

Severfield

Expanding into adjacent steelwork sectors

Acquisition of DAM

Construction & materials

3 March 2021

Price **76.8p**

Market cap **£237m**

Core net cash (£m) at end September 2020 19.5

Shares in issue 308.0m

Free float 100%

Code SFR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 9.4 11.6 (9.4)

Rel (local) 7.5 8.0 (11.0)

52-week high/low 83.0p 51.8p

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

FY21 year-end update April 2021

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As the end of FY21 approaches, Severfield is deepening its structural steelwork capabilities with the acquisition of DAM Structures. The strategic fit is sound and the deal enhances full-year earnings by c 7% on our estimates. We now expect Severfield to end FY21 in a modest net debt position.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/19	274.9	25.1	6.8	2.8	11.3	3.6
03/20	327.4	29.1	7.9	2.9	9.7	3.8
03/21e	354.5	22.4	5.9	2.9	13.0	3.8
03/22e	365.3	26.9	7.2	3.0	10.7	3.9

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

Excellent strategic fit

Severfield's acquisition of DAM Structures brings earlier construction project involvement and significantly strengthens its presence in the rail/transport sector. Like Severfield, DAM offers design, engineering and installation services to main contractors founded on core steelwork fabrication expertise. Project structures can be either permanent (eg bridges, gantries) or temporary (eg propping, façade retention, support structures) and end customers include rail (eg Network Rail, Crossrail, London Underground) as well as some other non-rail customers. DAM's fabrication facility is in east Yorkshire, only c 60 miles from Severfield's main Dalton site and c 20 miles from Severfield P&P (Sherburn); this group footprint increases the capacity available to DAM if it is successful in winning new business. Other group benefits that one might expect to accrue include enhanced materials purchasing, contract management and administration functions, and deeper main contractor relationships.

Full-year earnings enhanced by 7%

Having reported FY19 (to October) revenue and PBT of c £22m and £1.9m, we infer that DAM's trading in the latest, COVID-19-affected, year was at comparable levels. The initial consideration is £12m on a cash- and debt-free basis (funded by cash reserves and a new term loan); a deferred payment of c £7m is expected to be paid in April 2022. Factoring this in, our revised estimates are c 7% above previous levels (for FY22 and FY23). Note that further contingent consideration may become payable in tranches (up to £8m in total) based on commercially acceptable new business won over the five years to April 2026.

Valuation: Favourable reaction to DAM

Severfield's share price has responded well to the DAM acquisition and is up c 5% ytd. Looking beyond the COVID-19-affected FY21 trading year, we expect earnings to exceed FY20 levels in FY23, by which time Severfield's rating compresses to a P/E of 9.5x and EV/EBITDA of 6.2x. At current share price levels, the prevailing dividend yield is just below 4% on our estimates.

