EDISON

Tyman

Positive momentum

H117 results

Construction & materials

Market conditions were pretty much as expected in H117 though the enlarged Schlegel International performed particularly well in the period. Tyman continues to make progress on a number of fronts; broadly positive market outlooks supplemented by an agenda of operational improvements provide an attractive combination, in our view. We have raised earnings forecasts again and expect positive momentum to be sustained.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	353.4	44.9	19.2	8.8	18.0	2.5
12/16	457.6	62.1	25.3	10.5	13.7	3.0
12/17e	535.8	72.3	27.6	12.3	12.6	3.5
12/18e	547.7	76.7	29.3	13.8	11.8	4.0

Note: *PBT and EPS (fully diluted) are normalised, as defined by Tyman, excluding intangible amortisation and exceptional items.

Strong Schlegel performance

H117 results showed underlying progress compared to the prior year with Schlegel International in particular delivering good gains. On the same basis, AmesburyTruth was slightly ahead and ERA experienced cost headwinds. Overseas operations also benefited from favourable translation following sterling weakness. All regions saw positive year-on-year acquisition effects, leaving reported revenue and EBIT both well up versus the prior year. This was also apparent at the PBT, EPS and DPS levels, with the latter increasing by 17%.

Internal actions amplify positive overall market tone

Market conditions seem reasonably well set, being encouraging overall, albeit with some regional variation. Normal seasonal trading patterns suggest a positive H217 cash flow outlook, and even with increased capex we expect underlying year end net debt to be similar to end FY16 levels, with significantly higher EBITDA generated. Further commercial integration of acquisitions and progress with the North American footprint optimisation will continue to be a feature of H217. The strength of Schlegel International's H1 performance and additional flagged synergies cause us to raise our group PBT estimates by 5-6% across our forecast horizon (or 3-4% at the EPS level), with a sharper FY17 dividend increase also.

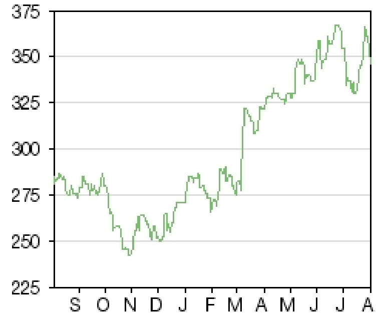
Valuation: Premium rating warranted

After recovering from a dip during most of July, Tyman's share price has advanced c 30% year-to-date (outperforming the c 3% FTSE All Share Index) and is just off its all-time high. We have now revised estimates up twice this year and the current year P/E rating is 12.6x, with an EV/EBITDA of 8.4x. We see Tyman's overseas earnings and the visible benefits from acquisitions and internal investment programmes as key differentiators in the UK quoted building materials space, especially relative to those with a material residential exposure. Hence, its c 15-20% rating premium is warranted in our view and we expect this to be sustained or possibly extended by future trading newsflow.

2 August 2017

Price	**346.5p**
Market cap	**£617m**
	US$1.31/£
Net debt (£m) at end June 2017	189.5
Shares in issue	178.0m
Free float	91%
Code	TYMN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.8	5.0	18.9
Rel (local)	(0.2)	2.2	6.1
52-week high/low		367.0p	242.2p

Business description

Tyman's product portfolio substantially addresses the residential RMI and building markets with increasing commercial sector exposure following acquisitions. It manufactures and sources window and door hardware and seals, reporting in three divisions: AmesburyTruth (North America 62%), ERA (UK 15%) and Schlegel International (RoW 23%). (Percentages are pro forma FY16 revenue, including Giesse, Response, Bilco and Howe Green acquisitions' full year effects.)

Next events

Trading update	7 November
Capital markets event	8 November

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Edison profile page

Tyman is a research client of Edison Investment Research Limited

H117 results overview

H117 results showed underlying progress compared to the prior year (like-for-like revenue +2%, EBIT +3.9%). Overseas operations also benefited from favourable translation following sterling weakness and all regions contained positive year-on-year acquisition effects, leaving reported revenue and EBIT both well up versus the prior year. Seasonal cash outflow was within the normal range. Management expects the working capital component to substantially reverse in H2 and for market conditions to remain broadly the same for each of the three divisions.

