

# Severfield

Better revenue, margin and cash progress

FY17 has seen a strong close and we have increased FY17 and FY18 estimates as a result. Margin improvement has been a key focus, but this successful trading period shows through in a broader number of areas. Severfield's full year results are scheduled for 14 June; order book progression and revenue run rates at that time will inform FY18 prospects more fully.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	201.5	8.8	2.5	0.5	32.3	0.6
03/16	239.4	13.7	3.8	1.5	21.2	1.9
03/17e	263.2	20.1	5.6	2.0	14.4	2.5
03/18e	263.2	21.4	6.0	2.2	13.4	2.7

Note: \*PBT and EPS are normalised, excluding pension net finance costs, intangible amortisation and exceptional items.

## Strong revenue growth in H2, margins also improve

Severfield's UK order book began to pick up at the beginning of 2016 (from c £185m in November 2015 to £315m a year later) and this has progressively fed into its FY17 trading performance. H117 revenue was comparable y-o-y, but a marked EBIT margin improvement was the standout feature of results for the first half. We had factored in a good sales uptick in H2 and it appears that the run rate has exceeded our expectations with y-o-y progress approaching 20%. Importantly, this has not come at the expense of margin, which looks to be at or around 8% in H2 (and 7.5% for the year, +180bp). Additionally, good cash collection and receipt of advance payments give our new estimated year-end cash position of c £30m (vs c £19m at the end of FY16). Taken together, this provides persuasive evidence that the enhanced commercial procedures across project lifecycles introduced a few years ago have been rigorously applied. Elsewhere, the Indian JV trading performance has been stable, as has the local order book (at £40m).

## Estimates raised for FY17 and FY18

We have raised our FY17 and FY18 PBT estimates by c 9% and c 5% respectively with increased revenue and margin expectations in both years. FY17 UK revenue throughput – especially on larger projects – has brought the year-end order book back down to £267m; we would like to see how the pipeline converts to new work over the next quarter before taking a stronger view on FY18 prospects. Also, at this stage, we have left our dividend expectations unchanged; firming earnings estimates and good cash performance could support an enhanced payout in due course. Lastly, Alan Dunsmore (group FD for seven years) will assume the duties of Severfield's CEO during his period of temporary absence through illness and John Dodds (chairman since 2011) will act as executive chairman on an interim basis.

## Valuation: Driving outperformance

Severfield's share price has now outperformed the FTSE All-Share Index over 12 months, 2017 to date and one-month periods. We believe the company is still on track to double FY16 PBT by FY20 (implicitly, PBT c £26m) and the closing year P/E of 14.4x and EV/EBITDA of 8.2x compress meaningfully on this basis.

FY17 year-end update

Construction & materials

29 March 2017

**Price** 80.63p  
**Market cap** £241m

Net cash (£m) at end September 2016	24.2
Shares in issue	298.9m
Free float	100%
Code	SFR
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	3.0	6.1	49.3
Rel (local)	1.6	1.8	25.4
52-week high/low		81.8p	43.8p

### Business description

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

### Next events

FY17 results	14 June 2017
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**Exhibit 1: Financial summary**

