

Polypipe Group

Trading update

Sector variation, solid performance

Polypipe is benefiting from its leading position as a supplier into the new housebuilders who are expecting further growth. Other sectors are seeing different conditions but activity levels – including price increases – appear to be holding up reasonably well here also. Our estimates are unchanged and we retain the view that a sector premium rating is warranted.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	352.9	48.0	19.4	7.8	19.6	2.0
12/16	436.9	61.8	25.0	10.1	15.2	2.7
12/17e	465.9	66.2	26.4	11.7	14.4	3.1
12/18e	481.5	71.6	29.0	12.9	13.1	3.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Residential leading the way

Overall, group like-for-like (LFL) 10-month revenue growth was +7.1% (including +7.3% in H2 to date), enhanced to 8.2% with FX effects. Against H1, divisional LFL revenue growth in the latest four months (to October) is tracking slightly higher in UK Residential and Commercial & Infrastructure (C&I) Europe and lower in C&I UK. Market comments are similar to before with residential newbuild still the standout sector; as Polypipe addresses the full build cycle from below ground through to internal fixes, it offers a good read on activity here. A sluggish road-building programme is continuing to limit volume progress in UK C&I, though price increases have contributed to some revenue growth. This sub-division will also feel some y-o-y drag from reduced business in the Middle East. Polypipe's ventilation products – supplied into both UK divisions – are understood to be growing at least in line with and probably ahead of divisional trends. C&I Europe serves a competitive end customer base and supply chain, but demand conditions are clearly favourable currently.

Minor rebalancing, unchanged headline estimates

Recent housebuilder reports point to stable/robust conditions and an expectation of further progress so this should remain a firm segment. Prospective price increases do influence buyer behaviour; this benefited Q416 and the pattern may recur this year, though order visibility is limited at this stage. We have put through a minor rebalancing of our UK expectations in favour of residential and lowered C&I. This apart, estimates are very much intact. We continue to expect some recovery in EBIT margins next year as input cost increases are recovered and more moderate revenue growth rates than in FY17 (ie +3.3% FY19, +2.8% FY20, both unchanged).

Valuation: Retain sight of sector premium

Having traded largely between 380-420p since April, Polypipe's share price currently sits below this range, having sold off in the last week. Market sentiment has softened a little and construction-related exposure more so. The current year P/E and EV/EBITDA are now 14.4x and 10.0x, respectively. Sector constituent ratings are polarising; Polypipe is on a c 7% sector P/E premium only and still on discounts to mid-250 peers Marshalls and Howden.

Construction & materials

22 November 2017

Price **381.1p**
Market cap **£756m**

€1.12/€

Net debt (£m) at end June 2017 178.0

Shares in issue 198.4m

Free float 93%

Code PLP

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(9.7)	(1.5)	32.2
Rel (local)	(8.4)	(2.8)	19.8

52-week high/low 436.5p 292.9p

Business description

Polypipe Group is a leading European supplier of plastic building products and ventilation systems. UK operations (c 87% of annualised FY16 net revenue and c 98% of EBIT) address a broad range of sectors including residential, commercial and civil building demand and a number of subsectors within them. Overseas operations are located in France and Italy with a new manufacturing facility in the Middle East.

Next events

FY17 results 20 March 2018

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Exhibit 1: Financial summary

