

SEVERFIELD

ENGINEERING & CONTRACTING SERVICES

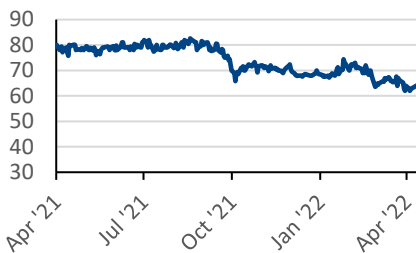
20 April 2022

SFR.L

64.1p

Market Cap: £198.4m

SHARE PRICE (p)



12m high/low 83p/62p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(19.0)m (at 31/03/22)
Enterprise value	£217.4m
Index/market	LSE
Next news	FY results, 15 Jun
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

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Orders surge as nuclear market reopens

Severfield, Britain's leading structural steel specialist, has confirmed that it expects FY2022E results in line with its previous expectations. We are maintaining our profit estimates for FY2022E-24E but raise our revenues to reflect steel cost increases, which are passed onto customers. The outlook is underpinned by record orders, amid "significant opportunities" including 'giga-factories', data centres and nuclear. The UK's 7 April Energy Security Strategy, prompted by Russia's invasion of Ukraine, puts new nuclear at the heart of plans to reduce dependence on foreign energy. We believe this and wider green and economic security issues should support long-term growth.

- Strong orders and resilient margins support FY2022E estimates.** The trading update, for the 12 months to 31 March, confirms profit expectations, with continued growth in the order book (page 3) and resilient margins despite rising input costs and some disruption to raw material supplies as a result of Russia's invasion. However, Severfield is "currently managing these effectively, and steel remains largely a pass-through cost for the Group".
- Bottom-line forecasts unchanged.** We have maintained our profit forecasts for FY2022E-24E but have raised our revenue estimates to reflect mainly steel cost increases, which are generally passed through to customers. We have likewise reduced margins to reflect this approach, which does not affect target margins when bidding (Figure 1). The only other change is a £9m increase to £19m in our forecast FY2022E net debt, pre-IFRS16, due to the impact of steel costs on working capital changes, with the same delta feeding through to the following two forecast years.
- Orders boosted by giga-factories and nuclear.** The UK & Europe order book soared to a record high of £479m, 22% above the November 2021 level. Severfield is "well-positioned to take advantage of some significant opportunities" including 'giga-factory' battery plants and nuclear.
- Energy security drive supports long-term outlook.** Severfield has benefited from strong demand for logistics, infrastructure and data centres. We now see an even more pressing need: the UK's Economic Security Strategy, published on 7 April, pledges a new generation of nuclear as well as offshore wind generation, and a plethora of new supply initiatives, to reduce reliance on foreign energy supply. We believe these could boost Harry Peers' specialist nuclear and process engineering skills, or industrial buildings to manufacture wind turbines to heat pumps.

FYE MAR (£M)	2020	2021	2022E	2023E	2024E
Revenue	327.4	363.3	395.9	430.0	438.6
Fully Adj PBT	28.6	24.3	28.1	31.2	33.5
Fully Adj EPS (p)	7.7	6.4	7.4	8.2	8.3
Dividend per share (p)	2.9	2.9	3.1	3.3	3.3
PER (x)	8.3x	10.0x	8.7x	7.8x	7.7x
EV/EBITDA (x)	7.0x	7.3x	6.7x	5.6x	5.3x
Dividend yield	4.5%	4.5%	4.8%	5.1%	5.2%

Source: Company Information and Progressive Equity Research estimates.

