



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



Brambles

Business Description

Brambles Limited (BXB, formerly Brambles Industrial Limited BIL) is a global provider of support services which operates through two key businesses; CHEP and Recall. BXB has operations in approximately 45 countries across six continents with a primary listing on the ASX and a secondary listing on the London Stock Exchange.

Strategy Analysis

BXB's strategy to boost financial performance in its CHEP and Recall businesses is to achieve scale efficiencies to boost its cost advantage over competitors. Organic growth opportunities are present for CHEP in existing markets with growth in new segments being identified. Core expansion through growth in new geographies sees BXB intending to intensify the focus on areas of growth throughout the US, such as home improvement, food services and office supplies. Opportunities in Central and Eastern Europe highlight prospective customers for pallet and container pooling businesses with the establishment of the CHEP business in China opening up new markets for Brambles. New business expansion through the acquisition of related superior supply chain businesses will be focused on adding expertise, capabilities and achieving operating leverage for CHEP. 1H10 NPAT fell 23% to US\$208m, broadly in line with our expectations. Currency moves were modestly favourable. Constant current NPAT was 26% lower. Sales rose 1% to US\$2.07bn. Weak volumes in CHEP USA, UK and Spain were offset by growth in other areas. Revenue was dragged by the weak automotive segment in Australia and Europe, poor performance in Secure Destruction Service (SDS) as a result of weak paper prices and adverse price/mix. New business wins were matched by losses. Strong Reusable Plastic Containers provided some offset. The 7% decline in CHEP USA revenue is some concern, but it is too soon for the quality initiatives to impact. EBITDA margin fell from 30.4% to 26.9% as restructuring and reduced overheads were offset by reduce volume efficiencies and increased storage and handling costs relating to the 4 million idle pallets in the US. The A\$0.125 dividend, 20% franked, is slightly above our forecast. Last year's interim was A\$0.175. Free cash flow was the highlight of the result. Gains were made in each segment. Operating cashflow rose 4% to US\$460m through tighter working capital management. Capital expenditure was cut 36% to US\$255m as fewer pallets were made in the US due to lower demand and the goal of shrinking the pool.

28 July 2010

Recommendation

Recommendation: Underperform
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: BXB
Stock price: \$5.45
Market cap: \$7,751m

	Y/E 30/06/2010	2010e	2011e	2012e	2013e
Reported e	\$m	480.3	508.4	592.7	698.7
Adjusted e	\$m	483.5	508.4	592.7	698.7
EPS adjusted	¢	34.2	35.4	41.0	48.3
EPS growth	%	-40.8	3.4	15.7	17.9
PE	x	15.9	15.4	13.3	11.3
PE relative	x	1.1	1.4	1.3	1.2
DPS	¢	25.0	26.0	30.0	36.1
Yield	%	4.6	4.8	5.5	6.6
Franking	%	20.0	20.0	20.0	20.0

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	3 year
CHEP	83.3	14.6	16.7	-6.0%	
Recall	16.7	9.4	14.0	-17.0%	
Total	100.0	24.0	30.7	-4.0%	-4.0%
Results by Geography				Dividend Reinvestment Plan	Yes
Americas	46.9	0.0	0.0	Shareholder	
Europe	37.9	0.0	0.0	Discounts	No
Australia/NewZealand	11.6	0.0	0.0		
Rest of World	3.6	0.0	0.0		
Total	100.0				

Company contact details:

Brambles Limited
Level 40, Gateway, 1 Macquarie PI
Sydney NSW 2000
Tel: (02) 9256 5222
www.brambles.com

If you have any queries regarding this Research information or with any aspect of your Legalsuper account please call Legalsuper on 1800 060 312 (freecall) or email mail@legalsuper.com.au

Disclaimer: This report is prepared for general circulation and does not have regard to the particular circumstances or needs of any specific person who may read it. The information contained herein is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. No part of this report is to be construed as a solicitation to buy or sell any security. We do not accept any liability, whether direct or indirect arising from the use of information contained in this report. International investors are reminded of the risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Any transaction by US persons in any security discussed in this report must be carried out through Macquarie Equities (USA) Inc which has distributed this report in the US. This report is issued in the UK by Macquarie Equities Limited, which is a member of the Securities and Futures Authority. The investments and investment services the subject of this report are not available to private customers in the UK. The material in this publication is copyright and may not be reproduced without consent of the copyright owner.