EDISON

Severfield

Strategically well placed to grow

Strategic investment and H120 results

Construction & materials

Broader exposure to more defensive sectors, European projects and Indian development has stood Severfield in good stead to attain its FY20 PBT target. The UK general election result may also see some return of confidence in the weaker sentiment sectors. The company is positioned for the next phase in its strategic development, although continues to be perceived as a cyclical UK construction company in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield** (%)
03/18**	274.2	24.1	6.5	4.3	12.8	5.1
03/19	274.9	25.1	6.8	2.8	12.3	3.3
03/20e	328.2	28.0	7.6	3.0	11.0	3.6
03/21e	341.9	29.8	8.1	3.3	10.4	3.9

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.

Strategic targets and actions

It remains to be seen how the December general election result will play out economically; infrastructure appears to be key area for investment and we would think prospective domestic and inbound international property projects have a degree of improved clarity now. Severfield is on track to hit its FY20 PBT target of at least £26m (set in FY16) and new strategic targets may be formulated for investors. Capacity expansion in India and the Harry Peers deal are two tangible recent management actions. This note develops our previous commentary in these areas, highlighting the scale of opportunity (and some valuation considerations) in the former case and additional sector diversity in the latter.

H120 results confirmed expected H2 weighting

H120 results bore out previous guidance to expect a second-half weighting to FY20 results, reflecting order book development. Revenue was 11.7% below the prior year (at £131.7m) and PBT came in at £8.2m (vs £13.1m in H119), all in line with management expectations. Project phasing meant reported UK margins were lower but orders on hand nudged up further (to c £303m for the existing operations), the majority of which is for delivery in the next 12 months. The Indian JV (with £134m record order levels) confirmed strong momentum with Severfield's share of profit after tax matching that for FY20 as a whole. The H120 dividend was increased by 10% and the company was in a c £23m net fund position at the period end prior to the Harry Peers deal. Existing guidance was unchanged; we rebalanced our model with increased JV/lower UK earnings with no net change to earnings estimates.

Valuation: Favourable response to UK election

Along with the wider construction sector, Severfield's share price responded favourably to the UK's December general election result initially then settled back slightly. At the current level, the group P/E is 11x for this year, declining to 9.8x by FY22 and we believe the Indian JV influence here is modest. For the same years, our adjusted EV/EBITDA multiples (based on UK profitability only) are 7.6x and 6.5x respectively. The prospective dividend yield for FY22 is 4.3%.

4 February 2020

Price	**83.9p**
Market cap	**£255m**

Net cash (£m) at end September 2019	22.5
Shares in issue	305.9m
Free float	100%
Code	SFR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.7	8.3	20.7
Rel (local)	4.7	6.8	14.1
52-week high/low		87.0p	61.0p

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 being expanded.

Next events

End of FY20	March
FY20 results to be announced	17 June

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Edison profile page

Severfield is a research client of Edison Investment Research Limited

Investment summary

Company description

Severfield specialises in the design, fabrication and erection of structural steelwork in building construction and is the largest in the UK in its field, operating in a broad range of market sectors. A JV in India undertakes similar activities and addresses the growing local market demand for steel-framed buildings.

Valuation: UK and Indian JV influences on valuation

Severfield is rated with an FY20 P/E of 11x and EV/EBITDA of 7.6x with a prospective dividend yield of 3.6%. By FY22, the P/E and EV/EBITDA reduce to 9.8x and 6.5x respectively on our estimates. Using a DCF approach for the Indian JV (using the current estimated JV EBIT margin and Severfield WACC) generates a value per Severfield share in the 11–12p range (or c 14% of the current share price) for the interest in this entity. Making associated adjustments to the above multiples suggests there is some growth premium for India but its influence on the group P/E is limited, in our view. Moreover, the implied UK earnings P/E is at the lower of the range of selected peers. Making a notional adjustment to EV for the Indian JV results in c 14% lower EV/EBITDA multiples compared to those above, which we believe is more relevant for UK-generated earnings. Clearly, higher Indian DCF values would have a more amplified effect on the implied UK multiples.

Financials: Supporting growth with investment

Severfield is on track to meet management's strategic FY20 PBT target of at least £26m. We expect earnings to continue to grow despite more challenging UK market conditions, aided by European projects in the order book and pipeline. Including the improving Indian JV profitability (with expanded capacity to come onstream) and Harry Peers (acquired in October), our three-year EPS CAGR to FY22 is 7.9%, with a slightly stronger DPS CAGR over the same period. The Harry Peers deal was substantially funded via a term loan; we expect strong underlying free cash flow (FCF) to result in year-end net cash of c £9m for FY20, slightly lower in FY21 followed by c £15m by the end of FY22.

Sensitivities: Managing market and project risk

Earnings have historically largely come from UK projects. Severfield has successfully been able to diversify its market exposures – both at UK sector level, into Europe and in an Indian JV – which has provided earnings protection as UK economic growth expectations have deteriorated. Order books are at their highest level for 10 years in UK/Europe and ever in India. **Accentuating sector strengths in varied market conditions:** the company's breadth of sectors served allows it to allocate project resources into active areas. These include UK infrastructure, regional commercial offices and European distribution and data centres, while the traditionally important London commercial market has weakened. **Integrated project approach to control delivery and margin performance:** organisational change and more connected project oversight – as well as healthy main contractor relationships – over the last five years or so have contributed to improve project risk management practices we believe. The company fixes the majority of anticipated project costs and hedges non-sterling revenues when entering into a construction contract and, other things being equal, the achieved margin then reflects performance against agreed terms. **Focus on cash flow and rebuilding net funds position:** the acquisition of Harry Peers reduced net funds (to a pro forma c £4–5m at the beginning of H2) but we expect the order book and pipeline positions to convert into improving profitability and FCF to rebuild net funds somewhat by the year end.

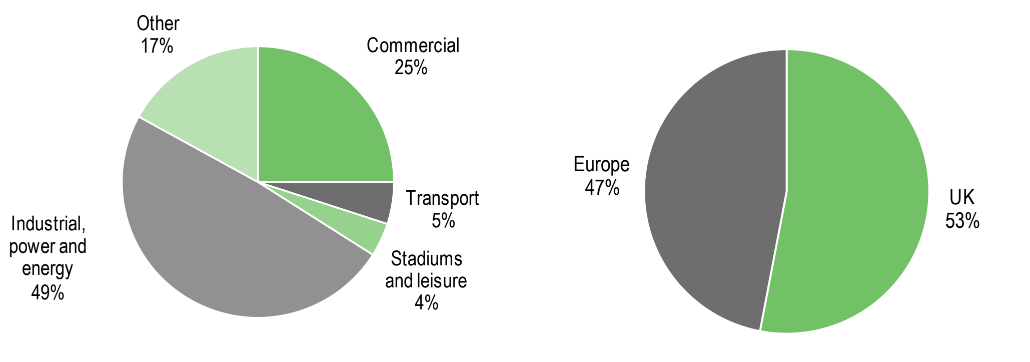
Company description: Leading structural steel supplier

Founded in Dalton, North Yorkshire, over 40 years ago, Severfield has grown through investment and acquisition to become the UK's leading structural steelwork supplier comprising integrated design, fabrication and site erection services. The company now operates from five sites in the UK. It is also a partner in an established Indian structural steelwork joint venture (JSSL) and associate investor in a UK supplier of complementary steel products (CMF).

