

Safestyle UK

Year-end IMS

In-line update for FY14

Construction & materials

4 February 2015

With a year-end update in line with existing guidance, Safestyle appears to be entering FY15 in reasonably good shape. The new financial year brings opportunities and some cost challenges – and we assume flat gross margins now – but an uptick in UK consumer confidence, if sustained, should help to underpin further growth. FY14 results are due on 26 March.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/12	110.2	9.5	9.1	0.0	17.4	N/A
12/13	124.8	15.0	14.7	5.5	10.7	3.5
12/14e	135.0	16.7	16.1	8.9	9.8	5.6
12/15e	141.2	17.6	17.2	9.5	9.2	6.0

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptionals.

FY14 ends in line with guidance

An in-line IMS noted a 7.0% increase in frame volumes and installed orders +4.7%. Implicitly, H2 growth rates were slightly below their H1 equivalents (+8.0% and +4.8% respectively), although Q1 was particularly strong. We suspect that business conditions and performance have been steady and solid over Q2-Q4. Industry volume data have been distorted by certified installer registration (from end June 2014), but Safestyle appears to have nudged up its UK market share again (to 8.48%), extending a well-established pattern.

Consumer confidence to be a key driver

Stronger consumer confidence is yet to be fully established, although the latest [GfK survey](#) was better than anticipated (including a marked increase in its 'major purchases' index). Low inflation and improving average earnings data are both supportive of further growth in demand for the company's products, in our view. Orders were +3% y-o-y at the end of FY14 (and against tough comparatives), but management remains cautious on FY15 market development at this stage. Certain cost pressures (eg sales and marketing, depot expansion) and, this year, possible May election effects on consumer behaviour are the prime sensitivities. We have retained revenue expectations, but now assume flat gross margins in all three estimate periods, reducing PBT by £0.4m in FY15 and £0.6m in FY16.

Valuation: Cash-backed value and income

Safestyle's share price is now trading in the middle of the range established at the beginning of Q414, having seen some weakness since the year-end IMS. Estimate revisions have little impact on valuation measures, which remain at modest levels (FY15 P/E 9.2x, prospective EV/EBITDA 5.7x, falling to 8.6x and 5.0x respectively for FY16). A healthy 8.9p expected FY14 dividend (a 5.6% yield, 1.8x covered) is expected to grow further. And a growing net cash position also provides management with financial flexibility to invest and/or distribute at some point in the future. Safestyle's strong market and financial position in a UK consumer-focused sector offer prospects that are not fully reflected in its rating, in our view.

Price 158.00p
Market cap £123m

Net cash (£m) as at December 2014	8.5
Shares in issue	77.8m
Free float	90%
Code	SFE
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(7.9)	8.2	(0.5)
Rel (local)	N/A	N/A	N/A
52-week high/low	216.75p	143.50p	

Business description

Safestyle is a manufacturer and supplier of PVCu windows and doors to the UK homeowner market.

Next events

FY14 results	26 March 2015
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[Edison profile page](#)

Exhibit 1: Financial summary

	£m	2012	2013	2014e	2015e	2016e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		110.2	124.8	135.0	141.2	148.3
Cost of Sales		(72.0)	(79.7)	(85.4)	(89.3)	(93.8)
Gross Profit		38.2	45.1	49.6	51.9	54.5
EBITDA		10.4	15.7	17.9	18.9	20.2
Operating Profit		9.5	14.9	17.0	17.8	19.0
Net Interest		0.0	0.1	0.0	0.1	0.2
Other Finance		0.0	0.0	0.0	0.0	0.0
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	(5.5)	0.0	0.0	0.0
Profit Before Tax (norm)		9.5	15.0	16.7	17.6	18.9
Profit Before Tax (FRS 3)		9.5	9.4	16.7	17.6	18.9
Tax		(2.4)	(3.0)	(3.7)	(3.8)	(4.1)
Profit After Tax (norm)		7.1	11.5	13.0	13.8	14.9
Profit After Tax (FRS 3)		7.1	6.4	13.0	13.8	14.9
Average Number of Shares Outstanding (m)		77.8	77.8	77.8	77.8	77.8
EPS - normalised (p)		9.1	14.7	16.7	17.8	19.1
EPS - normalised fully diluted (p)		9.1	14.7	16.1	17.2	18.4
EPS - FRS 3 (p)		9.1	8.3	16.7	17.8	19.1
Dividend per share (p)		0.0	5.5	8.9	9.5	10.2
Gross Margin (%)		34.7	36.2	36.8	36.8	36.8
EBITDA Margin (%)		9.4	12.6	13.3	13.4	13.6
Operating Margin - Edison (%)		8.6	11.9	12.6	12.6	12.8
BALANCE SHEET						
Fixed Assets		24.3	28.4	29.3	30.1	30.6
Intangible Assets		21.4	21.7	21.6	21.5	21.3
Tangible Assets		2.8	6.6	7.4	8.4	9.0
Investments		0.1	0.1	0.3	0.3	0.3
Current Assets		12.1	9.0	13.0	19.3	26.3
Stocks		1.1	1.4	1.4	1.5	1.6
Debtors		4.3	2.4	2.5	2.6	2.6
Cash		6.7	5.2	9.0	15.2	22.0
Current Liabilities		(10.8)	(14.3)	(16.6)	(17.3)	(17.9)
Creditors		(10.4)	(14.0)	(16.4)	(17.1)	(17.7)
Short term borrowings		(0.5)	(0.3)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(2.2)	(2.1)	(2.3)	(2.3)	(2.3)
Long term borrowings		(0.5)	(0.3)	(0.3)	(0.3)	(0.3)
Other long term liabilities		(1.7)	(1.8)	(2.0)	(2.0)	(2.0)
Net Assets		23.4	21.0	23.4	29.9	36.8
CASH FLOW						
Operating Cash Flow		8.7	15.0	18.1	19.1	20.4
Net Interest		0.0	0.1	0.0	0.0	0.0
Tax		(2.0)	(2.2)	(3.7)	(3.8)	(4.1)
Capex		(0.7)	(5.1)	(1.8)	(2.0)	(1.8)
Acquisitions/disposals		0	0.0	0.0	0	0
Financing		0	0.0	0.0	0	0
Dividends		0.0	(9.1)	(6.7)	(7.1)	(7.7)
Net Cash Flow		6.0	(1.167)	5.9	6.2	6.9
Opening net debt/(cash)		(0.3)	(5.8)	(4.7)	(8.5)	(14.7)
HP finance leases initiated		(0.5)	(0.4)	(2.2)	0.0	0.0
Other		0	0.4	0.1	(0.0)	0.0
Closing net debt/(cash)		(5.8)	(4.7)	(8.5)	(14.7)	(21.6)

Source: Company data, Edison Investment Research

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