

# Epwin Group

End H119 update

Making progress in soft markets

Construction &amp; materials

Epwin's H119 update reiterated existing guidance. Markets remain soft but business improvement activities, including new facility and product development investment, are ongoing and should be reflected in earnings improvement. The company remains conservatively funded and in a good position to continue to develop. An excellent dividend yield and modest rating at an earnings low represent good entry points for investors.

12 August 2019

**Price** **73.4p**
**Market cap** **£105m**

Net debt (£m) at end December 2018 24.8

Shares in issue 142.9m

Free float 67%

Code EPWN

Primary exchange AIM

Secondary exchange N/A

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17**	292.8	22.4	13.4	6.7	5.8	9.1
12/18	281.1	16.5	9.8	4.9	7.5	6.7
12/19e	291.3	17.6	10.1	5.0	7.3	6.8
12/20e	296.2	18.7	10.7	5.3	6.9	7.2

Note: \*PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptionals. \*\*Restated to exclude discontinued operations.

## Share price performance



%	1m	3m	12m
Abs	8.1	(7.3)	3.2
Rel (local)	11.9	(7.6)	10.6

52-week high/low 87.25p 68.0p

## 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

H119 results announcement 11 September

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## Progress in tough markets

H119 revenue was marginally ahead y-o-y on a like-for-like basis (ie ex Amicus and PVS acquisitions, Cardiff site closure and discontinued glass operations). This is likely to reflect some pricing improvement and, implicitly, volume softness, in our view. Given previous restructuring actions, progress from window systems (we expect, including weak competitor effects) and acquisitions, H119 EBIT should exceed its prior year equivalent (this was originally reported as £7.1m, like for like; likely to be slightly higher stripping out the exited glass business). Interim gains would support our assertion that despite still weak UK markets, FY18 represented the trough earnings year for Epwin. At the end of H119, net debt to EBITDA is understood to have been c 1x, slightly above the year-end position after the c £3m acquisition consideration is paid.

## New facility investment and banking re-set

A site purchase, construction and lease agreement for a new warehouse and finishing facility at Telford has been signed, which will consolidate four other small facilities nearer to existing extrusion and fabrication operations. In financial terms, this yields a one-off £8m cash benefit for Epwin, which we expect to be received prior to the year-end. This is now in our model; there is no FY19 P&L effect and we will adjust as necessary (ie interest benefit, lease costs) for future years when H119 results are announced. Epwin has also re-set its banking arrangements with an enlarged RCF of £65m (previously c £60m spread across an RCF, term loan and accordion) and an overdraft facility of £10m (previously £5m) to 2022. This happened earlier than strictly required but simplifies Epwin's financing structure.

## Valuation: Value and income attractions

Epwin's share price is back to levels seen at the beginning of the year following a c 13% decline since the beginning of June. (In contrast the FTSE All Share Index is up c 9% ytd.) As a result, the FY19 P/E of 7.3x and prospective dividend yield of 6.8% should appeal to value and income-focused investors alike. We acknowledge soft and uncertain markets but internal actions are driving our expectations of progress.

