

# Epwin Group

AGM update

Existing guidance maintained

A short AGM update statement echoed previous management comments regarding market conditions and (unchanged) FY18 expectations. This suggests that the underlying trading environment is broadly stable and actions being taken to improve operational efficiency are proceeding to plan. The share price performance will be driven by delivery against these expectations and/or any indication of more robust market conditions, in our view. Ahead of such a catalyst, the prospective 6.6% dividend yield is a clear incentive to invest.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16**	293.2	24.3	14.7	6.6	5.5	8.2
12/17	298.3	20.5	12.4	6.7	6.5	8.4
12/18e	282.6	18.1	10.3	5.3	7.7	6.6
12/19e	285.8	19.1	10.9	5.5	7.3	6.8

Note: \*PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptionals. \*\* FY16 and FY17 EPS benefited in part from recovered tax losses.

## Taking positive actions in mixed markets

Management appears to be navigating mixed market conditions reasonably well – including selective price increases – in addition to progressing internal initiatives. Operational efficiency is a key focus for Epwin this year as two unexpected end customer issues that arose in FY17 flow through into FY18. Glass (sealed unit) operations were consolidated last year and further footprint actions are being taken in both profile extrusion and door fabrication. We believe that these actions were fully provided for in FY17 with expected completion during Q119. Elsewhere, Amicus (a 15-branch distribution business, acquired earlier this year) is bedding in and should make a modest profit contribution this year.

## Weather skews earnings but exit rate to improve?

Poor weather earlier in the year – and Epwin has flagged a greater H2 bias than in recent years for this reason – may yet introduce sector earnings variability but has no bearing on 2019 and we are more inclined to look at valuation metrics on this basis. Continued high employment levels and a return to real wage growth, coupled with a slower interest rate increase trajectory, suggests to us that UK building materials sector activity and sentiment may be better at the end of 2018 than it was at the beginning. RMI market recovery may not be smooth or linear, but any sense of improving markets will bring current low ratings into sharp focus, in our view.

## Valuation: Attractive yield, low earnings multiples

The shares went ex dividend at the beginning of May, moving to the lower near-term dividend profile. Nevertheless, the prospective payout still represents a 6.6% yield with gradual growth also likely in our view. Valuation multiple progression reflects our expected and unchanged y-o-y earnings reduction – amplified by a normalising tax charge – and current year P/E and EV/EBITDA multiples are just 7.7x and 4.9x respectively. Investor sentiment would be boosted by delivery in line with FY18 expectations in our view, more so if greater momentum as outlined above prevails.

## Construction & materials

30 May 2018

**Price** 80.1p  
**Market cap** £114m

Net debt (£m) at 31 December 2017	25.1
Shares in issue	142.9m
Free float	67%
Code	EPWN
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(3.8)	3.4	(31.8)
Rel (local)	(8.1)	(8.7)	(34.8)
52-week high/low		121.0p	65.5p

## Business description

Epwin 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

H118 ends	June
Trading update	August
H118 results	September

## Analysts

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**Exhibit 1: Financial summary**

