

# Severfield

AGM update

Trading robust with lowest P/E since GFC

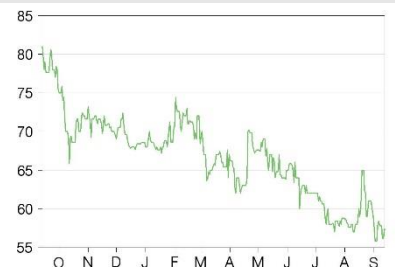
Industrial engineering

13 September 2022

**Price** **59p**  
**Market cap** **£182m**

Net debt (£m) at 31 March 2022 18.4  
 Shares in issue 309.5m  
 Free float 100%  
 Code SFR  
 Primary exchange LSE  
 Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	(1.0)	(10.3)	(29.0)
Rel (local)	0.0	(11.7)	(29.9)
52-week high/low		81.0p	55.8p

## 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

Interims 22 November  
 Capital markets day January 2023

## Analyst

Andy Murphy +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

[Edison profile page](#)

**Severfield is a research client  
 of Edison Investment  
 Research Limited**

Severfield, the leading structural steel work fabricator in the UK, is benefiting from robust demand from a range of sectors, which is reflected in the elevated order book (£483m vs 2016–21 average of £266m). In India, the joint venture is growing rapidly and capacity is to be expanded to cater for additional demand. However, the growth is not reflected in the c 7x P/E rating, which is the lowest level since the global financial crisis (GFC).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/21	363.3	24.3	6.7	2.9	8.8	4.9
03/22	403.6	27.1	7.0	3.1	8.4	5.3
03/23e	460.1	31.2	8.3	3.3	7.1	5.6
03/24e	473.9	33.6	8.9	3.6	6.6	6.1

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

## AGM statement confirms robust FY expectation

The AGM statement confirmed that activity across the group in the first five months of the year has been strong and that trading has been in line with management's expectations. There are also several ongoing contracts that are expected to deliver significant profits in H2. We are forecasting revenue and operating profit growth of c 14%, partly driven by inflation, partly by volume growth.

## UK and European order book remains robust

In the UK and Europe, the order book at 1 September was £483m, broadly unchanged on the 1 June position, of which £363m is due for delivery over the next 12 months. The order book is well-diversified over multiple projects and market sectors, with the UK accounting for 97% of the total. In the longer term, the outlook is encouraging as the pipeline of opportunity is exciting for both the UK and the European markets, across both the Commercial and Industrial and the Nuclear and Infrastructure divisions.

## India set for investment to double capacity

In India, the JSSL JV is pushing its Bellary facility towards its maximum capacity of 100,000 tonnes, which it expects to hit this year. Again, the order book is robust at £152m, down c 4% y-o-y, but the pipeline is also benefiting from strong underlying demand in India for structural steel, both as the economy grows and as the market is converting from concrete to steel. In H2, Severfield is likely to complete a land purchase, which will provide a platform for future growth that could double capacity.

## Valuation: P/E of c 7x and c 6% yield are attractive

Severfield is managing inflationary pressures well and, given the workload visibility, expects to deliver on its previous FY23 expectations. Our profit estimates are essentially unchanged from our previous position given the in-line statement. A P/E ratio of c 7x is the lowest rating since the GFC, which compares well with an average ratio of 10.4x over the last five years. The c 6% yield is an added attraction.

