

Epwin Group

AGM update

Challenges, events and responses

Market challenges have been well documented and mostly negotiated thus far by Epwin. Management has elected to take action to reduce costs and capacity in the light of ongoing market conditions. We expect more detail with the release of H117 results on 13 September. Epwin remains in robust financial health and in our view, is in a position to sustain its dividend – currently yielding c 10%.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15**	256.0	19.2	11.7	6.4	5.8	9.4
12/16**	293.2	24.3	14.7	6.6	4.6	9.7
12/17e	306.3	22.4	12.8	6.7	5.3	9.9
12/18e	300.9	23.0	12.9	6.7	5.3	9.9

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptionals. **FY15 and FY16 EPS benefited from recovered tax losses.

Markets broadly as expected, prices still tight

Management notes H117 trading was in line with its expectations in generally tough RMI markets and considers that – save for two market specific events (see below) – the FY17 outturn is now likely to be modestly below previous guidance. No specific divisional trading details are given, though materials price inflation is referenced again and we note that the shortage of some additives has led to PVC pricing continuing to nudge up latterly. We suspect that some caution on further price rises in a pretty flat end market is behind the change to underlying expectations. Group net debt appears to have followed its usual seasonal pattern with a H1 working capital increase (with an expected H2 unwind to come). We anticipate that the end-June figure will have been at or below the end-H116 level (ie c £30m). No other H1 financial guidance was provided.

A couple of flags

Epwin highlights two recent corporate customer events: a distressed, strategic review position; and a disposal to a competitor (we believe these to be Entu and SIG Building Plastics, respectively). There is clearly downside risk to future revenue – in a number of business lines – with these customers that in aggregate represent c 10% of revenue; we consider that normal trading terms are unlikely to change in the near term in the busiest trading period for companies in this space. Market conditions have, however, been the stimulus for actions being taken to reduce costs and capacity within the group. Neither these nor the benefits have been quantified at this stage. We have elected to reduce earnings by 8-9% across each of our forecast years, pending further clarification with the H117 results.

Valuation: Strong yield attraction of c 10%

Based on our new estimates, Epwin's FY17 P/E and EV/EBITDA multiples are now 5.3x and 3.5x respectively. The dividend payout remains a healthy attraction although we have tweaked down our expected rate of DPS progress in the light of earnings revisions. Nevertheless, a solid yield of c 10% is projected for FY17.

Construction & materials

22 August 2017

Price 68.00p
Market cap £97m

Net debt (£m) at end December 2016	20.6
Shares in issue	142.9m
Free float	67%
Code	EPWN
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(29.7)	(43.3)	(37.8)
Rel (local)	(28.6)	(42.3)	(42.1)
52-week high/low	128.5p	68.0p	

Business description

Epwin supplies functional low-maintenance exterior building products (including windows, doors, roofline and rainwater goods) into a number of UK market segments and is a modest exporter. It has a vertically integrated model in windows and doors and a leading market position in roofline products.

Next events

H117 results	13 September
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Exhibit 1: Financial summary

