

SEVERFIELD

ENGINEERING & CONTRACTING SERVICES

16 March 2023

SFR.L

60.4p

Market Cap: £187m

SHARE PRICE (p)



12m high/low

70p/48p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(15.8)m (at 24/09/22)
Enterprise value	£202.8m
Index/market	LSE
Next news	Capital mkts day, 27 Mar
Shares in Issue (m)	309.5
Chairman	Kevin Whiteman
Chief Executive	Alan Dunsmore
Finance Director	Adam Semple

COMPANY DESCRIPTION

UK's leader in design, fabrication and construction of structural steel, for commercial buildings, infrastructure etc

www.severfield.com

SEVERFIELD IS A RESEARCH CLIENT OF
PROGRESSIVE

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com



www.progressive-research.com

Dutch acquisition enhances Euro-vision

Severfield, the UK's leading structural steel specialist, yesterday enhanced its strategic aim of expanding its presence in continental Europe by acquiring leading Dutch fabricator Voortman Steel Construction Holding (VSCH) for €24m. The deal, which Severfield expects to be earnings enhancing in FY24E, will reinforce the group's presence in Europe as well as offering innovative production capabilities in its UK base. Severfield should also benefit from a range of investment pledges in yesterday's Budget.

- Earnings enhancing.** Severfield expects the acquisition to be earnings enhancing in the year ending 31 March 2024. The consideration will be funded by a combination of a new amortising term loan of c.€21m and cash reserves of c.€3m. We have increased our PBT and EPS estimates by 6.1% and 7.0%, respectively, for FY24E and FY25E (see Figure 1, overleaf). We expect pre-IFRS16 net debt to rise to £27m in FY24E (previous estimate £8m) before falling to £17m in FY25E.
- Benefits in Europe and the UK.** VSCH holds a c.5% share of its addressable Dutch market of c.€1.3bn pa; a market that is expected to grow and where no single competitor has more than a c.10% market share. VSCH, which mainly serves the industrial, commercial and residential sectors, has the resources to compete for larger, more complex, higher value projects, and has the scale and market position for further growth in the Netherlands and neighbouring countries. The adjacent Voortman Steel Machinery Holding (VSMH) business offers Severfield significant technological opportunities including robotic production and proprietary software.
- Europe part of Severfield's strategic vision.** In our major 26 October note (*Opportunities abound amid new world order*), we identified the potential for Severfield, the clear UK market leader, to establish a European manufacturing base, most likely through acquisition, to expand its sales to northern Europe and Scandinavia, currently served from its five UK plants.
- UK Budget boost.** Yesterday's Budget included further major investment pledges on strategic UK growth markets explored in our October note, ranging from nuclear, carbon capture and investment zones to massive film studios – all major current and future end markets for Severfield.
- Scale, skills and balance sheet.** Severfield is by far the largest UK structural steel group. In our view, Severfield's financial strength and ability to handle complex projects beyond the scope of competitors sets it apart in a fragmented peer group.

FYE MAR (£M)	2021	2022	2023E	2024E	2025E
Revenue	363.3	403.6	489.9	570.5	596.5
Fully Adj PBT	24.3	27.1	31.2	35.7	37.8
Fully Adj EPS (p)	6.4	7.2	8.3	8.8	9.4
Dividend per share (p)	2.9	3.1	3.3	3.5	3.7
PER (x)	9.4x	8.4x	7.3x	6.9x	6.4x
EV/EBITDA (x)	6.8x	6.3x	4.8x	4.2x	4.1x
Dividend yield	4.8%	5.1%	5.5%	5.8%	6.1%

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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

Together, VSCH and VSMH offer significant growth and production opportunities on the continent and in UK base

Initial estimates indicate upside of 6% and 7% for FY24E and FY24E, respectively

Innovative Dutch group offers springboard to Europe

Headquartered in Rijssen in the Netherlands, VSCH is cash-generative and operates from efficient facilities, outputting c.15,000 tonnes pa. It is located next to Voortman Steel Machinery Holding (VSMH), a manufacturer of advanced fabrication machinery. Collaboration prospects could include robotic technology, proprietary fabrication software and bespoke equipment. The deal will also enable Severfield to leverage VSCH's local knowledge to assist with the growth of its existing European business, currently served by its five UK plants (see page 3). Aims include:

- Greater access to a growing European market including access to the high-growth electricity distribution sector and capabilities in design and build (turnkey) solutions for simpler structures. Combining the businesses will enhance Severfield's position as one of Europe's most diverse structural steel services groups.
- Growth opportunities through access to new European clients, particularly in the industrial, commercial and residential sectors, and a platform to offer a wider range of services to its existing clients.

