

Epwin Group

In-line year-end update

FY18 year-end update

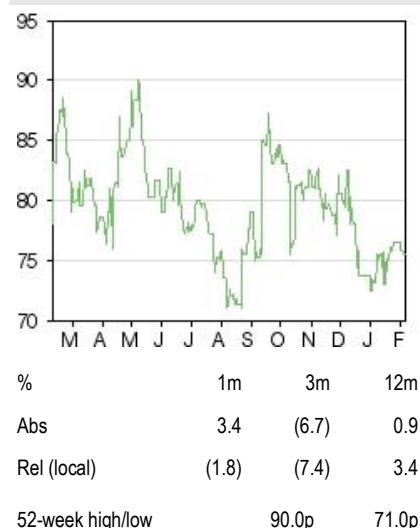
Construction & materials

6 February 2019

Price **75.1p**
Market cap **£107m**

Net debt (£m) at end June 2018 28.6
 Shares in issue 142.9m
 Free float 67%
 Code EPWN
 Primary exchange AIM
 Secondary exchange N/A

Share price performance



Business description

Epwin Group 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

FY18 results 10 April 2019

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Consistent messaging from the Epwin management team continued with a year-end update that confirmed that FY18 trading had been in line with market expectations. The theme of self-help given market headwinds is ongoing with tangible evidence of actions taken and planned. Market backdrop uncertainty is reflected in Epwin's rating multiples. A dividend yield approaching 7% (c 1.9x covered) should be of interest to investors.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16**	293.2	24.3	14.7	6.6	5.1	8.8
12/17	298.3	20.5	12.4	6.7	6.1	8.9
12/18e	292.2	17.0	9.7	5.3	7.7	7.0
12/19e	295.8	17.9	10.2	5.5	7.3	7.3

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptionals. **FY16 and FY17 EPS benefited in part from recovered tax losses.

H2 progress, net debt below 1x EBITDA

FY18 ended in line with a narrow range of market expectations, which confirms a material improvement in H2 profitability was achieved versus H1. This is partly a normal seasonal effect but also shows some year-on-year progress, demonstrating some recovery from previously noted customer ownership changes. Operational improvements – including exits from two sites (Cardiff and Macclesfield) – and a contribution from Amicus (the 15-branch building products distribution business acquired in March) would have contributed to this outturn, which was achieved despite input cost pressures (especially PVC). Management commented that year-end net debt was less than 1x EBITDA in the year and our c £25m expectation (vs EBITDA of c £27m) is consistent with this and suggests good cash flow control.

More self-help actions in uncertain markets

Reference to macroeconomic and Brexit uncertainty is now commonplace in trading updates. Epwin has repeated this business caveat and expects no RMI rebound in FY19. The post year-end disposal of glass sealed unit manufacturing operations (likely to give rise to an exceptional charge in discontinuing this business) and proposed new warehouse facility at Telford (completion likely by the end of FY19) are further examples of internal actions being taken to enhance business resilience and core growth prospects in challenging markets. These features aside, volume growth, new product sales – including aluminium window systems - and the extent to which polymer price changes need and are able to be passed through to customers will remain the primary drivers of profitability in FY19.

Valuation: Expecting earnings progress from FY19

Epwin's share price currently sits in the lower half of its 12-month 71–90p trading range, being modestly above December levels. Investor sentiment towards cyclical stocks weakened noticeably in Q418 and the shadow of Brexit is creating uncertainty over future economic growth rates. On our estimates, Epwin is now trading on a trailing year P/E of 7.7x, EV/EBITDA of 4.9x and a dividend yield of almost 7% (covered c 1.9x). We expect FY18 to be an earnings low point with gradual growth to resume from FY19.

Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
		Restated								
Revenue		294.4	255.3	259.5	256.0	293.2	298.3	292.2	295.8	300.0
Cost of Sales		(209.9)	(185.8)	(186.7)	(178.6)	(200.6)	(207.5)	(206.0)	(206.5)	(209.4)
Gross Profit		84.5	69.5	72.8	77.4	92.6	90.8	86.2	89.3	90.6
EBITDA		21.8	21.4	24.5	25.6	33.3	30.3	27.2	28.2	28.9
Operating Profit (before GW and except.)		15.4	15.6	19.5	20.1	25.6	22.3	18.9	19.7	20.2
Intangible Amortisation		(1.7)	(1.7)	(1.7)	(0.0)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)
Exceptionals		(4.3)	(5.1)	2.3	(0.6)	(0.2)	(7.4)	(1.5)	0.0	0.0
Other		0.0	0.0	(0.8)	(0.4)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Operating Profit		9.4	8.8	19.3	19.1	24.0	13.2	15.6	17.9	18.4
Net Interest		(1.9)	(1.0)	(0.7)	(0.5)	(1.0)	(1.2)	(1.3)	(1.2)	(1.0)
Profit Before Tax (norm)		13.5	14.6	18.0	19.2	24.3	20.5	17.0	17.9	18.6
Profit Before Tax (FRS 3)		7.5	7.9	18.6	18.6	23.0	12.0	14.3	16.7	17.4
Tax		(2.2)	(1.3)	(3.5)	(3.3)	(3.4)	(1.9)	(3.1)	(3.2)	(3.3)
Profit After Tax (norm)		10.4	12.4	14.4	15.9	20.9	17.6	13.9	14.6	15.2
Profit After Tax (FRS 3)		4.5	5.1	15.1	15.3	19.6	10.1	11.2	13.4	14.0
Average number of shares outstanding (m)		122.3	122.3	128.0	135.2	141.5	142.6	142.9	142.9	142.9
EPS - normalised (p)		8.5	10.1	11.2	11.8	14.8	12.4	9.8	10.2	10.6
EPS - normalised (p) FD				11.2	11.7	14.7	12.4	9.7	10.2	10.6
EPS - FRS 3 (p)		3.7	4.2	11.8	11.3	13.8	7.1	7.9	9.4	9.8
Dividend per share (p)		0.0	0.0	4.2	6.4	6.6	6.7	5.3	5.5	5.7
Gross Margin (%)		28.7	27.2	28.1	30.2	31.6	30.4	29.5	30.2	30.2
EBITDA Margin (%)		7.4	8.4	9.4	10.0	11.3	10.2	9.3	9.5	9.6
Operating Margin (before GW and except.) (%)		5.2	6.1	7.5	7.9	8.7	7.5	6.5	6.6	6.7
BALANCE SHEET										
Fixed Assets		56.9	54.7	53.8	93.5	108.5	106.2	111.7	111.0	110.0
Intangible Assets		27.9	26.4	24.7	59.7	70.2	69.6	73.7	72.5	71.3
Tangible Assets		26.1	25.1	26.2	33.1	37.9	36.0	37.5	38.0	38.2
Other		2.8	3.2	2.9	0.7	0.4	0.6	0.5	0.5	0.5
Current Assets		59.9	62.1	62.3	87.2	82.6	82.2	82.7	83.3	84.2
Stocks		20.9	21.7	22.4	23.6	28.2	29.6	31.4	31.5	31.9
Debtors		37.4	40.1	37.6	41.5	41.4	45.3	45.5	46.0	46.5
Cash		1.6	0.3	2.3	22.1	13.0	7.3	5.8	5.8	5.8
Current Liabilities		(53.2)	(54.5)	(49.0)	(68.8)	(79.2)	(79.2)	(91.0)	(90.0)	(84.8)
Creditors		(49.1)	(51.5)	(48.6)	(53.2)	(62.9)	(58.2)	(65.9)	(65.5)	(66.9)
Short term borrowings		(4.1)	(3.0)	(0.4)	(15.6)	(16.3)	(21.0)	(25.0)	(24.5)	(17.9)
Long Term Liabilities		(32.0)	(25.7)	(4.3)	(31.8)	(21.0)	(15.5)	(9.1)	(4.1)	(3.2)
Long term borrowings		(20.6)	(16.0)	(0.8)	(20.9)	(17.3)	(11.4)	(5.9)	(0.9)	0.0
Other long term liabilities		(11.4)	(9.7)	(3.5)	(10.9)	(3.7)	(4.1)	(3.2)	(3.2)	(3.2)
Net Assets		31.5	36.6	62.8	80.1	90.9	93.7	94.3	100.1	106.3
CASH FLOW										
Operating Cash Flow		15.7	12.1	19.8	23.8	30.8	19.9	22.4	26.7	28.4
Net Interest		(1.4)	(0.9)	(0.7)	(0.5)	(1.0)	(1.0)	(1.2)	(1.2)	(1.0)
Tax		(1.6)	(0.9)	(1.7)	(2.3)	(3.8)	(2.7)	(2.6)	(2.7)	(2.8)
Capex		(4.6)	(4.9)	(5.6)	(9.0)	(12.7)	(7.1)	(9.3)	(9.3)	(9.3)
Acquisitions/disposals		(28.2)	(0.2)	0.0	(20.9)	(10.2)	(3.9)	0.0	(0.3)	0.0
Financing		0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	(1.9)	(6.7)	(9.1)	(9.5)	(9.3)	(7.6)	(7.9)
Net Cash Flow		(20.2)	5.2	19.9	(15.6)	(6.1)	(4.3)	0.1	5.6	7.4
Opening net debt/(cash)		0.5	23.2	18.7	(1.1)	14.4	20.6	25.1	25.1	19.6
HP finance leases initiated		(2.5)	(0.5)	(0.3)	0.4	1.9	(1.4)	(0.6)	0.0	0.0
Other		0.0	(0.1)	0.2	(0.3)	(2.1)	1.2	0.5	(0.0)	(0.0)
Closing net debt/(cash)		23.2	18.6	(1.1)	14.4	20.6	25.1	25.1	19.6	12.1

Source: Epwin accounts, Edison Investment Research. Note: FY13 to FY17 EPS benefited in part from recovered tax losses.

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