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Figure 1: Main estimate changes

YE March (£m)	FY21 actual	FY22E new	FY22E old	Diff (%)	FY23E new	FY23E old	Diff (%)	FY24E new	FY24E old	Diff (%)
Group revenue	363.3	395.9	370.5	6.9%	430.0	370.5	16.1%	438.6	377.9	16.1%
Growth (%)	11.0%	9.0%	2.0%		8.6%	0.0%		2.0%	2.0%	
Grp op. margin (%)	7.0%	7.1%	7.6%		7.1%	8.2%		7.4%	8.6%	
Group op. profit	25.5	28.1	28.1	0.0%	30.5	30.5	0.0%	32.5	32.5	0.0%
JV income	(0.3)	1.2	1.2		1.9	1.9		2.4	2.4	
Op. profit inc JVs	25.1	29.3	29.3	0.0%	32.4	32.4	0.0%	34.8	34.9	0.0%
Exceptionals & gw	(3.2)	(4.4)	(4.4)		(4.0)	(4.0)		(4.0)	(4.0)	
Interest	(0.8)	(1.2)	(1.2)		(1.3)	(1.3)		(1.3)	(1.3)	
PBT, reported	21.1	23.7	23.7	0.0%	27.2	27.1	0.0%	29.5	29.5	0.0%
U-lying tax rate	18.5%	19.0%	19.0%		19.0%	19.0%		25.0%	25.0%	
Reported tax	(3.8)	(5.9)	(5.9)		(5.6)	(5.6)		(7.8)	(7.8)	
Net attrib. profit	17.3	17.8	17.8	0.0%	21.6	21.6	0.0%	21.7	21.7	0.0%
PBT pre-exc & gw	24.3	28.1	28.1	0.0%	31.2	31.1	0.0%	33.5	33.5	0.0%
EBITDA	29.9	32.6	32.6	0.0%	39.1	39.1	0.0%	41.2	41.2	0.0%
EPS, basic (p)	5.6	5.7	5.7	0.0%	7.0	7.0	0.0%	7.0	7.0	0.0%
EPS, dil., adj (p)	6.4	7.4	7.4	0.0%	8.2	8.2	0.0%	8.3	8.3	0.0%
DPS - declared (p)	2.9	3.1	3.1	0.0%	3.3	3.3	0.0%	3.3	3.3	0.0%
Net cash/(debt)¹	4.4	(19.0)	(10.0)		(8.6)	0.3		(3.3)	5.7	

Source: Company Information and Progressive Equity Research estimates. ¹ Pre-IFRS 16

Figure 2: Adjusted cashflow statement and summary balance sheet

YE March (£m)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Adj cash flow										
Group op. profit	6.2	10.9	16.7	21.4	23.2	25.6	22.6	24.1	26.5	28.5
Depreciation	3.6	3.7	3.6	3.7	3.6	3.9	4.4	4.5	4.6	4.7
Intangible amort.	2.8	2.8	2.9	1.5	0.1	1.4	2.8	4.0	4.0	4.0
Other, non-cash	(6.0)	0.5	1.9	0.2	(1.1)	(0.7)	0.3	-	-	-
Working capital	4.8	7.0	2.3	(3.7)	(7.9)	(2.2)	(0.2)	(28.0)	6.0	(6.5)
Op cash flow	11.4	24.8	27.4	22.9	18.0	28.0	30.0	4.6	41.1	30.7
Capex	(1.3)	(4.1)	(5.3)	(5.4)	(6.3)	(6.2)	(6.2)	(11.0)	(7.2)	(6.0)
Interest, net	(0.8)	(0.2)	(0.2)	(0.2)	(0.4)	(0.6)	(0.7)	(1.2)	(1.3)	(1.3)
Tax	(1.0)	(0.9)	(2.4)	(3.9)	(3.4)	(6.0)	(4.6)	(5.9)	(5.6)	(7.8)
Free cashflow	8.4	19.6	19.5	13.4	8.0	15.2	18.4	(13.5)	27.1	15.6
Acquisitions, JVs	(1.7)	(4.3)	(0.4)	(5.5)	(4.2)	(13.4)	(20.2)	(0.7)	(7.0)	-
Dividends - paid	-	(3.0)	(5.1)	(7.5)	(13.4)	(8.9)	(8.9)	(9.2)	(9.8)	(10.2)
Financing	(5.3)	(0.2)	(0.2)	(0.2)	1.5	26.4	(8.7)	-	-	-
Change in cash	1.4	12.1	13.8	0.3	(8.1)	19.4	(19.4)	(23.3)	10.3	5.3
Summary balance sheet										
Intangible FA	61.8	59.2	56.3	54.8	54.7	78.1	95.4	91.4	94.4	90.4
Tangible FA	76.6	77.4	78.9	81.2	84.0	99.0	101.5	108.0	110.6	111.9
Investments	6.7	12.7	13.1	18.5	24.3	26.7	33.2	34.4	36.3	38.6
Working capital	10.9	0.7	(1.5)	1.7	8.4	(2.9)	0.3	28.3	22.3	28.8
Provisions, other	(5.3)	(5.8)	(3.8)	(2.9)	(1.6)	(14.9)	(21.4)	(21.4)	(21.4)	(21.4)
Pensions	(16.5)	(14.6)	(21.4)	(17.2)	(20.0)	(18.7)	(22.4)	(22.4)	(22.4)	(22.4)
Net cash/(debt) ¹	6.4	18.7	32.6	33.0	25.2	16.4	4.4	(19.0)	(8.6)	(3.3)
Net assets	140.6	148.2	154.2	169.0	175.0	183.7	190.9	199.3	211.1	222.6
Net cash/ debt (IFRS16)						5.2	(6.7)	(30.1)	(19.8)	(14.4)

