

Severfield

Delivering against strategy

FY17 results

Good momentum is apparent in Severfield's results, with healthy progress in revenue and margins in the UK and a profit contribution from the Indian JV. Our estimates now expect a sustained JV profit contribution (previously neutral) and, with unchanged UK expectations, Severfield is on track to double PBT between FY16 and FY20. All in all, we see a clear strategy that is being well executed against visible financial targets.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	239.4	13.7	3.8	1.5	21.1	1.9
03/17	262.2	20.3	5.7	2.3	14.0	2.9
03/18e	263.2	22.2	6.3	2.5	12.7	3.1
03/19e	267.8	24.4	6.9	2.8	11.6	3.5

Note: *PBT and EPS are normalised, excluding pension net finance costs, intangible amortisation and exceptional items.

Good progress on several fronts

A c 50%+ uplift in full year earnings and dividends and further growth in group cash balances were the headline financial highlights. Underlying EBIT and a maiden full year profit contribution from the Indian JV were both ahead of our expectations, partly offset by higher interest and share-based payments, leaving group PBT slightly better than anticipated overall. There was solid operational performance in the UK – with the highest H2 activity levels for seven years – and in India, which saw both revenue and margin gains y-o-y. At the same time, there is clear evidence of investment in equipment, processes, systems and people across the business, which indicates that this progress and future prospects are well-founded.

UK stable, India to contribute

UK market conditions are understood to be stable; a lower UK order book reflects progress with some major project work and is not expected to impact negatively on revenues given a good pipeline of prospects visible to management. The Indian order book has stepped up markedly with a significant proportion scheduled for this year. Coupled with a paydown of term debt (via cash equity injection from both JV partners), this alone should generate an uplift in the (share of) profit after tax going forward and we have slightly increased estimates to reflect this. Management states that the trajectory of group PBT (after pension net finance costs) is on track for £26m in FY20, compared to £19.8m reported for FY17, and dividend growth prospects should mirror this.

Valuation: Good growth, well positioned

Severfield's share price is up c 11% ytd; it has outperformed the FTSE All-Share Index by c 7% over this time frame, more marginally so in the last three months. Our revised estimates indicate three-year (FY17-FY20e) CAGRs in excess of 9% for both earnings and dividends. Some of this is reflected into the current year P/E of 12.7x and EV/EBITDA of 7.5x, but factoring in a 3% prospective yield, strong balance sheet and positioning for future infrastructure projects suggests that Severfield can continue to outperform.

Construction & materials

19 June 2017

Price 80.00p
Market cap £240m

Net cash (£m) at end March 2017	32.4
Shares in issue	298.9m
Free float	100%
Code	SFR
Primary exchange	LSE

Share price performance



%	1m	3m	12m
Abs	(6.4)	0.0	55.3
Rel (local)	(5.8)	(1.3)	24.1
52-week high/low		88.0p	43.8p

Business description

Severfield is a leading UK structural steelwork fabricator operating across a broad range of market sectors. An Indian facility currently undertakes structural steelwork projects for the local market and is fully operational.

Next events

FY17 final DPS 1.7p ex dividend	18 August 2017
AGM	6 September 2017

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Exhibit 1: Financial summary

