

Epwin Group

Expectations raised

Having previously noted 9% revenue progress for the first four months of FY21 (versus FY19), the rate improved to 13% for H121 as a whole, despite some challenges due to strong demand levels. With positive cash generation also, Epwin has had a good start to FY21 and we have increased our PBT estimates for the year by 20% to reflect this momentum.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	282.1	15.0	8.5	1.8	13.6	1.5
12/20	241.0	5.0	4.0	1.0	28.9	0.9
12/21e	309.3	12.0	6.8	2.5	17.0	2.2
12/22e	314.4	13.8	7.8	3.4	14.7	3.0

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptionals, on an IFRS 16 basis from FY19. Dividends: FY19 represents an H1 payment only; FY20 represents a final payment only.

Epwin's good start to FY21 continues

A H121 pre close update pointed to a 13% revenue uplift versus its undisturbed (pre COVID-19) H119 comparator with good progress in both divisions. Firm residential RMI markets were the key driver here for both divisions while flatter newbuild and social housing subsectors diluted the rate of headline progress somewhat. Increases in polymer prices and other industry wide supply chain issues were again noted; the pass through of input cost inflation will have contributed to revenue growth for Epwin, remembering also that there can be a lag for selling prices to adjust. So, while higher volume and operational gearing effects will be favourable, we expect that the dilutive and delayed effects of rising prices will have held H121 EBIT margins below their H119 equivalents. A reduction in core net debt (of c £2.6m to £15.9m over the six months to end H121) will have been the product of net corporate activity (asset proceeds less M&A spend) and underlying cash generation in broadly equal measure in our view. With pressures to rebuild inventory on top of the usual seasonal cycle, a H1 cash inflow is noteworthy.

Sharper rate of recovery raises estimates

Absent new supply chain impacts in H2, Epwin now anticipates PBT 'materially ahead' of its previous expectations. Pre update FY21 consensus PBT was £10.9m (EPS c 4p); we have raised our estimate by 20% to £12m with smaller (3–4%) uplifts in the following two years (possibly suggesting dividend upside also). This reflects a sharper than expected near-term rate of recovery and some conservatism regarding the rate at which operating margins can normalise /rebuild back towards FY19 levels. On our estimates, earnings regain and exceed FY19 levels in FY23

Valuation: Share price outperformance ytd

Epwin's share price is now ahead c 29% ytd, comfortably ahead of the c 11% recorded by the FTSE All-Share Index over this period. The near-term rating has an early cycle look (FY21 P/E 17.0x and EV/EBITDA pre IFRS 16 of 7.4x), which reduces to 12.5x and 5.6x, respectively, by FY23. We anticipate that the dividend yield will have rebuilt to 3.7% by this time also. Sector share prices seem to be pausing and waiting for evidence of sustained market strength and/or successful navigation of supply chain challenges so the forthcoming interim results season is likely to be seen as an important bellwether in this regard.

