

Severfield

Upside risks to margins and profits

Severfield has suffered greatly in the last 12 months, but the outlook appears to be improving as the order book is expanding and the low embedded margins within it wash out over the next 12 months or so. Furthermore, we anticipate the recruitment of a new chief executive 'imminently' and the company could return to paying dividends in the current year if the outlook and balance sheet improve sufficiently. Margin recovery could imply that risks are to the upside in FY27.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
3/24e	463.5	36.5	8.85	3.70	3.6	11.6
3/25e	450.9	18.1	4.28	1.40	7.5	4.4
3/26e	449.6	10.1	2.55	1.50	12.5	4.7
3/27e	458.6	19.3	4.89	2.00	6.5	6.3

Note: PBT and EPS are on an underlying, diluted, company basis, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Results in line with reduced expectations

Severfield's FY25 revenue declined 2.7% to £450.9m. Underlying operating profit (before joint ventures (JVs) and associates) fell by 42.6% to £21.7m, reflecting the challenging market conditions in H225 that disproportionately affected profit as pricing came under pressure. The Indian JV suffered similarly from project delays. Year-end net debt increased materially to £43.1m and the company passed on the final dividend to preserve capital. It retains c £30m of headroom in its financing arrangements and also agreed a £20m sale option over some of its Indian JV.

Bridge remediation progress made

Severfield made significant progress remediating the weld specification issues on the 12 bridges. Most of the work has been agreed and/or completed at a cost of £23.4m, net of £20m of professional indemnity insurance cover, with a further £9.1m of other bridge-related costs. Cash costs were £19.6m in FY25 with a similar cost to be incurred in FY26, which is expected to be completely offset by the receipt of the insurance payout.

Order book improved for the first time in two years

Severfield has seen its total UK and Europe order book slowly decline over the last two years as projects have been delayed, deferred or even cancelled. However, the outlook is improving and this is reflected in the latest order book, which as at July 2025 stood at £444m, up from £410m in November 2024. The growth is well spread with an increase in both the Commercial and Industrial order book, and the Nuclear and Infrastructure order book.

FY26e and FY27e margins offer valuation upside

FY26 is expected to be the nadir for operating profit as margins in the core business are expected to be as low as 2.9%, compared to 8.1% in FY24, and a medium-term target of 8–10% across both core divisions. In FY27, when the lower embedded margin work feeds out of the order book, we expect a recovery to 4.6%, which implies a P/E of 6.5x.

FY25 preliminary results

General industrials

29 July 2025

Price	32.00p
Market cap	£95m
Net cash/(debt) at 31 March 2025	£(43.1)m
Shares in issue	296.2m
Free float	100.0%
Code	SFR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(11.1)	40.4	(57.9)
52-week high/low		87.1p	18.8p

Business description

Severfield is a market-leading UK structural steelwork fabricator operating across a broad range of market sectors, now with a Dutch subsidiary. An Indian facility undertakes structural steelwork projects for the local market in a joint venture with India's largest steel producer, JSW Steel.

Next events

AGM and trading update	August 2025
Interims results	November 2025

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Poor H225 performance, but outlook improving

H225 witnessed two headwinds that, though painful, appear to be largely behind the company. Firstly, the underlying market deteriorated with some projects either being delayed or cancelled, and secondly, the 'bridge' issue surfaced, which has proved to be costly. As a result, debt has risen materially and the dividend is on hold for now. However, trading appears to be improving and demand is increasing, as witnessed by the increasing order book, and the bridge remediation issues are well on the way to resolution. If trading across the group continues to improve, there is a chance that both year-end net debt could be lower than we expect and the dividend could be reinstated, which is what we forecast. Both are likely to lead to improved sentiment for this market-leading stock.

FY25 results were disappointing, but in line with previous expectations

Severfield's FY25 results were weak, particularly due to a deterioration in the second half of the financial year. H1 revenue had increased by c 17%, but by the end of the period, total revenue fell 2.7% to £450.9m, reflecting lower production activity in H225 in the Core Construction Operations, the dominant operations of the group. Underlying operating profit (before JVs and associates) fell by 42.6% to £21.7m, reflecting the challenging market conditions in H225 that disproportionately affected profit as pricing came under pressure from excess market capacity.