	£m	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Year end 31 march		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
		12m to Dec	12m to Dec	12m to Dec	15m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar
PROFIT & LOSS												
Revenue		266.7	267.8	256.6	318.3	231.3	201.5	239.4	262.2	263.2	267.8	274.1
Cost of Sales		(242.6)	(246.9)	(268.8)	(330.9)	(217.8)	(186.7)	(219.6)	(236.3)	(235.7)	(238.0)	(242.2)
Gross Profit		24.1	20.9	(12.2)	(12.7)	13.5	14.9	19.8	25.9	27.5	29.7	32.0
EBITDA		21.6	19.5	(13.6)	(13.6)	12.0	13.6	18.9	25.7	27.3	29.6	31.9
Operating Profit - Edison		17.1	15.0	(17.7)	(18.6)	8.4	10.0	15.2	22.1	23.5	25.5	27.6
Net Interest		(0.9)	(1.6)	(1.6)	(2.0)	(0.6)	(0.5)	(0.2)	(0.2)	(0.1)	0.0	0.1
Associates		(0.4)	(2.5)	0.2	(0.3)	(3.0)	(0.2)	(0.2)	0.5	0.8	0.9	1.0
SBP		(0.0)	(0.3)	(0.0)	(0.1)	(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(2.0)	(2.0)
Intangible Amortisation		(2.7)	(2.7)	(2.7)	(3.5)	(2.7)	(2.6)	(2.6)	(2.6)	(1.6)	0.0	0.0
Pension Net Finance Costs		(0.5)	(0.5)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Exceptionals		(1.4)	(0.6)	(1.0)	(3.8)	(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	0.0
Profit Before Tax (norm) - Edison		15.8	10.6	(19.1)	(20.9)	4.5	8.8	13.7	20.3	22.2	24.4	26.6
Profit Before Tax (norm)		15.3	10.1	(19.6)	(21.5)	4.0	8.3	13.2	19.8	21.7	23.9	26.1
Profit Before Tax (FRS 3)		11.1	6.8	(23.3)	(28.9)	(4.1)	(0.2)	9.6	18.1	20.2	23.9	26.1
Tax		(3.5)	(0.9)	3.9	5.7	1.4	0.3	(1.0)	(2.7)	(3.6)	(3.9)	(4.3)
Profit After Tax (norm)		11.7	7.7	(16.2)	(17.9)	3.1	7.4	11.4	17.0	18.7	20.5	22.4
Profit After Tax (FRS 3)		7.6	5.8	(19.4)	(23.1)	(2.6)	0.1	8.6	15.3	16.6	20.0	21.9
Average Number of Shares Outstanding (m)		89.0	89.3	89.3	89.3	295.8	297.5	297.5	298.9	298.5	298.5	298.5
EPS - normalised (p) - Edison		6.82	4.51	(9.42)	(10.42)	1.05	2.47	3.84	5.70	6.26	6.87	7.49
EPS - normalised (p)		6.51	4.21	(9.72)	(9.45)	0.88	2.31	3.67	5.53	6.09	6.70	7.32
EPS - FRS 3 (p)		4.47	3.41	(11.33)	(13.49)	(0.89)	0.05	2.89	5.13	5.56	6.70	7.32
Dividend per share (p)		7.5	5.0	1.5	0.8	0.0	0.5	1.5	2.3	2.5	2.8	3.0
Gross Margin (%)		9.0	7.8	-4.8	-4.0	5.8	7.4	8.3	9.9	10.4	11.1	11.7
EBITDA Margin (%)		8.1	7.3	-5.3	-4.3	5.2	6.7	7.9	9.8	10.4	11.1	11.6
Operating Margin - Edison (%)		6.4	5.6	-6.9	-5.8	3.6	4.9	6.4	8.4	8.9	9.5	10.1
BALANCE SHEET												
Fixed Assets		165.0	156.9	155.6	154.9	147.7	145.1	149.3	148.3	154.5	156.8	159.0
Intangible Assets		75.2	72.9	70.4	69.8	64.6	61.8	59.2	56.3	54.7	54.7	54.7
Tangible Assets		82.9	79.6	76.2	76.1	74.1	76.6	77.4	78.9	80.6	81.5	82.2
Investments		6.9	4.4	8.9	8.9	9.0	6.7	12.7	13.1	19.2	20.6	22.1
Current Assets		88.1	100.5	69.8	80.5	72.2	76.3	75.1	107.1	109.6	122.6	137.1
Stocks		12.6	9.1	7.1	8.2	5.8	4.8	5.3	7.8	7.7	7.8	7.9
Debtors		71.9	89.2	61.2	71.6	60.8	64.6	50.7	66.5	67.5	69.2	71.3
Cash		3.6	2.3	1.4	0.7	5.5	6.9	19.0	32.8	34.4	45.6	57.8
Current Liabilities		(99.8)	(103.6)	(97.0)	(112.5)	(57.9)	(59.7)	(58.2)	(78.7)	(75.6)	(76.5)	(77.8)
Creditors		(81.2)	(70.3)	(66.1)	(70.9)	(52.7)	(59.5)	(58.1)	(78.5)	(75.4)	(76.4)	(77.6)
Short term borrowings		(18.6)	(33.3)	(30.9)	(41.7)	(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(22.3)	(21.6)	(21.7)	(20.4)	(18.5)	(21.1)	(17.9)	(22.5)	(22.5)	(22.5)	(22.5)
Long term borrowings		0.0	(0.3)	(0.3)	(0.2)	(0.0)	(0.6)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)
Other long term liabilities		(22.3)	(21.3)	(21.4)	(20.2)	(18.5)	(20.5)	(17.5)	(22.3)	(22.3)	(22.3)	(22.3)
Net Assets		130.9	132.3	106.6	102.4	143.4	140.6	148.2	154.2	166.0	180.4	195.8
CASH FLOW												
Operating Cash Flow		(5.8)	(5.4)	12.9	3.1	2.1	11.4	24.8	27.4	22.0	27.9	30.0
Net Interest		(0.8)	(2.0)	(1.3)	(1.7)	(0.8)	(0.8)	(0.2)	(0.1)	(0.1)	0.0	0.1
Tax		(5.4)	(3.7)	(2.7)	(2.3)	0.4	(1.0)	(0.9)	(2.4)	(2.9)	(3.6)	(3.9)
Capex		(2.8)	(1.5)	(0.2)	(1.4)	(1.5)	(1.3)	(4.3)	(5.3)	(5.5)	(5.0)	(5.0)
Acquisitions/disposals		(2.9)	(0)	(2)	(3.0)	(3.5)	(1.7)	(4.1)	(0.4)	(5.3)	(0.5)	(0.5)
Financing		0	0	0	0.0	44.8	0	0	0	0	0	0
Dividends		(8.9)	(3.6)	(4.5)	(4.5)	0.0	0.0	(3.0)	(5.1)	(6.7)	(7.7)	(8.4)
Net Cash Flow		(26.6)	(16.3)	1.7	(9.7)	41.5	6.7	12.4	14.0	1.6	11.2	12.2
Opening net debt/(cash)		(11.5)	15.0	31.3	31.3	41.2	(0.3)	(6.1)	(18.4)	(32.4)	(34.0)	(45.2)
HP finance leases initiated		0	0.0	0.1	0.0	(0.2)	(0.3)	(0.2)	(0.2)	0.0	0.0	0.0
Other		0	(0)	(0)	(0)	0.2	(0.6)	0.2	0	0	0	(0)
Closing net debt/(cash)		15.0	31.3	29.7	41.2	(0.3)	(6.1)	(18.4)	(32.4)	(34.0)	(45.2)	(57.4)

Source: Company accounts, Edison Investment Research

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