	£m	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		327.0	352.9	436.9	465.9	481.5	495.0
Cost of Sales		(202.4)	(210.0)	(256.8)	(277.0)	(283.6)	(290.1)
Gross Profit		124.6	142.9	180.1	188.9	197.9	204.9
EBITDA		60.8	69.3	86.4	90.8	96.6	100.8
Operating Profit (underlying)		46.3	54.2	70.4	74.5	80.1	84.0
SBP		0.0	0.0	(1.0)	(1.2)	(1.3)	(1.3)
Operating Profit (reported)		46.3	54.2	69.4	73.4	78.8	82.7
Net Interest		(7.7)	(5.3)	(6.6)	(6.0)	(6.0)	(6.0)
Other finance		(1.0)	(0.9)	(1.0)	(1.2)	(1.2)	(1.2)
Intangible Amortisation		0.0	(3.0)	(6.8)	(5.6)	(5.6)	(5.6)
Exceptionals		(20.7)	(3.5)	(0.6)	(1.2)	0.0	0.0
Profit Before Tax (norm)		37.6	48.0	61.8	66.2	71.6	75.5
Profit Before Tax (FRS 3)		16.9	41.5	54.4	59.4	66.0	69.9
Tax		(5.4)	(9.2)	(11.8)	(13.2)	(13.6)	(13.6)
Profit After Tax (norm)		32.2	38.8	50.0	52.9	58.0	61.9
Profit After Tax (FRS 3)		11.5	32.3	42.6	46.1	52.4	56.3
Average Number of Shares Outstanding (m)		199.9	199.3	198.9	199.3	199.3	199.3
EPS - normalised (p)		16.1	19.4	25.0	26.4	29.0	30.9
EPS - FRS 3 (p)		5.8	16.2	21.4	23.1	26.3	28.3
Dividend per share (p)		4.5	7.8	10.1	11.7	12.9	14.2
Gross Margin (%)		38.1	40.5	41.2	40.6	41.1	41.4
EBITDA Margin (%)		18.6	19.6	19.8	19.5	20.1	20.4
Operating Margin (underlying) (%)		14.2	15.4	16.1	16.0	16.6	17.0
BALANCE SHEET							
Fixed Assets		324.2	476.5	472.6	475.8	473.7	471.3
Intangible Assets		235.0	378.4	371.6	366.0	360.4	354.8
Tangible Assets		89.2	98.1	101.0	109.8	113.3	116.5
Investments		0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		103.9	99.6	119.5	162.5	194.3	228.2
Stocks		39.9	47.5	52.2	56.3	57.6	59.0
Debtors		20.2	29.3	38.9	40.6	42.4	43.7
Cash		43.1	21.6	26.5	63.7	91.9	122.7
Current Liabilities		(69.8)	(87.2)	(104.5)	(107.6)	(108.5)	(109.0)
Creditors		(69.8)	(87.2)	(104.5)	(107.6)	(108.5)	(109.0)
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(120.6)	(227.9)	(200.2)	(216.6)	(217.7)	(218.7)
Long term borrowings		(118.0)	(215.9)	(190.8)	(207.0)	(207.0)	(207.0)
Other long term liabilities		(2.6)	(12.0)	(9.4)	(9.6)	(10.7)	(11.7)
Net Assets		237.7	261.0	287.4	314.0	341.8	371.8
CASH FLOW							
Operating Cash Flow		50.6	72.6	86.5	87.6	93.2	97.7
Net Interest		(10.4)	(5.7)	(7.3)	(6.0)	(6.0)	(6.0)
Tax		(3.7)	(5.2)	(10.1)	(12.5)	(13.2)	(13.6)
Capex		(14.9)	(18.9)	(18.7)	(24.8)	(20.0)	(20.0)
Acquisitions/disposals		(0.3)	(149.5)	0.0	0.0	0.0	0.0
Financing		(1.7)	0.0	(2.9)	(1.5)	(1.5)	(1.5)
Dividends		(3.0)	(10.6)	(17.1)	(21.1)	(24.2)	(25.8)
Net Cash Flow		16.6	(117.3)	30.5	21.7	28.3	30.8
Opening net debt/(cash)		84.7	74.9	194.3	164.3	143.3	115.1
HP finance leases initiated		(9.6)	(1.7)	0.0	0.0	0.0	0.0
Other		2.8	(0.4)	(0.5)	(0.7)	0.0	0.0
Closing net debt/(cash)		74.9	194.3	164.3	143.3	115.1	84.3

Source: Polypipe Group accounts, Edison Investment Research

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