

Eurocell

Moving up a gear

New management is driving an enhanced commercial focus. This was not wholly apparent in headline FY16 results, but was evident in strategic actions taken which are set to accelerate in FY17. Our sense is that the business will respond quickly to these initiatives. Eurocell's share price has started to respond to the new corporate messaging and the delivery of profitable revenue growth is likely to attract further support.

Preparing the ground for further progress

FY16 results (revenue +16% y-o-y, PBT norm +5%, EPS norm +7%) contained both organic growth and acquisition contributions. Solid gross margin management took our eye (particularly important given opex inflation, partly due to business development) as did the strong free cash flow performance. The renewed executive management team (CEO, Mark Kelly, ex Grafton, GB and CFO Michael Scott, ex Drax joined in May and September respectively) has hit the ground running. Faster new branch roll-out (+18 to 159 at year end), manufacturing capex (including recycling capacity) and expansion of the branch range offering are all early markers of strategic intent from the new team. FY17 has started positively, in-line with management expectations.

Stepping up market presence

A strategy review appears to have greater commercial intensity at its heart. Most obviously, increased branch roll-out momentum (+30 expected in FY17, long-term target 350 in total) and broadening the SKUs carried is aimed at growing revenue. An aspiration to increase new product development activity and add adjacent product lines (organically or through acquisition) continues the theme. This has pull-through benefits for profile manufacturing. Investment in capacity and operating efficiency and direct control over warehouse management are all designed to sharpen service capability to support expected growth. Eurocell's balance sheet and cash flow characteristics can comfortably accommodate this expansion, as described, and absent significant acquisition spend, the company could move into a net funds position during FY18.

Valuation: Positive EPS, DPS and cash prospects

Apart from a post Brexit mark-down in the middle of last year that afflicted many in the sector, Eurocell's share price traded around 180p for most of the past 12 months. The share price started to pick up a month ago and FY16 results were also well received. We believe that the positive earnings and dividend growth prospects and cash profile of the business are likely to continue to attract investor support.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15	175.9	23.0	18.6	7.0	11.6	3.3
12/16	204.8	24.3	20.0	8.5	10.8	4.0
12/17e	221.5	26.6	21.4	9.3	10.0	4.3
12/18e	239.0	28.7	23.2	10.3	9.3	4.8

Source: Bloomberg (Company defined, post amortisation)

Construction & materials

16 March 2017

Price 215p
Market cap £215m

Share price graph



Share details

Code	ECEL
Listing	LSE
Shares in issue	100.0m

Business description

Eurocell is a vertically integrated UK recycler, manufacturer and trade distributor of branded extruded PVC building products (including window and door profiles and cellular roofline systems). Own branches also carry related fabricated and third party product and ancillary lines.

Bull

- A leading position in fragmented markets
- Integrated manufacturing & branch distribution model
- Accelerating branch network expansion

Bear

- UK RMI spending still relatively subdued
- Product range relatively narrow but expanding
- Some P&L lag from business investment

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