	£m's	2012	2013	2014	2015	2016	2017e	2018e	2019e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
		Restated							
Revenue		294.4	255.3	259.5	256.0	293.2	306.3	300.9	306.1
Cost of Sales		(209.9)	(185.8)	(186.7)	(178.6)	(200.6)	(210.1)	(204.6)	(208.2)
Gross Profit		84.5	69.5	72.8	77.4	92.6	96.2	96.3	98.0
EBITDA		21.8	21.4	24.5	25.6	33.3	32.1	32.8	33.8
Operating Profit (before GW and except.)		15.4	15.6	19.5	20.1	25.6	23.9	24.3	25.1
Intangible Amortisation		(1.7)	(1.7)	(1.7)	(0.0)	(1.1)	(1.3)	(1.3)	(1.3)
Exceptionals		(4.3)	(5.1)	2.3	(0.6)	(0.2)	0.0	0.0	0.0
Other		0.0	0.0	(0.8)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Operating Profit		9.4	8.8	19.3	19.1	24.0	22.3	22.7	23.5
Net Interest		(1.9)	(1.0)	(0.7)	(0.5)	(1.0)	(1.2)	(1.0)	(0.6)
Profit Before Tax (norm)		13.5	14.6	18.0	19.2	24.3	22.4	23.0	24.2
Profit Before Tax (FRS 3)		7.5	7.9	18.6	18.6	23.0	21.1	21.7	22.9
Tax		(2.2)	(1.3)	(3.5)	(3.3)	(3.4)	(4.0)	(4.4)	(4.3)
Profit After Tax (norm)		10.4	12.4	14.4	15.9	20.9	18.4	18.6	19.8
Profit After Tax (FRS 3)		4.5	5.1	15.1	15.3	19.6	17.1	17.3	18.5
Average Number of Shares Outstanding (m)		122.3	122.3	128.0	135.2	141.5	142.4	143.2	143.2
EPS - normalised (p)		8.5	10.1	11.2	11.8	14.8	12.9	13.0	13.8
EPS - normalised (p) FD				11.2	11.7	14.7	12.8	12.9	13.7
EPS - FRS 3 (p)		3.7	4.2	11.8	11.3	13.8	12.0	12.1	12.9
Dividend per share (p)		0.0	0.0	4.2	6.4	6.6	6.7	6.7	7.0
Gross Margin (%)		28.7	27.2	28.1	30.2	31.6	31.4	32.0	32.0
EBITDA Margin (%)		7.4	8.4	9.4	10.0	11.3	10.5	10.9	11.0
Operating Margin (before GW and except.) (%)		5.2	6.1	7.5	7.9	8.7	7.8	8.1	8.2
BALANCE SHEET									
Fixed Assets		56.9	54.7	53.8	93.5	108.5	112.8	111.6	110.1
Intangible Assets		27.9	26.4	24.7	59.7	70.2	74.2	72.9	71.6
Tangible Assets		26.1	25.1	26.2	33.1	37.9	38.2	38.3	38.1
Other		2.8	3.2	2.9	0.7	0.4	0.4	0.4	0.4
Current Assets		59.9	62.1	62.3	87.2	82.6	89.5	77.2	79.1
Stocks		20.9	21.7	22.4	23.6	28.2	29.5	28.8	29.3
Debtors		37.4	40.1	37.6	41.5	41.4	45.5	44.8	45.5
Cash		1.6	0.3	2.3	22.1	13.0	14.4	3.6	4.4
Current Liabilities		(53.2)	(54.5)	(49.0)	(68.8)	(79.2)	(83.8)	(67.4)	(63.9)
Creditors		(49.1)	(51.5)	(48.6)	(53.2)	(62.9)	(62.5)	(62.4)	(63.9)
Short term borrowings		(4.1)	(3.0)	(0.4)	(15.6)	(16.3)	(21.3)	(5.0)	0.0
Long Term Liabilities		(32.0)	(25.7)	(4.3)	(31.8)	(21.0)	(16.0)	(11.0)	(6.0)
Long term borrowings		(20.6)	(16.0)	(0.8)	(20.9)	(17.3)	(12.3)	(7.3)	(2.3)
Other long term liabilities		(11.4)	(9.7)	(3.5)	(10.9)	(3.7)	(3.7)	(3.7)	(3.7)
Net Assets		31.5	36.6	62.8	80.1	90.9	102.5	110.3	119.3
CASH FLOW									
Operating Cash Flow		15.7	12.1	19.8	23.8	30.8	28.4	33.2	33.2
Net Interest		(1.4)	(0.9)	(0.7)	(0.5)	(1.0)	(1.2)	(0.9)	(0.6)
Tax		(1.6)	(0.9)	(1.7)	(2.3)	(3.8)	(3.5)	(3.9)	(3.8)
Capex		(4.6)	(4.9)	(5.6)	(9.0)	(12.7)	(9.0)	(8.5)	(8.5)
Acquisitions/disposals		(28.2)	(0.2)	0.0	(20.9)	(10.2)	(3.9)	0.0	0.0
Financing		0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	(1.9)	(6.7)	(9.1)	(9.3)	(9.4)	(9.5)
Net Cash Flow		(20.2)	5.2	19.9	(15.6)	(6.1)	1.4	10.5	10.7
Opening net debt/(cash)		0.5	23.2	18.7	(1.1)	14.4	20.6	19.2	8.7
HP finance leases initiated		(2.5)	(0.5)	(0.3)	0.4	1.9	0.0	0.0	0.0
Other		0.0	(0.1)	0.2	(0.3)	(2.1)	(0.0)	0.0	0.0
Closing net debt/(cash)		23.2	18.6	(1.1)	14.4	20.6	19.2	8.7	(2.1)

Source: Company accounts, Edison Investment Research. *FY13 to FY16 EPS benefited in part from recovered tax losses.

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