Financial impact

VSCH is being acquired for a net €24m, on a cash-free, debt-free basis assuming a normalised level of working capital on completion. The total cash consideration will be €29.5m including cash and cash equivalents of €5.5m, funded by a combination of group cash reserves (c.€8.5m) and a new term loan (c.€21m), repayable over a five-year period. For the year to 31 December 2021, VSCH recorded unaudited consolidated revenues of €73.5m and EBITDA of €3.1m, with gross assets at year-end 2021 of €24.1m.

Figure 1: Estimated financial effects of acquisition

YE (Mar)	2024E	2025E
VSCH (€m)		
Revenue	80.0	84.0
EBITDA	4.5	4.8
Margin	5.6%	5.7%
Depreciation	(1.0)	(1.0)
EBIT	3.5	3.8
€/£	1.13	1.13
Severfield (£m)		
Revenue - existing	499.7	522.2
VSCH	70.8	74.3
Total revenue	570.5	596.5
EBIT - existing	35.6	37.4
VSCH	3.1	3.3
Total EBIT	38.7	40.7
Interest - existing	(2.0)	(2.2)
Acquisition interest	(1.0)	(0.8)
Old adj PBT	33.6	35.3
New adj PBT	35.7	37.8
Old adj EPS, dil (p)	8.3	8.8
New adj EPS, dil (p)	8.8	9.4
Difference (%)	6.1%	7.0%
Old net debt, pre-IFRS16	(8.5)	(0.9)
New net debt, pre-IFRS16	(28.2)	(18.7)

Source: Company Information and Progressive Equity Research estimates.

Largest structural steel group in UK with growing European opportunities

Significant losses in 2013 prompted major restructuring

Scale advantage against a smaller and fragmented peers

Capital Markets event to provide exploration of new growth markets and new reporting structure

Severfield in brief

Severfield is the UK's largest structural steel group and one of the biggest in Europe. It has a total steel capacity of c.165,000 tonnes in its five UK plants (c.18% of domestic market) and employs c.1,500. It also has a JV in India. The group and its markets are discussed in detail in our initiation note, [Election result provides clearer 2020 vision](#). Acquisitions of Harry Peers & Co in 2019 and Dam Structures in February 2021 have boosted revenue, earnings, capacity and reach into sectors such as, respectively, nuclear and rail.

The three main activities it performs are:

- Design of steel structures for buildings and infrastructure.
- Fabrication of steel sections and plate in its five UK factories.
- Erection of the steel elements within larger construction projects.

The group was formed in 1978 as Severfield-Reeve and grew rapidly, both organically and through a series of acquisitions, which broadened its range of products and services. It was renamed Severfield-Rowen and then, in 2014, Severfield. Its landmark structures include the 2012 Olympic Stadium, the 'Shard', Birmingham New Street Station, Wimbledon Centre Court, the Emirates Stadium and the Paris Philharmonic Hall. It also supplies and erects industrial buildings and distribution warehouses.

Significant contractual losses in 2013 prompted a major restructuring of the business, much more focused management controls and a £45m rights issue. The benefits of these actions became increasingly evident during FY15 and FY16.

Operationally, we see less risk of overcapacity, more disciplined bidding and a continued shift to higher-value, less-commoditised work. This improved quality of earnings and cashflow could, in our view, be reflected in an improved stock market rating. With a strong balance sheet and focus on high-entry-barrier markets, it is targeting opportunities for growth, while a fragmented competition largely vies for more-commoditised work.

Severfield has more than double the revenue of William Hare, its nearest competitor in a peer group that is almost entirely privately owned, except for Billington Structures.

The group will host a Capital Markets event on 27 March at which it will highlight new growth markets as well as providing more details on its new divisional reporting structure, based on three end-markets:

- Commercial & industrial. Industrial and logistics; offices; stadiums and leisure; data centres; retail; health and education. We estimate revenue at over £300m.
- Nuclear & infrastructure. Nuclear (both new generation and decommissioning); transport; power and energy; process industries, revenue over £50m. (Both C&I and N&I to be served from the group manufacturing facilities at Dalton, Bolton, Enniskillen and Carnaby.)
- Products & processing. Modular solutions, revenue over £25m. (To be served from the Sherburn manufacturing facility.)

