

Epwin Group

AGM update

FY17 starts in line with expectations

Trading in the first four months of FY17 has been in line with management expectations and our estimates are unchanged. Market commentary is cautious, but as outlined in our [recent note](#) Epwin has a number of internal initiatives underway to further improve the business and mitigate near-term input cost pressures. In our view, longer-term prospects are somewhat better than the current rating is implying.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15**	256.0	19.2	11.7	6.4	10.4	5.3
12/16**	293.2	24.3	14.7	6.6	8.2	5.4
12/17e	306.3	24.4	14.0	6.7	8.7	5.5
12/18e	311.6	25.4	14.3	7.0	8.5	5.8

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptionals. **FY15 and FY16 EPS benefited from recovered tax losses.

A steady start to the year

For the UK building materials sector, Q2, Q3 and into Q4 are the busiest periods, but it is encouraging to know that the first four months of Epwin's trading year have met management expectations. Industry-wide materials input cost rises have been flagged previously and there appears to be no additional caution in this area. In flat RMI markets, Epwin is focusing on operational improvements (eg in fabrication) and marketing initiatives (eg branding and range development of window systems and canopy products plus greater co-ordination across group companies). H117 will benefit from an extra five months of National Plastics trading and we expect Fabrication & Distribution to show a more robust y-o-y performance. We will take a view on the likely shape and quantum of H117 results at the end of the half year.

Variable newsflow, flat volumes anticipated

Recent comments from adjacent companies (ie Eurocell, Safestyle, Tyman and Titon Holdings) have shown some variability reflecting respective sector exposures. From a general industry perspective, new housebuilding demand appears to be robust, while retail has clearly slowed recently. After taking soundings across the door and window supply chain, we believe that the broad expectation is for flat trade volumes and improved pricing in FY17 reflecting a pass through of higher input prices. Our underlying Epwin model is consistent with this, supplemented by the full year effects of National Plastics. As noted above, building products suppliers exhibit a calendar H2 weighting; Q316 contained some softness so we believe that a flat volume expectation is a reasonable expectation for 2017 overall.

Valuation: Overly cautious

Epwin's share price has eased back from FY17 highs of 128.5p but has still outperformed the FTSE All-Share Index by c 16% ytd. Notwithstanding this, it is currently slightly below year ago levels. Valuation multiples are little changed from our last note, being a P/E of 8.7x and EV/EBITDA of 5.6x for this year with a prospective 5.5% dividend yield. While market caution has been expressed, we feel that this has been overly discounted at current share price levels.

Construction & materials

26 May 2017

Price 121.25p
Market cap £173m

Net debt (£m) at end December 2016	20.6
Shares in issue	142.5m
Free float	67%
Code	EPWN
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(5.6)	5.2	(4.5)
Rel (local)	(8.5)	0.7	(20.1)
52-week high/low		132.0p	94.2p