**Exhibit 1: Financial summary**

	£m	2013	2014	2015	2016	2017	2017	2018	2019e	2020e	2021e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>											
							Restated				
Revenue		255.3	259.5	256.0	293.2	298.3	292.8	281.1	291.3	296.2	300.9
Cost of Sales		(185.8)	(186.7)	(178.6)	(200.6)	(207.5)	(201.5)	(196.4)	(203.3)	(206.8)	(210.0)
Gross Profit		69.5	72.8	77.4	92.6	90.8	91.3	84.8	88.0	89.5	90.9
EBITDA		21.4	24.5	25.6	33.3	30.3	32.1	27.0	28.2	29.5	30.3
Operating Profit (pre GW and except.)		15.6	19.5	20.1	25.6	22.3	24.2	18.7	19.7	20.7	21.3
Intangible Amortisation		(1.7)	(1.7)	(0.0)	(1.1)	(1.1)	(1.1)	(1.2)	(0.5)	(0.5)	(0.5)
Exceptionals		(5.1)	2.3	(0.6)	(0.2)	(7.4)	(7.4)	(2.0)	(0.5)	0.0	0.0
Other		0.0	(0.8)	(0.4)	(0.3)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
Operating Profit		8.8	19.3	19.1	24.0	13.2	15.1	14.8	18.0	19.5	20.1
Net Interest		(1.0)	(0.7)	(0.5)	(1.0)	(1.2)	(1.2)	(1.5)	(1.4)	(1.3)	(1.2)
Profit Before Tax (norm)		14.6	18.0	19.2	24.3	20.5	22.4	16.5	17.6	18.7	19.4
Profit Before Tax (statutory)		7.9	18.6	18.6	23.0	12.0	13.9	13.3	16.6	18.2	18.9
Tax		(1.3)	(3.5)	(3.3)	(3.4)	(1.9)	(2.3)	(2.5)	(3.2)	(3.4)	(3.5)
Profit After Tax (norm)		12.4	14.4	15.9	20.9	17.6	19.1	14.0	14.4	15.3	15.9
Profit After Tax (statutory)		5.1	15.1	15.3	19.6	10.1	11.6	10.8	13.4	14.8	15.4
Average Number of Shares Outstanding (m)		122.3	128.0	135.2	141.5	142.6	142.6	142.9	142.9	142.9	142.9
EPS - normalised (p)		10.1	11.2	11.8	14.8	12.4	13.4	9.8	10.1	10.7	11.1
EPS - normalised (p) FD		10.1	11.2	11.7	14.7	12.4	13.4	9.8	10.1	10.7	11.1
EPS - statutory (p)		4.2	11.8	11.3	13.8	7.1	7.1	4.1	9.4	10.4	10.8
Dividend per share (p)		0.0	4.2	6.4	6.6	6.7	6.7	4.9	5.0	5.3	5.5
Gross Margin (%)		27.2	28.1	30.2	31.6	30.4	31.2	30.2	30.2	30.2	30.2
EBITDA Margin (%)		8.4	9.4	10.0	11.3	10.2	11.0	9.6	9.7	9.9	10.1
Operating Margin (pre GW and except.) (%)		6.1	7.5	7.9	8.7	7.5	8.3	6.7	6.7	7.0	7.1
<b>BALANCE SHEET</b>											
Fixed Assets		54.7	53.8	93.5	108.5	106.2		111.7	115.9	115.6	115.1
Intangible Assets		26.4	24.7	59.7	70.2	69.6		73.7	75.2	74.7	74.2
Tangible Assets		25.1	26.2	33.1	37.9	36.0		37.3	40.0	40.2	40.2
Other		3.2	2.9	0.7	0.4	0.6		0.7	0.7	0.7	0.7
Current Assets		62.1	62.3	87.2	82.6	82.2		75.7	80.9	83.6	97.2
Stocks		21.7	22.4	23.6	28.2	29.6		29.2	32.2	33.3	33.8
Debtors		40.1	37.6	41.5	41.4	45.3		40.4	42.6	44.2	45.2
Cash		0.3	2.3	22.1	13.0	7.3		6.1	6.1	6.1	18.2
Current Liabilities		(54.5)	(49.0)	(68.8)	(79.2)	(79.2)		(69.3)	(76.6)	(71.4)	(76.7)
Creditors		(51.5)	(48.6)	(53.2)	(62.9)	(58.2)		(63.7)	(74.2)	(75.2)	(76.7)
Short term borrowings		(3.0)	(0.4)	(15.6)	(16.3)	(21.0)		(5.6)	(2.4)	3.8	0.0
Long Term Liabilities		(25.7)	(4.3)	(31.8)	(21.0)	(15.5)		(28.1)	(23.8)	(23.8)	(23.8)
Long term borrowings		(16.0)	(0.8)	(20.9)	(17.3)	(11.4)		(25.3)	(21.0)	(21.0)	(21.0)
Other long term liabilities		(9.7)	(3.5)	(10.9)	(3.7)	(4.1)		(2.8)	(2.8)	(2.8)	(2.8)
Net Assets		36.6	62.8	80.1	90.9	93.7		90.0	96.4	104.0	111.8
<b>CASH FLOW</b>											
Operating Cash Flow		12.1	19.8	23.8	30.8	19.9	18.1	25.8	23.4	26.8	29.4
Net Interest		(0.9)	(0.7)	(0.5)	(1.0)	(1.0)	(1.0)	(1.3)	(1.4)	(1.3)	(1.2)
Tax		(0.9)	(1.7)	(2.3)	(3.8)	(2.7)	(2.7)	(2.6)	(2.7)	(2.9)	(3.0)
Capex		(4.9)	(5.6)	(9.0)	(12.7)	(7.1)	(5.3)	(12.5)	(1.3)	(9.3)	(9.3)
Acquisitions/disposals		(0.2)	0.0	(20.9)	(10.2)	(3.9)	(3.9)	0.0	(2.8)	0.0	0.0
Financing		0.0	10.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Dividends		0.0	(1.9)	(6.7)	(9.1)	(9.5)	(9.5)	(8.8)	(7.0)	(7.2)	(7.6)
Net Cash Flow		5.2	19.9	(15.6)	(6.1)	(4.3)	(4.3)	0.5	8.2	6.2	8.3
Opening net debt/(cash)		23.2	18.7	(1.1)	14.4	20.6	20.6	25.1	24.8	17.3	11.1
Finance leases initiated		(0.5)	(0.3)	0.4	1.9	(1.4)	(1.4)	(1.1)	(0.7)	0.0	0.0
Other		(0.1)	0.2	(0.3)	(2.1)	1.2	1.2	0.9	0.0	0.0	0.0
Closing net debt/(cash)		18.7	(1.1)	14.4	20.6	25.1	25.1	24.8	17.3	11.1	2.8

Source: Epwin accounts, Edison Investment Research. Note: FY13 to FY17 EPS benefited in part from recovered tax losses. FY17 restated for discontinued operations.

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