In addition to the weakness in the core markets, Severfield's Indian JV also suffered from pressure on profits as it was hit by delays in existing and expected projects, which resulted in a sharp decline in the overall output. The effect of the delays was felt more sharply as it was some of the largest projects in the record order book that slipped in terms of timing.

Exhibit 1: FY25 results summary

(£m)	FY23	H124	FY24	% change	H125	FY25	% change
Revenue							
Commercial and Industrial	382.1	166.5	361.8	-5.3%	205.0	349.6	-3.4%
Nuclear and Infrastructure	94.7	41.5	87.4	-7.7%	42.2	85.9	-1.8%
Core Construction Operations	476.9	208.0	449.2	-5.8%	247.2	435.4	-3.1%
Modular Solutions	22.8	10.7	21.5	-5.7%	9.8	24.2	12.6%
Central items	(7.9)	(3.4)	(7.2)	-8.9%	(4.7)	(8.7)	20.8%
Total revenues	491.8	215.3	463.5	-5.8%	252.3	450.9	-2.7%
Underlying operating profit							
Core Construction Operations	33.7	14.7	37.4	10.9%	17.1	21.3	-43.1%
Modular Solutions	(0.6)	0.1	0.3	N/A	0.0	0.4	22.7%
Underlying operating profit	33.1	14.8	37.7	14.0%	17.2	21.7	-42.6%
CMF (share of profit)	0.6	0.1	0.1	-91.4%	0.4	0.0	-100.0%
India	1.3	0.6	1.9	46.2%	0.1	0.1	-94.7%
Interest	(2.5)	(1.4)	(3.1)	24.5%	(1.5)	(3.6)	16.8%
Underlying profit before tax	32.5	14.2	36.5	12.6%	16.1	18.1	-50.4%
Underlying operating margin							
Core Construction Operations	7.1%	7.1%	8.3%	1.3%	6.9%	4.9%	3.6%
Modular Solutions	-2.8%	0.9%	1.4%	4.2%	0.1%	1.5%	-2.7%
Underlying operating margin	6.7%	6.9%	8.1%	1.4%	6.8%	4.8%	3.4%

Source: Company data, Edison Investment Research

Severfield ended the year with net debt of £43.1m, having started the year with net debt of £9.4m. The principal outflows in the period included an expected working capital outflow of £15.6m (unwind of advance payments), bridge remedial costs of £19.6m, capital expenditure of £6.9m, dividends of £11.2m and £8.6m for the share buyback programme. The remedial costs, dividends and share buyback total £38.4m of outflows and are not expected to repeat in the current year, thus removing significant pressure on the balance sheet.

The company retains c £30m of headroom in its financing arrangements.

Non-underlying items pushed statutory PBT into a loss

Severfield's underlying PBT fell by 50% to £18.1m, while its statutory loss before tax was £17.5m (2024: profit of £23.0m). The difference of £35.6m is the sum of a number of items, with the two largest elements being bridge testing

and remedial costs (net of £20m of insurance recoveries) of £23.4m and £9.1m of other bridge-related costs.

The latter figure includes 'a reversal of revenue for certain variation orders' and provisions for third-party consequential costs and claims. Severfield is actively pursuing full recovery of the outstanding receivables and is contesting other elements of the claims. Both are the subject of ongoing discussion and legal process, implying that the £9.1m total figure is a worst-case scenario.

In the period, Severfield incurred £19.6m of cash costs relating to the 12 bridge projects in question, which contributed to the increase in net debt, from £9.4m at 31 March 2024 to £43.1m a year later. In the current financial year, the company expects to incur cash costs relating to bridge remediation activity of c £20m, which is likely to be totally offset by the agreed insurance proceeds of a similar figure.