Exhibit 1: Tyman interim and divisional splits

Year end 31 December, £m	H116	H216	FY16	H117	H117 year-on-year, chg %		
					Reported	CER*	LFL
Group revenue	**201.040**	**256.604**	**457.644**	**260.402**	**29.5%**	**17%**	**2.0%**
AmesburyTruth	126.762	164.522	**291.284**	166.052	31.0%	15%	0.0%
Schlegel International	38.865	55.712	**94.577**	54.406	40.0%	25%	7.4%
ERA	35.413	36.370	**71.783**	39.944	12.8%	13%	4.6%
Group operating profit (reported, post SBP)	**27.170**	**42.633**	**69.803**	**35.497**	**30.6%**	**17%**	**4%**
AmesburyTruth	21.784	33.032	**54.816**	27.395	25.8%	11%	1%
Schlegel International	3.324	6.089	**9.413**	6.321	90.2%	70%	50%
ERA	5.772	5.782	**11.554**	5.628	-2.5%	-2%	-12%
Central costs	(3.710)	(2.270)	**(5.980)**	(3.847)			

Source: Tyman, Edison Investment Research. Note: *Edison Investment Research estimates.

North America – AmesburyTruth (AT): Against a strong comparator (H116 LFL +6%), AT achieved a similar underlying outturn to the prior year. The smaller Canadian market has shown more encouraging signs recently, implying that underlying US activity was broadly flat year-on-year. A slower ramp up of vertically integrated balance production at the expanded Juarez facility may have partly contributed to this, but has now reached expected run rates. Bilco saw slight softness in certain residential lines but overall performed similarly to AT existing operations and made its maiden H1 contribution. This, and some gains from Giesse's US offering, explained the divisional US dollar performance (ie revenue uplift and margin dilution). The manufacturing optimisation project progress report now reads one expansion and one newbuild facility completed and operational (at Juarez and Sioux Falls, respectively), construction of a third factory (at Statesville) is well advanced while two previous sites have been exited. Operationally, consolidating third-party distribution (to smaller independent accounts) and developing the combined commercial offering appear to be the areas where AT is looking to gain market share. AT's period end order book was up 5.6% y-o-y going into the busy third quarter.

Other/RoW – Schlegel International: The acquisition of Giesse in March 2016 represented a step change in the scale and profitability of this division. Happily it appears to have bedded in well; a further €2.4m in synergies were achieved in H117 (taking the annualised total to €4.8m) and the consolidation of Bologna manufacturing in H217 will contribute further to the increased €6m total now expected by March 2018. We have been surprised by this rate of progress and feel that operational changes (in line management and distribution), together with wider group commercial sector opportunities signal further growth. Notably, the existing Schlegel businesses appeared to have responded favourably too in markets that are generally but not universally improving.

UK – ERA: As has been widely reported, UK RMI spending has been very patchy and rather subdued overall in line with earlier management comments. Rising input costs have pegged back profitability, which in reported terms was largely made up by acquisition contribution effects (being Response, Bilco UK and Howe Green). Divisional investment has been made in electronic door access IP with a previously flagged consolidation of three Midlands sites onto one scheduled to complete in Q118. These actions will allow ERA to resume profit growth in FY18, in our view.

Cash generation and business investment

At the end of H117, net debt stood at £189.5m, an increase of almost £14m from the start of the year; an underlying cash outflow of £19.2m in the period was partly offset by a c £5m favourable period end translation of predominantly US dollar denominated debt. The period end group net debt position represented 2.1x trailing 12-month EBITDA.

At face value the operating cash inflow of £20.6m was similar to and slightly ahead of the prior year. The major moving parts were rather different, however, with c £10m uplifts in both EBITDA – with all elements benefiting from acquisition effects and some organic progress – and in seasonal working capital requirements (and to c £20m in total), which obviously netted off. Inventory and trade debtor movements were both larger than we have seen in recent years; higher input costs and the expansion of group operations will have contributed to this, as did the absence of favourable timing seen in the prior year. These effects were partially countered by an increase in payables. Taken together, this suggests that the second quarter was a strong, and possibly accelerating, quarter and the end June AT order book position would seem to support this view of good period end momentum.

As expected, higher average net debt after acquisition activity since the beginning of 2016 resulted in higher interest costs. Timing of US tax advance payments did swell the associated cash outflow but net capex was down y-o-y owing to project phasing, especially the US footprint development with earlier than anticipated receipt of property disposal proceeds from this programme. After these items, free cash flow was just in positive territory and slightly below H116 levels. The £5.1m Howe Green acquisition in March, £1.1m expenditure on bringing in the software IP for Response's electronic door access products, the £13.3m FY16 final dividend payment and, lastly, £0.8m spent on EBT share purchases accounted for the underlying c £19m overall H117 cash outflow.

