

# Severfield

AGM update

## Reassurance and encouragement

Severfield continues to trade in line with existing expectations though adverse sector sentiment has weighed on the company's share price. There is a healthy and normal level of forward order cover and we believe that the project pipeline is likely to contain some good new project prospects. Overall, the AGM update provided reassurance for wary investors and, in our view, encouragement for potential new ones.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	239.4	13.7	3.8	1.5	16.5	2.4
03/17	262.2	20.3	5.7	2.3	11.0	3.7
03/18e	263.2	22.2	6.3	2.5	9.9	4.0
03/19e	267.8	24.4	6.9	2.8	9.1	4.5

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

## Positive order book interpretations

Severfield's AGM update noted the likelihood of a greater H1 – and implicitly more even full year – weighting to FY18 results compared to the prior year (FY17 EBIT H1:H2, 42:58). We assume that this reflects the pattern of projects at or nearing completion and is consistent with higher activity levels seen last year. The UK order book value is slightly below the last reported level at £221m. (This provides forward cover for all four UK fabrication facilities, naturally longer for some reflecting underlying project characteristics.) As well as the cycle through of orders this could be interpreted as a signal of slowing markets and/or more protracted tender processes. On the other hand, it could also signify a reaffirmation of Severfield's ongoing project selectivity, possibly with a view to securing visible pipeline opportunities in the context of available capacity. The company's bid conversion rate is understood to have been very consistent and stable in the year to date. We believe that the pipeline of larger UK project prospects is significant and spread across a number of segments addressed. These include London commercial and retail and, on a slightly longer view, infrastructure and stadia. The UK order book could well gap up again over the next 12-18 months (as seen in H116 and H117) in our view. The Indian JV order book at £64m is lower than last reported but against historical levels (in the £30-40m range) and local fabrication capacity this still represents a healthy level. Recent equity injections by both JV partners (to re-finance debt) indicated confidence in future prospects and this is unchanged.

## Valuation: Rating compression, decent yield

After reaching an intra-year high of 88p in April, Severfield's share price has trended lower and is now down c 15% ytd, while the FTSE All Share Index is up c 4%. Our PBT, EPS and especially DPS estimates have increased over this time period in all forecast years, although are unchanged for the AGM update. Consequently, current year P/E and EV/EBITDA multiples have compressed to 9.9x and 5.6x, respectively, and decline further by FY20. A prospective yield of 4% further enhances potential shareholder returns.

## Construction & materials

12 September 2017

**Price** 62.63p  
**Market cap** £188m

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

## Share price performance



%	1m	3m	12m
Abs	(13.0)	(21.1)	11.8
Rel (local)	(14.1)	(20.1)	1.9
52-week high/low	88.0p	52.0p	

## 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

H118 results	21 November 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
<b>PROFIT &amp; LOSS</b>												
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
<b>BALANCE SHEET</b>												
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
<b>CASH FLOW</b>												
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: Severfield accounts, Edison Investment Research

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