Polypipe

Clear fit from bolt-on deal

Acquisition

Building & construction

10 October 2019

The highly complementary £14m acquisition of Alderburgh expands Polypipe's stormwater management portfolio offering, adding design and installation capabilities also. The earnings impact is modest but this serves as a further strengthening of Polypipe's market position in the relatively robust infrastructure segment. Once wider UK economic uncertainties clear, we expect increased support for Polypipe's share price.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17**	411.7	65.7	26.9	11.1	14.2	2.9
12/18**	433.2	67.1	28.1	11.6	13.6	3.0
12/19e	460.5	73.8	30.0	13.3	12.8	3.5
12/20e	488.4	77.8	31.6	13.7	12.1	3.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Continuing operations only.

Enhancing the stormwater management portfolio

In its second deal in the last 12 months (following Manthorpe a year ago), Polypipe has acquired the Alderburgh Group, a well-established, Rochdale-based manufacturer of below ground water/stormwater management products. Alderburgh operates from a single 68,000 sq ft injection moulding manufacturing facility focused on the production of its proprietary modular geo-void products. As well as complementing Polypipe's existing presence in this subsector (ie Polystorm and Ridgistorm in its Civils portfolio), Alderburgh uses a component-based approach which increases design, freight and installation flexibility. It also supplies related geomembranes and offers a 'supply-and-fit' package service to its clients. The company is said to be well invested and we understand there is capacity to accommodate relatively near-term growth aspirations.

In the year to September, Alderburgh expects to have generated £17m revenue and £2.1m EBITDA (with EBIT of c £1.4m). Hence, EBIT margins on acquisition are below Polypipe's existing Civil & Infrastructure level (ie 14% in FY18), but there are obvious cost synergies to come from the polymer purchasing and support functions. There are also potential revenue benefits from cross-selling the enlarged portfolio into future projects. After allowing for other minor revenue and IFRS 16 related adjustments, this acquisition enhances our earnings estimates by 1–2% in a full year, with no material benefit factored in for FY19 due to business seasonality. On a pro forma basis, we estimate that the deal will lift Polypipe's gearing modestly to 1.6x EBITDA at the end of the current year.

Valuation: Subdued performance over the last quarter

Polypipe's share price is modestly lower and has underperformed the FTSE All-Share Index over the last quarter but is up c 20% against a flat market on a one-year view. While above some building materials peers, the company's valuation (FY20e P/E 12.1x and EV/EBITDA 8.7x) still trails that of Marshalls (21.2x and 14.6x respectively) by some margin. We acknowledge that wider UK economic and political uncertainties are weighing on sector valuations generally in the near term.

Price	**382.8p**
Market cap	**£764m**
	£/€1.12
Net debt (£m) at end June 2019 (IFRS 16 £191m)	179
Shares in issue	199.8m
Free float	93%
Code	PLP
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.9)	(12.3)	11.1
Rel (local)	(0.6)	(8.3)	12.5
52-week high/low		453.8p	307.8p

Business description

Polypipe is a leading supplier of largely plastic building products and systems. Operations in the UK (c 90% of revenue) address a broad range of sectors including residential, commercial and civil building demand and a number of subsectors within them. Overseas revenues are generated through exports, particularly to the Middle East, and a small Italy-based specialist fittings business.

Next events

2019 year end	December 2019

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Polypipe is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