Our new end FY17 net debt projection is slightly higher than before at £170m, mainly due to a conservative position on the working capital flow back from the mid-year high. This represents c 1.8x FY17 EBITDA and with interest costs well covered, a positive cash outlook and headroom under existing borrowing facilities, we expect growth investment to continue to be a feature of Tyman's financial performance. In the near term, AmesburyTruth's manufacturing footprint programme will be the dominant area of focus.

Schlegel driving increased estimates

Conditions in Tyman's main markets appear to be fairly well set currently with US segments seeing modest improvement and Canada showing some signs of growth. AmesburyTruth's enlarged commercial offering may bring opportunities for above market growth in this sub-sector. Elsewhere, we expect to see sustained recovery/growth in Europe, while UK RMI activity remains subdued.

Our estimates have increased to account for strong performance from Schlegel International and, notwithstanding a flat market, our UK expectations have been nudged up for acquisition effects. Our AmesburyTruth EBIT estimates remain unchanged. We have trimmed net finance costs in our model compared to pre-results levels. A c 100bp increase in the assumed tax charge in all years slightly reduces the positive impact of our earnings upgrades at the EPS level.

Exhibit 2: Tyman estimate revisions

	EPS FD norm (p)			PBT norm (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	26.9	27.7	+3.0%	68.8	72.4	+5.2%	92.3	95.2	+3.1%
2018e	28.2	29.3	+3.9%	72.1	76.8	+6.5%	96.1	100.1	+4.2%
2019e	30.0	30.9	+3.0%	76.7	80.9	+5.5%	100.7	104.8	+4.1%

Source: Edison Investment Research

Not shown in Exhibit 2 but we now project FY17 dividend growth in line with H117 results (ie +17%), which contributes to a three-year (FY16-19e) DPS CAGR of 12%+.