**Exhibit 1: Financial summary**

	£m	2019	2020	2021	2022	2023e	2024e	2025e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue		274.9	327.4	363.3	403.6	460.1	473.9	473.9
EBITDA		28.6	33.3	29.6	33.4	37.8	40.3	42.2
Normalised operating profit		24.9	29.3	25.1	28.2	32.3	34.6	36.2
Operating profit (U/L, Company basis)		24.9	29.3	25.1	28.2	32.3	34.6	36.2
Amortisation of acquired intangibles		0.0	(1.4)	(2.8)	(5.2)	(5.2)	(5.2)	(5.2)
Exceptionals		0.0	(1.4)	(0.4)	(0.7)	0.0	0.0	0.0
Share-based payments		(0.1)	(0.3)	0.6	1.0	1.0	1.0	1.0
Impairment		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.5	0.4	0.4	0.4	0.4	0.4
Reported operating profit		24.8	26.7	22.9	23.8	28.5	30.8	32.4
Net Interest		(0.2)	(0.7)	(0.8)	(1.1)	(1.1)	(1.0)	(1.0)
Exceptionals		0.0	(0.5)	(0.4)	(0.7)	(0.4)	(0.4)	(0.4)
Profit Before Tax (norm)		24.7	28.6	24.3	27.1	31.2	33.6	35.2
Profit before tax (U/L, Company basis)		24.7	28.6	24.3	27.1	31.2	33.6	35.2
Profit Before Tax (reported)		24.7	25.8	21.1	21.0	26.0	28.4	30.0
Reported tax		(4.5)	(5.4)	(3.8)	(5.4)	(5.5)	(6.0)	(6.3)
Profit After Tax (norm)		20.2	23.2	20.5	21.7	25.8	27.6	28.9
Profit After Tax (reported)		20.2	20.4	17.3	15.6	20.6	22.4	23.7
Net income (normalised)		20.2	23.2	20.5	21.7	25.8	27.6	28.9
Net income (reported)		20.2	20.4	17.3	15.6	20.6	22.4	23.7
Basic average number of shares outstanding (m)		303	305	307	309	309	310	310
EPS - basic reported (p)		6.65	6.68	5.63	5.05	6.65	7.24	7.66
EPS - basic normalised (p)		6.65	7.60	6.68	7.03	8.33	8.92	9.34
EPS - diluted normalised (p)		6.58	7.56	6.68	7.00	8.30	8.88	9.30
EPS - (U/L, diluted, Company basis)		6.58	7.70	6.43	7.19	8.30	8.88	9.30
Dividend (p)		2.80	2.90	2.90	3.10	3.30	3.60	3.70
Revenue growth (%)		N/A	19.1	11.0	11.1	14.0	3.0	0.0
EBITDA Margin (%)		10.4	10.2	8.1	8.3	8.2	8.5	8.9
Normalised Operating Margin		9.1	9.0	6.9	7.0	7.0	7.3	7.6
<b>BALANCE SHEET</b>								
Fixed Assets		163.0	203.8	230.1	230.1	242.1	245.2	249.6
Intangible Assets		54.7	78.1	95.4	92.5	92.7	92.9	93.1
Tangible Assets		84.0	88.9	91.7	91.4	104.9	108.7	112.7
Investments & other		24.3	36.8	43.0	46.1	44.4	43.6	43.8
Current Assets		91.8	127.4	107.7	140.7	135.7	141.3	143.2
Stocks		8.9	6.9	10.2	18.0	11.3	11.8	11.8
Debtors		57.1	74.6	67.8	117.9	119.6	124.6	126.5
Cash & cash equivalents		25.0	44.3	25.0	0.0	0.0	0.0	0.0
Other		0.8	1.6	4.6	4.8	4.8	4.8	4.8
Current Liabilities		(58.6)	(106.4)	(85.4)	(123.3)	(124.8)	(127.7)	(127.7)
Creditors		(57.7)	(84.4)	(77.8)	(111.7)	(113.2)	(116.1)	(116.1)
Short term borrowings		0.0	(19.4)	(5.9)	(5.9)	(5.9)	(5.9)	(5.9)
Other		(1.0)	(2.6)	(1.7)	(5.7)	(5.7)	(5.7)	(5.7)
Long Term Liabilities		(21.2)	(41.2)	(61.4)	(43.5)	(36.7)	(28.6)	(20.6)
Long term borrowings		0.0	(8.8)	(14.9)	(9.0)	(4.2)	1.9	7.9
Other long term liabilities		(21.2)	(32.4)	(46.5)	(34.5)	(32.5)	(30.5)	(28.5)
Net Assets		175.0	183.7	190.9	204.0	216.2	230.2	244.5
Shareholders' equity		175.0	183.7	190.9	204.0	216.2	230.2	244.5
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax		28.7	36.3	34.0	40.5	44.3	46.8	48.7
Working capital		(7.9)	(2.2)	(0.2)	(34.5)	6.5	(2.7)	(1.9)
Exceptional & other		0.0	(2.3)	(3.5)	(5.4)	(4.8)	(4.8)	(4.8)
Tax		(3.4)	(6.0)	(4.6)	(3.8)	(7.0)	(7.7)	(8.3)
Other		(2.8)	(3.8)	(0.2)	(2.4)	(3.2)	(3.8)	(4.6)
Net operating cash flow		14.6	22.0	25.3	(5.7)	35.8	27.8	29.2
Capex		(6.3)	(6.2)	(6.5)	(5.0)	(7.7)	(8.2)	(8.7)
Acquisitions/disposals		(4.2)	(13.4)	(19.9)	(0.5)	(11.5)	(1.5)	(1.5)
Net interest		(0.4)	(0.6)	(0.7)	(1.1)	(0.4)	(0.3)	(0.3)
Equity financing		1.7	0.1	0.4	0.9	1.0	1.0	1.0
Dividends		(13.4)	(8.9)	(8.9)	(9.2)	(9.9)	(10.2)	(11.1)
Other		0.1	(1.8)	(1.8)	(2.2)	(2.5)	(2.5)	(2.5)
Net Cash Flow		(7.8)	(8.8)	(12.0)	(22.8)	4.7	6.1	6.0
Opening net debt/(cash)		(33.0)	(25.2)	(16.4)	(4.4)	18.4	13.7	7.6
Other non-cash movements		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(25.2)	(16.4)	(4.4)	18.4	13.7	7.6	1.6

Source: company data and Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by Severfield and prepared and issued by Edison, in consideration of a fee payable by Severfield. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia