

Severfield

H122 results

Order book development shows the way

Severfield has maintained a steady and robust course in FY22 trading to date and management confidence in the outlook is backed by further order book growth, to record levels. This trading performance has not been reflected in the company's recent share price movement, which is surprising as the order book has traditionally been a reliable indicator for near-term profitability.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/20	327.4	29.1	7.9	2.9	8.8	4.2
03/21	363.3	24.8	6.6	2.9	10.6	4.2
03/22e	373.9	28.3	7.5	3.1	9.3	4.4
03/23e	373.1	31.8	8.4	3.3	8.3	4.7

Note: *PBT and EPS are Edison normalised, excluding pension net finance costs, intangible amortisation and exceptional items.

H1 edges ahead year-on-year

Severfield's H121 revenues were up 5% with reported EBIT ahead by c 7%. We believe these increases were primarily attributable to DAM Structures (acquired in February 2021) as contract costs are substantially fixed and – bar transport surcharges – the influence of cost inflation is unlikely to have been material for this period. In line with [previously disclosed order book splits](#), the active project mix has been spread across commercial, distribution, energy and transport among other sectors. Furthermore, the UK/Ireland order book has continued to rise, standing at a record £393m (at 1 November). The Indian JV returned to profitability in H1, driven by a recovery in activity from FY21 levels and managed to sustain its £140m order book. With an improved contribution from JV/associates also, PBT rose by 23% y-o-y. H1 DPS was increased by 9%. Activity levels in Q2 and moving into a particularly busy H2 resulted in a project working capital outflow, which explained the move to a c £7m core net debt position (pre IFRS 16) at the period end.

On course for full year

Management's expectations for a strong H2 and full year trading remain unchanged. A record and balanced UK/Ireland order book – including significant new stadia and transport subsector wins – provides excellent visibility going into FY23. For FY22, we have made minor changes to our estimates by trimming EBIT, which is balanced out by an increased Indian JV profit contribution giving no net change and no other material adjustments in any of our forecast years.

Valuation: Order book outperforms share price

Severfield's share price has underperformed the FTSE All-Share since the end of August and retraced to the level at the start of 2021. In contrast, the UK/Ireland order book is 30% higher than when FY21 results were reported in June and sits at record levels. We find the share price move counterintuitive as there is excellent visibility and a more even spread of subsector exposures. On our estimates, Severfield's FY22e P/E and EV/EBITDA multiples are 9.3x and 6.3x respectively – plus a prospective 4.4% dividend yield – and 8.3x and 5.8x for FY23e.

Construction & materials

1 December 2021

Price **69.8p**
Market cap **£216m**

Core net debt (£m) at end Sep 2021 6.7

Shares in issue 309.3m

Free float 100%

Code SFR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(3.1)	(14.5)	2.7
Rel (local)	(0.6)	(12.8)	(9.7)
52-week high/low		83p	66p

Business description

Severfield is a leading UK structural steelwork fabricator operating across a broad range of market sectors. An Indian facility undertakes structural steelwork projects for the local market and was expanded in FY20.

Next events

H122 DPS 1.2p ex dividend 9 December 2021

H122 DPS to be paid 7 January 2022

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Exhibit 1: Financial summary