Source: Company Information and Progressive Equity Research estimates. ¹ pre-IFRS 16

Battery plants and nuclear among the new drivers of record order book

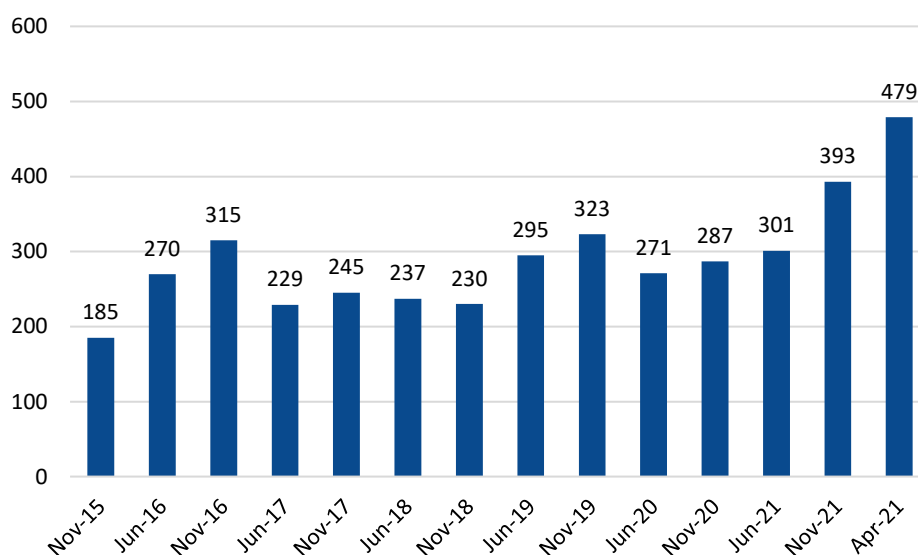
UK & Europe order book increase underpins FY2023E outlook

The UK & Europe order book at 1 April soared to a record high of £479m, 22% above the November 2021 level and almost 60% ahead of the 1 June figure. The latest figure includes £382m planned for delivery over the next 12 months (an increase of 20% over the 12-month ahead level of £318m in November). We estimate that c.£40-50m of the increase since November reflects steel price increases.

Of the current order book, 94% is for projects in the UK, with the remaining 6% for delivery in Europe and the Republic of Ireland, slightly up on the 95%:5% split in November.

