

Severfield

FY20 in line, COVID-19 muddies trading outlook

Year-end and
COVID-19 update

Construction & materials

23 April 2020

Price 66.2p
Market cap £201m

Net cash* (£m) at end March 2020 16
*Company guidance

Shares in issue 305.9m

Free float 100%

Code SFR

Primary exchange LSE

Secondary exchange N/A

Severfield has confirmed there was no material impact on trading from COVID-19 in FY20. Its end March net funds position was above our expectations and its stated facility headroom was c £50m at that time. Understandably, the start to FY21 has seen disruption both in the UK, and from India's lockdown status. The impact on trading is difficult to assess accurately so we are withdrawing our estimates beyond FY20 until the scale of the overall business impact can be better quantified.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield** (%)
03/18**	274.2	24.1	6.5	4.3	10.1	6.5
03/19	274.9	25.1	6.8	2.8	9.7	4.2
03/20e	328.2	28.0	7.6	3.0	8.7	4.6

Note: *PBT and EPS are Edison normalised, excluding pension net finance costs, intangible amortisation and exceptional items. **FY18 DPS included a 1.7p special dividend.

FY20 unaffected by coronavirus, focus on cash

Severfield's FY20 trading year saw minimal impact from the developing COVID-19 outbreak and we assume is on track to meet management's inferred PBT target of at least £26m. (Our unchanged £28m estimate includes c £1m contribution from Harry Peers, acquired since the original target was set in FY16.) FY20 closed with a £16m net funds position compared to our expected c £9m, suggesting good cash collection in Q4.

FY21: UK largely operational, locked down in India

At the beginning of FY21, main contractor behaviours have included continuing, closing and some cases re-opening UK project sites. Severfield is operating on c 80% (likely to be 50–60) of its live UK projects under revised working practices in line with government and updated Construction Leadership Council guidelines. Additionally, all five of its fabrication facilities are operational, again consistent with current working practice guidelines. In both environments, knock-on effects on site efficiencies are to be expected and along with actual project volume difficult for us to quantify at this time. We understand that supply chain conditions are stable at present. The latest order book of £293m (£30m below the 1 November record level) reflects both the cycle through of work on hand and new wins, including post general election awards, in what remains a competitive UK market.

Severfield's Indian JV has completed its fab facility expansion but the construction industry has been in full lockdown since mid-March. Steel industry production has been significantly stepped down also. The JV's prevailing order book (£112m, £22m lower than last reported, also a record high) has a mix of projects slightly more in favour of commercial work and a pipeline still said to be active.

Management comments that it is not possible to predict the FY21 outcome. As elsewhere, actions are being taken to control discretionary opex/capex items along with other deferrals (eg tax, quarterly loan repayments) to manage cash flow items. No reference was made to the FY20 final dividend but we assume this will be formally reviewed when FY20 results are announced in June.

Share price performance



% 1m 3m 12m

Abs 8.1 (23.0) (8.2)

Rel (local) (3.4) 2.1 18.1

52-week high/low 93p 60p

Business description

Severfield is a leading UK structural steelwork fabricator operating across a broad range of market sectors. An Indian facility undertakes structural steelwork projects for the local market and is being expanded.

Next events

FY20 results 17 June

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Exhibit 1: Financial summary

