

FORTERRA

BUILDING MATERIALS

22 October 2019

FORT.L

299p

Market Cap: £599.8m

SHARE PRICE (p)



12m high/low

317p/209p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(38.8)m
Enterprise value	£638.6m
Index/market	LSE
Next news	Pre-close, January 2020
Shares in Issue (m)	200.6
Chairman	Justin Atkinson
Chief Executive	Stephen Harrison
Finance Director	Shatish Dasani

COMPANY DESCRIPTION

UK's second largest brick maker, inc. high margin 'Fletton'; also leading manufacturer of concrete building products

forterrapl.co.uk

FORTERRA IS A RESEARCH CLIENT OF
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Political uncertainty frustrates end-markets

Leading brick and building materials producer Forterra has steered down FY 2019E guidance due to a slowdown in sales to merchants and non-residential end-markets, reflecting “short-term political and economic uncertainty”. This should trim expectations in volumes, prices and margins, leading us to cut our FY 2019E and 2020E adjusted PBT estimate by 8% and 5.5% respectively. However, cashflow remains strong and we continue to believe the group remains strongly positioned to benefit from long-term growth in housebuilding demand, which remains a Government priority.

- In today's trading statement, the UK's second largest brick manufacturer revealed that volumes into the new build housing market have remained broadly in line with its plan but, due to the current macro-economic uncertainty, sales to distributors and non-residential sectors have slowed. It now expects profit before tax to be “modestly below last year's result”.
- We have cut our FY 2019E adj PBT estimate from £67.5m to £62.1m (4% below FY 2018) and FY 2020E from £70.8m to £66.9m. The main drivers have been a cut in our FY 2019E assumptions for volumes in both Brick & Block and Bespoke Products as well as prices and margins.
- Although new housing volumes, mainly via larger housebuilders, have held up, there appears to be a degree of ‘destocking’ by merchants, which tend to supply smaller builders, active in housing repair and maintenance; Bespoke Products has also seen reduced demand in non-housing sectors. The decline in sales to distributors, relative to housebuilders, which have stronger pricing power, explains our slightly weaker pricing growth due to mix and resultant margin outlook. We will provide a more detailed analysis of our assumptions for end-markets and estimates in due course.
- In our view, the group's fundamentals remain sound. We believe Government support will maintain growth in housebuilding volumes, while the brick industry is highly consolidated, with three dominant players and little excess capacity and overall pricing power. The group continues to generate strong operating cashflows. Despite the short term political and economic uncertainty, the group “remains confident in its strategy and believes that the business is well positioned to benefit from attractive market fundamentals over the medium term”.

FYE DEC (£M)	2016	2017	2018	2019E	2020E
Revenue	294.5	331.0	367.5	374.4	393.4
Adj EBITDA	70.6	75.4	78.8	83.1	88.2
Fully Adj PBT	54.3	61.1	64.8	62.1	66.9
Fully Adj EPS (p)	21.4	24.3	26.1	25.0	27.0
EV/Sales (x)	2.2x	1.9x	1.7x	1.7x	1.6x
EV/EBITDA (x)	9.0x	8.5x	8.1x	7.7x	7.2x
PER (x)	14.0x	12.3x	11.5x	11.9x	11.1x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

Financial Summary: Forterra

Year end: December (£m unless shown)

