



SFPI

Misc. Bldg & Construct Prod / France

H1 behind with limited scars; H2 partial reversion to normal

Earnings/sales releases - 28/09/2020

Tight, reactive management and a strong balance sheet policy saved the day in locked-down times. Management is cautious but the small industrial conglomerate holds the cards for a return to dividend payments in 2021.

Fact

SFPI has released a solid set of results when set against the extreme difficulties met by small-sized industrial operations when navigating the COVID-19 crisis.

Sales retreated by 21%, earnings dropped to a €4.4m loss vs. a €4.7m gain last year but the net cash position has actually improved by c.€7m to €36m and FCF generation is a positive c. €10m.

Analysis

On the sales front, we were expecting much worse realisations with a back of the envelope 37% drop in revenues where SFPI eventually managed -21%. For the full year, the small industrial conglomerate suggests -15% (presumably remaining on the cautious side of the very low visibility). This -15% is way above our own -23% computed in May for FY 2020.

The *building side* of the business (locks and security with DOM, closings with MAC) did suffer from locked-down clients and locked-down staff. The worse is behind, obviously, but did last about six weeks. The talk is of a recovery but with a caveat: both businesses are rather aimed at new buildings while the bulk of the recovery-type demand is in renovation/updating. So it is not clear that the firm will be an overnight beneficiary of government-sponsored plans to cut on emissions from the housing stock. It may happen though through a domino effect where new demand that cannot be met is addressed to smaller players such as SFPI.

One impressive feature of the H1 20 resilience is that these B2B businesses have seen a jump in online ordering to c. 20% of revenues.

The *industrial side* (air cleaning and heat exchangers) suffered comparatively less as the non-French units hardly stopped. Developers found the time to devise new products meeting medical requirements in air cleaning. The next step is how to open the doors of the health sector but this certainly demonstrates a fighting mood from the shop floor.

Looking into H2, the turnover implied by a full-year 2020 drop of 15% is €250m vs. €274m by H2 19. It is easy to take a more optimistic view than management on the principle that business not executed in H1 may be executed by H2, but this would be risky.

Indeed, one should not forget that an industrial operation can easily suffer disruptions and may not be in a position to expand its manufacturing capacity as quickly as volatile demand would justify. It is not unreasonable to consider that some of the recovery demand will be a 2021 business.

Sound financials

SFPI's strength is its financial conservatism. This is consistent with a family-driven business aware that excess cash is the only insurance policy. The COVID-19 test confirmed this point. SFPI opened H1 with c. €29m in net cash and closes it at



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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy	Upside: 132%
Target Price (6 months)	€ 2.81
Share Price	€ 1.21
Market Cap. €M	120
Price Momentum	GOOD
Extremes 12Months	0.83 ▶ 1.87
Bloomberg	SFPI FP Equity
Reuters	SFPI.PA


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PERF	1w	1m	3m	12m
SFPI Group	-3.20%	-5.10%	-11.4%	-35.3%
Building Prod. & Materials	-4.03%	-3.22%	8.55%	4.81%
STOXX 600	-3.60%	-4.72%	-1.18%	-8.28%

Last updated: 26/09/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	13.8	15.5	7.29	5.26
Dividend yield (%)	0.00	4.13	4.96	5.79
EV/EBITDA(R) (x)	5.38	5.87	3.71	2.94
Adjusted EPS (€)	0.16	0.08	0.17	0.23
Growth in EPS (%)	-6.55	-51.3	113	38.6
Dividend (€)	0.00	0.05	0.06	0.07
Sales (€M)	563	489	556	582
EBIT margin (%)	5.43	1.61	4.71	6.25
Attributable net profit (€M)	3.73	5.25	16.5	22.8
ROE (after tax) (%)	1.85	2.60	7.84	10.3
Gearing (%)	-10.7	-9.80	-11.4	-12.7

[Company Valuation](#) - [Company Financials](#)

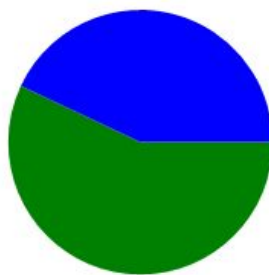
€36m. Fast cost adjustments, dropping the dividend, cutting on capex and good working capital control did the trick. The working capital cash generation over H1 (€5m) will presumably not survive a pick-up in business in H2, but was good to have.

As a reminder, SFPI which made ample use of furlough schemes in France had residual costs in two respects: French-type furlough leaves 16% of the wages in the P&L of the corporate and COVID-19 prevention measures have genuine costs estimated at €1m over 2020.

■ Impact

Clearly, the better H1 sales and the first positive tones for H2 justify taking a less cautious stance on FY 2020. Our 2020 earnings expectations have been upgraded to c. €7m earnings from nil, with no domino impact on 2021 as a degree of normalisation was already built-in. The risks to 2020 are those of H2 business being executed by early 2021 due to so many operational disruptions.