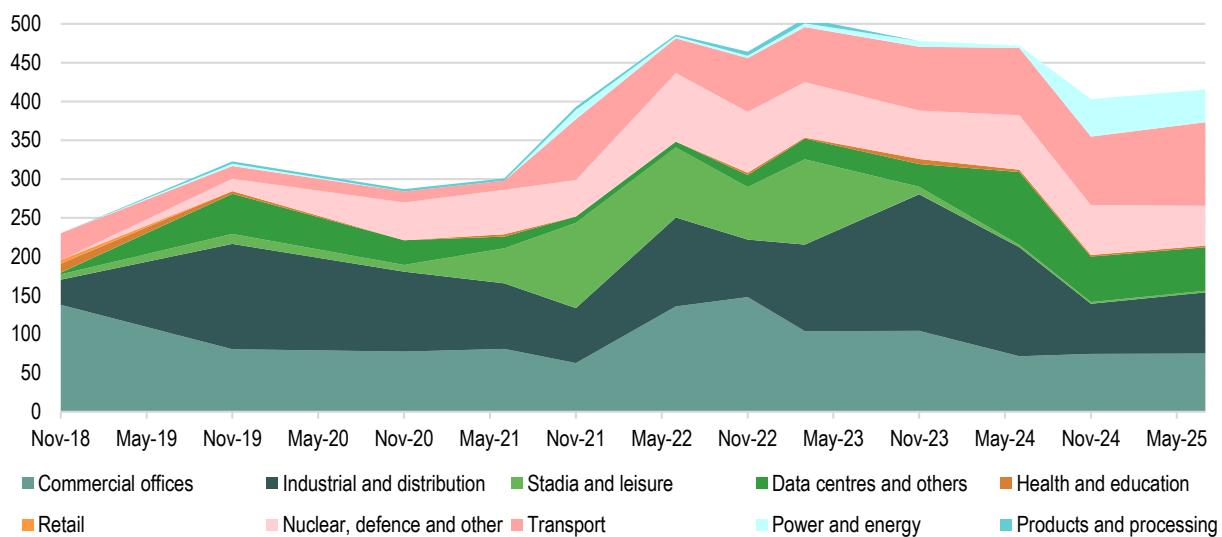
Order book returns to growth

Severfield has seen its total UK and Europe order book slowly decline over the last two years as projects have been delayed, deferred or even cancelled, and a lack of large project demand has led to more competition between suppliers and therefore keener (ie lower) prices for the remaining work. This increased competition has resulted in the revenue pressure and margin declines that were evident in the results.

However, the outlook is improving and this is reflected in the latest order book, which as at July 2025 stood at £444m, up from £410m in November 2024. The growth is well spread with an increase in both the Commercial and Industrial order book, and the Nuclear and Infrastructure order book. Severfield has secured new orders for industrial facilities and commercial offices as well as data and distribution centres. There are also certain megatrends that support the outlook. For example, the green energy transition implies increasing demand for battery plants, infrastructure for renewables and energy efficient buildings and the growth in AI is driving increased demand for data centres.

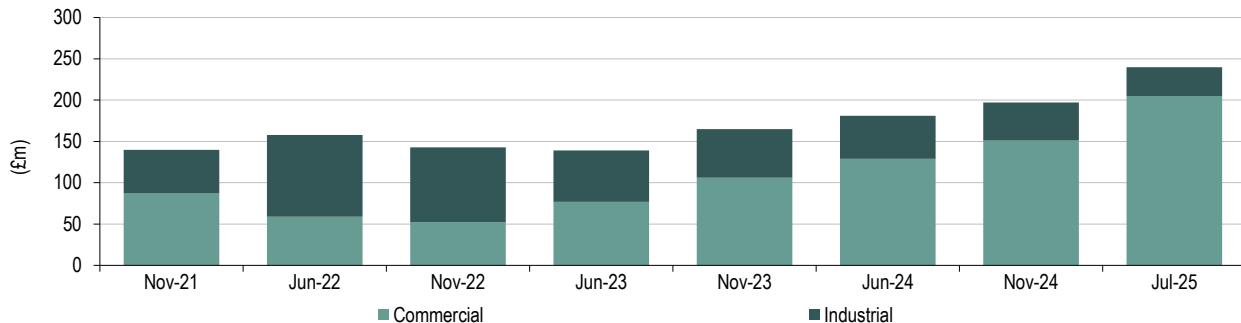
Furthermore, the current UK government is driving a 10-year infrastructure investment and renewal programme that is likely to see £750bn invested in areas such as energy, transport and defence. These plans are at a relatively early stage but should eventually see demand for steel increase substantially. Other examples of potential non-government projects include the rebuilding or expansion of sports stadiums, including Old Trafford (Manchester United), Elland Road (Leeds United) and St James' Park (Newcastle United). Severfield has a very strong track record here, having been heavily involved in the building of Bramley Docks (Everton), the Tottenham Hotspur Stadium and Lords Cricket Ground.

Exhibit 2: UK and Europe order book, by period and sector (£m)



Source: Severfield, Edison Investment Research

The Indian JV is currently expanding its capacity from 110,000t to 184,000t, and the economic outlook is improving, with GDP forecast to grow from £3.5tn in 2023 to £7.5tn in 2030. This bodes well for the JV, which has seen its order book grow strongly in the last 12 months even if the actual volume of activity fell in FY25, from 100,000t to 64,000t. The JV is working on a number of prospects that are not reflected in the order book, but should result in a further increase in the backlog as the Indian economy continues to expand.

Exhibit 3: India order book


Source: Severfield, Edison Investment Research

Net debt set to peak in FY26 and a return to dividends to be considered

Due to the twin effect of weaker markets and the costs of remedial action relating to the bridge rectification, net debt rose significantly in FY25. However, at the year-end the £43.1m of net debt reported was c £2m better than we had expected, which we have fed through our model and is the primary reason why net debt is expected to be modestly lower in FY26 and FY27 than we had previously expected.

Exhibit 4: Revised forecasts

£m	2025		2026e		2027e		
	Old	New	% chg	Old	New	% chg	
Revenue	450.9	449.6	0.0%	458.6	458.6	0.0%	
Y-o-y % change	-2.7%	2.0%	-0.3%	-	2.0%	2.0%	-
EBITDA – Edison basis	29.0	21.5	-0.1%	30.6	30.6	0.1%	
Y-o-y % change	-37.2%	5.6%	-25.8%	-	42.3%	42.6%	-
Underlying operating profit	21.8	14.5	-0.1%	23.6	23.6	0.1%	
Y-o-y % change	-45.1%	6.9%	-33.4%	-	62.8%	63.2%	-
PBT (underlying, pre exceptions)	18.1	10.1	-0.2%	18.7	19.3	3.4%	
Y-o-y % change	-50.4%	4.8%	-44.4%	-	85.1%	91.7%	-
EPS – underlying, diluted (p)	4.3	2.5	2.553	1.0%	4.7	4.9	4.1%
Y-o-y % change	-51.7%	11.8%	-40.3%	-	86.0%	91.7%	-
DPS (p)	1.4	1.5	1.5	0.0%	2.0	2.0	0.0%
Y-o-y % change	-64.9%	0.0%	7.1%	-	33.3%	33.3%	-
Net (debt)/cash (pre IFRS 16)	(43.1)	(46.3)	(45.4)	-2.0%	(40.5)	(39.0)	-3.7%
Y-o-y % change	-358.7%	2.3%	5.3%	-	-12.5%	-14.0%	-

Source: Severfield and Edison Investment Research

Despite the elevated debt levels, Severfield has been able to extend its existing banking arrangements by one year to 2027 and this gives the company banking headroom of c £30m. In addition, it recently entered into an agreement with its Indian JV partner to sell up to 24.9% of its 50% stake in the JV to its partner for £20m, potentially offering Severfield access to further headroom, should the need arise.

The current expectation is that this is a worst-case scenario, with Severfield still of the view that India offers long-term value-creation opportunities given the strength of the JV, the rapid growth expected in the Indian economy and the recent expansion of the capacity of the JV.

That said, Severfield passed on the final dividend for FY25, implying a total payment of 1.3p per share for the year, compared to 3.7p per share paid in respect of FY24. We understand that management's intention is to return to paying a dividend as soon as practically possible. Given that the order book is picking up and the opportunities further out look exciting, there is a chance that Severfield may declare an interim dividend, though we believe it is more likely that the board will wait until the full year to consider a dividend declaration. We are currently forecasting a 1.5p per share dividend in respect of FY26, which implies dividend cover of 1.7x on an underlying basis. This 1.5p per share dividend implies a cost of £4.4m and is included in our FY27 net debt estimate of £38.7m.