Exhibit 1: Financial summary

	£m	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
Year end 31 March		IFRS	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	12m to Mar
PROFIT & LOSS											
Revenue		231.3	201.5	239.4	262.2	274.2	274.9	327.4	354.5	365.3	376.9
Cost of Sales		(217.8)	(186.7)	(219.6)	(236.3)	(244.9)	(244.6)	(292.6)	(322.7)	(329.5)	(338.2)
Gross Profit		13.5	14.9	19.8	25.9	29.3	30.3	34.7	31.7	35.7	38.7
EBITDA		12.0	13.6	18.9	25.7	29.1	29.0	33.2	28.6	33.6	37.2
Operating Profit - Edison adjusted		8.4	10.0	15.2	22.1	25.4	25.3	29.3	24.2	28.5	31.6
SBP		(0.2)	(0.5)	(1.1)	(2.0)	(2.0)	(1.6)	(1.8)	(0.5)	(1.0)	(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)
Operating Profit - company norm		7.6	9.0	13.7	19.6	22.9	23.3	27.0	23.309	27.060	29.714
Net Interest		(0.6)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.7)	(0.9)	(1.2)	(1.2)
Associates		(3.0)	(0.2)	(0.2)	0.5	0.9	1.7	2.4	(0.5)	0.6	1.3
Intangible Amortisation		(2.7)	(2.6)	(2.6)	(2.6)	(1.3)	0.0	(1.4)	(2.9)	(2.9)	(2.2)
Exceptionals		(5.3)	(5.9)	(0.9)	0.8	0.0	0.0	(1.4)	(0.9)	0.0	0.0
Profit Before Tax (norm) - Edison		4.5	8.8	13.7	20.3	24.1	25.1	29.1	22.4	26.9	30.2
Profit Before Tax (norm)		4.0	8.3	13.2	19.8	23.5	24.7	28.6	21.9	26.5	29.8
Profit Before Tax (statutory)		(4.1)	(0.2)	9.6	18.1	22.2	24.7	25.8	18.2	23.6	27.6
Tax		1.4	0.3	(1.0)	(2.7)	(4.1)	(4.5)	(5.4)	(4.2)	(4.9)	(5.4)
Profit After Tax (norm)		3.1	7.4	11.4	17.0	19.6	20.6	24.1	18.2	22.0	24.9
Profit After Tax (statutory)		(2.6)	0.1	8.6	15.3	18.0	20.2	20.4	13.9	18.7	22.3
Average Number of Shares Outstanding (m)		295.8	297.5	297.5	298.9	299.7	303.1	305.4	307.2	308.0	308.0
EPS - normalised (p) - Edison		1.05	2.47	3.84	5.70	6.53	6.80	7.89	5.91	7.15	8.08
EPS - normalised (p)		0.88	2.31	3.67	5.53	6.35	6.66	7.75	5.77	7.01	7.94
EPS - statutory (p)		(0.89)	0.05	2.89	5.13	6.02	6.66	6.68	4.54	6.09	7.24
Dividend per share (p)		0.0	0.5	1.5	2.3	4.3	2.8	2.9	2.9	3.0	3.3
Gross Margin (%)		5.8	7.4	8.3	9.9	10.7	11.0	10.6	9.0	9.8	10.3
EBITDA Margin (%)		5.2	6.7	7.9	9.8	10.6	10.5	10.1	8.1	9.2	9.9
Operating Margin - Edison (%)		3.6	4.9	6.4	8.4	9.3	9.2	8.9	6.8	7.8	8.4
BALANCE SHEET											
Fixed Assets		147.7	145.1	149.3	148.3	154.5	163.0	203.8	217.4	217.8	226.1
Intangible Assets		64.6	61.8	59.2	56.3	54.8	54.7	78.1	87.7	84.9	89.7
Tangible Assets		74.1	76.6	77.4	78.9	81.2	84.0	99.0	102.4	104.5	106.2
Investments		9.0	6.7	12.7	13.1	18.5	24.3	26.7	27.3	28.4	30.2
Current Assets		72.2	76.3	75.1	107.1	99.2	91.8	127.4	121.7	127.5	129.1
Stocks		5.8	4.8	5.3	7.8	9.6	8.9	6.9	10.6	11.8	13.1
Debtors		60.8	64.6	50.7	66.5	56.4	57.7	76.1	91.6	99.6	104.5
Cash		5.5	6.9	19.0	32.8	33.1	25.2	44.5	19.5	16.2	11.5
Current Liabilities		(57.9)	(59.7)	(58.2)	(78.7)	(66.1)	(58.6)	(106.4)	(104.7)	(107.3)	(108.5)
Creditors		(52.7)	(59.5)	(58.1)	(78.5)	(65.9)	(58.6)	(87.0)	(98.8)	(101.4)	(104.4)
Short term borrowings		(5.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.0)	(19.4)	(5.9)	(5.9)	(4.2)
Long Term Liabilities		(18.5)	(21.1)	(17.9)	(22.5)	(18.7)	(21.2)	(41.2)	(50.2)	(44.3)	(40.1)
Long term borrowings		(0.0)	(0.6)	(0.4)	(0.2)	(0.0)	0.0	(8.8)	(14.9)	(9.0)	(4.8)
Other long term liabilities		(18.5)	(20.5)	(17.5)	(22.3)	(18.6)	(21.2)	(32.4)	(35.3)	(35.3)	(35.3)
Net Assets		143.4	140.6	148.2	154.2	169.0	175.0	183.7	184.2	193.8	206.6
CASH FLOW											
Operating Cash Flow		2.1	11.4	24.8	27.4	22.9	18.0	28.0	23.1	29.4	33.2
Net Interest		(0.8)	(0.8)	(0.2)	(0.1)	(0.2)	(0.4)	(0.6)	(0.9)	(1.2)	(1.2)
Tax		0.4	(1.0)	(0.9)	(2.4)	(3.9)	(3.4)	(6.0)	(2.4)	(7.2)	(4.9)
Capex		(1.5)	(1.3)	(4.3)	(5.3)	(5.4)	(6.3)	(6.2)	(6.9)	(7.3)	(7.3)
Acquisitions/disposals		(3.5)	(1.7)	(4.1)	(0.4)	(5.5)	(4.2)	(13.4)	(20.0)	(0.5)	(7.5)
Financing		44.8	0	0	0	0	1.7	0	0	0	0
Dividends		0.0	0.0	(3.0)	(5.1)	(7.5)	(13.4)	(8.9)	(8.9)	(9.1)	(9.5)
Net Cash Flow		41.5	6.7	12.4	14.0	0.4	(8.0)	(7.0)	(16.0)	4.2	2.9
Opening net debt/(cash)		41.2	(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(16.4)	1.3	(1.3)
Finance lease - cash		(0.2)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(1.8)	(1.6)	(1.6)	(1.6)
Other		0.2	(0.6)	0.2	0	0.2	0	0	(0)	(0)	(0)
Closing net debt/(cash)		(0.3)	(6.1)	(18.4)	(32.4)	(32.9)	(25.2)	(16.4)	1.3	(1.3)	(2.5)
IFRS16 leases								11.4	10.6	10.6	10.6

Source: Company accounts, Edison Investment Research

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