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Marshalls

Construction & materials

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Well positioned in sectors with best prospects

FY17 trading was in line with expectations, with good sector performance in the context of wider industry trends. The CPM acquisition should aid another premium growth year in 2018, beyond which the UK economic outlook should be clearer. Rating premia are earned during growth phases, but can also be sustained during less favourable industry conditions via relative outperformance, and this is what we expect to prevail at Marshalls.

Progress on all fronts

An in-line year-end update – with 6% underlying l-f-l group revenue progress – included implicitly lower underlying y-o-y revenue growth in H2 at group level and in both leading sectors. In an industry context, this should not come as a surprise and, nevertheless, we believe that Marshalls has produced above sector performances in both Domestic (supported by an older consumer demographic) and Public Sector & Commercial (due to subsector mix) operations. The earnings-enhancing acquisition of CPM in October is a strong strategic fit (in client profile and materials), which should bring both earlier build cycle revenues and an enhanced share of project value in infrastructure work.

Earnings growth ahead of underlying markets

CPM contributes to a double-digit earnings growth expectation for 2018. Industry data do point to slower growth in 2018 and 2019, but road/rail infrastructure and housebuilding, where Marshalls is well positioned, are expected to be the leading subsectors. Hence we believe that underlying revenue growth in consensus estimates is probably too low at c 1% and, while there is implicitly some underlying margin expansion also (given that CPM's were below group level pre-acquisition), guidance for flat group margins is on the conservative side, in our view. Investment across the business has been in evidence for a while now; we anticipate net debt of c £20m at the end of FY17 which leaves plenty of headroom under existing facilities to continue to do so to support growth while also representing low financial risk.

Valuation: Trading through to economic clarity

Marshalls modestly de-rated in the last quarter but the share price rose by almost 60% over 2017 as a whole, driving a premium sector rating. This is warranted in our view but, in a post-peak growth cyclical phase, investor caution is understandable. We believe that Marshalls can grow in flat markets and to a point where the post-Brexit economic outlook is clearer. Polypipe operates in similar markets and trades at a discount to Marshalls; we believe there is scope to hold both.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15	386.2	35.3	14.1	9.0*	32.4	2.0*
12/16	396.9	46.0	18.6	11.7*	24.6	2.6*
12/17e	424.0	52.0	21.2	12.0	21.6	2.6
12/18e	480.9	59.3	24.2	12.2	18.9	2.7
12/19e	513.0	64.6	26.1	13.2	17.5	2.9

Source: Bloomberg. Note: *Including supplementary DPS 2016 3.0p (2015: 2.0p) payable with 5.8p final.

Price	457p
Market cap	£911m

Share price graph

Share details

Code	MSLH
Listing	LSE
Shares in issue	199.4m

Business description

Marshalls is the UK's leading manufacturer of superior natural stone and innovative concrete hard landscaping and water management products, supplying the construction, home improvement and landscape markets. It operates its own quarries and manufacturing sites throughout the UK, and has a national network of distribution sites. Commercial/ public sector accounted for 64% of FY16 revenue, Domestic/residential 31% and a small International division based in Belgium the remaining 5%.

Bull

- Leading UK brand and market position.
- Progressive growth strategy supported by investment with low financial risk.
- CPM acquisition benefits to come.

Bear

- UK consumer confidence and residential RMI spending subdued.
- Patchy industrial and local authority demand.
- International operations less well developed.

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