

Polypipe

AGM update

Meeting management growth expectations

The latest trading update shows that all three reporting divisions are continuing to progress well and management expectations for the year are unchanged. Polypipe is a well-positioned business and management succession indicates continuity of the strategic approach. A premium rating to the sector is warranted, in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	352.9	48.0	19.4	7.8	21.7	1.9
12/16	436.9	61.8	25.0	10.1	16.8	2.4
12/17e	459.5	66.0	26.4	10.6	16.0	2.5
12/18e	475.5	70.8	28.7	11.1	14.7	2.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Firm market conditions, organic growth continuing

AGM comments confirmed that the first four months of the year were ahead of the previous year (revenue +4.6% I-f-I, +6.0% actual) with underlying progress from both UK and overseas operations. Implicitly, UK comparatives for this period have been adversely affected by pricing-related demand pull-forward into April 2016 and also December 2016; in this context, market conditions remain favourable. Given reference to some initial phasing delays in road infrastructure, we assume then that the revenue run rate for Residential Systems is trending above the 7.1% noted. New housebuilding continues to be the dominant driver here and demand for below-ground products is a good lead indicator for other lines used later in the build. Rising input costs (chiefly currency related) have been a feature of the building products sector from H216 and increased selling prices are progressively recovering this inflation. Reported margins will be influenced by these pricing moves and favourable translation over lower-margin overseas earnings, with growth in the higher-margin residential segment mitigating some of this dilution. Management's full year expectations and our estimates are unchanged.

Succession planning

Current CFO Martin Payne is to become CEO in October following the intended retirement of the incumbent. David Hall led an MBO in 2005 and has shaped the business and its strategy over the last 12 years, and a balanced portfolio with excellent positions in long-term growth segments is the product of this tenure. We expect the strong senior management team to continue to develop the business along these lines and the search for a new CFO is underway in good time.

Valuation: Developing a premium rating

Since our last note, Polypipe's share price has gained a further c 9%, taking the total ytd rise to c 30%. Consequently, the current year rating has risen to P/E 16.0x and EV/EBITDA 10.8x, more towards the premium that we believe is warranted. By FY18e these multiples reduce to 14.7x and 9.9x respectively, suggesting scope for further share price outperformance over time.

General industrials

26 May 2017

Price **421.1p**
Market cap **£835m**

£/€1.14

Net debt (£m) at end December 2016 164.3

Shares in issue 198.3m

Free float 93%

Code PLP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.8 24.9 30.0

Rel (local) 0.7 19.6 8.8

52-week high/low 436.5p 221.5p

Business description

Polypipe is a leading European supplier of plastic building products and ventilation systems. UK operations (c 87% of annualised FY16 net revenue and c 98% of EBIT) address a broad range of sectors including residential, commercial and civil building demand and a number of subsectors within them. Overseas operations are located in France and Italy with a new manufacturing facility in the Middle East.

Next events

H117 period end June 2017

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Exhibit 1: Financial summary

	£m	2014	2015	2016	2017e	2018e	2019e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		327.0	352.9	436.9	459.5	475.5	489.8
Cost of Sales		(202.4)	(210.0)	(256.8)	(271.1)	(279.1)	(286.5)
Gross Profit		124.6	142.9	180.1	188.4	196.4	203.2
EBITDA		60.8	69.3	86.4	90.8	96.0	100.2
Operating Profit (underlying)		46.3	54.2	70.4	74.5	79.5	83.4
SBP		0.0	0.0	(1.0)	(1.2)	(1.3)	(1.3)
Operating Profit (reported)		46.3	54.2	69.4	73.4	78.2	82.1
Net Interest		(7.7)	(5.3)	(6.6)	(6.4)	(6.4)	(6.3)
Other finance		(1.0)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)
Intangible Amortisation		0.0	(3.0)	(6.8)	(6.3)	(6.3)	(6.3)
Exceptionals		(20.7)	(3.5)	(0.6)	0.0	0.0	0.0
Profit Before Tax (norm)		37.6	48.0	61.8	66.0	70.8	74.9
Profit Before Tax (FRS 3)		16.9	41.5	54.4	59.7	64.6	68.6
Tax		(5.4)	(9.2)	(11.8)	(13.2)	(13.5)	(13.5)
Profit After Tax (norm)		32.2	38.8	50.0	52.8	57.3	61.4
Profit After Tax (FRS 3)		11.5	32.3	42.6	46.5	51.1	55.1
Average Number of Shares Outstanding (m)		199.9	199.3	198.9	198.9	198.9	198.9
EPS - normalised (p)		16.1	19.4	25.0	26.4	28.7	30.7
EPS - FRS 3 (p)		5.8	16.2	21.4	23.4	25.7	27.7
Dividend per share (p)		4.5	7.8	10.1	10.6	11.1	11.7
Gross Margin (%)		38.1	40.5	41.2	41.0	41.3	41.5
EBITDA Margin (%)		18.6	19.6	19.8	19.7	20.2	20.4
Operating Margin (underlying) (%)		14.2	15.4	16.1	16.2	16.7	17.0
BALANCE SHEET							
Fixed Assets		324.2	476.5	472.6	474.6	471.8	468.8
Intangible Assets		235.0	378.4	371.6	364.8	358.6	352.3
Tangible Assets		89.2	98.1	101.0	109.8	113.3	116.5
Investments		0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		103.9	99.6	119.5	151.0	185.2	222.2
Stocks		39.9	47.5	52.2	55.1	56.7	58.2
Debtors		20.2	29.3	38.4	40.0	41.6	42.9
Cash		43.1	21.6	26.5	51.3	81.9	115.6
Current Liabilities		(69.8)	(87.2)	(104.5)	(111.0)	(111.9)	(112.4)
Creditors		(69.8)	(87.2)	(104.5)	(111.0)	(111.9)	(112.4)
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(120.6)	(227.9)	(200.2)	(201.5)	(202.6)	(203.8)
Long term borrowings		(118.0)	(215.9)	(190.8)	(190.8)	(190.8)	(190.8)
Other long term liabilities		(2.6)	(12.0)	(9.4)	(10.7)	(11.8)	(13.0)
Net Assets		237.7	261.0	287.4	313.1	342.4	374.8
CASH FLOW							
Operating Cash Flow		50.6	72.6	86.5	88.3	93.1	97.3
Net Interest		(10.4)	(5.7)	(7.3)	(6.4)	(6.4)	(6.3)
Tax		(3.7)	(5.2)	(10.1)	(10.0)	(13.2)	(13.5)
Capex		(14.9)	(18.9)	(18.7)	(25.0)	(20.0)	(20.0)
Acquisitions/disposals		(0.3)	(149.5)	0.0	0.0	0.0	0.0
Financing		(1.7)	0.0	(2.9)	(1.5)	(1.5)	(1.5)
Dividends		(3.0)	(10.6)	(17.1)	(20.6)	(21.4)	(22.4)
Net Cash Flow		16.6	(117.3)	30.5	24.8	30.6	33.7
Opening net debt/(cash)		84.7	74.9	194.3	164.3	139.5	108.9
HP finance leases initiated		(9.6)	(1.7)	0.0	0.0	0.0	0.0
Other		2.8	(0.4)	(0.5)	0.0	0.0	0.0
Closing net debt/(cash)		74.9	194.3	164.3	139.5	108.9	75.2

Source: Company accounts, Edison Investment Research

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