



SFPI

Misc. Bldg & Construct Prod / France

A difficult H1-2023

Earnings/sales releases - 09/10/2023

The building-related activities (DOM & MAC) could not escape a sudden softening in the market even though they enjoy the nominal steadiness of renovation markets. The industry-related activities shone but accounted for less than 30% of revenues. The management is worried about H2 and slashed its sales guidance to €680m which now looks like a floor. We have cut our 2023 earning forecast by c.30%.

Fact

Strong organic sales (up 7.5%) were accompanied by a 200bp drop in the operating margin to 3.9% and a contraction in net earnings to €6.6m from €11m.

Consolidated Financials

MC	H1 2022	% of sales	H1 2023	% of sales
Sales	305,9		356,7	
Gross margin	179,7	58,8%	203,7	57,1%
Payroll expenses	(101,1)	33,1%	(114,4)	32,2%
Other operating costs	(47,7)	15,6%	(60,4)	16,9%
Taxes	(2,9)		(3,0)	
Depreciation	(9,9)	3,2%	(11,8)	3,3%
Recurring operating income	18,1	5,9%	14,1	3,9%
Non-recurring cost and amortization	(2,1)		(1,6)	
Operating income	16,0	5,2%	12,5	3,5%
Financial Charges	0,1		(0,6)	
Corporate Income Tax	(4,8)		(5,6)	
Consolidated Net Income	10,9	3,6%	6,5	1,8%
Group share	11,0		6,6	

With a still-demanding working capital requirement, the net cash situation (as per the SFPI definition) was down to €11.4m vs. €25.5m a year earlier. The balance sheet remains extremely sound with net cash expected to improve as excess inventories are run down.

Analysis

The H1 earnings were not expected to be good as European building markets have hit the buffers of fast rising rates. Building is always the first to be impacted. Industry is unlikely to escape a degree of slowdown somewhat later. For 2023, SFPI's industrial units are doing remarkably well in meeting the solid demand with a lean industrial base.

The negative surprise was the drop in the gross margin to 57.1% from 58.8%. This came from the building side and confirmed that demand has become price sensitive. With the renovation markets accounting for 80%-90% of revenues, MAC (mostly windows and doors) sales were somewhat cushioned but it is reasonable to expect that this segment will tank as well at a later stage

Solid cost control at the payroll level was sadly not enough to offset the extra layers of miscellaneous costs including the in-depth reorganisation of the industrial bases of MAC. This was well flagged when SFPI released its 2022FY



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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: 123%
Target Price (6 months)	€ 3.86
Share Price	€ 1.73
Market Cap. €M	172
Price Momentum	NEGATIVE
Extremes 12Months	1.62 ▶ 2.64
Sustainability score	2.4 / 10
Credit Risk	BBB →
Bloomberg	SFPI FP Equity
Reuters	SFPI.PA


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PERF	1w	1m	3m	12m
SFPI Group	-3.14%	-4.95%	-12.6%	-17.9%
Building Prod. & Materials	-1.12%	-1.39%	2.29%	35.8%
STOXX 600	-1.17%	-2.06%	-0.51%	12.3%

Last updated: 09/10/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	9.39	8.32	5.66	4.45
Dividend yield (%)	1.91	2.89	3.47	4.05
EV/EBITDA(R) (x)	4.92	3.40	2.71	2.33
Adjusted EPS (€)	0.28	0.21	0.31	0.39
Growth in EPS (%)	-16.9	-25.5	46.8	27.2
Dividend (€)	0.05	0.05	0.06	0.07
Sales (€M)	629	692	716	772
EBIT margin (%)	5.72	4.71	6.04	6.23
Attributable net profit (€M)	21.7	17.2	26.2	33.8
ROE (after tax) (%)	9.03	6.75	9.71	11.7
Gearing (%)	-14.0	-1.36	-3.46	-7.12

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

accounts thus should be regarded as costs incurred for a good cause.

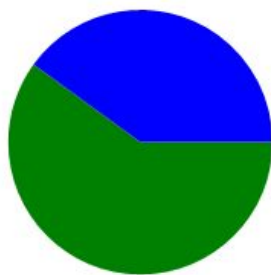
The Industrial units were the H1 positive with MMD posting sales up 37% and Neu-JFK up 11.5%. There is no shortage of demand for heat exchangers and air treatment but these are businesses where order books are not very long so that the more than 6 months of business ahead is great to have.