Exhibit 5: Financial summary

	£'m	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT											
Revenue	274.9	327.4	363.3	403.6	491.8	463.5	450.9	449.6	458.6	467.8	
EBITDA	28.6	33.3	29.6	33.4	40.4	46.1	29.0	21.5	30.6	33.3	
Normalised operating profit	24.9	29.3	25.1	28.2	35.0	39.6	21.8	14.5	23.6	26.3	
Operating profit (U/L, Company basis, inc JVs)	24.9	29.3	25.1	28.2	35.0	39.6	21.8	14.5	23.6	26.3	
Amortisation of acquired intangibles	0.0	(1.4)	(2.8)	(5.2)	(3.3)	(5.4)	(2.6)	(5.2)	(5.2)	(5.2)	
Exceptionals	0.0	(1.4)	0.0	(0.2)	(1.5)	(7.8)	(32.9)	0.4	0.4	0.4	
Share-based payments	(0.1)	(0.3)	0.6	1.0	3.4	0.4	0.5	0.5	0.5	0.5	
Other	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Reported operating profit	24.8	26.7	22.9	23.8	33.6	26.8	(13.2)	10.2	19.3	22.0	
Net interest	(0.2)	(0.7)	(0.8)	(1.1)	(2.5)	(3.1)	(3.6)	(4.4)	(4.3)	(3.9)	
Exceptionals	0.0	(0.5)	(0.4)	(0.7)	(0.6)	(0.3)	(0.2)	(0.4)	(0.4)	0.6	
Profit Before Tax (norm)	24.7	28.6	24.3	27.1	32.5	36.5	18.1	10.1	19.3	22.4	
Profit before tax (U/L, Company basis)	24.7	28.6	24.3	27.1	32.5	36.5	18.1	10.1	19.3	22.4	
Profit Before Tax (reported)	24.7	25.8	21.1	21.0	27.1	23.0	(17.5)	4.9	14.1	18.2	
Reported tax	(4.5)	(5.4)	(3.8)	(5.4)	(5.5)	(7.1)	3.4	1.3	(4.8)	(5.6)	
Profit After Tax (norm)	20.2	23.2	20.5	21.7	26.9	29.4	21.6	11.4	14.5	16.8	
Profit After Tax (reported)	20.2	20.4	17.3	15.6	21.6	15.9	(14.1)	6.2	9.3	12.6	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net income (normalised)	20.2	23.2	20.5	21.7	26.9	29.4	21.6	11.4	14.5	16.8	
Net income (reported)	20.2	20.4	17.3	15.6	21.6	15.9	(14.1)	6.2	9.3	12.6	
Basic average number of shares outstanding (m)	303.1	305.4	307.3	308.8	309.5	307.1	302.5	296.2	296.2	296.2	
EPS - basic reported (p)	6.7	6.7	5.6	5.1	7.0	5.2	(4.7)	2.1	3.1	4.3	
EPS - basic normalised (p)	6.7	7.6	6.7	7.0	8.7	9.6	7.1	3.8	4.9	5.7	
EPS - diluted normalised (p)	6.6	7.6	6.7	7.0	8.6	9.5	7.1	3.8	4.9	5.7	
EPS - (U/L, diluted, company basis) (p)	6.6	7.7	6.4	7.2	8.4	8.9	4.3	2.6	4.9	5.7	
Dividend (p)	2.8	2.9	2.9	3.1	3.4	3.7	1.4	1.5	2.0	2.5	
Revenue growth (%)	N/A	19.1	11.0	11.1	21.9	(5.7)	(2.7)	(0.3)	2.0	2.0	
EBITDA Margin (%)	10.4	10.2	8.1	8.3	8.2	10.0	6.4	4.8	6.7	7.1	
Normalised Operating Margin (%)	9.1	9.0	6.9	7.0	7.1	8.6	4.8	3.2	5.2	5.6	
BALANCE SHEET											
Fixed Assets	163.0	203.8	230.1	230.1	228.4	259.3	254.3	251.3	250.0	250.2	
Intangible Assets	54.7	78.1	95.4	92.5	89.3	104.0	100.4	100.6	100.8	101.0	
Tangible Assets	84.0	88.9	91.7	91.4	92.1	96.4	96.7	95.7	94.7	93.7	
Investments & other	24.3	36.8	43.0	46.1	47.0	58.9	57.2	55.0	54.5	55.5	
Current Assets	91.8	127.4	107.7	140.7	136.6	119.1	146.6	151.1	151.1	153.8	
Stocks	8.9	6.9	10.2	18.0	13.2	11.6	11.8	14.8	12.4	12.6	
Debtors	57.1	74.6	67.8	117.9	109.7	88.3	116.4	121.4	123.8	126.3	
Cash & cash equivalents	25.0	44.3	25.0	0.0	11.3	13.8	15.5	12.0	12.0	12.0	
Other	0.8	1.6	4.6	4.8	2.3	5.3	2.9	2.9	2.9	2.9	
Current Liabilities	(58.6)	(106.4)	(85.4)	(123.3)	(109.0)	(91.5)	(92.4)	(91.2)	(92.8)	(94.5)	
Creditors	(57.7)	(84.4)	(77.8)	(111.7)	(102.7)	(78.9)	(82.1)	(80.9)	(82.5)	(84.2)	
Tax and social security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Short term borrowings	0.0	(19.4)	(5.9)	(5.9)	(4.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	
Other	(1.0)	(2.6)	(1.7)	(5.7)	(2.2)	(6.3)	(4.1)	(4.1)	(4.1)	(4.1)	
Long-Term Liabilities	(21.2)	(41.2)	(61.4)	(43.5)	(38.3)	(54.4)	(95.0)	(95.3)	(87.0)	(81.1)	
Long-term borrowings	0.0	(8.8)	(14.9)	(9.0)	(4.8)	(13.8)	(52.6)	(54.9)	(48.6)	(44.7)	
Other long-term liabilities	(21.2)	(32.4)	(46.5)	(34.5)	(33.5)	(40.6)	(42.4)	(40.4)	(38.4)	(36.4)	
Net Assets	175.0	183.7	190.9	204.0	217.7	232.6	213.5	215.9	221.3	228.4	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' equity	175.0	183.7	190.9	204.0	217.7	232.6	213.5	215.9	221.3	228.4	
CASH FLOW											
Op Cash Flow before WC and tax	28.7	36.3	34.0	40.5	45.6	54.3	34.4	28.0	37.1	39.8	
Working capital	(7.9)	(2.2)	(0.2)	(34.5)	13.8	11.0	(2.8)	(9.2)	1.6	(1.1)	
Exceptional & other	0.0	(2.3)	(3.5)	(5.4)	(4.8)	(8.7)	(35.5)	(4.8)	(4.8)	(4.8)	
Tax	(3.4)	(6.0)	(4.6)	(3.8)	(3.5)	(7.3)	5.5	3.6	(6.8)	(7.6)	
Other	(2.8)	(3.8)	(0.2)	(2.4)	(0.8)	(4.2)	(2.2)	(3.6)	(4.4)	(4.9)	
Net operating cash flow	14.6	22.0	25.3	(5.7)	50.3	45.1	(0.5)	14.0	22.8	21.4	
Capex	(6.3)	(6.2)	(6.5)	(5.0)	(6.2)	(10.9)	(6.9)	(4.7)	(4.7)	(4.7)	
Acquisitions/disposals	(4.2)	(13.4)	(19.9)	(0.5)	(8.5)	(26.5)	(0.1)	(1.5)	(1.5)	(1.5)	
Net interest	(0.4)	(0.6)	(0.7)	(1.1)	(2.5)	(3.2)	(3.2)	(4.4)	(4.3)	(3.9)	
Equity financing	1.7	0.1	0.4	0.9	0.0	(3.1)	(8.6)	1.0	1.0	1.0	
Dividends	(13.4)	(8.9)	(8.9)	(9.2)	(9.9)	(10.7)	(11.2)	(4.2)	(4.4)	(5.9)	
Other	0.1	(1.8)	(1.8)	(2.2)	(2.1)	(2.6)	(3.2)	(2.5)	(2.5)	(2.5)	
Net Cash Flow	(7.8)	(8.8)	(12.0)	(22.8)	21.1	(12.0)	(33.7)	(2.3)	6.3	3.9	
Opening net debt/(cash), pre-IFRS 16	(33.0)	(25.2)	(16.4)	(4.4)	18.4	(2.7)	9.4	43.1	45.4	39.0	
Other non-cash movements	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	
Closing net debt/(cash), pre-IFRS 16	(25.2)	(16.4)	(4.4)	18.4	(2.7)	9.4	43.1	45.4	39.0	35.1	

Source: Severfield, Edison Investment Research

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