Severfield addresses multiple end-customer sectors in the structural steel-framed building market. Sector drivers and project workflows vary and as well as those shown in Exhibit 1, Severfield has completed projects in retail, infrastructure (now including nuclear), bridges, power generation, healthcare and education. The company wins business through early engagement with project partners (eg, end client, architect, main contractor) and adds value through structural design (eg, connections, floorplates) translated to efficient fabrication (fab) and erection phases, building a client value proposition around cost and speed to complete solutions. Each project is unique and brings different challenges such as site access/operating constraints or temporary work requirements; complex and typically tall building projects are one of Severfield's core strengths.

The company has UK fab capacity of approximately 150,000 tonnes per year, is operating at around two-thirds of this level on a run-rate basis and uses a well-developed sub-contract supply chain. Its four UK fabs are located at Dalton, Lostock, Ballinamallard and Bolton (a recent addition with the Harry Peers acquisition) while a fifth facility at Sherburn now supports smaller fabricators through the supply of workflow material packages. These facilities service projects on the UK mainland, in Ireland and near continental Europe and the order book split is shown on the right-hand chart in Exhibit 1.

Exhibit 1: Severfield UK order book splits, November 2019 (£323m)



Source: Company. Note: Other includes data centres.

JSSL (a 50:50 JV with JSW Steel) has been operational since 2010; its current 60,000 in-house fabrication tonnes annual capacity is being increased by 50% through investment and is expected to be commissioned by the end of FY20. Severfield took a 50% stake in supply chain partner CMF in 2016 to secure access to and support development of complementary cold rolled steel products.

Alan Dunsmore – CFO for seven years plus a short period as acting CEO – formally became group CEO in early 2018. Group financial controller Adam Semple became CFO at this time. Executive continuity – also including a COO and Indian JV MD – has stood the company in good stead as it remains on track to hit its 2016 target of doubling PBT by 2020, the current financial year. Notable actions taken include reorganisation of fab facility roles, the expansion of Indian JV capacity and latterly the acquisition of Harry Peers. NED board representation is led by John Dodds, an experienced construction industry executive and chairman since 2011. The remaining three NEDs all joined in 2014 and bring engineering, finance, HR and listed company backgrounds to the board.

India: Well positioned for growth

Recent improvements in financial performance from Severfield's JV in India have validated management's long-term investment strategy. The country continues to offer prospective growth rates well ahead of western European markets. We believe that experience gathered to date puts the company in a strong position to benefit from expected growth in core structural steel segments and we expect JV earnings to become an increasingly important contributor to group profitability.

Country context: Positive policy initiatives and growth outlook

Economic growth expectations: according to the OECD, India's gross domestic product (GDP) could grow by 6.6% per year in 2020–24. While actual growth has decelerated since mid-2018 and expectations have reduced, this five-year outlook is still comfortably ahead that for western Europe.

Pro-business agenda: having previously implemented the Goods and Services Tax reform in 2017, following the Indian general election in May the returned Modi government has reduced corporate income tax rates (by 10 percentage points to c 25%). The Reserve Bank of India also recently cut its base rate from 5.4% to 5.15% in October – and held this level subsequently – confirming a long-term downward path from 8% in early 2015 (albeit with a small temporary reversal in H218). Hence, the assertion is that the current administration is on a pro-business footing. We would say that confidence in the government and the country's financial system are important factors in encouraging asset-based investment by both domestic and inbound international investors and businesses.

Infrastructure initiatives: during its first term, this Indian government commenced a Make in India initiative (to build investor confidence and encourage foreign direct investment), launched its Smart Cities Mission (designed to improve, renew and/or extend 100 selected cities) and established the National Industrial Corridor Development and Implementation Trust (aiming for unified and coherent development of five designated infrastructure pathways across states and between leading cities).

The construction industry is seen an important sector in facilitating India's economic growth and accounts for c 9% of GDP including infrastructure and real estate development. The use of reinforced concrete for building began in the first half of the 20th century and accelerated during the second half to become the dominant construction material; India is the second largest cement producer globally.

India has a substantial steel industry in its own right, being the third largest crude steel producer and consumer of finished steel in global terms.[1] However, while steel has historically been more accepted as framing for industrial buildings and warehousing, the overall penetration in commercial buildings is understood to be very low compared to the UK and Europe (ie, c 5–10% percentage points versus c 70% and c 30–40% respectively). The well-rehearsed points in favour of so-called pre-engineered steel structured buildings versus concrete include faster speed of construction, greater design flexibility (with increased spans and larger floorplate areas), strength to weight and carbon footprint benefits and lower labour intensity. In taller, more complex buildings these points are amplified. In essence, this is the rationale for Severfield's original entry into the Indian market in 2010.

The Indian government's 2017 National Steel Policy[2] projected a fourfold increase in steel consumption by the construction and infrastructure sectors by 2030–31 (to 135MT) representing a rise from 40% to 59% of the total. Although we do not have the breakdown by steel product type, it is clear the opportunity to grow in these sectors is material.

[1] RBSA Indian Steel Industry Analysis (June 2018)

[2] https://invest-india-revamp-static-files.s3.ap-south-1.amazonaws.com/National%20Steel%20Policy.pdf

Severfield in India: Established presence, momentum building

Severfield's JV partner is a subsidiary of JSW Steel (a listed company and part of the JSW Group); it is an integrated steel company and one of the largest five producers of finished steel in India. Reflecting the immaturity of the domestic Indian market with respect to Severfield's established structural steel capability, development in the country has not been an overnight success. The year 2014 proved to be an inflection point for local operations when – having incurred an operating loss in that year – both partners reaffirmed their commitment to the JV and it has increasingly prospered since.

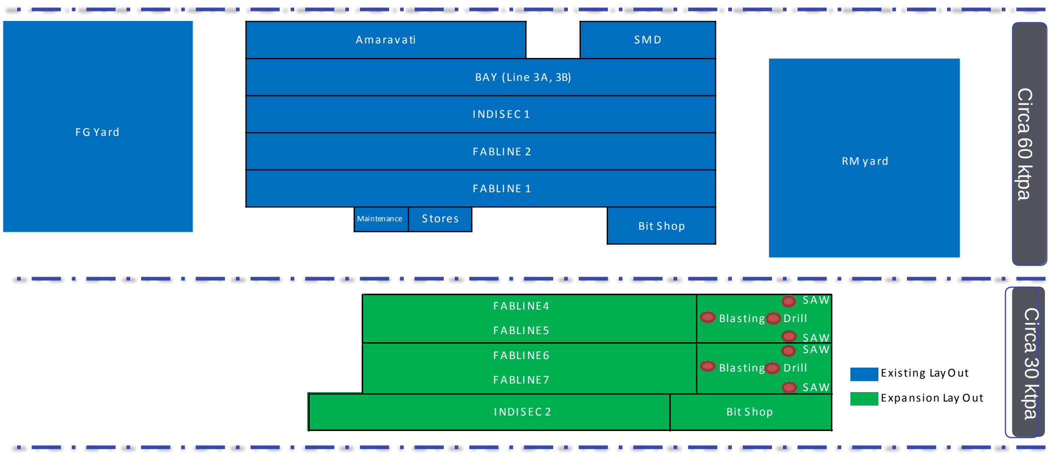
Exhibit 2: Development timeline of Severfield's India JV JSSL

	Revenue (£m)	Op margin (%)	Share of PAT (£m)	
2008				Joint venture (JSSL) first established with JV partner in November.
2009	2.2	N/M	(0.9)	Funding put in place: c £5m equity from each partner + term finance.
2010	1.3	N/M	(1.8)	November 2010: 35,000 tonne fabrication facility completed and commissioned. Structural Metal Decking JV also operational at Bellary.
2011	22.6	N/A	(2.5)	First full year of operation; gradual increase in production, contractual delay/cancellation impacted ramp-up and fab scheduling.
2013	40.4	9	(0.4)	Increased volumes, positive margin performance but scheduling variability continues. Plant and business development management changes.
				Phase II: heavy plate sections line commissioned (to 50,000–60,000 tonnes total fab capacity depending on workflow).
2014	27.5	(18)	(3.0)	Order schedule variations, lower plant utilisation and unprofitable work results in significant EBIT loss.
				JV partners reaffirmed commitment with equity subscription; Derek Randall becomes MD, overhead reduction programme initiated.
2015	42.5	9	(0.2)	Fab throughput increases to 48,000 tonnes (26,000 tonnes in the prior year) to deliver good operating margin on reduced overhead structure.
2016	39.7	7.0	(0.3)	Reduced fab volume (36,000) with improved mix effects but project timing delays in some cases.
2017	41.5	9.7	0.2	Stable revenue performance and increased margin from business mix and contract performance.
2018	38.6	9.2	0.5	Comparable y-o-y trading performance, market and order books improving. JV partners inject equity to repay term debt.
2019	84.1	6.4	1.2	Significant increase in revenue from fab and sub-contract operations, margin influenced by higher proportion of industrial project work.
				Record order book levels and opportunities; JV partners approve further 30,000 tonne fab expansion at Bellary (expected opening end FY20).

Source: Company, Edison Investment Research

By the end of the latest investment phase, the Bellary facility layout will have added four fab lines (making seven in total), an additional cellular beam plate line (Indisec) and ancillary functions (cutting, drilling and surface preparation), as shown in Exhibit 3. In-house fab tonnage capacity will have increased by c 50% to c 90,000 tonnes. Note there is already a complementary metal decking capability at Bellary to support the supply of enhanced steelwork packages to projects.

Exhibit 3: Bellary expansion



Source: Company

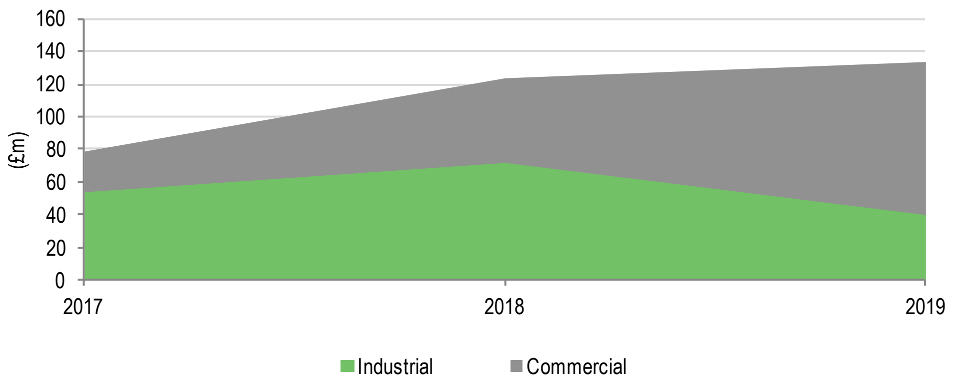
From the outset, Severfield's proposition to penetrate the Indian market was to offer a fully integrated in-house service of design, fabrication and site construction structural steelwork service, to mirror its established UK position. This was a significant differentiator in a local construction market dominated by concrete structures and characterised by labour-intensive site operations. The JV fabrication facility is located at Bellary/Ballari (c 350km north of Bangalore/Bengalaru) and adjacent to JSW Steel's Vijayanagar works in Karnataka, from where it sources the plate and long section inputs. As well as physical investment at the Bellary site, JSSL has necessarily had to cultivate relationships with specifiers, main contractors, supply chain partners and end clients as part of its business development activities over a 10-year period to get to the current position. The challenges associated with creating this project network should not be underestimated and this, together with a growing portfolio of delivered projects, is a key business strength in our view. JSSL's head office is in Mumbai.

JSSL financials: Summary position

As shown in Exhibit 2, JSSL has been consistently profitable at the operating level from 2015 onwards and the repayment of term debt in FY18 has enabled the JV to start to contribute more meaningfully to the group P&L. To the end of FY19, we estimate the JV partners had committed c £47m of equity on an equal-split basis. At the end of FY19, the stated JSSL NAV was £30m[3] and the balance sheet carried both cash (to facilitate funding the latest expansion) and debt instruments (including working capital funding and letters of credit). We understand the entity had a marginal net debt position overall at this time.

Following the recent capacity expansion (to come onstream at the end of the current year) and the increases in both order book scale (to record levels) and proportion of higher margin commercial project work, JSSL is in a strong position for near term and prospective future growth.

Exhibit 4: JSSL order book recent scale and mix development



Source: Company. Note: November data point in each year.

For the record, our group earnings estimates include the following shares of the Indian JV's profit after tax:

- Current year £2.1m (versus £0.7m in FY19), followed by FY21 £2.3m and FY22 £2.7m.

This factors in a c 30% net revenue uplift (FY22 vs FY20) and stable operating margins (at c 8.4%).

Well positioned for long-term sub-sector growth expectations

India's population is currently 1.3 billion people and is projected to grow by a further 200 million by 2030 with a rising and relatively young working population and an urban dwelling percentage increasing from c 34% to c 40% at the same time. Moreover, the World Economic Forum has

[3] After a favourable accounting policy adjustment, Severfield's share of the carrying interest was £16.1m.

projected the number of households will increase from c 293m to c 386m over the same period, with the largest growth coming in the middle income segment (+c 140m, rising from just over half to just over three-quarters of the total). A joint report by CREDAI/CBRE[4] mapped this into its vision of how the Indian property market can be expected to develop over the next 10 years.

Most obviously, with c 160m more people living in urban environments, the number of Indian cities with population greater than one million is expected to rise from 42 to 68, with the largest six alone accounting for c 115m of the c 600m total. Acknowledging some degree of urban spread is likely, it seems to us obvious therefore that higher rise buildings are a logical response to increasing density. Clearly, the government's previously mentioned Smart Cities and National Industrial Corridor initiatives explicitly recognise the need to reconcile urban growth, development and quality of life and connect these huge conurbations. On the latter point, the CREDAI/ CBRE report cited an Indian government estimate that 7–8% of GDP needs to be spent on infrastructure annually indicating its scale and importance.

At this stage, infrastructure is not one of JSSL's core focus sectors. However, the CREDAI/CBRE report identifies some specific growth expectations in tertiary subsector in which JSSL and Severfield have strong track records.

- **Commercial –** office stock to grow from 600m sq ft to 1bn sq ft by the end of 2030, an average of c 36m sq ft to be added per year; in context, the two tallest buildings in London were both Severfield projects with the following metrics:
  - The Shard: 1.3m sq ft floor area (13,000 tonnes of structural steelwork)
  - Bishopsgate 22: 2m sq ft (17,000 tonnes)
- **Retail –** India to become the third largest global consumer market, reaching a total of 120m sq ft shopping centre space by 2030 (base year space not disclosed).
- **Logistics –** partly to support retail growth but also industrial development; construction of large-scale regional distribution centres and proliferation of more local fulfilment facilities around conurbations resulting in 500m sq ft total warehousing space by 2030 (base year not disclosed).

To date, JSSL has also delivered projects in the healthcare/hospitals and data centre subsegments – which are considered to be higher margin – and industrial buildings (eg, steel industry structures). Having this breadth of capabilities enables JSSL to be selective in building a pipeline and pursuing project opportunities, helps to load the fabs with a mix of work and provides a degree of diversification if individual sub sectors undergo growth pauses.

In the context of future energy demand and the built environment, the Global Buildings Performance Network organisation has made the startling assertion that 'about 75% of the buildings expected to exist in India in 2030 have not been built'. This reminds us that requirements will be for both new and replacement space and energy efficiency is becoming an increasingly important consideration. Differentiated, high-quality, flexible and energy-efficient space that attracts employers and employees (or possibly residents) is likely to become an important driver in a growing urban population scenario. Combining these attributes with faster build cycles to service the rapidly expanding space requirements highlighted above appear to play very much to Severfield's strengths and value proposition in the Indian market. Through direct investment, specific project experiences and a developed, scaled-up supply chain the company has built a very strong platform from which it can participate in higher growth rates not seen in its traditional UK/European markets.

[4] India 2030 – Exploring the future (August 2019); Confederation of Real Estate Developers of India, CBRE

Harry Peers: Nuclear fusion

Severfield has invested to develop the Indian JV and in supply chain partner CMF but the Harry Peers deal (announced 1 October) was the company's first material subsidiary acquisition since Fisher Engineering (now Severfield NI) in 2007.

As a re-cap, Bolton-based Harry Peers brings in its structural steel fab capacity of c 4,000 tonnes per year – and an established sub-contract supply chain – located near to Severfield's Lostock facility (and 90 miles from the main Dalton head office fab). In context, Peers represents c 6–7% of annualised UK revenues and orders on hand at the end of H120 and brings above-average EBIT margins based on normalised historic financials. Severfield paid an initial £18m net consideration, equivalent to c 6x historic EBITDA, with the expectation that a further £7m deferred payment is going to be made in FY21.

The conditions relating to the deferred payment have not been explicitly stated but mainly concern future profitability and order book levels. At the point of acquisition, the company brought in c £20m of orders on hand and approximately two-thirds of this related to nuclear and defence projects.

By way of background, the Nuclear Decommissioning Agency,[5] through its Sellafield Ltd subsidiary, is responsible for the safe and secure decommissioning of the Sellafield nuclear reprocessing and waste storage site. This includes the provision of new facilities for, among other things, storing nuclear waste. The Infrastructure Strategic Alliance[6] has been working under a £1.1bn contract to deliver essential infrastructure assets to the Sellafield site since 2012. Harry Peers became an accredited supplier at this site in 2013 and is a signatory to pre-agreed ISA terms and conditions and its pre-qualification questionnaire as a provider of (primary and secondary) structural steelwork, modular and temporary buildings as well as roofing and cladding. In May 2019, Sellafield Ltd separately awarded 20-year contracts to four partner organisations (Programme and Project Partners) to deliver a c £4.5bn decommissioning programme, as follows:

- Wood Group (c £0.8bn) – design and engineering
- Morgan Sindall Infrastructure (c £1.6bn) – civil construction management
- Doosan Babcock (c £1.6bn) – process construction management
- Kellogg, Brown and Root (c £0.5bn) – integration

Harry Peers has an established track record as a service provider to a JV at the front end of an extended decommissioning phase. This appears to put the company in a very good position to participate in the next phase. So, the strategic benefits to Severfield are clear, adding a new sector segment with entry barriers and potential access to some visible increasing long-term workflows.

Harry Peers' other sector exposures (and the remaining third of its acquisition order book) are across process industry (chemicals, petrochemicals, pharmaceuticals plant structures) and power generation (especially energy from waste facilities). Structural steelwork, modular packages (eg, piperacks) and ancillary items (eg, walkways, staircases, platforms) are common workflow elements that the company has provided under its design, fabrication and erection service. Volumes are not large in the context of Severfield's c 90,000 – 100,000 tonne UK fab run rate currently but Harry Peers provides access to specialist sector niches that generate above-average margins for the group. Allowing for some opex alignment, Peer's market positions should be reinforced by having a more competitive steel purchasing capability supporting its tenders.

[5] NDA Insight into Nuclear Decommissioning

[6] A JV between Sellafield Limited, Morgan Sindall Group and Arup; contract first awarded in 2012 with a maximum term of 15 years (5+5+5) and the first option to extend was successfully secured.

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H120 results overview

Headline profitability declined year-on-year in H120 due to project phasing in UK operations, consistent with management's previous guidance for a greater second-half weighting versus FY19. Orders on hand and pipeline prospects here and in the Indian JV – which performed strongly in H1 – remain at high levels and bode well for the remainder of the year and beyond. Severfield ended H120 with a slightly lower but still substantial net cash position; this was substantially consumed by the post period-end Harry Peers acquisition but the underlying cash flow outlook remains positive. After some rebalancing between the geographies, our headline earnings estimates are unchanged.

Exhibit 5: Severfield interim splits

	H119	H219	2019	H120	Change y-o-y H1
Group revenue	**149.089**	**130.153**	**274.917**	**131.700**	**-11.7%**
Group operating profit	**12.479**	**10.777**	**23.256**	**7.002**	**-43.9%**
Op margin %	*8.4%*	*8.3%*	***8.5%***	*5.3%*	*-310bp*
Group operating profit - adj*	**12.764**	**12.607**	**25.371**	**8.019**	**-37.2%**
Op margin %	**8.6%**	**9.7%**	**9.2%**	**6.1%**	**-250bp**
Order book**	230		**295**	323	40.4%

Source: Company, Edison Investment Research. Note: *Reported operating profit is adjusted for share-based payments and estimated pension net finance costs. Neither profit line includes any contribution from JVs and associates. **UK and Europe, at date of reporting results, including c £20m for Harry Peers (acquired 1 October 2019).

UK: Revenues following order book development

Revenue declined by c 12% in H1 and a 310bp EBIT margin reduction reflected a disproportionate fall in reported operating profit. (IFRS 16 was adopted for the first time, adding c £0.2m to EBIT and £0.1m at the PBT level.) Fab volumes were certainly lower in the period but the bigger influence on profitability was more likely to have been contract phasing with a higher proportion of projects in their early phases. (Steel prices are understood to have been stable; Severfield fixes these input costs at the point of contracting and so should not be at risk nor stand to benefit other things being equal when prices change anyway.)

Outside the traditional core structural steelwork activities (design, fabrication, erection), the company's entry into smaller contracts (as a provider of steelwork packages and services to smaller fabricators) will be margin dilutive and more so in its ramp-up phase we imagine. In addition, there will have been some small cost drag associated with exploring opportunities in the medium/high rise residential sub-sector the company is also aiming to enter.

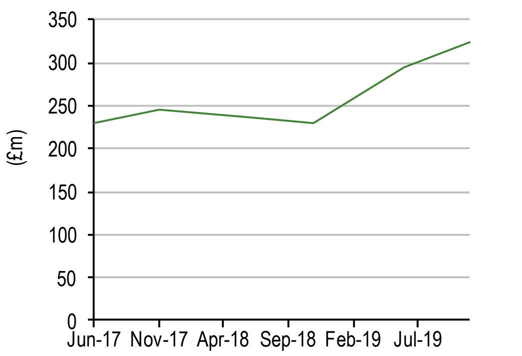
Larger projects tend to attract most investor attention; while the KGX1/Google HQ work continues, the Bishopsgate 22 steelwork phase completed and Severfield is offsite now. Other named projects – and 80 or so were worked on in total during the period – which started during H1 include (calendar year references, full project completion dates):

- **Lords Cricket ground** – redevelopment of Compton and Edrich Stands with two three-tier replacements (started Q319).
- **One Braham**, Aldgate – 300,000+ sq ft commercial offices (started mid-2019, completion Q120).
- **Unity Square**, Nottingham – c 62,000 sq ft office space for HMRC in two phases (broke ground Q219, completion summer 2021).
- **60 London Wall** – c 490,000 sq ft mixed used commercial office and retail space (topped out July 2019, expected completion 2019).
- **Data centre**, Dublin 682,000 sq ft (started October 2019, expected completion July 2020).

Severfield would obviously be offsite in advance of full project completions. The expected H2 revenue ramp up is significant and management refers to a number of projects completing in H2. We now consider the prospect of increased volumes and revenues through UK facilities in the context of the order book.

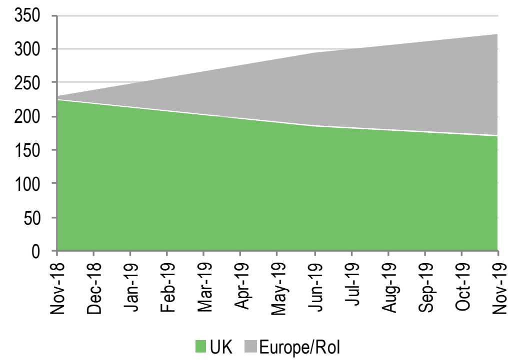
Focus on UK order book development: having dipped from a Bishopsgate 22-boosted £315m at November 2016, Severfield's UK order book settled in the c £230–245m range during the next two years/four reporting periods before picking up again in 2019. By June this year, it rebounded to £295m to reflect orders won in continental Europe, increasing further to £303m underlying (plus £20m brought in with the Harry Peers acquisition – see below) in November.

Exhibit 6: SFR UK order book development



Source: Company data

Exhibit 7: SFR UK order book regional split



Source: Company data

In other words, the order book pick up has occurred in the last 12 months; as the majority of projects cycle through within 12 months and profit recognition is effectively loaded towards the back half of a project,[7] this timing impact has been visible in H120 operating margins. At the same time, this pattern of order intake and its absolute level support an expectation of increasing volumes and revenue from H220.

Exhibit 7 shows the last 12 months development of the order book for UK-based operations and there are two interesting trends to note. Firstly, although the overall order book has grown, the value of UK projects on hand has declined by an underlying c £70m to c £150m before including Harry Peers orders (c £20m) at the end of November (and to just over half in total, having been practically dominant a year earlier). At the same time, orders for delivery in the Republic of Ireland and mainland Europe have risen dramatically to £152m; data centres have been regularly referenced and a specialist research facility in Sweden has also been name checked (won by the Netherlands office team) but implicitly there must be industrial/distribution and commercial offices to attain the total non UK order value.

Stable outlook at current levels: the order book position provides good fab visibility for the next 12 months or so and into H221. Management described the project pipeline as 'broadly stable' and for the most part indicated similar or better future trends in the sectors served. (The exception here was the industrial/distribution segment; we suspect this reflects an abnormal order book high rather than underlying sub-sector deterioration.)

The prospect list in the results presentation pack included Cherry Park, Stratford, a new residential quarter development next to the Westfield shopping centre; Severfield's interest is in the retail-led, mixed use building component rather than the residential blocks which we understand are not steel-

[7] Contract costs are recognised as expenses in the period in which they are incurred and matched with revenues, which are booked under the input (estimated proportion of cost to complete) method. Profit is only recognised when a contract's outcome can be estimated reliably (usually from around halfway through a project).

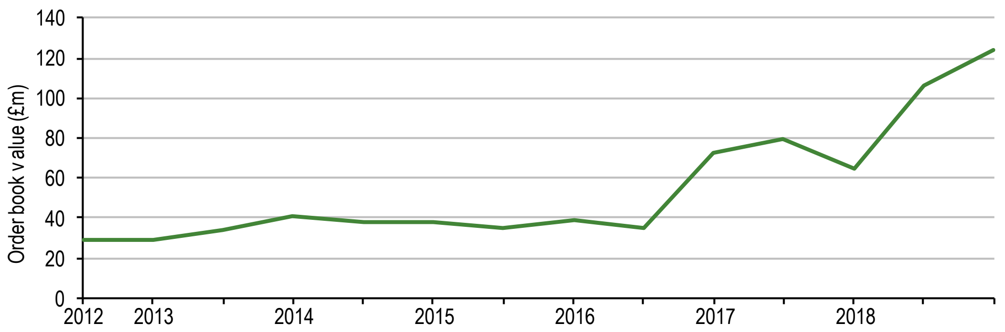
framed. In addition, airport projects (at Gatwick and Stansted), stadiums/arenas and regional commercial opportunities were all highlighted. We suggest these project types tend to have other drivers over and above typical cyclical work. At the H120 reporting stage, the aforementioned projects were pipeline/target schemes and therefore not included in the order book at that time. Harry Peers was acquired post period end so made no contribution in H120; it brought in an order book of c £20m, which is broadly equivalent to one year's revenue.

India: Financial performance improvement continues

We have discussed the development of Severfield's Indian JV, JSSL, in an earlier section so commentary on the H120 performance here is brief. The JV's financial results are equity accounted in Severfield's own reporting, so only the company's 50% share of profit after tax is included. In the group's associate line, JSSL contributed £1.3m in H120 matching the whole of FY19 (which included £0.4m in H119).

Behind the headline, all P&L metrics were ahead year-on-year but compared to the full FY19 outturn, the most significant uplift was a 210bp improvement in operating margin (to 8.5%). Project phasing may have contributed to this but the bigger influence is understood to be mix with a higher proportion of commercial work relative to industrial projects. The actual revenue mix was not disclosed but based on the order intake pattern since June 2018, an increase in commercial work throughput to at least the same level as – most likely more than – industrial is highly likely to have occurred in our view. In previous periods, expansionary capex by JV partner JSW has been a significant JV customer for industrial buildings. While this also featured in H120, the inference is clearly that other commercial project work grew faster and/or the JSW work was past peak levels.

Exhibit 8: JSSL order book development



Source: Company

To deliver c £56m revenue in H120, the Bellary fab must have been close to full capacity supplemented by a significant amount of sub-contract from the developed supply chain. Clearly, the operational gearing effect of the former more than offset any margin dilution from sub-contracting and, coupled with the project mix, translated to the margin uplift described earlier.

Record order book level sustained: with an increased order book – sustained at £134m in the latest reading – and the 50% capacity expansion expected to come on stream by the end of FY20, the Indian JV is well positioned to deliver growth. Management stated the project pipeline also included potential further JSW Steel work but also chose to highlight a range of other sector opportunities (eg, in data centres, commercial offices and retail) and in a number of different cities (eg, Mumbai, Hyderabad, Chennai) below the central belt of India.[8]

[8] JSSL's fabrication facility is located at Bellary/Ballari in Karnataka state c 300km north of state capital Bangalore/Bengaluru.

Small H120 cash outflow, funds applied to acquire Harry Peers

Severfield ended H120 with a £22.5m net fund position (excluding lease liabilities) following a small (£2.6m) cash outflow since the prior year end.

A reduction in EBITDA to £9.9m (IAS 17 basis) mirrored the EBIT decline shown in Exhibit 5. Other non-trading cash movements resulting in a c £1.6m net outflow were chiefly made up of £0.8m incentive-related payments and £0.5m pension cash costs. Project phasing obviously has the biggest influence on working capital movements. At face value, there were no stand-out working capital features in H120, with an overall inflow (of £2.2m) consistent with lower revenues seen in the trading period and in contrast with a £9.7m outflow in H119. At the line-item level, a £1.2m receivables inflow was the largest individual component. The inventory and debtor cash movements were also positive, indicating no significant build-up of work in progress (or indeed that workflow undertaken was ahead of billings). The company's working capital as a percentage of the trailing 12-month revenue metric was c 3% at the period end compared to c 5% at the beginning. The year-on-year working capital swing more than offset the H120 profitability dip and consequently trading cash inflow rose to £10.5m (versus £4.2m a year earlier).

Despite sustaining a net cash position, Severfield incurred net interest costs of £0.3m — now including £0.2m IFRS 16 lease finance costs added to the usual facility fees – and the P&L charge and cash outflow were at similar levels. In contrast, the £3.8m cash tax payment was well above the H1 P&L charge, which was due to one-off effects of changes to corporation tax payments schedules. Lastly, Severfield spent £2.7m on net capex versus £1.9m IAS 17 depreciation. This was spread across fab facilities, site equipment and office facilities with a focus on process improvements, operating efficiency and safety and some paint line capacity expansion in Northern Ireland. After all of the above movements, Severfield generated an FCF of £3.7m in H120, which substantially funded the FY19 final dividend payment (£5.5m) and IFRS 16 lease capital repayments (£0.9m). The adoption of this standard did not materially change the presentation of Severfield's cash flow statement and we have chosen not to pick out all of the individual elements in the above analysis on account of scale. For the record, the net effect was a £0.3m outflow in the first half.

Cash flow outlook: the acquisition of Harry Peers for an initial £18m on 1 October will be the largest single H2 cash flow item and results in a c £16m outflow for the year as a whole in our model and an expected year-end net funds position of c £9m. In underlying terms, this infers a c £5m group cash inflow, including c £10m positive FCF in our model. H2 is going to be an extremely busy period given that our estimates (see below) include a c 50% sequential uplift in H2 revenue versus H1 – backed by order book positions – although some of this is likely to be executed through sub-contract work. We have also factored in the full £7m deferred payment in FY21 in line with current management guidance, which drives our expectation for a modest overall reduction in net funds at the end of this year, prior to rebuilding to c £15m at the end of FY22.

Estimates rebalanced leaving headline profitability unchanged

Somewhat paradoxically following lower H1 revenue generation and relatively weak UK conditions, the order book development allows us to raise revenue expectations, especially for the current year and to a lesser extent subsequently. At the same time, we have eased back UK EBIT margin assumptions by c 100bp to reflect more competitive markets. This net EBIT reduction is offset in our model by higher Indian JV contributions based on the H1 momentum and progress with capacity expansion. This rebalancing is directionally consistent with our previous commentary; having quantified both effects now there is no net change in our headline PBT estimates. By way of a reminder, the Harry Peers deal was already included and enhanced our earnings estimates by over 6% in a full year.

Sensitivities: Managing market and project risk

Severfield's earnings have historically been predominantly generated from UK projects. The company has delivered projects outside the UK to northern Europe from UK facilities in the past but as a proportion of overall activity – approaching half of the current UK order book – such work is at its highest level ever. In addition, our model factors in an Indian JV contribution approaching 10% of group PBT by FY22. As UK economic growth expectations have deteriorated, Severfield has successfully been able to diversify its market exposures through steps taken well in advance. Moreover, we believe that order books are at their highest level for ten years in UK/Europe and ever in India.

Accentuating sector strengths in varied market conditions: the CPA's Autumn (October) UK construction output forecasts for 2020 and 2021 are +0.5% and +0.9% respectively (down from +2.0% and +1.4% previously). Infrastructure uncertainties have contributed to this but the sector is still expected to grow (+3.7%) in 2020 and the pre-election mood music from the leading political parties was also positive. The distribution sector still appears to be on a strong growth trajectory (+20%) while commercial is expected to decline again (by -4.7%). According to the OECD, near European countries (France, Holland, Belgium) are expected to expand GDP by c 1–2% in real terms in 2020 and 2021, although Germany is below this level. To some extent Brexit uncertainties affect both sides of the English Channel – affecting inward investment flows also – but Severfield's diversified sector capabilities enable it to focus where workflows and project opportunities are most attractive. Management's own guidance pointed to similar or better prospects in each of its sectors with the exception of a weaker industrial and distribution outlook. Growth in India is chiefly predicated on an increasing share of structural steelwork in construction projects, but medium-term growth projections are for annual GDP growth approaching 6%.

Integrated project approach to control delivery and margin performance: Severfield fixes the majority of anticipated project costs and hedges non-sterling revenues when entering into a construction contract and, other things being equal, the achieved project margin then reflects performance against tender, including any contingency elements. Inaccurate tender processes and/or fab and site execution performance are key influences on profitability. A recent global report[9] serves to illustrate risks to contractor margins by reference to the dominant drivers of construction disputes as 'inadequate control over (initial and changes in) scope and design, along with poor drafting and administration of contracts'. Through organisational change, more comprehensive and connected project oversight and enhanced use of integrated production control, commercial and financial management software over the last five years or so – as well as healthy main contractor relationships – we believe Severfield has taken tangible steps to improve project risk management. Consequently, downside risks to profitability and cash flow should be reduced accordingly.

Focus on cash flow and rebuilding net funds position: group FCF over the last four years or so has been strong funding business investment and a rising core dividend payout, as well as a special dividend in FY18. The acquisition of Harry Peers at the beginning of H220 has reduced the pro forma and expected end FY20 net funds position though Severfield is understood to have retained cash balances above a previously indicated £20m threshold. This level was set partly to provide acquisition flexibility and this has now been exercised. In the absence of comments to the contrary, we assume that management's intention is to regain the £20m level in the medium term. At the end of FY19, neither contract advances nor retentions were material items (ie both below £2m) and at face value the reported working capital performance suggests this was still the case at the end of H120. Severfield takes out and monitors credit insurance levels against almost all customer contracts (forming part of operating costs) and does not carry bad debt provisioning.

[9] HKA CRUX Insight Report 2019

Valuation: Hybrid multiple dominated by UK earnings

Severfield is a leading and long-standing supplier in established UK structural steelwork construction markets and serves the near European continent from its UK base. As we have seen, the company also has a 50% stake in a growing Indian JV (JSSL) in complementary domestic sectors. In the following sections, we look at both conventional group earnings multiples and the inferred UK and Indian JV influences on valuation.

Group valuation observations

Looking at conventional valuation metrics, Severfield's 83.9p share price generates a current year P/E of 11.0x and EV/EBITDA of 7.6x. On our estimates, these multiples decline to 9.8x and 6.5x respectively by FY22. We believe that these P/E multiples are similar to those of a selected peer group[10] with a range of 10-12x to December 2020 earnings. Severfield's prospective FY22 dividend yield is 4.3%, covered c 2.5x by earnings.

We make a couple of observations here relating to the Indian JV contribution:

- Underlying earnings represent a dominant contribution from the UK (a leading player in a relatively mature and, notwithstanding sectoral spread, cyclical market) and a small but growing one from India (a nascent, potentially huge market in a structural growth phase). Implicitly, the P/E multiples represent a weighted blend of these prospects. For the record, our three-year (FY19–FY22) EPS CAGR for the group is 7.9%, noting this is comprised of c 12% in the current year and averaging c 6% for each of the following two.
- EBITDA does not include any contribution from the Indian JV, nor for that matter CMF, as only the share of profit after tax is incorporated in earnings. Consequently, the EV/EBITDA multiple is effectively inflated as their funding (ie investment made by Severfield) has affected the EV with no corresponding return included.

We now develop the analysis of Severfield's hybrid valuation by looking separately at the Indian entity and then draw out the implicit multiples for the company's UK earnings.

Illustrative Indian JV valuation using DCF

Given the improving profit trajectory, investment to raise capacity and increasing importance to the group result, we have produced an illustrative DCF for the Indian JV for the first time and show the value of the company's 50% ownership in value per Severfield share terms in Exhibit 9.

Exhibit 9: Severfield – illustrative JSSL DCF (table value = p per SFR share)

		EBIT £m (margin %) from 2023			
	9.1	10.4	11.7	13.0	14.3
WACC%	(7%)	(8%)	(9%)	(10%)	(11%)
8%	10.1	11.6	13.1	14.7	16.2
9%	8.6	9.9	11.3	12.6	13.9
10%	7.4	8.6	9.8	11.0	12.1
11%	6.5	7.5	8.6	9.6	10.7

Source: Edison Investment Research. Note: Base assumption: existing model to FY22 (as incorporated in current estimates), FY23 onwards flat c £130m revenue and EBIT generated from the margin range shown.

Based on our current estimated EBIT margin and the group level WACC (both just below 8.5%), our DCF generates a value per Severfield share in the 11–12p range (or c 14% of the current share price). This is very much a preliminary illustrative figure; we provide sensitivities in Exhibit 9 to changes in both WACC and margin. In our view, a flat EBIT profile beyond 2022 is highly unlikely in a long-term growth market. One could say it is consistent with a stable capacity and high utilisation

[10] Balfour Beatty, Morgan Sindall, Costain and Billington

level once the latest expansion phase has completed, although sub-contracting also influences revenue levels. More likely, if the penetration of structural steel usage continues to rise, we would expect the JSSL JV to invest to grow; as we have no additional insight on the potential scale and timing of any such strategic plans, our illustration is based on known capacity capability only.

In the unlikely absence of further investment, the JV should be reasonably cash generative (eg, undiscounted entity FCF c £10m per year at 2023 assumption levels; P&L c £130m revenue, 8.4% EBIT margin) and sufficient to pay down debt by the end of our group estimate period. Beyond this, excess funds generated are expected to be reinvested in further business growth.

UK and Indian JV influences on valuation

Taking our above DCF observations, we now revisit the earlier group multiples making adjustments to draw out implicit valuation metrics for the UK and Indian operations.[11] The results are shown in Exhibit 10.

Exhibit 10: Severfield – adjusted valuation metrics

	2020e	2021e	2022e
Group P/E x	**11.0**	**10.4**	**9.8**
Group EV/EBITDA x	**7.6**	**7.1**	**6.5**
P/E (adjusted to exclude Indian JV) x	10.4	9.9	9.5
P/E (Indian JV) x	16.4	14.6	12.6
EV/EBITDA (adjusted to exclude Indian JV) x	6.5	6.1	5.6

Source: Edison Investment Research. Note: Figures derived by adjusting group valuation metrics for Indian JV contribution to earnings and DCF equity value.

The first point to note is that the adjusted (UK earnings) P/E is now at the lower end of the peer group P/E multiples referenced earlier. Exhibit 10 suggests there is some growth premium for India but its influence on the group P/E is limited (given a relatively small contribution to earnings); we would suggest growth potential beyond 2022 is not fully reflected in a 12.6x Indian JV P/E for that year. We also would argue that EV/EBITDA adjusted for the JV (UK earnings only) multiples provide a truer representation with the numerator and denominator now on the same basis. The associated multiples are reduced by c 14% compared to the unadjusted earlier ones.

We should also note that if one derived a higher Indian DCF value (eg, favoured assumptions in the top right of Exhibit 9) the implied UK multiples above would be reduced. Moreover, if India became a larger part of group earnings and growth prospects remained strong, this would have valuation implications also.

We consider an independent, sum-of-the-parts approach would not be valid as the UK and Indian operations are not truly separable. The core skillsets in both operations are common with the Indian market entry being informed by UK experience built up over an extended period. That said, the Indian JV is an increasingly significant entity in its own right with £100m+ revenue expected in FY20. Although its impact on group valuation is modest, at present we think the above approach is a constructive template for future analysis as the business grows. At some point in the future, there could conceivably be a valuation event, which would further inform the group valuation debate.

[11] P/E ratios were derived as follows: UK earnings, ex Indian JV: we adjusted both the share price and group earnings estimates (by deducting the JVs DCF per share of 11.5p and share of PAT contribution respectively). Indian JV: we used DCF per share of 11.5p as a share price proxy and applied it to the share of PAT contribution to group earnings. EV/EBITDA (UK earnings) backs out the JVs DCF equity value £34m from EV and applies this to UK generated EBITDA

Financials: Supporting growth with investment

Severfield is on track to meet management's strategic FY20 financial target of PBT of at least £26m set in 2016, prior to the UK EU referendum that year. Our expectation is that earnings will continue to grow despite more challenging UK market conditions. The company has enhanced its contract risk-management processes – from inception to completion – contributing to margin improvements and has run a material reported net cash position for the last four years while also managing to pay out special dividends (as in FY18). The recent acquisition of Harry Peers is contributing to our expected earnings growth and lower albeit positive cash position.

P&L: rebalancing UK and India. Based on the latest order book positions, we have raised our UK revenue expectations the current year and FY21 and now assume FY22 will sustain this level. The latter would most likely require a combination of some UK recovery and/or a good ongoing level of Europe/Eire business and there are reasonable arguments for both in our view. At the same time, we reduced our EBIT margin expectations by 130bp to 7.8% in FY20, narrowing slightly to -100bp to 8.3% by FY22. The net effect is to lower our expected UK EBIT by between £0.9–1.4m in each of our estimate years. Directionally, we had previously flagged this adjustment with the FY19 results, expecting to rebalance between the UK and India contributions. A strong YTD performance (with H120 profitability matching FY19 in total) together with capacity expansion on track to complete by the financial year end provides the basis for us to increase the Indian JV contribution in out model. We have factored in local revenue above £100m and an EBIT margin of c 9% in all three years – Severfield's P&L only records the company's 50% share of the JV profit after tax – and this is sufficient to offset the downward UK adjustments mentioned earlier. As previously noted, the acquisition of Harry Peers in October added 6% (c £2m) to PBT in our model a full year. For the record, our expected group **FY19–FY22 CAGRs are: EPS 7.9% and DPS 8.7%.**

Cash flow: project profit recognition is weighted towards the back half of a contract; save for advances and retentions, cash costs and invoiced revenues should be relatively well aligned allowing for some lag – reflected in working capital – for agreed milestones and payment terms. Consequently, period-end cash positions are influenced by project phasing aggregated across the total live workstream.

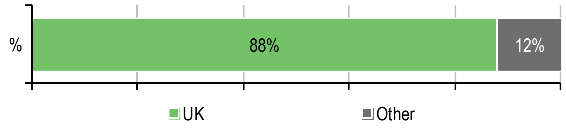
Since FY16 Severfield has maintained a reported net cash position in excess of £20m, a stated self-imposed level that provided working capital capacity, funds for bolt-on M&A and a business buffer. During this period, the company has invested aggregate net capex at c 1.6x depreciation (to improve fab and site efficiencies), c £10m developing JV activities and paid out c £31m in dividends (including a special in FY18) before ending H120 in a £22.5m net fund position. The post period-end acquisition of Harry Peers for an initial £18m consideration was substantially debt-funded, with Severfield retaining cash on hand at or above £20m. From the pro forma c £4m net cash position at the beginning of H2, we expect strong profitability to flow through to a positive net cash performance over the rest of the year, resulting in c £9–10m net cash by the end of FY20. We model a small reduction for FY21 – after stronger FCF, rising dividends and c £7m expected Harry Peers deferred consideration – before rebuilding the end FY22 net cash position to c £15m.

Balance sheet: at the end of H120, group net assets were £169m (55p per share). Putting IFRS 16 to one side, fixed assets (including owned tangible equipment of c £85m and c £26m interests in associates) were valued in aggregate at £165m with current assets (ex cash) exceeding current liabilities by c £7m while the cash balance of c £22m was slightly exceeded by the recorded accounting pension deficit. IFRS 16 effects have a small net negative impact (c £1m) on the group balance sheet overall. The acquisition of Harry Peers' post period-end brought the associated assets and term loan onto the balance sheet at the beginning of H2.

Exhibit 11: Financial summary

£m	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Year end 31 March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
	12m 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	231.3	201.5	239.4	262.2	274.2	274.9	328.2	341.9	341.9
Cost of Sales	(217.8)	(186.7)	(219.6)	(236.3)	(244.9)	(244.6)	(294.2)	(305.9)	(304.4)
Gross Profit	13.5	14.9	19.8	25.9	29.3	30.3	34.0	36.0	37.5
EBITDA	12.0	13.6	18.9	25.7	29.1	29.0	32.5	35.0	36.7
Operating Profit - Edison	8.4	10.0	15.2	22.1	25.4	25.3	28.2	30.0	31.2
Net Interest	(0.6)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.7)	(1.0)	(1.0)
Associates	(3.0)	(0.2)	(0.2)	0.5	0.9	1.7	2.4	2.7	3.1
SBP	(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(1.6)	(2.0)	(2.0)	(2.0)
Intangible Amortisation	(2.7)	(2.6)	(2.6)	(2.6)	(1.3)	0.0	0.0	0.0	0.0
Pension Net Finance Costs	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)
Exceptionals	(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	(1.0)	0.0	0.0
Profit Before Tax (norm) - Edison	4.5	8.8	13.7	20.3	24.1	25.1	28.0	29.8	31.3
Profit Before Tax (norm)	4.0	8.3	13.2	19.8	23.5	24.7	27.6	29.3	30.9
Profit Before Tax (statutory)	(4.1)	(0.2)	9.6	18.1	22.2	24.7	26.6	29.3	30.9
Tax	1.4	0.3	(1.0)	(2.7)	(4.1)	(4.5)	(4.7)	(5.0)	(5.2)
Profit After Tax (norm)	3.1	7.4	11.4	17.0	19.6	20.6	23.3	24.8	26.1
Profit After Tax (statutory)	(2.6)	0.1	8.6	15.3	18.0	20.2	21.9	24.3	25.7
Average Number of Shares Outstanding (m)	295.8	297.5	297.5	298.9	299.7	303.1	305.0	305.9	305.9
EPS - normalised (p) - Edison	1.05	2.47	3.84	5.70	6.53	6.80	7.64	8.09	8.54
EPS - normalised (p)	0.88	2.31	3.67	5.53	6.35	6.66	7.50	7.95	8.39
EPS - statutory (p)	(0.89)	0.05	2.89	5.13	6.02	6.66	7.17	7.95	8.39
Dividend per share (p)	0.0	0.5	1.5	2.3	4.3	2.8	3.0	3.3	3.6
Gross Margin (%)	5.8	7.4	8.3	9.9	10.7	11.0	10.3	10.5	11.0
EBITDA Margin (%)	5.2	6.7	7.9	9.8	10.6	10.5	9.9	10.2	10.7
Operating Margin - Edison (%)	3.6	4.9	6.4	8.4	9.3	9.2	8.6	8.8	9.1
BALANCE SHEET									
Fixed Assets	147.7	145.1	149.3	148.3	154.5	163.0	197.2	208.6	212.8
Intangible Assets	64.6	61.8	59.2	56.3	54.8	54.7	69.7	76.7	76.7
Tangible Assets	74.1	76.6	77.4	78.9	81.2	84.0	100.2	101.4	102.0
Investments	9.0	6.7	12.7	13.1	18.5	24.3	27.3	30.5	34.1
Current Assets	72.2	76.3	75.1	107.1	99.2	91.8	103.4	107.9	117.8
Stocks	5.8	4.8	5.3	7.8	9.6	8.9	11.0	12.4	13.3
Debtors	60.8	64.6	50.7	66.5	56.4	57.7	69.1	73.6	75.6
Cash	5.5	6.9	19.0	32.8	33.1	25.2	23.4	22.0	28.9
Current Liabilities	(57.9)	(59.7)	(58.2)	(78.7)	(66.1)	(58.6)	(72.9)	(73.8)	(72.5)
Creditors	(52.7)	(59.5)	(58.1)	(78.5)	(65.9)	(58.6)	(72.9)	(73.8)	(72.5)
Short term borrowings	(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.0)	0.0	0.0	0.0
Long Term Liabilities	(18.5)	(21.1)	(17.9)	(22.5)	(18.7)	(21.2)	(47.0)	(47.0)	(47.0)
Long term borrowings	(0.0)	(0.6)	(0.4)	(0.2)	(0.0)	0.0	(14.0)	(14.0)	(14.0)
Other long term liabilities	(18.5)	(20.5)	(17.5)	(22.3)	(18.6)	(21.2)	(33.0)	(33.0)	(33.0)
Net Assets	143.4	140.6	148.2	154.2	169.0	175.0	180.7	195.7	211.1
CASH FLOW									
Operating Cash Flow	2.1	11.4	24.8	27.4	22.9	18.0	27.6	30.4	32.9
Net Interest	(0.8)	(0.8)	(0.2)	(0.1)	(0.2)	(0.4)	(0.6)	(1.0)	(1.0)
Tax	0.4	(1.0)	(0.9)	(2.4)	(3.9)	(3.4)	(6.2)	(4.7)	(5.0)
Capex	(1.5)	(1.3)	(4.3)	(5.3)	(5.4)	(6.3)	(7.4)	(7.5)	(7.5)
Acquisitions/disposals	(3.5)	(1.7)	(4.1)	(0.4)	(5.5)	(4.2)	(18.5)	(7.5)	(0.5)
Financing	44.8	0	0	0	0	1.7	0	0	0
Dividends	0.0	0.0	(3.0)	(5.1)	(7.5)	(13.4)	(8.9)	(9.3)	(10.2)
Net Cash Flow	41.5	6.7	12.4	14.0	0.4	(8.0)	(14.0)	0.3	8.7
Opening net debt/(cash)	41.2	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(9.4)	(8.0)
Finance lease - cash	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(1.7)	(1.7)	(1.7)
Other	0.2	(0.6)	0.2	0	0.2	0	(0)	(0)	(0)
Closing net debt/(cash)	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(9.4)	(8.0)	(14.9)
IFRS16 leases							10.1	10.1	10.1

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography (FY19 – 100% owned operations, excludes India JV)
Severs House Dalton Airfield Industrial Estate, Dalton Thirsk, North Yorkshire. Y07 3JN United Kingdom +44 (0)1845 577896 http://www.severfield.com/	

Management team

CEO: Alan Dunsmore	FD: Adam Semple
Alan Dunsmore became CEO in February 2018, having been acting CEO for the preceding nine months. He was originally appointed group FD in 2010 after joining from Smiths Group, where he had been director of finance for Smiths Detection from 2004. He is a chartered accountant.	Adam Semple joined Severfield as group financial controller (having previously been with Firth Rixson Group) in 2013 and became group FD in February 2018. He is a chartered accountant.
COO: Ian Cochrane	**Chairman: John Dodds**
Ian Cochrane joined Severfield in 2007 following the acquisition of Fisher Engineering where he was MD, having previously held a number of roles here including project director. He was appointed group COO in 2013.	John Dodds originally joined the Severfield board as a NED in 2010 before becoming chairman in September 2011. He was previously with Kier Group where he had been CEO for seven years to 2010. He is also an NED at Newbury Racecourse.

Principal shareholders (2 January 2020)	(%)
M&G Investment Management	13.2
JO Hambro Capital Management	11.3
Threadneedle Asset Management	7.6
Unicorn Asset Management	6.2
Invesco	5.7
Legal & General Investment Management	5.5
Chelverton Asset Management	5.1
Polar Capital	4.9
Artemis Investment Management	4.8
Standard Life Investments	3.0

Companies named in this report

Balfour Beatty, Morgan Sindall, Costain, Billington

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