	£m	2014	2015	2016	2017	2018	2019	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
		12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar
PROFIT & LOSS								
Revenue		231.3	201.5	239.4	262.2	274.2	274.9	328.2
Cost of Sales		(217.8)	(186.7)	(219.6)	(236.3)	(244.9)	(244.6)	(294.2)
Gross Profit		13.5	14.9	19.8	25.9	29.3	30.3	34.0
EBITDA		12.0	13.6	18.9	25.7	29.1	29.0	32.5
Operating Profit - Edison		8.4	10.0	15.2	22.1	25.4	25.3	28.2
Net Interest		(0.6)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.7)
Associates		(3.0)	(0.2)	(0.2)	0.5	0.9	1.7	2.4
SBP		(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(1.6)	(2.0)
Intangible Amortisation		(2.7)	(2.6)	(2.6)	(2.6)	(1.3)	0.0	0.0
Pension Net Finance Costs		(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.4)	(0.4)
Exceptionals		(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	(1.0)
Profit Before Tax (norm) - Edison		4.5	8.8	13.7	20.3	24.1	25.1	28.0
Profit Before Tax (norm)		4.0	8.3	13.2	19.8	23.5	24.7	27.6
Profit Before Tax (statutory)		(4.1)	(0.2)	9.6	18.1	22.2	24.7	26.6
Tax		1.4	0.3	(1.0)	(2.7)	(4.1)	(4.5)	(4.7)
Profit After Tax (norm)		3.1	7.4	11.4	17.0	19.6	20.6	23.3
Profit After Tax (statutory)		(2.6)	0.1	8.6	15.3	18.0	20.2	21.9
Average Number of Shares Outstanding (m)		295.8	297.5	297.5	298.9	299.7	303.1	305.0
EPS - normalised (p) - Edison		1.05	2.47	3.84	5.70	6.53	6.80	7.64
EPS - normalised (p)		0.88	2.31	3.67	5.53	6.35	6.66	7.50
EPS - statutory (p)		(0.89)	0.05	2.89	5.13	6.02	6.66	7.17
Dividend per share (p)		0.0	0.5	1.5	2.3	4.3	2.8	3.0
Gross Margin (%)		5.8	7.4	8.3	9.9	10.7	11.0	10.3
EBITDA Margin (%)		5.2	6.7	7.9	9.8	10.6	10.5	9.9
Operating Margin - Edison (%)		3.6	4.9	6.4	8.4	9.3	9.2	8.6
BALANCE SHEET								
Fixed Assets		147.7	145.1	149.3	148.3	154.5	163.0	197.2
Intangible Assets		64.6	61.8	59.2	56.3	54.8	54.7	69.7
Tangible Assets		74.1	76.6	77.4	78.9	81.2	84.0	100.2
Investments		9.0	6.7	12.7	13.1	18.5	24.3	27.3
Current Assets		72.2	76.3	75.1	107.1	99.2	91.8	103.4
Stocks		5.8	4.8	5.3	7.8	9.6	8.9	11.0
Debtors		60.8	64.6	50.7	66.5	56.4	57.7	69.1
Cash		5.5	6.9	19.0	32.8	33.1	25.2	23.4
Current Liabilities		(57.9)	(59.7)	(58.2)	(78.7)	(66.1)	(58.6)	(72.9)
Creditors		(52.7)	(59.5)	(58.1)	(78.5)	(65.9)	(58.6)	(72.9)
Short term borrowings		(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.0)	0.0
Long Term Liabilities		(18.5)	(21.1)	(17.9)	(22.5)	(18.7)	(21.2)	(47.0)
Long term borrowings		(0.0)	(0.6)	(0.4)	(0.2)	(0.0)	0.0	(14.0)
Other long term liabilities		(18.5)	(20.5)	(17.5)	(22.3)	(18.6)	(21.2)	(33.0)
Net Assets		143.4	140.6	148.2	154.2	169.0	175.0	180.7
CASH FLOW								
Operating Cash Flow		2.1	11.4	24.8	27.4	22.9	18.0	27.6
Net Interest		(0.8)	(0.8)	(0.2)	(0.1)	(0.2)	(0.4)	(0.6)
Tax		0.4	(1.0)	(0.9)	(2.4)	(3.9)	(3.4)	(6.2)
Capex		(1.5)	(1.3)	(4.3)	(5.3)	(5.4)	(6.3)	(7.4)
Acquisitions/disposals		(3.5)	(1.7)	(4.1)	(0.4)	(5.5)	(4.2)	(18.5)
Financing		44.8	0	0	0	0	1.7	0
Dividends		0.0	0.0	(3.0)	(5.1)	(7.5)	(13.4)	(8.9)
Net Cash Flow		41.5	6.7	12.4	14.0	0.4	(8.0)	(14.0)
Opening net debt/(cash)		41.2	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)
Finance lease - cash		(0.2)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(1.7)
Other		0.2	(0.6)	0.2	0	0.2	0	(0)
Closing net debt/(cash)		(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(9.4)
IFRS16 leases								10.1

Source: Company accounts, Edison Investment Research

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