	2016	2017	2018	2019E	2020E
PROFIT & LOSS					
Revenue	294.5	331.0	367.5	374.4	393.4
Adj EBITDA	70.6	75.4	78.8	83.1	88.2
Adj EBIT	60.2	64.5	67.1	64.9	70.0
Reported PBT	37.1	59.3	64.8	62.1	66.9
Fully Adj PBT	54.3	61.1	64.8	62.1	66.9
NOPAT	47.7	52.0	54.7	52.9	57.1
Reported EPS (p)	13.8	23.8	26.5	25.7	28.0
Fully Adj EPS (p)	21.4	24.3	26.1	25.0	27.0
Dividend per share (p)	5.8	9.5	10.5	11.6	12.6
CASH FLOW & BALANCE SHEET					
Operating cash flow	56.2	90.2	79.8	77.1	86.2
Free Cash flow	28.8	69.2	49.5	50.3	58.7
FCF per share (p)	14.4	34.6	24.8	25.5	30.1
Acquisitions	(0.1)	(21.8)	(2.1)	0.0	0.0
Disposals	N/A	N/A	N/A	N/A	N/A
Shares issued					
Net cash flow	32.0	(27.2)	(3.0)	(5.4)	(3.0)
Overdrafts / borrowings	148.5	89.8	64.8	64.8	64.8
Cash & equivalents	56.2	29.0	26.0	20.6	17.6
Net (Debt)/Cash	(92.3)	(60.8)	(38.8)	(44.2)	(47.2)
NAV AND RETURNS					
Net asset value	69.2	104.7	134.2	155.6	178.4
NAV/share (p)	34.6	52.2	66.9	77.6	88.9
Net Tangible Asset Value	55.5	88.9	116.9	138.3	161.1
NTAV/share (p)	27.8	44.3	58.3	68.9	80.3
Average equity	(219.5)	(70.7)	87.0	119.5	144.9
Post-tax ROE (%)	(12.5%)	(67.2%)	60.7%	42.4%	37.6%
METRICS					
Revenue growth	N/A	12.4%	11.0%	1.9%	5.1%
Adj EBITDA growth	N/A	6.8%	4.5%	5.5%	6.1%
Adj EBIT growth	N/A	7.1%	4.0%	(3.2%)	7.9%
Adj PBT growth	N/A	12.5%	6.1%	(4.1%)	7.7%
Adj EPS growth	N/A	13.5%	7.4%	(4.1%)	7.7%
Dividend growth	N/A	63.8%	10.5%	10.1%	8.8%
Adj EBIT margins	20.4%	19.5%	18.3%	17.3%	17.8%
VALUATION					
EV/Sales (x)	2.2	1.9	1.7	1.7	1.6
EV/EBITDA (x)	9.0	8.5	8.1	7.7	7.2
EV/NOPAT (x)	13.4	12.3	11.7	12.1	11.2
PER (x)	14.0	12.3	11.5	11.9	11.1
Dividend yield	1.9%	3.2%	3.5%	3.9%	4.2%
FCF yield	4.8%	11.6%	8.3%	8.5%	10.1%

Source: Company information and Progressive Equity Research estimates

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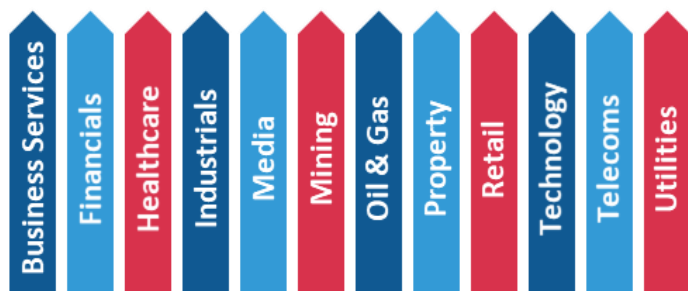
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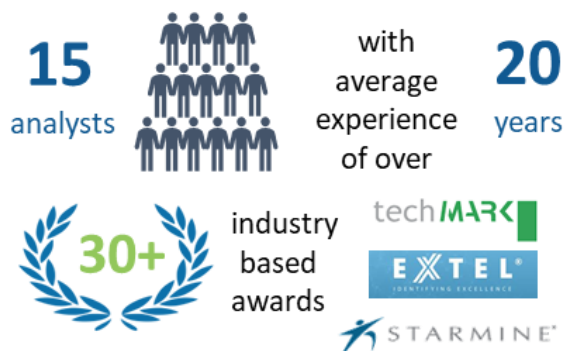
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