

Severfield

On track

FY18 year-end update

Construction & materials

13 April 2018

Price 74.54p
Market cap £223m

Severfield's closing FY18 update reiterated latest guidance and management's confidence in attaining its FY20 PBT target of £26m. As previously noted, sector diversity is allowing the company to focus resources on relatively better areas and sustaining a stable UK order book position. Our estimates are unchanged and FY18 results are scheduled for 20 June 2018.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	239.4	13.7	3.8	1.5	19.3	2.0
03/17	262.2	20.3	5.7	2.3	13.0	3.1
03/18e	273.9	24.0	6.6	2.7	11.2	3.6
03/19e	279.2	24.6	6.7	2.8	11.0	3.8

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

Active H2, in line with expectations

Severfield has already reported a strong H1 trading period and trading conditions during H2 appear to have played out as anticipated. Our model includes similar UK revenues in both half-years but a lower profit contribution in H2 with a more normal level of contract completion effects. A reallocation of resources between UK sites (summarised as moving capability and staff into Dalton from Sherburn and Lostock) has been substantially completed. The development of several additional sectors (eg servicing smaller work packages from Sherburn, entering higher-rise, steel-framed residential accommodation and a more active European presence) are all progressing and a gradual ramp-up is anticipated here, subject to successful tendering activity. We believe that our FY18 estimates are towards the upper end of a fairly narrow range and we remain comfortable with this position.

Normal activity levels underpinning order books

Given the Google UK HQ contract win (announced 14 December), we might have expected the UK order book to have increased but it has remained stable at £242m. Some visible larger projects are well advanced – with possible margin benefits in FY19, subject to project performance and financial close – and this provides a counterbalance to project wins. We are assured that tendering activity remains high and win rates are stable, which suggests that underlying market conditions are substantially unchanged. While the Indian order book has reduced (from £79m in November to £62m on 1 April), it remains well above historical levels and, with an active project pipeline, we expect to see improving contributions here.

Valuation: Balanced attraction

Severfield's share price has broadly sustained the level reached immediately following the H118 results announcement (20 November) and has modestly outperformed the FTSE All Share Index over this time period. Valuation metrics are unchanged from our last note (trailing year P/E 11.3x and EV/EBITDA 6.5x) and the investment proposition remains well balanced between earnings growth and dividend income, in our view.

Net cash (£m) at end-March 2018	33.0
Shares in issue	298.9m
Free float	100%
Code	SFR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.9)	(13.6)	(9.4)
Rel (local)	(1.1)	(7.7)	(8.9)
52-week high/low		88.0p	59.8p