	£m's	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>										
		<b>Restated</b>								
Revenue		294.4	255.3	259.5	256.0	293.2	298.3	282.6	285.8	289.8
Cost of Sales		(209.9)	(185.8)	(186.7)	(178.6)	(200.6)	(207.5)	(197.2)	(199.5)	(202.3)
Gross Profit		84.5	69.5	72.8	77.4	92.6	90.8	85.3	86.3	87.5
EBITDA		21.8	21.4	24.5	25.6	33.3	30.3	27.8	28.9	29.6
Operating Profit (before GW and except.)		15.4	15.6	19.5	20.1	25.6	22.3	19.6	20.4	20.8
Intangible Amortisation		(1.7)	(1.7)	(1.7)	(0.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Exceptionals		(4.3)	(5.1)	2.3	(0.6)	(0.2)	(7.4)	0.0	0.0	0.0
Other		0.0	0.0	(0.8)	(0.4)	(0.3)	(0.6)	(0.3)	(0.3)	(0.3)
Operating Profit		9.4	8.8	19.3	19.1	24.0	13.2	18.2	19.0	19.4
Net Interest		(1.9)	(1.0)	(0.7)	(0.5)	(1.0)	(1.2)	(1.2)	(1.0)	(0.8)
Profit Before Tax (norm)		13.5	14.6	18.0	19.2	24.3	20.5	18.1	19.1	19.7
Profit Before Tax (FRS 3)		7.5	7.9	18.6	18.6	23.0	12.0	17.0	18.0	18.6
Tax		(2.2)	(1.3)	(3.5)	(3.3)	(3.4)	(1.9)	(3.3)	(3.4)	(3.5)
Profit After Tax (norm)		10.4	12.4	14.4	15.9	20.9	17.6	14.8	15.6	16.2
Profit After Tax (FRS 3)		4.5	5.1	15.1	15.3	19.6	10.1	13.7	14.5	15.1
Average Number of Shares Outstanding (m)		122.3	122.3	128.0	135.2	141.5	142.6	143.2	143.2	143.2
EPS - normalised (p)		8.5	10.1	11.2	11.8	14.8	12.4	10.3	10.9	11.3
EPS - normalised (p) FD				11.2	11.7	14.7	12.4	10.3	10.9	11.3
EPS - FRS 3 (p)		3.7	4.2	11.8	11.3	13.8	7.1	9.6	10.1	10.5
Dividend per share (p)		0.0	0.0	4.2	6.4	6.6	6.7	5.3	5.5	5.7
Gross Margin (%)		28.7	27.2	28.1	30.2	31.6	30.4	30.2	30.2	30.2
EBITDA Margin (%)		7.4	8.4	9.4	10.0	11.3	10.2	9.8	10.1	10.2
Operating Margin (before GW and except.) (%)		5.2	6.1	7.5	7.9	8.7	7.5	6.9	7.1	7.2
<b>BALANCE SHEET</b>										
Fixed Assets		56.9	54.7	53.8	93.5	108.5	106.2	105.1	103.8	102.2
Intangible Assets		27.9	26.4	24.7	59.7	70.2	69.6	68.5	67.4	66.3
Tangible Assets		26.1	25.1	26.2	33.1	37.9	36.0	36.0	35.8	35.3
Other		2.8	3.2	2.9	0.7	0.4	0.6	0.6	0.6	0.6
Current Assets		59.9	62.1	62.3	87.2	82.6	82.2	81.6	82.4	83.4
Stocks		20.9	21.7	22.4	23.6	28.2	29.6	30.1	30.5	30.9
Debtors		37.4	40.1	37.6	41.5	41.4	45.3	44.2	44.6	45.2
Cash		1.6	0.3	2.3	22.1	13.0	7.3	7.3	7.3	7.3
Current Liabilities		(53.2)	(54.5)	(49.0)	(68.8)	(79.2)	(79.2)	(78.0)	(75.6)	(69.1)
Creditors		(49.1)	(51.5)	(48.6)	(53.2)	(62.9)	(58.2)	(54.4)	(54.9)	(55.9)
Short term borrowings		(4.1)	(3.0)	(0.4)	(15.6)	(16.3)	(21.0)	(23.6)	(20.7)	(13.2)
Long Term Liabilities		(32.0)	(25.7)	(4.3)	(31.8)	(21.0)	(15.5)	(10.5)	(5.5)	(4.1)
Long term borrowings		(20.6)	(16.0)	(0.8)	(20.9)	(17.3)	(11.4)	(6.4)	(1.4)	0.0
Other long term liabilities		(11.4)	(9.7)	(3.5)	(10.9)	(3.7)	(4.1)	(4.1)	(4.1)	(4.1)
Net Assets		31.5	36.6	62.8	80.1	90.9	93.7	98.2	105.1	112.3
<b>CASH FLOW</b>										
Operating Cash Flow		15.7	12.1	19.8	23.8	30.8	19.9	24.6	28.0	29.1
Net Interest		(1.4)	(0.9)	(0.7)	(0.5)	(1.0)	(1.0)	(1.2)	(1.0)	(0.8)
Tax		(1.6)	(0.9)	(1.7)	(2.3)	(3.8)	(2.7)	(2.8)	(2.9)	(3.0)
Capex		(4.6)	(4.9)	(5.6)	(9.0)	(12.7)	(7.1)	(8.5)	(8.5)	(8.5)
Acquisitions/disposals		(28.2)	(0.2)	0.0	(20.9)	(10.2)	(3.9)	(0.5)	0.0	0.0
Financing		0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	(1.9)	(6.7)	(9.1)	(9.5)	(9.3)	(7.6)	(7.9)
Net Cash Flow		(20.2)	5.2	19.9	(15.6)	(6.1)	(4.3)	2.4	7.9	8.9
Opening net debt/(cash)		0.5	23.2	18.7	(1.1)	14.4	20.6	25.1	22.7	14.8
HP finance leases initiated		(2.5)	(0.5)	(0.3)	0.4	1.9	(1.4)	0.0	0.0	0.0
Other		0.0	(0.1)	0.2	(0.3)	(2.1)	1.2	0.0	(0.0)	0.0
Closing net debt/(cash)		23.2	18.6	(1.1)	14.4	20.6	25.1	22.7	14.8	5.9

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

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