. The business is focused on achieving improving product mix and enhancing production of high energy and low emission products.

Hence after considering the facts mentioned above facts, investors are advised to have a "Buy" rating on the stock of NHC at the closing price of AUD 3.45 on April 28, 2022, with a target price of AUD 4.24.

Note: Kapitales Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:-

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + EMA(\text{previous day}) * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent prices changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

Customer Notice:

Nextgen Global Services Pty Ltd trading as Kapitales Research (ABN 89 652 632 561) is a Corporate Authorised Representative (CAR No. 1293674) of Maven Capital Pty Ltd (AFSL No. 418504). The information contained in this website is general information only. Any advice is general advice only. No consideration has been given or will be given to the individual investment objectives, financial situation or needs of any particular person. The decision to invest or trade and the method selected is a personal decision and involves an inherent level of risk, and you must undertake your own investigations and obtain your own advice regarding the suitability of this product for your circumstances. Please be aware that all trading activity is subject to both profit & loss and may not be suitable for you. The past performance of this product is not and should not be taken as an indication of future performance.

Disclosure: *The information mentioned above has been sourced from the company reports and a third party database, i.e. Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.*