£m	2014	2015	2016	2016*	2017*	2018	2019e	2020e	2021e
December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue	327.0	352.9	436.9	387.2	411.7	433.2	460.5	488.4	504.9
Cost of Sales	(202.4)	(210.0)	(256.8)	(219.1)	(236.0)	(251.9)	(266.5)	(282.7)	(292.3)
Gross Profit	124.6	142.9	180.1	168.1	175.7	181.4	193.9	205.7	212.6
EBITDA	60.8	69.3	86.4	84.5	88.3	90.6	102.8	107.6	111.2
Operating Profit (underlying)	46.3	54.2	70.4	69.5	73.4	75.0	82.7	86.6	90.0
SBP	0.0	0.0	(1.0)	(1.0)	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)
Operating Profit (reported)	46.3	54.2	69.4	68.5	72.6	74.0	81.7	85.6	89.0
Net Interest	(7.7)	(5.3)	(6.6)	(6.6)	(5.8)	(5.8)	(7.2)	(7.3)	(6.8)
Other finance	(1.0)	(0.9)	(1.0)	(1.0)	(1.1)	(1.1)	(0.8)	(0.5)	(0.5)
Intangible Amortisation	0.0	(3.0)	(6.8)	(6.8)	(5.5)	(5.9)	(7.5)	(7.5)	(7.5)
Exceptionals	(20.7)	(3.5)	(0.6)	(0.6)	(4.6)	(2.7)	(0.8)	(2.8)	0.0
Profit Before Tax (norm)	37.6	48.0	61.8	60.9	65.7	67.1	73.8	77.8	81.7
Profit Before Tax (statutory)	16.9	41.5	54.4	53.5	55.6	58.5	65.5	67.5	74.2
Tax	(5.4)	(9.2)	(11.8)	(10.1)	(11.8)	(10.5)	(13.3)	(14.0)	(14.7)
Profit After Tax (norm)	32.2	38.8	50.0	49.2	53.9	56.5	60.5	63.8	67.0
Profit After Tax (statutory)	11.5	32.3	42.6	43.4	43.8	49.1	53.6	54.9	60.8
Average Number of Shares Outstanding (m)	199.9	199.3	198.9	198.9	198.4	199.0	199.1	199.1	199.1
EPS - normalised (p)	16.1	19.4	25.0	24.6	26.9	28.1	30.0	31.6	33.2
EPS - statutory (p)	5.8	16.2	21.4	22.2	22.1	24.7	26.9	27.6	30.5
Dividend per share (p)	4.5	7.8	10.1	10.1	11.1	11.6	13.3	13.7	14.0
Gross Margin (%)	38.1	40.5	41.2	43.4	42.7	41.9	42.1	42.1	42.1
EBITDA Margin (%)	18.6	19.6	19.8	21.8	21.4	20.9	22.3	22.0	22.0
Operating Margin (underlying) (%)	14.2	15.4	16.1	17.9	17.8	17.3	18.0	17.7	17.8
BALANCE SHEET									
Fixed Assets	324.2	476.5	472.6		455.1	520.3	548.2	548.7	546.1
Intangible Assets	235.0	378.4	371.6		356.5	401.9	404.4	399.7	392.2
Tangible Assets	89.2	98.1	101.0		98.6	118.4	143.8	149.0	153.9
Investments	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Current Assets	103.9	99.6	119.5		147.7	141.7	166.6	196.7	230.3
Stocks	39.9	47.5	52.2		53.5	58.1	64.5	68.4	70.7
Debtors	20.2	29.3	38.9		32.6	37.2	42.4	44.6	45.9
Cash	43.1	21.6	26.5		35.7	46.2	59.0	81.4	109.8
Current Liabilities	(69.8)	(87.2)	(104.5)		(108.8)	(108.7)	(111.1)	(117.4)	(119.0)
Creditors	(69.8)	(87.2)	(104.5)		(108.8)	(108.7)	(111.1)	(117.4)	(119.0)
Short term borrowings	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities	(120.6)	(227.9)	(200.2)		(192.0)	(222.1)	(241.2)	(238.9)	(236.7)
Long term borrowings	(118.0)	(215.9)	(190.8)		(184.1)	(210.4)	(221.5)	(221.5)	(221.5)
Other long term liabilities	(2.6)	(12.0)	(9.4)		(7.9)	(11.7)	(19.7)	(17.4)	(15.2)
Net Assets	237.7	261.0	287.4		302.0	331.2	362.5	389.0	420.7
CASH FLOW									
Operating Cash Flow	50.6	72.6	86.5		79.2	90.0	91.3	104.0	108.2
Net Interest	(10.4)	(5.7)	(7.3)		(6.6)	(6.1)	(7.4)	(7.5)	(7.0)
Tax	(3.7)	(5.2)	(10.1)		(12.6)	(11.2)	(11.9)	(13.3)	(14.0)
Capex	(14.9)	(18.9)	(18.7)		(22.0)	(23.2)	(24.8)	(26.1)	(26.1)
Acquisitions/disposals	(0.3)	(149.5)	0.0		0.0	(42.5)	(14.5)	(2.8)	0.0
Financing	(1.7)	0.0	(2.9)		(0.7)	0.3	(1.5)	(1.5)	(1.5)
Dividends	(3.0)	(10.6)	(17.1)		(21.0)	(22.3)	(23.7)	(26.9)	(27.6)
Net Cash Flow	16.6	(117.3)	30.5		16.3	(15.1)	7.5	26.0	32.0
Opening net debt/(cash)	84.7	74.9	194.3		164.3	148.4	164.2	162.5	140.1
Finance leases initiated	(9.6)	(1.7)	0.0		0.0	(1.6)	(0.1)	0.0	0.0
Other	2.8	(0.4)	(0.5)		(0.4)	0.8	(5.7)	(3.6)	(3.6)
Closing net debt/(cash)	74.9	194.3	164.3		148.4	164.2	162.5	140.1	111.7
Lease finance (under IFRS 16)							10.9	7.3	3.7

Source: Company accounts, Edison Investment Research. Note: *Continuing operations only.

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