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

FY18 results	20 June 2018
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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	273.9	279.2	285.9
Cost of Sales	(242.6)	(246.9)	(268.8)	(330.9)	(217.8)	(186.7)	(219.6)	(236.3)	(244.5)	(249.1)	(253.4)
Gross Profit	24.1	20.9	(12.2)	(12.7)	13.5	14.9	19.8	25.9	29.4	30.1	32.5
EBITDA	21.6	19.5	(13.6)	(13.6)	12.0	13.6	18.9	25.7	29.3	30.2	32.9
Operating Profit - Edison	17.1	15.0	(17.7)	(18.6)	8.4	10.0	15.2	22.1	25.4	25.9	28.1
Net Interest	(0.9)	(1.6)	(1.6)	(2.0)	(0.6)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
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)	(1.5)	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	24.0	24.6	26.9
Profit Before Tax (norm)	15.3	10.1	(19.6)	(21.5)	4.0	8.3	13.2	19.8	23.5	24.1	26.4
Profit Before Tax (FRS 3)	11.1	6.8	(23.3)	(28.9)	(4.1)	(0.2)	9.6	18.1	22.0	24.1	26.4
Tax	(3.5)	(0.9)	3.9	5.7	1.4	0.3	(1.0)	(2.7)	(4.3)	(4.4)	(4.8)
Profit After Tax (norm)	11.7	7.7	(16.2)	(17.9)	3.1	7.4	11.4	17.0	19.7	20.2	22.1
Profit After Tax (FRS 3)	7.6	5.8	(19.4)	(23.1)	(2.6)	0.1	8.6	15.3	17.7	19.7	21.6
Average Number of Shares Outstanding (m)	89.0	89.3	89.3	89.3	295.8	297.5	297.5	298.9	299.4	300.0	300.0
EPS - normalised (p) - Edison	6.82	4.51	(9.42)	(10.42)	1.05	2.47	3.84	5.70	6.59	6.74	7.38
EPS - normalised (p)	6.51	4.21	(9.72)	(9.45)	0.88	2.31	3.67	5.53	6.43	6.58	7.21
EPS - FRS 3 (p)	4.47	3.41	(11.33)	(13.49)	(0.89)	0.05	2.89	5.13	5.92	6.58	7.21
Dividend per share (p)	7.5	5.0	1.5	0.8	0.0	0.5	1.5	2.3	2.7	2.8	3.0
Gross Margin (%)	9.0	7.8	(4.8)	(4.0)	5.8	7.4	8.3	9.9	10.7	10.8	11.4
EBITDA Margin (%)	8.1	7.3	(5.3)	(4.3)	5.2	6.7	7.9	9.8	10.7	10.8	11.5
Operating Margin - Edison (%)	6.4	5.6	(6.9)	(5.8)	3.6	4.9	6.4	8.4	9.3	9.3	9.8
BALANCE SHEET											
Fixed Assets	165.0	156.9	155.6	154.9	147.7	145.1	149.3	148.3	155.4	159.5	163.1
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	81.8	84.5	86.6
Investments	6.9	4.4	8.9	8.9	9.0	6.7	12.7	13.1	18.9	20.3	21.8
Current Assets	88.1	100.5	69.8	80.5	72.2	76.3	75.1	107.1	115.3	126.2	139.0
Stocks	12.6	9.1	7.1	8.2	5.8	4.8	5.3	7.8	8.0	8.2	8.3
Debtors	71.9	89.2	61.2	71.6	60.8	64.6	50.7	66.5	72.6	74.6	76.8
Cash	3.6	2.3	1.4	0.7	5.5	6.9	19.0	32.8	34.7	43.5	53.9
Current Liabilities	(99.8)	(103.6)	(97.0)	(112.5)	(57.9)	(59.7)	(58.2)	(78.7)	(84.1)	(85.3)	(86.9)
Creditors	(81.2)	(70.3)	(66.1)	(70.9)	(52.7)	(59.5)	(58.1)	(78.5)	(83.9)	(85.2)	(86.7)
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)	(21.1)	(21.1)	(21.1)
Long term borrowings	0.0	(0.3)	(0.3)	(0.2)	(0.0)	(0.6)	(0.4)	(0.2)	(0.1)	(0.1)	(0.1)
Other long term liabilities	(22.3)	(21.3)	(21.4)	(20.2)	(18.5)	(20.5)	(17.5)	(22.3)	(21.0)	(21.0)	(21.0)
Net Assets	130.9	132.3	106.6	102.4	143.4	140.6	148.2	154.2	165.6	179.2	194.2
CASH FLOW											
Operating Cash Flow	(5.8)	(5.4)	12.9	3.1	2.1	11.4	24.8	27.4	23.7	28.7	31.1
Net Interest	(0.8)	(2.0)	(1.3)	(1.7)	(0.8)	(0.8)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)
Tax	(5.4)	(3.7)	(2.7)	(2.3)	0.4	(1.0)	(0.9)	(2.4)	(2.9)	(4.3)	(4.4)
Capex	(2.8)	(1.5)	(0.2)	(1.4)	(1.5)	(1.3)	(4.3)	(5.3)	(6.1)	(7.0)	(7.0)
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)	(7.5)	(8.0)	(8.6)
Net Cash Flow	(26.6)	(16.3)	1.7	(9.7)	41.5	6.7	12.4	14.0	1.8	8.8	10.5
Opening net debt/(cash)	(11.5)	15.0	31.3	31.3	41.2	(0.3)	(6.1)	(18.4)	(32.4)	(34.4)	(43.2)
HP finance leases initiated	0	0.0	0.1	0.0	(0.2)	(0.3)	(0.2)	(0.2)	(0.1)	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)	(34.4)	(43.2)	(53.6)

Source: Company accounts, Edison Investment Research

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