

Severfield

Good end-FY19 order book momentum

Higher order books in the UK and India are a positive way to end FY19, which concluded in line with previous guidance. UK market conditions appear to be stable while India is continuing to strengthen. Year-end net cash is similar to H1, and slightly below where we had previously expected, but Severfield retains its conservative balance sheet position. Save for the net cash adjustment, our estimates are unchanged; the P/E rating reduces from 11.1x for the trailing year to 10.3x for FY20 with EV/EBITDA equivalents of 6.8x and 5.9x respectively.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield** (%)
03/17	262.2	20.3	5.7	2.3	13.3	3.0
03/18**	274.2	24.0	6.5	4.3	11.7	5.7
03/19e	279.2	25.0	6.8	2.8	11.1	3.7
03/20e	285.9	27.3	7.4	3.0	10.3	4.0

Note: *PBT and EPS are normalised, excluding pension net finance costs, intangible amortisation and exceptional items. **FY18 DPS includes a 1.7p special dividend.

Solid UK operational performance and rising orders

The reported year-end order book of £274m is Severfield's highest in the UK since November 2016, up from £230m at the interim stage. New project work in the Netherlands represents c £10m of this and traction in one of three highlighted new growth areas is to be welcomed. There are fewer large live projects on hand (the Google HQ is the largest) but underlying margins are understood to be stable with operational performance and workflow mix effects balancing out. We believe the order intake pattern will influence the shape of FY20 trading. New business wins have continued into the new financial year and management still sees a stable pipeline of opportunities.

Building order book and capacity in India

At £149m, the Indian JV order book has climbed to another record level (a further material increase from £124m at the H119 stage) reinforcing confidence in capacity expansion. This is underway (adding c 30,000 tonnes or c 50% to fabrication capacity), with completion expected around the end of FY20. Importantly, the commercial mix of the order book is improving (to nearer 50% of the total now) and this should have positive implications for margins as the projects move through to construction completion over the next couple of years.

Valuation: Positive sentiment trigger

Having trading around its year low in March, Severfield's share price has recovered and regained the levels last seen following its H1 results in November and, as a result, it is up c 4% YTD (versus c 11% for the FTSE All Share Index.) [Our post results valuation comments](#) remain valid; the prospective P/E, EV/EBITDA and dividend yields of 10.3x, 5.9x and 4.0% all represent reasonable entry points in our view. We have previously flagged order book development as a potential positive trigger for sentiment and the latest newsflow is certainly providing good grounds for such a response.

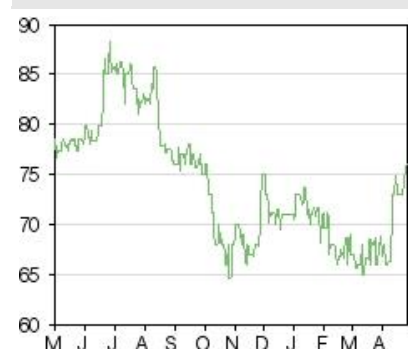
Construction & materials

29 April 2019

Price 76.0p
Market cap £231m

Net cash (£m) at end March 2019	25
Shares in issue	303.9m
Free float	100%
Code	SFR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	15.2	6.2	(2.6)
Rel (local)	11.2	(2.2)	(2.3)
52-week high/low	88.2p	64.6p	

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 is fully operational.

Next events

FY19 results	19 June
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Exhibit 1: Financial summary