	£m	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS												
Revenue		231.3	201.5	239.4	262.2	274.2	274.9	327.4	363.3	373.9	373.1	379.4
Cost of Sales		(217.8)	(186.7)	(219.6)	(236.3)	(244.9)	(244.6)	(292.2)	(329.4)	(337.0)	(332.7)	(337.4)
Gross Profit		13.5	14.9	19.8	25.9	29.3	30.3	35.1	33.9	36.8	40.4	42.0
EBITDA		12.0	13.6	18.9	25.7	29.1	29.0	33.2	30.9	35.2	38.8	40.3
Operating Profit - Edison adjusted		8.4	10.0	15.2	22.1	25.4	25.3	29.3	26.5	30.1	33.4	34.7
SBP		(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(1.6)	(1.8)	(0.6)	(1.5)	(1.5)	(1.5)
Pension Net Finance Costs		(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Operating Profit - company norm		7.6	9.0	13.7	19.6	22.9	23.3	27.0	25.5	28.2	31.4	32.7
Net Interest		(0.6)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.7)	(0.8)	(1.2)	(1.1)	(0.9)
Associates		(3.0)	(0.2)	(0.2)	0.5	0.9	1.7	2.4	(0.3)	0.9	1.0	1.7
Intangible Amortisation		(2.7)	(2.6)	(2.6)	(2.6)	(1.3)	0.0	(1.4)	(2.8)	(4.1)	(4.1)	(1.5)
Exceptionals		(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	(1.4)	(0.4)	(0.3)	0.0	0.0
Profit Before Tax (norm) - Edison		4.5	8.8	13.7	20.3	24.1	25.1	29.1	24.8	28.3	31.8	34.0
Profit Before Tax (norm)		4.0	8.3	13.2	19.8	23.5	24.7	28.6	24.3	27.8	31.3	33.6
Profit Before Tax (statutory)		(4.1)	(0.2)	9.6	18.1	22.2	24.7	25.8	21.1	23.5	27.3	32.0
Tax		1.4	0.3	(1.0)	(2.7)	(4.1)	(4.5)	(5.4)	(3.8)	(5.1)	(5.7)	(6.0)
Profit After Tax (norm)		3.1	7.4	11.4	17.0	19.6	20.6	24.1	20.2	23.2	26.1	28.0
Profit After Tax (statutory)		(2.6)	0.1	8.6	15.3	18.0	20.2	20.4	17.3	18.4	21.6	26.0
Average Number of Shares Outstanding (m)		295.8	297.5	297.5	298.9	299.7	303.1	305.4	307.3	308.6	309.3	309.3
EPS - normalised (p) - Edison		1.05	2.47	3.84	5.70	6.53	6.80	7.89	6.57	7.52	8.43	9.06
EPS - normalised (p)		0.88	2.31	3.67	5.53	6.35	6.66	7.75	6.43	7.38	8.29	8.92
EPS - statutory (p)		(0.89)	0.05	2.89	5.13	6.02	6.66	6.68	5.63	5.96	6.98	8.42
Dividend per share (p)		0.0	0.5	1.5	2.3	4.3	2.8	2.9	2.9	3.1	3.3	3.6
Gross Margin (%)		5.8	7.4	8.3	9.9	10.7	11.0	10.7	9.3	9.9	10.8	11.1
EBITDA Margin (%)		5.2	6.7	7.9	9.8	10.6	10.5	10.1	8.5	9.4	10.4	10.6
Operating Margin - Edison (%)		3.6	4.9	6.4	8.4	9.3	9.2	8.9	7.3	8.0	8.9	9.1
BALANCE SHEET												
Fixed Assets		147.7	145.1	149.3	148.3	154.5	163.0	203.8	230.1	228.5	227.1	230.2
Intangible Assets		64.6	61.8	59.2	56.3	54.8	54.7	78.1	95.4	91.0	86.9	85.4
Tangible Assets		74.1	76.6	77.4	78.9	81.2	84.0	99.0	101.5	106.4	109.0	111.4
Investments		9.0	6.7	12.7	13.1	18.5	24.3	26.7	33.2	31.1	31.2	33.4
Current Assets		72.2	76.3	75.1	107.1	99.2	91.8	127.4	107.7	104.0	106.0	112.4
Stocks		5.8	4.8	5.3	7.8	9.6	8.9	6.9	10.2	11.5	12.3	13.5
Debtors		60.8	64.6	50.7	66.5	56.4	57.7	76.1	72.4	86.5	93.6	97.0
Cash		5.5	6.9	19.0	32.8	33.1	25.2	44.5	25.1	6.0	0.1	1.9
Current Liabilities		(57.9)	(59.7)	(58.2)	(78.7)	(66.1)	(58.6)	(106.4)	(85.4)	(82.6)	(75.4)	(75.5)
Creditors		(52.7)	(59.5)	(58.1)	(78.5)	(65.9)	(58.6)	(87.0)	(79.5)	(76.7)	(71.3)	(73.1)
Short term borrowings		(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.0)	(19.4)	(5.9)	(5.9)	(4.2)	(2.4)
Long Term Liabilities		(18.5)	(21.1)	(17.9)	(22.5)	(18.7)	(21.2)	(41.2)	(50.8)	(43.9)	(39.7)	(37.3)
Long term borrowings		(0.0)	(0.6)	(0.4)	(0.2)	(0.0)	0.0	(8.8)	(14.9)	(9.0)	(4.8)	(2.4)
Other long term liabilities		(18.5)	(20.5)	(17.5)	(22.3)	(18.6)	(21.2)	(32.4)	(35.9)	(34.9)	(34.9)	(34.9)
Net Assets		143.4	140.6	148.2	154.2	169.0	175.0	183.7	201.6	206.0	218.0	229.7
CASH FLOW												
Operating Cash Flow		2.1	11.4	24.8	27.4	22.9	18.0	28.0	30.0	16.4	33.3	37.8
Net Interest		(0.8)	(0.8)	(0.2)	(0.1)	(0.2)	(0.4)	(0.6)	(0.7)	(1.1)	(1.1)	(0.9)
Tax		0.4	(1.0)	(0.9)	(2.4)	(3.9)	(3.4)	(6.0)	(4.6)	(6.8)	(5.1)	(5.7)
Capex		(1.5)	(1.3)	(4.3)	(5.3)	(5.4)	(6.3)	(6.2)	(6.5)	(9.9)	(8.0)	(8.0)
Acquisitions/disposals		(3.5)	(1.7)	(4.1)	(0.4)	(5.5)	(4.2)	(13.4)	(19.9)	(0.5)	(7.1)	(4.5)
Financing		44.8	0	0	0	0	1.7	0	0	1	0	0
Dividends		0.0	0.0	(3.0)	(5.1)	(7.5)	(13.4)	(8.9)	(8.9)	(9.3)	(9.6)	(10.4)
Net Cash Flow		41.5	6.7	12.4	14.0	0.4	(8.0)	(7.0)	(10.3)	(10.7)	2.5	8.3
Opening net debt/(cash)		41.2	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(16.4)	(4.4)	8.8	8.8
Finance lease - cash		(0.2)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(1.8)	(1.7)	(2.4)	(2.4)	(2.4)
Other		0.2	(0.6)	0.2	0	0.2	0	0	(0)	(0)	(0)	0
Closing net debt/(cash)		(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(16.4)	(4.4)	8.8	8.8	2.9
IFRS 16 leases								11.4	11.1	10.9	10.9	10.9

Source: company accounts, Edison Investment Research

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