

# Tyman

Trading update

Trading reasonable but share price weak

Construction & materials

21 November 2018

Tyman's trading update referenced firmer demand in two important European markets, some short-term input cost drag in North America and two small acquisitions, which enhance the group's commercial and residential offerings respectively. Our small net EPS reduction for FY18 is followed by slightly larger upgrades in the following two years and, after a weak share price period, leaves Tyman trading on 7.7x P/E and 6.0x EV/EBITDA multiples in FY19 (first full year of acquisition contributions). Separately, Tyman has announced a CEO succession path with Louis Eperjesi to retire in June 2019, to be replaced by Jo Hallas (from Spectris).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	457.6	62.1	25.3	10.5	10.1	4.1
12/17	522.7	68.3	26.7	11.3	9.5	4.4
12/18e	586.8	73.7	28.0	12.5	9.1	4.9
12/19e	635.7	88.6	33.0	13.5	7.7	5.3

Note: \*PBT and EPS (fully diluted) are normalised, as defined by Tyman, excluding intangible amortisation and exceptional items.

## H2 trading update and two acquisitions

Tyman's 10-month trading update included firmer conditions in the UK, Italy and China in H2 to date and slightly softer US new build start data were noted. Demand conditions elsewhere were similar to those seen in H1 and the company is on course to achieve underlying revenue growth for the year at AmesburyTruth (AT) and SchlegelGiesse (SG) with ERA broadly flat. In addition, acquisitions will benefit all three divisions, especially Ashland Hardware (AT) and Zoo Hardware (ERA), which have continued to perform well. In August, Tyman also bought Profab (ERA, commercial access doors) and Reguitti (SG, Italian residential door hardware manufacturer) for a combined EV of c £19m and annual revenue and EBIT of c £16.5m and £2.5–3m respectively. We have updated our estimates for these transactions, a small favourable £/US\$ translation improvement compared to our previously published estimates. These effects are more than offset by a rising input cost pass-through lag in the US of c \$5m; pressure here is considered temporary but we have made small reductions to our expected AT margins beyond FY18. The net impact is a c 4% reduction to FY18 earnings and c 2% enhancement in the next two years. Our end FY18 net debt projection is now c £219m, which is at the upper end of the company's target range of 1.5–2.0x EBITDA (pro forma, annualised acquisition basis).

## Valuation: Single digit P/E, dividend yield 4.9%

A healthy US economy and increasingly favourable £/US\$ translation effect as the year has progressed (albeit broadly neutral y-o-y in H2) should have provided a favourable share price performance backdrop, in our view. However, Tyman's share price has fallen by c 26% since the end of September. Investors appear to have taken a general (cycle and debt funding) risk-aversion stance and Tyman sentiment appears to be caught up in this. On our revised estimates, the current year P/E and EV/EBITDA are now 9.1x and 7.3x and both multiples reduce by around two points by FY20. The FY18e dividend yield has risen to 4.9%.

**Price** **254.5p**

**Market cap** **£499m**

£/US\$1.29

Net debt (£m) at end-June 2018 218.6

Shares in issue 196.2m

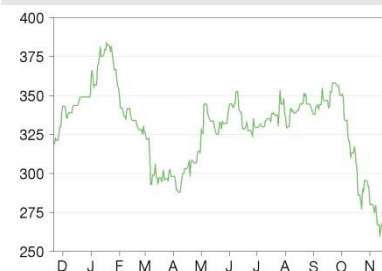
Free float 91%

Code TYMN

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (11.0) (27.4) (19.1)

Rel (local) (9.5) (20.4) (13.7)

52-week high/low 384.0p 254.5p

### Business description

Tyman's product portfolio substantially addresses the residential RMI and building markets with increasing commercial sector exposure following acquisitions. It manufactures and sources window and door hardware and seals, reporting in three divisions: AmesburyTruth (North America 63%), ERA (UK 17%) and SchlegelGiesse (RoW 20%). (Percentages are pro forma FY17 revenue, including post year-end Ashland Hardware, Zoo Hardware, Profab & Reguitti acquisitions.)

### Next events

2018 year end December

FY18 results 5 March 2019

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**Exhibit 1: Financial summary**