	£m	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
		12m to Dec	12m to Dec	15m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar	12m to Mar
PROFIT & LOSS												
Revenue		267.8	256.6	318.3	231.3	201.5	239.4	262.2	274.2	279.2	285.9	292.5
Cost of Sales		(246.9)	(268.8)	(330.9)	(217.8)	(186.7)	(219.6)	(236.3)	(244.9)	(249.0)	(253.2)	(258.9)
Gross Profit		20.9	(12.2)	(12.7)	13.5	14.9	19.8	25.9	29.3	30.3	32.7	33.6
EBITDA		19.5	(13.6)	(13.6)	12.0	13.6	18.9	25.7	29.0	30.2	32.9	34.1
Operating Profit - Edison		15.0	(17.7)	(18.6)	8.4	10.0	15.2	22.1	25.4	26.1	28.3	29.0
Net Interest		(1.6)	(1.6)	(2.0)	(0.6)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Associates		(2.5)	0.2	(0.3)	(3.0)	(0.2)	(0.2)	0.5	0.9	1.1	1.2	1.3
SBP		(0.3)	(0.0)	(0.1)	(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Intangible Amortisation		(2.7)	(2.7)	(3.5)	(2.7)	(2.6)	(2.6)	(2.6)	(1.3)	0.0	0.0	0.0
Pension Net Finance Costs		(0.5)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Exceptionals		(0.6)	(1.0)	(3.8)	(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	0.0	0.0
Profit Before Tax (norm) - Edison		10.6	(19.1)	(20.9)	4.5	8.8	13.7	20.3	24.0	25.0	27.3	28.1
Profit Before Tax (norm)		10.1	(19.6)	(21.5)	4.0	8.3	13.2	19.8	23.5	24.5	26.8	27.6
Profit Before Tax (statutory)		6.8	(23.3)	(28.9)	(4.1)	(0.2)	9.6	18.1	22.2	24.5	26.8	27.6
Tax		(0.9)	3.9	5.7	1.4	0.3	(1.0)	(2.7)	(4.1)	(4.4)	(4.8)	(5.0)
Profit After Tax (norm)		7.7	(16.2)	(17.9)	3.1	7.4	11.4	17.0	19.5	20.6	22.5	23.2
Profit After Tax (statutory)		5.8	(19.4)	(23.1)	(2.6)	0.1	8.6	15.3	18.0	20.1	22.0	22.7
Average Number of Shares Outstanding (m)		89.3	89.3	89.3	295.8	297.5	297.5	298.9	299.7	301.7	303.5	303.5
EPS - norm (p) - Edison		4.51	(9.42)	(10.42)	1.05	2.47	3.84	5.70	6.52	6.83	7.40	7.64
EPS - norm (p)		4.21	(9.72)	(9.45)	0.88	2.31	3.67	5.53	6.35	6.66	7.24	7.47
EPS - statutory (p)		3.41	(11.33)	(13.49)	(0.89)	0.05	2.89	5.13	6.02	6.66	7.24	7.47
Dividend per share (p)		5.0	1.5	0.8	0.0	0.5	1.5	2.3	4.3	2.8	3.0	3.3
Gross Margin (%)		7.8	-4.8	-4.0	5.8	7.4	8.3	9.9	10.7	10.8	11.4	11.5
EBITDA Margin (%)		7.3	-5.3	-4.3	5.2	6.7	7.9	9.8	10.6	10.8	11.5	11.7
Op. Margin - Edison (%)		5.6	-6.9	-5.8	3.6	4.9	6.4	8.4	9.2	9.3	9.9	9.9
BALANCE SHEET												
Fixed Assets		156.9	155.6	154.9	147.7	145.1	149.3	148.3	154.5	162.6	166.7	170.3
Intangible Assets		72.9	70.4	69.8	64.6	61.8	59.2	56.3	54.8	54.7	54.7	54.7
Tangible Assets		79.6	76.2	76.1	74.1	76.6	77.4	78.9	81.2	83.8	86.2	88.0
Investments		4.4	8.9	8.9	9.0	6.7	12.7	13.1	18.5	24.1	25.8	27.5
Current Assets		100.5	69.8	80.5	72.2	76.3	75.1	107.1	99.2	101.2	114.0	127.1
Stocks		9.1	7.1	8.2	5.8	4.8	5.3	7.8	9.6	10.8	11.0	11.2
Debtors		89.2	61.2	71.6	60.8	64.6	50.7	66.5	56.4	65.1	67.1	69.2
Cash		2.3	1.4	0.7	5.5	6.9	19.0	32.8	33.1	25.3	35.8	46.7
Current Liabilities		(103.6)	(97.0)	(112.5)	(57.9)	(59.7)	(58.2)	(78.7)	(66.1)	(66.4)	(67.8)	(69.1)
Creditors		(70.3)	(66.1)	(70.9)	(52.7)	(59.5)	(58.1)	(78.5)	(65.9)	(66.3)	(67.7)	(69.0)
Short term borrowings		(33.3)	(30.9)	(41.7)	(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Long Term Liabilities		(21.6)	(21.7)	(20.4)	(18.5)	(21.1)	(17.9)	(22.5)	(18.7)	(18.1)	(18.1)	(18.1)
Long term borrowings		(0.3)	(0.3)	(0.2)	(0.0)	(0.6)	(0.4)	(0.2)	(0.0)	0.0	0.0	0.0
Other long term liabilities		(21.3)	(21.4)	(20.2)	(18.5)	(20.5)	(17.5)	(22.3)	(18.6)	(18.1)	(18.1)	(18.1)
Net Assets		132.3	106.6	102.4	143.4	140.6	148.2	154.2	169.0	179.4	194.8	210.2
CASH FLOW												
Operating Cash Flow		(5.4)	12.9	3.1	2.1	11.4	24.8	27.4	22.9	20.0	31.1	32.5
Net Interest		(2.0)	(1.3)	(1.7)	(0.8)	(0.8)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Tax		(3.7)	(2.7)	(2.3)	0.4	(1.0)	(0.9)	(2.4)	(3.9)	(4.6)	(4.4)	(4.8)
Capex		(1.5)	(0.2)	(1.4)	(1.5)	(1.3)	(4.3)	(5.3)	(5.4)	(6.7)	(7.0)	(7.0)
Acquisitions/disposals		(0)	(2)	(3.0)	(3.5)	(1.7)	(4.1)	(0.4)	(5.5)	(4.5)	(0.5)	(0.5)
Financing		0	0	0.0	44.8	0	0	0	0	2	0	0
Dividends		(3.6)	(4.5)	(4.5)	0.0	0.0	(3.0)	(5.1)	(7.5)	(13.4)	(8.6)	(9.3)
Net Cash Flow		(16.3)	1.7	(9.7)	41.5	6.7	12.4	14.0	0.4	(7.7)	10.5	10.8
Opening net debt/(cash)		15.0	31.3	31.3	41.2	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(35.7)
HP finance leases		0.0	0.1	0.0	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)	0.0	0.0
Other		(0)	(0)	(0)	0.2	(0.6)	0.2	0	0	0	0	0
Closing net debt/(cash)		31.3	29.7	41.2	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(35.7)	(46.5)

Source: Company, Edison Investment Research

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