Exhibit 3: Financial summary

£m	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Group**	**Cont.**	**Cont.**							
Revenue	266.2	216.3	228.8	298.1	350.9	353.4	457.6	535.8	547.7	560.7
Cost of Sales	(173.4)	(145.2)	(154.0)	(198.8)	(236.1)	(234.0)	(290.4)	(332.8)	(339.7)	(346.7)
Gross Profit	92.8	71.1	74.7	99.3	114.8	119.4	167.3	203.0	208.0	214.0
EBITDA	40.2	27.7	28.5	39.4	54.6	60.4	82.5	95.2	100.1	104.8
Operating Profit (Edison)	33.7	22.4	23.4	33.0	46.9	52.4	70.9	82.2	86.6	90.8
Net Interest	(8.9)	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(6.9)	(8.0)	(8.0)	(8.0)
Other Finance	(2.9)	(3.6)	(0.9)	0.2	(2.2)	(0.6)	(0.4)	(0.8)	(0.8)	(0.8)
Share Based Payments	(0.1)	(0.2)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)
Intangible Amortisation	(11.7)	(10.6)	(10.8)	(16.6)	(17.8)	(19.6)	(21.7)	(23.0)	(23.0)	(23.0)
Exceptionals	(0.4)	0.7	(33.4)	(11.4)	(9.3)	(9.4)	(10.9)	(9.2)	(7.6)	(4.0)
Other	(0.3)	(0.1)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Profit Before Tax (Edison norm)	21.9	12.7	18.7	29.2	39.3	44.9	62.5	72.4	76.8	80.9
Profit Before Tax (company norm)	24.8	17.4	21.3	28.6	41.6	44.9	62.1	72.3	76.7	80.9
Profit Before Tax (FRS 3)	9.5	2.6	(25.8)	0.8	11.9	15.6	29.4	39.7	45.7	53.5
Tax	(2.5)	6.4	3.7	0.2	(2.6)	(7.9)	(8.6)	(15.9)	(17.7)	(19.0)
Profit After Tax (norm)	19.4	19.1	22.4	29.4	36.8	37.0	53.8	56.4	59.1	61.9
Profit After Tax (FRS 3)	7.0	9.1	(22.1)	1.0	9.3	7.7	20.7	23.7	28.0	34.5
Average number of shares outstanding (m)	129.8	129.7	129.7	152.8	167.8	168.2	173.0	177.2	177.2	177.2
EPS – Edison normalised (p) FD	10.7	6.7	9.6	13.9	17.1	19.1	25.5	27.7	29.3	30.9
EPS – company normalised (p) FD	11.4	9.4	10.2	13.5	18.4	19.2	25.3	27.6	29.3	30.9
EPS – FRS 3 (p)	5.3	6.8	(16.7)	0.6	5.6	4.6	12.0	13.4	15.8	19.4
Dividend per share (p)	2.0	3.4	4.5	6.0	8.0	8.8	10.5	12.3	13.8	15.0
Gross Margin (%)	34.9	32.9	32.7	33.3	32.7	33.8	36.5	37.9	38.0	38.2
EBITDA Margin (%)	15.1	12.8	12.5	13.2	15.6	17.1	18.0	17.8	18.3	18.7
Operating margin (before GW and except.) (%)	12.7	10.4	10.2	11.1	13.4	14.8	15.5	15.3	15.8	16.2
BALANCE SHEET	**Group**	**Cont.**	**Cont.**							
Fixed Assets	367.4	352.8	298.1	404.2	410.6	398.4	564.7	535.2	517.5	501.5
Intangible Assets	328.2	312.7	258.7	354.4	355.7	340.5	480.0	441.3	420.3	399.3
Tangible Assets	31.5	30.5	29.8	39.9	42.9	42.8	71.7	78.0	83.5	88.5
Investments	7.7	9.6	9.5	9.8	12.1	15.0	12.9	15.9	13.7	13.7
Current Assets	86.7	96.361	90.7	118.9	124.0	111.0	180.6	200.1	225.7	256.3
Stocks	26.0	26.6	27.6	40.7	47.6	46.0	70.7	71.1	72.5	74.0
Debtors	28.2	24.1	23.7	29.9	31.5	29.5	55.3	61.8	63.1	64.6
Cash	27.7	20.4	35.9	43.6	39.3	30.0	40.9	53.6	76.4	104.0
Current Liabilities	(51.8)	(55.1)	(44.2)	(60.8)	(52.3)	(44.4)	(86.4)	(82.1)	(89.6)	(97.9)
Creditors	(46.6)	(42.2)	(36.7)	(54.0)	(52.3)	(44.4)	(86.4)	(82.1)	(89.6)	(97.9)
Short term borrowings	(5.2)	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities	(163.7)	(144.8)	(96.9)	(161.7)	(176.2)	(156.7)	(285.3)	(285.9)	(284.9)	(284.0)
Long term borrowings	(114.3)	(100.2)	(63.6)	(115.5)	(128.0)	(111.6)	(216.5)	(223.7)	(223.7)	(223.7)
Other long term liabilities	(49.4)	(44.6)	(33.3)	(46.2)	(48.2)	(45.1)	(68.8)	(62.1)	(61.2)	(60.3)
Net Assets	238.6	249.2	247.7	300.6	306.1	308.3	373.6	367.4	368.6	375.9
		0.000								
CASH FLOW	**Group**	**Cont.**	**Cont.**							
Operating Cash Flow	38.6	32.6	23.6	38.9	40.1	48.9	79.9	71.7	91.4	100.3
Net Interest	(9.3)	(6.7)	(4.2)	(2.6)	(4.6)	(6.2)	(7.0)	(8.0)	(8.0)	(8.0)
Tax	(2.3)	(1.9)	(4.9)	(6.2)	(6.3)	(8.9)	(12.7)	(14.4)	(16.2)	(17.5)
Capex	(3.5)	(4.9)	(6.8)	(8.1)	(10.2)	(10.9)	(15.3)	(21.2)	(20.0)	(20.0)
Acquisitions/disposals	0.0	(10.3)	51.2	(131.2)	(6.5)	6.8	(96.1)	(5.1)	0.0	0.0
Financing	0.0	(0.3)	(1.1)	68.1	(4.3)	(2.6)	16.7	(2.0)	(2.0)	(2.0)
Dividends	0.0	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.6)	(19.6)	(22.5)	(25.2)
Net Cash Flow	23.5	6.0	51.9	(48.2)	(2.8)	12.5	(50.0)	1.3	22.7	27.6
Opening net debt/(cash)	111.0	91.7	92.7	35.2	78.7	88.7	81.6	175.6	170.1	147.4
HP finance leases initiated	(0.0)	(2.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(4.2)	(4.4)	5.6	4.7	(7.2)	(5.4)	(44.0)	4.2	0.0	(0.0)
Closing net debt/(cash)	91.7	92.7	35.2	78.7	88.7	81.6	175.6	170.1	147.4	119.7

Source: Tyman accounts, Edison Investment Research

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