

# Severfield

AGM update

## Improved Q2 trading pattern continues

Site activity regaining pre-lockdown levels and a maintained UK/Europe order book were the key operational messages in Severfield's AGM update. Market conditions mean that recovery within the Indian JV has been more constrained. The payment of an unchanged 1.8p final dividend for FY20 (as announced on 30 July) was approved and management stated that it is cautiously optimistic regarding the FY21 outlook. We plan to reinstate estimates with the H121 results expected in November.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield** (%)
03/18**	274.2	24.1	6.5	4.3	8.5	7.8
03/19	274.9	25.1	6.8	2.8	8.1	5.1
03/20	327.4	29.1	7.9	2.9	7.0	5.3

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.

## UK operations busy and winning new business

Severfield's AGM update noted that UK activity levels returned to pre-COVID-19 lockdown levels during Q2. Moreover, the UK and Europe order book is showing stability at £270m; this indicates that new business has been picked up during the period and it appears to have been more UK-centric – and spread rather than any single major win – though European orders on hand are still significant. Prospects for further new projects remain encouraging. The impacts on profitability of the initial lockdown, especially Q1 effects, are yet to be revealed. At the margin, sporadic price competition could temper project returns.

## Tougher local conditions in India

The Indian JV has operated under more restrictive lockdown conditions than in the UK and is yet to return to pre-lockdown levels. The order book position has reduced from £110m (1 June) to £94m (1 September); in the absence of new business wins, this suggests a recent revenue run rate of £5m+/month – obviously higher if new wins have occurred – versus c £9m in FY20. Again, the financial impact is not clear yet but a larger sub-contract supply chain means that the JV retains flexible cost base options despite increasing capacity in the last financial year. More commercial work is identified in the pipeline and may feed into the order book in due course.

## Cash-generative model

Severfield traditionally reports only end H1/FY financial positions and, hence, a net funds update was not provided with the AGM. An unchanged final dividend payment (c £5.5m) and expected Harry Peers deferred consideration (£6m+) will eat into the £16.4m net cash position at the end of FY20. That said, management remains confident in the company's cash-generative model and repayment of RCF funds (drawn down as cover at the prior year end) during H1 indicates greater clarity and comfort in the cash flow outlook now compared to the initial phase of lockdown at the beginning of the financial year.

### Construction & materials

4 September 2020

**Price** 55.2p  
**Market cap** £169m

Net cash (£m) at end March 2020	16.4
Shares in issue	307.6m
Free float	100%
Code	SFR
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(4.8)	(21.1)	(11.0)
Rel (local)	(2.9)	(15.1)	8.1
52-week high/low		93.0p	51.8p

### 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 was expanded in FY20.

### Next events

H121 results	24 November 2020
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**Exhibit 1: Financial summary**

	£m	2014	2015	2016	2017	2018	2019	2020
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		231.3	201.5	239.4	262.2	274.2	274.9	327.4
Cost of Sales		(217.8)	(186.7)	(219.6)	(236.3)	(244.9)	(244.6)	(292.6)
Gross Profit		13.5	14.9	19.8	25.9	29.3	30.3	34.7
EBITDA		12.0	13.6	18.9	25.7	29.1	29.0	33.2
Operating Profit - Edison adjusted		8.4	10.0	15.2	22.1	25.4	25.3	29.3
SBP		(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(1.6)	(1.8)
Pension Net Finance Costs		(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.4)	(0.4)
Operating Profit - company norm		7.6	9.0	13.7	19.6	22.9	23.3	27.0
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
Intangible Amortisation		(2.7)	(2.6)	(2.6)	(2.6)	(1.3)	0.0	(1.4)
Exceptionals		(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	(1.4)
Profit Before Tax (norm) - Edison		4.5	8.8	13.7	20.3	24.1	25.1	29.1
Profit Before Tax (norm)		4.0	8.3	13.2	19.8	23.5	24.7	28.6
Profit Before Tax (statutory)		(4.1)	(0.2)	9.6	18.1	22.2	24.7	25.8
Tax		1.4	0.3	(1.0)	(2.7)	(4.1)	(4.5)	(5.4)
Profit After Tax (norm)		3.1	7.4	11.4	17.0	19.6	20.6	24.1
Profit After Tax (statutory)		(2.6)	0.1	8.6	15.3	18.0	20.2	20.4
Average Number of Shares Outstanding (m)		295.8	297.5	297.5	298.9	299.7	303.1	305.4
EPS - normalised (p) - Edison		1.05	2.47	3.84	5.70	6.53	6.80	7.89
EPS - normalised (p)		0.88	2.31	3.67	5.53	6.35	6.66	7.75
EPS - statutory (p)		(0.89)	0.05	2.89	5.13	6.02	6.66	6.68
Dividend per share (p)		0.0	0.5	1.5	2.3	4.3	2.8	1.1
Gross Margin (%)		5.8	7.4	8.3	9.9	10.7	11.0	10.6
EBITDA Margin (%)		5.2	6.7	7.9	9.8	10.6	10.5	10.1
Operating Margin - Edison (%)		3.6	4.9	6.4	8.4	9.3	9.2	8.9
<b>BALANCE SHEET</b>								
Fixed Assets		147.7	145.1	149.3	148.3	154.5	163.0	203.8
Intangible Assets		64.6	61.8	59.2	56.3	54.8	54.7	78.1
Tangible Assets		74.1	76.6	77.4	78.9	81.2	84.0	99.0
Investments		9.0	6.7	12.7	13.1	18.5	24.3	26.7
Current Assets		72.2	76.3	75.1	107.1	99.2	91.8	127.4
Stocks		5.8	4.8	5.3	7.8	9.6	8.9	6.9
Debtors		60.8	64.6	50.7	66.5	56.4	57.7	76.1
Cash		5.5	6.9	19.0	32.8	33.1	25.2	44.5
Current Liabilities		(57.9)	(59.7)	(58.2)	(78.7)	(66.1)	(58.6)	(106.4)
Creditors		(52.7)	(59.5)	(58.1)	(78.5)	(65.9)	(58.6)	(87.0)
Short term borrowings		(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.0)	(19.4)
Long Term Liabilities		(18.5)	(21.1)	(17.9)	(22.5)	(18.7)	(21.2)	(41.2)
Long term borrowings		(0.0)	(0.6)	(0.4)	(0.2)	(0.0)	0.0	(8.8)
Other long term liabilities		(18.5)	(20.5)	(17.5)	(22.3)	(18.6)	(21.2)	(32.4)
Net Assets		143.4	140.6	148.2	154.2	169.0	175.0	183.7
<b>CASH FLOW</b>								
Operating Cash Flow		2.1	11.4	24.8	27.4	22.9	18.0	28.0
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)	(6.0)
Capex		(1.5)	(1.3)	(4.3)	(5.3)	(5.4)	(6.3)	(6.2)
Acquisitions/disposals		(3.5)	(1.7)	(4.1)	(0.4)	(5.5)	(4.2)	(13.4)
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)	(7.0)
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)	(1.8)
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)	(16.4)
IFRS 16 leases								11.4

Source: Company accounts, Edison Investment Research

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