Severfield is “encouraged by the current level of tendering activity across the Group, both in the UK and in continental Europe, and are well-positioned to take advantage of some significant opportunities in the industrial and distribution (‘giga-factory’ car battery plants and distribution centres), stadia, transport infrastructure, nuclear and data centre sectors.”

Figure 3: Order book, UK and Europe (£m)



Source: Company Information

India continues growth trajectory despite Covid challenges

The Indian joint venture, JSSL, “has performed profitably and in line with expectations in the second half of the year”. This was despite a difficult start to the year when output was disrupted by the second wave of Covid-19. Orders at 1 April rose by 19% to £166m, from £140m in November; 40% of the order book represents higher-margin commercial work, with the remaining 60% industrial projects, mainly for JV partner JSW. “This order book, together with JSSL’s improving pipeline of potential orders, reflects a continuing strong underlying demand for structural steel in India, leaving the business very well-positioned to take advantage of an improving economy.”

19% increase in Indian JV order book, with 40% of total coming from higher-margin commercial work

Largest structural steel group in UK with growing European opportunities

Significant losses in 2013 prompted major restructuring

Group has regularly navigated changing market trends ...

... now driven by energy and economic security

Accredited by only recognised international standard for carbon neutrality

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 around 165,000 tonnes in its five UK plants 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* ([link](#)). Acquisitions of Harry Peers & Co in 2019 and Dam Structures in 2021 have boosted revenue, earnings, capacity and reach into sectors such as nuclear and process industries in the case of Peers and rail for Dam.

The three main activities it performs are:

- the design of steel structures for buildings and infrastructure;
- the fabrication of steel sections and plate in its five UK factories; and
- the 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, particularly on the Leadenhall Tower, the 'Cheesegrater', in the City of London, 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 FY 2015 and 2016.

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

Markets: ability to adapt to new growth markets now favours nuclear

Severfield has regularly navigated shifting patterns in demand, with the group investing in design capabilities and manufacturing capacity tailored to potentially long-term structural growth sectors. These have included data centres, logistics and infrastructure, where clients are more dependent on security of delivery than, say, basic offices and retail. Europe and the potentially huge Indian market are examples of the group's geographical strategy.

Latest global trends could transform demand for Severfield's output: climate change (eg giga-factories); cloud computing since Covid (data centres); and energy and economic security in the wake following Russia's invasion of Ukraine (nuclear, gas storage etc).

Carbon-neutral target reached

In August 2021, the group achieved its current-year target of being accredited by the Carbon Trust as carbon neutral in its manufacturing and construction operations, according to PAS 2060, the only recognised international standard for carbon neutrality.

Financial Summary: Severfield

Year end: March (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	327.4	363.3	395.9	430.0	438.6
Adj EBITDA	30.9	29.9	32.6	39.1	41.2
Adj EBIT	27.0	25.5	28.1	30.5	32.5
Reported PBT	25.8	21.1	23.7	27.2	29.5
Fully Adj PBT	28.6	24.3	28.1	31.2	33.5
NOPAT	26.9	25.4	28.0	30.5	32.4
Reported EPS (p)	6.7	5.6	5.7	7.0	7.0
Fully Adj EPS (p)	7.7	6.4	7.4	8.2	8.3
Dividend per share (p)	2.9	2.9	3.1	3.3	3.3
CASH FLOW & BALANCE SHEET					
Operating cash flow	28.0	30.0	4.6	41.1	30.7
Free Cash flow	15.2	18.4	(13.5)	27.1	15.5
FCF per share (p)	5.0	6.0	(4.4)	8.8	5.0
Acquisitions	(13.4)	(20.2)	(0.7)	(7.0)	0.0
Disposals	N/A	N/A	N/A	N/A	N/A
Shares issued					
Net cash flow	19.4	(19.4)	(23.3)	10.3	5.3
Overdrafts / borrowings	39.4	31.9	20.6	20.6	20.6
Cash & equivalents	44.3	25.0	1.7	12.0	17.3
Net (Debt)/Cash, pre-IFRS 16	16.4	4.4	(19.0)	(8.6)	(3.3)
NAV AND RETURNS					
Net asset value	183.7	190.9	199.5	211.4	222.8
NAV/share (p)	60.0	61.9	64.5	68.3	0.0
Net Tangible Asset Value	105.6	95.5	108.1	116.9	132.4
NTAV/share (p)	34.5	31.0	34.9	37.8	42.8
Average equity	172.0	179.3	187.3	195.2	205.4
Post-tax ROE (%)	5.0%	8.5%	9.7%	10.3%	9.9%
METRICS					
Revenue growth	19.1%	11.0%	9.0%	8.6%	2.0%
Adj EBITDA growth	14.9%	(3.2%)	9.0%	20.1%	5.2%
Adj EBIT growth	16.0%	(5.6%)	10.2%	8.8%	6.3%
Adj PBT growth	15.8%	(15.0%)	15.4%	11.0%	7.5%
Adj EPS growth	17.0%	(16.6%)	15.1%	11.5%	0.4%
Dividend growth	3.6%	0.0%	6.9%	6.5%	0.9%
Adj EBIT margins	8.2%	7.0%	7.1%	7.1%	7.4%
VALUATION					
EV/Sales (x)	0.7	0.6	0.5	0.5	0.5
EV/EBITDA (x)	7.0	7.3	6.7	5.6	5.3
EV/NOPAT (x)	8.1	8.6	7.8	7.1	6.7
PER (x)	8.3	10.0	8.7	7.8	7.7
Dividend yield	4.5%	4.5%	4.8%	5.1%	5.2%
FCF yield	7.8%	9.3%	(6.8%)	13.7%	7.8%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

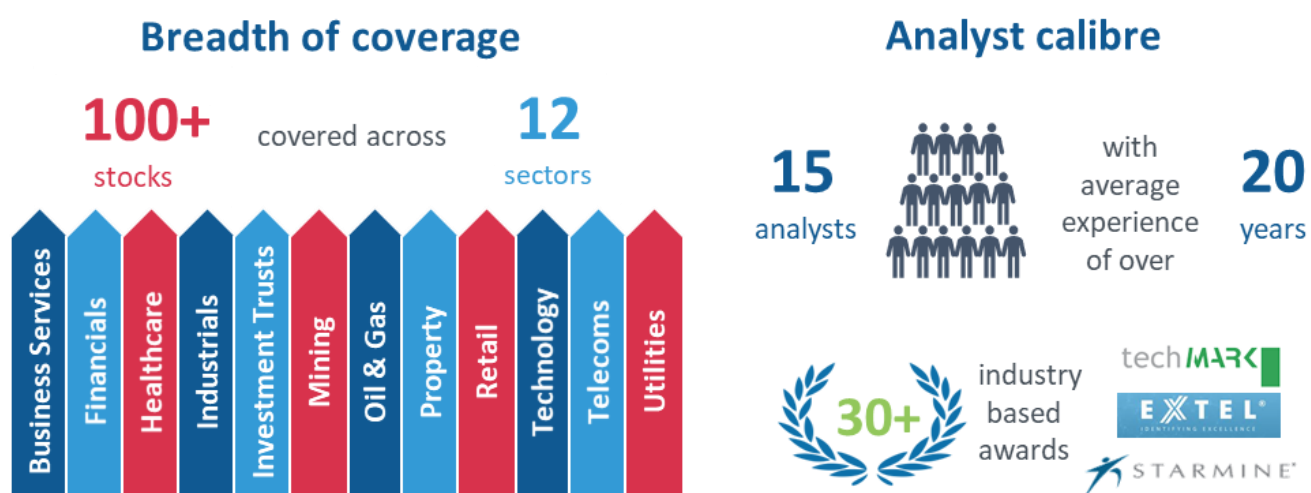
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