	£m	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
		12m to Dec	12m to Dec	12m to Dec	15m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar
<b>PROFIT &amp; LOSS</b>											
Revenue		266.7	267.8	256.6	318.3	231.3	201.5	239.4	263.2	263.2	267.8
Cost of Sales		(242.6)	(246.9)	(268.8)	(330.9)	(217.8)	(186.7)	(219.6)	(237.1)	(235.7)	(238.0)
Gross Profit		24.1	20.9	(12.2)	(12.7)	13.5	14.9	19.8	26.0	27.5	29.7
EBITDA		21.6	19.5	(13.6)	(13.6)	12.0	13.6	18.9	25.7	27.2	29.5
Operating Profit - Edison		17.1	15.0	(17.7)	(18.6)	8.4	10.0	15.2	21.8	23.0	25.0
Net Interest		(0.9)	(1.6)	(1.6)	(2.0)	(0.6)	(0.5)	(0.2)	(0.1)	(0.1)	0.0
Associates		(0.4)	(2.5)	0.2	(0.3)	(3.0)	(0.2)	(0.2)	0.0	0.0	0.0
SBP		(0.0)	(0.3)	(0.0)	(0.1)	(0.2)	(0.5)	(1.1)	(1.5)	(1.5)	(1.5)
Intangible Amortisation		(2.7)	(2.7)	(2.7)	(3.5)	(2.7)	(2.6)	(2.6)	(2.6)	(1.7)	0.0
Pension Net Finance Costs		(0.5)	(0.5)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Exceptionals		(1.4)	(0.6)	(1.0)	(3.8)	(5.3)	(5.9)	(0.9)	0.0	0.0	0.0
Profit Before Tax (norm) - Edison		15.8	10.6	(19.1)	(20.9)	4.5	8.8	13.7	20.1	21.4	23.5
Profit Before Tax (norm)		15.3	10.1	(19.6)	(21.5)	4.0	8.3	13.2	19.6	20.9	23.0
Profit Before Tax (FRS 3)		11.1	6.8	(23.3)	(28.9)	(4.1)	(0.2)	9.6	17.0	19.2	23.0
Tax		(3.5)	(0.9)	3.9	5.7	1.4	0.3	(1.0)	(3.2)	(3.5)	(3.8)
Profit After Tax (norm)		11.7	7.7	(16.2)	(17.9)	3.1	7.4	11.4	16.8	17.9	19.7
Profit After Tax (FRS 3)		7.6	5.8	(19.4)	(23.1)	(2.6)	0.1	8.6	13.8	15.7	19.2
Average Number of Shares Outstanding (m)		89.0	89.3	89.3	89.3	295.8	297.5	297.5	298.5	298.5	298.5
EPS - normalised (p) - Edison		6.82	4.51	(9.42)	(10.42)	1.05	2.47	3.84	5.64	6.01	6.59
EPS - normalised (p)		6.51	4.21	(9.72)	(9.45)	0.88	2.31	3.67	5.47	5.84	6.42
EPS - FRS 3 (p)		4.47	3.41	(11.33)	(13.49)	(0.89)	0.05	2.89	4.64	5.26	6.42
Dividend per share (p)		7.5	5.0	1.5	0.8	0.0	0.5	1.5	2.0	2.2	2.4
Gross Margin (%)		9.0	7.8	-4.8	-4.0	5.8	7.4	8.3	9.9	10.4	11.1
EBITDA Margin (%)		8.1	7.3	-5.3	-4.3	5.2	6.7	7.9	9.8	10.3	11.0
Operating Margin - Edison (%)		6.4	5.6	-6.9	-5.8	3.6	4.9	6.4	8.3	8.8	9.4
<b>BALANCE SHEET</b>											
Fixed Assets		165.0	156.9	155.6	154.9	147.7	145.1	149.3	149.0	148.6	149.6
Intangible Assets		75.2	72.9	70.4	69.8	64.6	61.8	59.2	56.4	54.7	54.7
Tangible Assets		82.9	79.6	76.2	76.1	74.1	76.6	77.4	79.3	80.1	80.7
Investments		6.9	4.4	8.9	8.9	9.0	6.7	12.7	13.2	13.7	14.2
Current Assets		88.1	100.5	69.8	80.5	72.2	76.3	75.1	92.4	104.4	118.2
Stocks		12.6	9.1	7.1	8.2	5.8	4.8	5.3	5.7	5.7	5.7
Debtors		71.9	89.2	61.2	71.6	60.8	64.6	50.7	55.2	56.0	57.6
Cash		3.6	2.3	1.4	0.7	5.5	6.9	19.0	31.5	42.7	54.9
Current Liabilities		(99.8)	(103.6)	(97.0)	(112.5)	(57.9)	(59.7)	(58.2)	(66.9)	(67.4)	(68.3)
Creditors		(81.2)	(70.3)	(66.1)	(70.9)	(52.7)	(59.5)	(58.1)	(66.8)	(67.2)	(68.1)
Short term borrowings		(18.6)	(33.3)	(30.9)	(41.7)	(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(22.3)	(21.6)	(21.7)	(20.4)	(18.5)	(21.1)	(17.9)	(23.4)	(23.4)	(23.4)
Long term borrowings		0.0	(0.3)	(0.3)	(0.2)	(0.0)	(0.6)	(0.4)	(0.3)	(0.3)	(0.3)
Other long term liabilities		(22.3)	(21.3)	(21.4)	(20.2)	(18.5)	(20.5)	(17.5)	(23.1)	(23.1)	(23.1)
Net Assets		130.9	132.3	106.6	102.4	143.4	140.6	148.2	151.1	162.2	176.1
<b>CASH FLOW</b>											
Operating Cash Flow		(5.8)	(5.4)	12.9	3.1	2.1	11.4	24.8	26.0	26.1	27.9
Net Interest		(0.8)	(2.0)	(1.3)	(1.7)	(0.8)	(0.8)	(0.2)	(0.1)	(0.1)	0.0
Tax		(5.4)	(3.7)	(2.7)	(2.3)	0.4	(1.0)	(0.9)	(1.9)	(3.2)	(3.5)
Capex		(2.8)	(1.5)	(0.2)	(1.4)	(1.5)	(1.3)	(4.3)	(5.8)	(5.0)	(5.0)
Acquisitions/disposals		(2.9)	(0)	(2)	(3.0)	(3.5)	(1.7)	(4.1)	(0.5)	(0.5)	(0.5)
Financing		0	0	0	0.0	44.8	0	0	0	0	0
Dividends		(8.9)	(3.6)	(4.5)	(4.5)	0.0	0.0	(3.0)	(5.1)	(6.1)	(6.7)
Net Cash Flow		(26.6)	(16.3)	1.7	(9.7)	41.5	6.7	12.4	12.6	11.2	12.2
Opening net debt/(cash)		(11.5)	15.0	31.3	31.3	41.2	(0.3)	(6.1)	(18.4)	(31.0)	(42.2)
HP finance leases initiated		0	0.0	0.1	0.0	(0.2)	(0.3)	(0.2)	(0.1)	0.0	0.0
Other		0	(0)	(0)	(0)	0.2	(0.6)	0.2	0	0	(0)
Closing net debt/(cash)		15.0	31.3	29.7	41.2	(0.3)	(6.1)	(18.4)	(31.0)	(42.2)	(54.4)

Source: Company accounts, Edison Investment Research

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