	£'m	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>	<b>Cont.</b>	<b>Cont.</b>									
Revenue	216.3	228.8	298.1	350.9	353.4	457.6	522.7	586.8	635.7	652.6	
Cost of Sales	(145.2)	(154.0)	(198.8)	(236.1)	(234.0)	(290.4)	(331.8)	(370.3)	(400.6)	(409.4)	
Gross Profit	71.1	74.7	99.3	114.8	119.4	167.3	190.9	216.4	235.1	243.2	
EBITDA	27.7	28.5	39.4	54.6	60.9	82.5	91.7	100.0	117.7	123.2	
Operating Profit (Edison)	22.4	23.4	33.0	46.9	52.9	70.9	78.8	85.7	101.8	106.7	
Net Interest	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(6.9)	(8.0)	(10.4)	(11.6)	(10.8)	
Other Finance	(3.6)	(0.9)	0.2	(2.2)	(0.6)	(0.4)	(0.8)	(0.7)	(0.7)	(0.7)	
Share Based Payments	(0.2)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(2.0)	(1.4)	(1.4)	(1.4)	
Intangible Amortisation	(10.6)	(10.8)	(16.6)	(17.8)	(19.6)	(21.7)	(22.9)	(26.0)	(28.2)	(28.2)	
Exceptionals	0.7	(33.4)	(11.4)	(9.3)	(9.4)	(10.9)	(10.0)	(8.1)	(2.9)	(1.8)	
Other	(0.1)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)	(0.6)	(0.2)	(0.2)	(0.2)	
Profit Before Tax (Edison norm)	12.7	18.7	29.2	39.3	45.4	62.5	68.0	73.2	88.1	93.8	
Profit Before Tax (Company norm)	17.4	21.3	28.6	41.6	45.4	62.1	68.3	73.7	88.6	94.3	
Profit Before Tax (FRS 3)	2.6	(25.8)	0.8	11.9	16.1	29.4	34.5	38.9	56.8	63.6	
Tax	6.4	3.7	0.2	(2.6)	(8.0)	(8.6)	(3.3)	(11.6)	(15.3)	(16.9)	
Profit After Tax (norm)	19.1	22.4	29.4	36.8	37.3	53.8	64.7	61.6	72.8	76.9	
Profit After Tax (FRS 3)	9.1	(22.1)	1.0	9.3	8.1	20.7	31.2	27.3	41.5	46.7	
Average Number of Shares Outstanding (m)	129.7	129.7	152.8	167.8	168.2	173.0	177.2	191.4	194.8	194.8	
EPS - Edison normalised (p) FD	6.7	9.6	13.9	17.1	19.3	25.5	26.6	27.7	32.8	34.9	
EPS - Company normalised (p) FD	9.4	10.2	13.5	18.4	19.4	25.3	26.7	28.0	33.0	35.1	
EPS - FRS 3 (p)	6.8	(16.7)	0.6	5.6	4.8	12.0	17.6	14.3	21.3	24.0	
Dividend per share (p)	3.4	4.5	6.0	8.0	8.8	10.5	11.3	12.5	13.5	14.5	
Gross Margin (%)	32.9	32.7	33.3	32.7	33.8	36.5	36.5	36.9	37.0	37.3	
EBITDA Margin (%)	12.8	12.5	13.2	15.6	17.2	18.0	17.5	17.0	18.5	18.9	
Operating Margin (before GW and except.) (%)	10.4	10.2	11.1	13.4	15.0	15.5	15.1	14.6	16.0	16.4	
<b>BALANCE SHEET</b>	<b>Cont.</b>	<b>Cont.</b>									
Fixed Assets	352.8	298.1	404.2	410.6	398.4	564.7	511.5	595.2	575.5	553.2	
Intangible Assets	312.7	258.7	354.4	355.7	340.5	480.0	427.2	498.3	470.8	443.3	
Tangible Assets	30.5	29.8	39.9	42.9	42.8	71.7	68.4	85.1	90.7	95.9	
Investments	9.6	9.5	9.8	12.1	15.0	12.9	15.9	11.9	14.0	14.0	
Current Assets	96.4	90.7	118.9	124.0	111.0	180.6	188.1	235.2	272.5	315.1	
Stocks	26.6	27.6	40.7	47.6	46.0	70.7	75.3	98.1	102.1	104.3	
Debtors	49.3	27.3	34.7	37.1	35.0	69.0	70.2	84.6	87.4	89.3	
Cash	20.4	35.9	43.6	39.3	30.0	40.9	42.6	52.6	83.0	121.4	
Current Liabilities	(55.1)	(44.2)	(60.8)	(52.3)	(44.4)	(86.4)	(82.0)	(89.5)	(91.4)	(94.9)	
Creditors	(42.2)	(36.7)	(54.0)	(52.3)	(44.4)	(86.4)	(80.9)	(89.5)	(91.4)	(94.9)	
Short term borrowings	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	(1.1)	0.0	0.0	0.0	
Long Term Liabilities	(144.8)	(96.9)	(161.7)	(176.2)	(156.7)	(285.3)	(251.4)	(330.1)	(329.3)	(328.5)	
Long term borrowings	(100.2)	(63.6)	(115.5)	(128.0)	(111.6)	(216.5)	(204.3)	(271.5)	(271.5)	(271.5)	
Other long term liabilities	(44.6)	(33.3)	(46.2)	(48.2)	(45.1)	(68.8)	(47.0)	(58.6)	(57.8)	(57.1)	
Net Assets	249.2	247.7	300.6	306.1	308.3	373.6	366.2	410.8	427.3	444.9	
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<b>CASH FLOW</b>	<b>Cont.</b>	<b>Cont.</b>									
Operating Cash Flow	32.6	23.6	38.9	40.1	49.4	79.9	67.0	82.7	105.3	117.5	
Net Interest	(6.7)	(4.2)	(2.6)	(4.6)	(6.2)	(7.0)	(7.6)	(10.4)	(11.6)	(10.8)	
Tax	(1.9)	(4.9)	(6.2)	(6.3)	(8.9)	(12.7)	(15.1)	(10.1)	(13.8)	(15.4)	
Capex	(4.9)	(6.8)	(8.1)	(10.2)	(10.9)	(15.3)	(12.6)	(17.5)	(22.3)	(22.3)	
Acquisitions/disposals	(10.3)	51.2	(131.2)	(6.5)	6.8	(96.1)	(6.3)	(106.2)	0.0	(1.5)	
Financing	(0.3)	(1.1)	68.1	(4.3)	(2.6)	16.7	(0.8)	47.1	(2.0)	(2.0)	
Dividends	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.6)	(19.5)	(21.2)	(25.2)	(27.2)	
Net Cash Flow	6.0	51.9	(48.2)	(2.8)	13.0	(50.0)	5.1	(35.6)	30.5	38.4	
Opening net debt/(cash)	91.7	92.7	35.2	78.7	88.7	81.6	175.6	162.9	218.9	188.4	
HP finance leases initiated	(2.7)	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	0.0	0.0	
Other	(4.4)	5.6	4.7	(7.2)	(5.9)	(44.0)	7.6	(18.5)	0.0	(0.0)	
Closing net debt/(cash)	92.7	35.2	78.7	88.7	81.6	175.6	162.9	218.9	188.4	150.0	

Source: Company, Edison Investment Research

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