H121 pre close update

Construction & materials

13 August 2021

Price **115.0p**

Market cap **£166m**

Covenant net debt (£m) at end June 2021 15.9

Shares in issue 142.9m

Free float 67%

Code EPWN

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 8.3 5.8 62.1

Rel (local) 6.4 1.2 34.3

52-week high/low 116.0p 64.2p

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

H121 results announcement 15 September

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2017	2018	2019	2020	2021e	2022e	2023e
Year-end 31 December		IFRS	IFRS	IFRS	Restated IFRS	IFRS	IFRS*	IFRS*	IFRS*	IFRS*	IFRS*
PROFIT & LOSS											
Revenue		256.0	293.2	298.3	292.8	281.1	282.1	241.0	309.3	314.4	319.4
Cost of Sales		(178.6)	(200.6)	(207.5)	(201.5)	(196.4)	(193.3)	(168.8)	(219.6)	(219.3)	(221.9)
Gross Profit		77.4	92.6	90.8	91.3	84.8	88.8	72.2	89.7	95.1	97.5
EBITDA (pre IFRS 16)		25.6	33.3	30.3	32.1	26.7	26.4	16.9	24.6	26.5	29.0
EBITDA (IFRS 16 norm)							38.2	28.6	37.7	39.6	42.1
Op Profit (pre IFRS 16 norm)		20.1	25.6	22.3	24.2	18.7	19.1	7.3	14.7	16.4	18.7
Op Profit (IFRS 16 norm)							21.2	9.4	16.8	18.5	20.8
SBP		(0.4)	(0.3)	(0.6)	(0.6)	(0.7)	(1.4)	0.0	(0.7)	(0.7)	(0.7)
Net Interest		(0.5)	(1.0)	(1.2)	(1.2)	(1.5)	(4.8)	(4.4)	(4.2)	(4.0)	(3.9)
Intangible Amortisation		(0.0)	(1.1)	(1.1)	(1.1)	(1.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Exceptionals		(0.6)	(0.2)	(7.4)	(7.4)	(2.0)	(2.3)	(2.8)	0.0	0.0	0.0
PBT (IFRS16 norm)		19.2	24.3	20.5	22.4	16.5	15.0	5.0	12.0	13.8	16.2
PBT (statutory)		18.6	23.0	12.0	13.9	13.3	12.4	1.9	11.7	13.5	15.9
Tax		(3.3)	(3.4)	(1.9)	(2.3)	(2.5)	(2.8)	0.7	(2.2)	(2.5)	(2.9)
Profit After Tax (norm)		15.9	20.9	17.6	19.1	14.0	12.1	5.7	9.8	11.3	13.3
Profit After Tax (statutory)		15.3	19.6	10.1	11.6	10.8	9.5	2.6	9.5	11.0	13.0
Average Number of Shares Outstanding (m)											
Average Number of Shares Outstanding (m)		135.2	141.5	142.6	142.6	142.9	142.9	143.0	144.5	144.5	144.5
EPS - norm (p)*		11.8	14.8	12.4	13.4	9.8	8.5	4.0	6.8	7.8	9.2
EPS - norm (p) FD*		11.7	14.7	12.4	13.4	9.8	8.5	4.0	6.8	7.8	9.2
EPS - statutory (p)		11.3	13.8	7.1	7.1	4.1	6.7	1.8	6.6	7.6	9.0
Dividend per share (p)		6.4	6.6	6.7	6.7	4.9	1.8	1.0	2.5	3.4	4.2
Gross Margin (%)											
Gross Margin (%)		30.2	31.6	30.4	31.2	30.2	31.5	30.0	29.0	30.3	30.5
EBITDA pre IFRS 16 Margin (%)											
EBITDA pre IFRS 16 Margin (%)		10.0	11.3	10.2	11.0	9.5	9.3	7.0	7.9	8.4	9.1
Op Margin pre IFRS 16 norm (%)											
Op Margin pre IFRS 16 norm (%)		7.9	8.7	7.5	8.3	6.7	6.8	3.0	4.8	5.2	5.8
BALANCE SHEET											
Fixed Assets		93.5	108.5	106.2		111.7	125.6	108.2	109.9	108.5	106.9
Intangible Assets		59.7	70.2	69.6		73.7	75.7	75.0	77.0	76.7	76.4
Tangible Assets		33.1	37.9	36.0		37.3	46.1	29.5	29.1	28.0	26.7
Other		0.7	0.4	0.6		0.7	3.8	3.8	3.8	3.8	3.8
Current Assets		87.2	82.6	82.2		75.7	91.5	76.8	99.7	108.9	119.9
Stocks		23.6	28.2	29.6		29.2	30.3	29.6	39.5	39.4	39.9
Debtors		41.5	41.4	45.3		40.4	44.0	45.0	53.7	54.8	55.9
Cash		22.1	13.0	7.3		6.1	17.2	2.2	6.5	14.7	24.1
Current Liabilities		(68.8)	(79.2)	(79.2)		(69.3)	(77.4)	(62.2)	(79.8)	(80.6)	(82.2)
Creditors		(53.2)	(62.9)	(58.2)		(63.7)	(76.1)	(58.8)	(76.4)	(77.2)	(78.8)
Short term borrowings		(15.6)	(16.3)	(21.0)		(5.6)	(1.3)	(3.4)	(3.4)	(3.4)	(3.4)
Long Term Liabilities		(31.8)	(21.0)	(15.5)		(28.1)	(36.7)	(21.4)	(21.4)	(21.4)	(21.4)
Long term borrowings		(20.9)	(17.3)	(11.4)		(25.3)	(32.3)	(17.3)	(17.3)	(17.3)	(17.3)
Other long term liabilities		(10.9)	(3.7)	(4.1)		(2.8)	(4.4)	(4.1)	(4.1)	(4.1)	(4.1)
Net Assets		80.1	90.9	93.7		90.0	103.0	101.5	108.5	115.5	123.3
CASH FLOW											
Operating Cash Flow		23.8	30.8	19.9	18.1	25.8	34.8	23.7	33.0	38.5	41.2
Net Interest		(0.5)	(1.0)	(1.0)	(1.0)	(1.3)	(1.6)	(1.4)	(1.3)	(1.1)	(1.0)
Tax		(2.3)	(3.8)	(2.7)	(2.7)	(2.6)	(3.3)	(0.8)	(3.7)	(2.5)	(2.9)
Capex***		(9.0)	(12.7)	(7.1)	(5.3)	(12.5)	1.5	(8.0)	(4.0)	(9.2)	(9.2)
Acquisitions/disposals		(20.9)	(10.2)	(3.9)	(3.9)	0.0	(2.2)	0.0	(3.8)	0.0	0.0
Financing		0.0	0.0	0.0	0.0	(0.0)	(12.3)	(13.4)	(13.4)	(13.4)	(13.4)
Dividends		(6.7)	(9.1)	(9.5)	(9.5)	(8.8)	(7.1)	0.0	(2.6)	(4.1)	(5.2)
Net Cash Flow		(15.6)	(6.1)	(4.3)	(4.3)	0.6	9.7	0.1	4.3	8.2	9.4
Opening net debt/(cash)		(1.1)	14.4	20.6	20.6	25.1	24.8	16.4	18.5	14.2	6.0
Finance leases		0.4	1.9	(1.4)	(1.4)	(1.1)	0.0	0.0	0.0	0.0	0.0
Other		(0.3)	(2.1)	1.2	1.2	0.8	(1.4)	(2.2)	0.0	0.0	0.0
Closing net debt/(cash)**		14.4	20.6	25.1	25.1	24.8	16.4	18.5	14.2	6.0	(3.4)
IFRS 16 leases							71.0	80.8	86.0	86.0	86.0

Source: Company accounts, Edison Investment Research. Note: *IFRS 16 from 2019. **Consistent with company defined pre-IFRS 16 net debt, which includes some other (non IFRS 16) finance leases (H120: £4m). We have assumed this category of leases to be constant in our estimate years (and shown as short-term borrowings). ***FY21 net capex comprises £9.2m gross less £5.2m receipt of Telford II final proceeds.

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