Financial Summary: Severfield

Year end: March (£m unless shown)

	2021	2022	2023E	2024E	2025E
PROFIT & LOSS					
Revenue	363.3	403.6	489.9	570.5	596.5
Adj EBITDA	29.9	32.0	41.8	48.0	49.7
Adj EBIT	25.5	26.9	31.2	36.3	37.8
Reported PBT	21.1	21.0	25.8	30.3	32.4
Fully Adj PBT	24.3	27.1	31.2	35.7	37.8
NOPAT	25.4	26.8	31.1	36.2	37.7
Reported EPS (p)	5.6	5.1	6.5	7.1	7.7
Fully Adj EPS (p)	6.4	7.2	8.3	8.8	9.4
Dividend per share (p)	2.9	3.1	3.3	3.5	3.7
CASH FLOW & BALANCE SHEET					
Operating cash flow	30.0	(1.9)	42.5	35.2	43.2
Free Cash flow	18.4	(11.6)	27.8	16.8	22.5
FCF per share (p)	6.0	(3.8)	9.0	5.4	7.3
Acquisitions	(20.2)	(0.7)	(11.0)	(23.2)	(2.0)
Disposals	N/A	N/A	N/A	N/A	N/A
Shares issued					
Net cash flow	(19.4)	(29.0)	7.0	(16.8)	9.5
Overdrafts / borrowings	31.9	26.5	14.4	14.4	14.4
Cash & equivalents	25.0	(4.0)	3.1	(13.8)	(4.3)
Net (Debt)/Cash, pre-IFRS 16	4.4	(18.4)	(11.4)	(28.2)	(18.7)
NAV AND RETURNS					
Net asset value	190.9	197.4	207.9	219.4	232.1
NAV/share (p)	61.9	63.8	67.2	70.9	75.0
Net Tangible Asset Value	95.5	104.8	109.7	103.4	119.4
NTAV/share (p)	31.0	33.9	35.4	33.4	38.6
Average equity	187.3	194.2	202.6	213.6	225.7
Post-tax ROE (%)	9.2%	8.0%	10.0%	10.3%	10.5%
METRICS					
Revenue growth	19.1%	11.1%	21.4%	16.5%	4.6%
Adj EBITDA growth	14.9%	7.2%	30.6%	14.8%	3.4%
Adj EBIT growth	16.0%	5.5%	16.1%	16.3%	4.2%
Adj PBT growth	15.8%	11.4%	15.1%	14.3%	5.9%
Adj EPS growth	17.0%	11.9%	14.9%	6.6%	6.3%
Dividend growth	3.6%	6.9%	6.5%	6.1%	5.7%
Adj EBIT margins	7.0%	6.7%	6.4%	6.4%	6.3%
VALUATION					
EV/Sales (x)	0.6	0.5	0.4	0.4	0.3
EV/EBITDA (x)	6.8	6.3	4.8	4.2	4.1
EV/NOPAT (x)	8.0	7.6	6.5	5.6	5.4
PER (x)	9.4	8.4	7.3	6.9	6.4
Dividend yield	4.8%	5.1%	5.5%	5.8%	6.1%
FCF yield	9.9%	(6.2%)	14.9%	9.0%	12.1%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

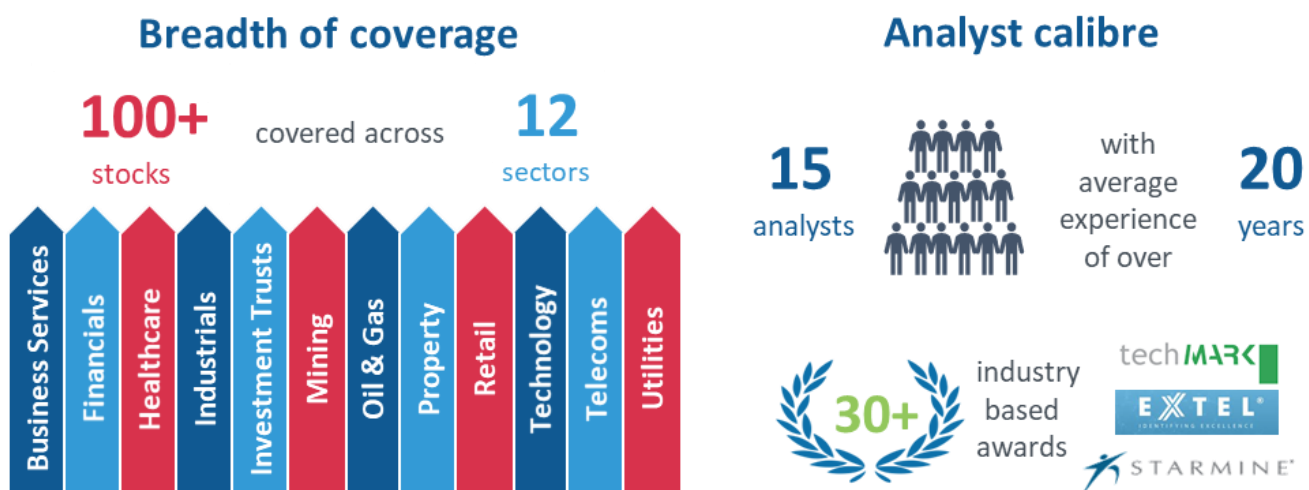
Copyright 2023 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.



To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com