Business description

Epwin Group 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

H117 period end	June 2017
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Epwin Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS			Restated						
Revenue		294.4	255.3	259.5	256.0	293.2	306.3	311.6	317.3
Cost of Sales		(209.9)	(185.8)	(186.7)	(178.6)	(200.6)	(208.3)	(211.9)	(215.8)
Gross Profit		84.5	69.5	72.8	77.4	92.6	98.0	99.7	101.5
EBITDA		21.8	21.4	24.5	25.6	33.3	34.1	35.2	36.0
Operating Profit (before GW and except.)		15.4	15.6	19.5	20.1	25.6	25.9	26.7	27.3
Intangible Amortisation		(1.7)	(1.7)	(1.7)	(0.0)	(1.1)	(1.3)	(1.3)	(1.3)
Exceptionals		(4.3)	(5.1)	2.3	(0.6)	(0.2)	0.0	0.0	0.0
Other		0.0	0.0	(0.8)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Operating Profit		9.4	8.8	19.3	19.1	24.0	24.3	25.1	25.7
Net Interest		(1.9)	(1.0)	(0.7)	(0.5)	(1.0)	(1.2)	(1.0)	(0.6)
Profit Before Tax (norm)		13.5	14.6	18.0	19.2	24.3	24.4	25.4	26.4
Profit Before Tax (FRS 3)		7.5	7.9	18.6	18.6	23.0	23.1	24.1	25.1
Tax		(2.2)	(1.3)	(3.5)	(3.3)	(3.4)	(4.4)	(4.8)	(4.7)
Profit After Tax (norm)		10.4	12.4	14.4	15.9	20.9	20.0	20.6	21.6
Profit After Tax (FRS 3)		4.5	5.1	15.1	15.3	19.6	18.7	19.3	20.3
Average Number of Shares Outstanding (m)		122.3	122.3	128.0	135.2	141.5	142.4	143.2	143.2
EPS - normalised* (p)		8.5	10.1	11.2	11.8	14.8	14.1	14.4	15.1
EPS - normalised* (p) FD				11.2	11.7	14.7	14.0	14.3	15.0
EPS - FRS 3* (p)		3.7	4.2	11.8	11.3	13.8	13.1	13.5	14.2
Dividend per share (p)		0.0	0.0	4.2	6.4	6.6	6.7	7.0	7.4
Gross Margin (%)		28.7	27.2	28.1	30.2	31.6	32.0	32.0	32.0
EBITDA Margin (%)		7.4	8.4	9.4	10.0	11.3	11.1	11.3	11.3
Operating Margin (before GW and except.) (%)		5.2	6.1	7.5	7.9	8.7	8.5	8.6	8.6
BALANCE SHEET									
Fixed Assets		56.9	54.7	53.8	93.5	108.5	112.8	111.5	110.0
Intangible Assets		27.9	26.4	24.7	59.7	70.2	74.2	72.9	71.6
Tangible Assets		26.1	25.1	26.2	33.1	37.9	38.2	38.3	38.1
Other		2.8	3.2	2.9	0.7	0.4	0.4	0.4	0.4
Current Assets		59.9	62.1	62.3	87.2	82.6	73.1	80.5	83.9
Stocks		20.9	21.7	22.4	23.6	28.2	29.3	29.8	30.3
Debtors		37.4	40.1	37.6	41.5	41.4	43.0	43.7	44.4
Cash		1.6	0.3	2.3	22.1	13.0	0.8	7.1	9.2
Current Liabilities		(53.2)	(54.5)	(49.0)	(68.8)	(79.2)	(65.8)	(67.4)	(63.9)
Creditors		(49.1)	(51.5)	(48.6)	(53.2)	(62.9)	(60.8)	(62.4)	(63.9)
Short term borrowings		(4.1)	(3.0)	(0.4)	(15.6)	(16.3)	(5.0)	(5.0)	0.0
Long Term Liabilities		(32.0)	(25.7)	(4.3)	(31.8)	(21.0)	(16.0)	(11.0)	(6.0)
Long term borrowings		(20.6)	(16.0)	(0.8)	(20.9)	(17.3)	(12.3)	(7.3)	(2.3)
Other long term liabilities		(11.4)	(9.7)	(3.5)	(10.9)	(3.7)	(3.7)	(3.7)	(3.7)
Net Assets		31.5	36.6	62.8	80.1	90.9	104.1	113.7	124.0
CASH FLOW									
Operating Cash Flow		15.7	12.1	19.8	23.8	30.8	32.8	34.6	35.4
Net Interest		(1.4)	(0.9)	(0.7)	(0.5)	(1.0)	(1.2)	(0.9)	(0.6)
Tax		(1.6)	(0.9)	(1.7)	(2.3)	(3.8)	(3.9)	(4.3)	(4.2)
Capex		(4.6)	(4.9)	(5.6)	(9.0)	(12.7)	(9.0)	(8.5)	(8.5)
Acquisitions/disposals		(28.2)	(0.2)	0.0	(20.9)	(10.2)	(5.3)	0.0	0.0
Financing		0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	(1.9)	(6.7)	(9.1)	(9.4)	(9.7)	(10.0)
Net Cash Flow		(20.2)	5.2	19.9	(15.6)	(6.1)	4.1	11.3	12.1
Opening net debt/(cash)		0.5	23.2	18.7	(1.1)	14.4	20.6	16.5	5.2
HP finance leases initiated		(2.5)	(0.5)	(0.3)	0.4	1.9	0.0	0.0	0.0
Other		0.0	(0.1)	0.2	(0.3)	(2.1)	0.0	0.0	0.0
Closing net debt/(cash)		23.2	18.6	(1.1)	14.4	20.6	16.5	5.2	(6.9)

Source: Epwin Group accounts, Edison Investment Research. Note: *FY13 to FY16 EPS benefited in part from recovered tax losses.

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