Sales by Geography



■ France (57.0%)
■ Other (43.0%)

Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	€M	563	489	556
Change in sales	%	2.40	-13.2	13.9
Change in staff costs	%	1.90	-6.14	7.93
EBITDA	€M	52.7	30.0	48.1
EBITDA(R) margin	%	9.35	6.14	8.65
Depreciation	€M	-22.1	-22.0	-23.0
Underlying operating profit	€M	30.6	8.00	25.1
Operating profit (EBIT)	€M	12.0	5.50	25.1
Net financial expense	€M	-0.53	1.25	-0.20
of which related to pensions	€M		-0.94	-0.96
Exceptional items & other	€M			
Corporate tax	€M	-7.76	-1.65	-8.58
Equity associates	€M	0.05	0.20	0.20
Minority interests	€M	-0.05	-0.05	-0.05
Adjusted attributable net profit	€M	15.9	7.75	16.5
NOPAT	€M	21.4	6.46	18.4

Cashflow Statement

EBITDA	€M	52.7	30.0	48.1
Change in WCR	€M	-2.11	-3.52	-12.2
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-8.97	-1.65	-8.58
Exceptional items	€M			
Other operating cash flows	€M	1.00		
Total operating cash flows	€M	42.6	24.8	27.3
Capital expenditure	€M	-18.6	-16.6	-18.9
Total investment flows	€M	-26.1	-16.6	-23.9
Net interest expense	€M	-0.53	1.25	-0.20
Dividends (parent company)	€M	-4.86	0.00	-4.97
Dividends to minorities interests	€M	-0.30	-0.30	-0.30
New shareholders' equity	€M	0.00		
Total financial flows	€M	-19.2	1.89	-4.50
Change in cash position	€M	-9.22	10.1	-1.12
Free cash flow (pre div.)	€M	23.5	9.47	8.19

Per Share Data

No. of shares net of treas. stock (year...	Mio	99.3	99.3	99.3
Number of diluted shares (average)	Mio	99.3	99.3	99.3
Benchmark EPS	€	0.16	0.08	0.17
Restated NAV per share	€			
Net dividend per share	€	0.00	0.05	0.06

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.96	35%	<ul style="list-style-type: none"> ● GEA Group ● Alfa Laval ● Travis Perkins ● IMI
NAV/SOTP per share	€ 3.41	20%	
EV/Ebitda	€ 2.42	20%	
P/E	€ 2.42	10%	
Dividend Yield	€ 2.42	10%	
P/Book	€ 2.42	5%	
TARGET PRICE	€ 2.81	100%	

NAV/SOTP Calculation

Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	€M	49.4	49.4	49.4
Total intangible	€M	55.7	55.7	55.7
Tangible fixed assets	€M	80.1	73.1	74.5
Financial fixed assets	€M	1.10	1.12	1.14
WCR	€M	98.6	102	114
Other assets	€M	22.0	22.4	22.9
Total assets (net of short term liab.)	€M	281	278	292
Ordinary shareholders' equity	€M	200	204	216
Quasi Equity & Preferred	€M			
Minority interests	€M	1.75	2.00	2.00
Provisions for pensions	€M	64.4	65.7	67.0
Other provisions for risks and liabilities	€M	14.1	14.4	14.7
Total provisions for risks and liabilities	€M	78.5	80.1	81.7
Tax liabilities	€M	8.31	8.47	8.64
Other liabilities	€M	7.73	7.89	8.05
Net debt (cash)	€M	-15.0	-25.1	-24.0
Total liab. and shareholders' equity	€M	281	278	292

Capital Employed

Capital employed after depreciation	€M	235	232	246
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Profits & Risks Ratios

ROE (after tax)	%	1.85	2.60	7.84
ROCE	%	9.10	2.78	7.51
Gearing (at book value)	%	-10.7	-9.80	-11.4
Adj. Net debt/EBITDA(R)	x	-0.28	-0.84	-0.50
Interest cover (x)	x	58.1	-3.65	-33.0

Valuation Ratios

Reference P/E (benchmark)	x	13.8	15.5	7.29
Free cash flow yield	%	10.7	7.88	6.81
P/Book	x	1.10	0.59	0.56
Dividend yield	%	0.00	4.13	4.96

EV Calculation

Market cap	€M	219	120	120
+ Provisions	€M	78.5	80.1	81.7
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-15.0	-25.1	-24.0
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	1.10	1.12	1.14
+ Minority interests (fair value)	€M	1.75	2.00	2.00
= EV	€M	283	176	179
EV/EBITDA(R)	x	5.38	5.87	3.71
EV/Sales	x	0.50	0.36	0.32

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 26/09/2020.