As with many other manufacturing businesses, SFPI has had to face a supply scarcity in the post-Covid recovery period. Building up inventories was unavoidable and presumably at higher costs than the going prices. This shows up in an increase of working capital requirement of c. €10m yoy but was contained to €2m vs. the close of 2022. After allowing for dividends and acquisitions in the H1, the gross cash position remains very healthy at €117m. This is largely due to strong cash from operations (€21m)

■ Impact

The ever-cautious SFPI has slashed its sales guidance from €715m to €680m – a strong statement about the changing visibility. We see €680m as a floor that we have not adopted for our reduced forecast with sales resetting at €695m. Pressuring sales down further would probably imply a collapse of profits. On sales at €695m, our earnings forecasts reset 30% lower for 2023 and c.8% to 10% lower for the following 2 years. This does not change our target price that much (provided that the dividend does not take a hit). The news flow is however unlikely to be positive for the next few quarters.

Sales by Geography



■ France (60.0%)
■ Other (40.0%)

Consolidated P&L Accounts

	12/22A	12/23E	12/24E
Sales	€M 629	692	716
Change in sales	% 10.6	10.0	3.46
Change in staff costs	% 8.64	11.0	6.73
EBITDA	€M 57.1	56.0	65.1
EBITDA(R) margin	% 9.08	8.10	9.10
Depreciation	€M -21.4	-22.7	-23.0
Underlying operating profit	€M 35.7	33.3	42.1
Operating profit (EBIT)	€M 31.9	28.6	38.4
Net financial expense	€M -0.20	-1.10	-1.10
of which related to pensions	€M	-1.40	-1.44
Exceptional items & other	€M		
Corporate tax	€M -10.2	-10.7	-11.5
Equity associates	€M 0.11	0.20	0.20
Minority interests	€M 0.16	0.16	0.16
Adjusted attributable net profit	€M 25.7	19.2	28.2
NOPAT	€M 26.9	26.2	32.9

Cashflow Statement

	12/22A	12/23E	12/24E
EBITDA	€M 57.1	56.0	65.1
Change in WCR	€M -23.4	-1.67	-2.29
Actual div. received from equity holdi...	€M 0.00	0.00	0.00
Paid taxes	€M -10.1	-10.7	-11.5
Exceptional items	€M		
Other operating cash flows	€M 2.00	-1.00	-1.00
Total operating cash flows	€M 25.6	42.6	50.3
Capital expenditure	€M -22.7	-26.3	-25.8
Total investment flows	€M -56.5	-40.3	-30.8
Net interest expense	€M -0.20	-1.10	-1.10
Dividends (parent company)	€M -7.37	-4.60	-5.52
Dividends to minorities interests	€M -0.10	-0.10	-0.10
New shareholders' equity	€M -1.62	0.00	0.00
Total financial flows	€M -1.07	19.6	-5.29
Change in cash position	€M -32.0	21.9	14.2
Free cash flow (pre div.)	€M 2.68	15.2	23.4

Per Share Data

	12/22A	12/23E	12/24E
No. of shares net of treas. stock (year...)	Mio 92.2	92.2	92.2
Number of diluted shares (average)	Mio 92.2	92.2	92.2
Benchmark EPS	€ 0.28	0.21	0.31
Restated NAV per share	€		
Net dividend per share	€ 0.05	0.05	0.06

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 3.36	35%	● dormakaba
NAV/SOTP per share	€ 6.15	20%	● GEA Group
EV/Ebitda	€ 3.46	20%	● Alfa Laval
P/E	€ 3.46	10%	● Travis Perkins
Dividend Yield	€ 2.41	10%	● Belimo
P/Book	€ 3.46	5%	
TARGET PRICE	€ 3.86	100%	

NAV/SOTP Calculation

Balance Sheet

	12/22A	12/23E	12/24E
Goodwill	€M 71.5	71.5	71.5
Total intangible	€M 74.1	74.5	74.5
Tangible fixed assets	€M 85.3	87.0	88.7
Financial fixed assets	€M 3.10	3.16	3.23
WCR	€M 178	180	182
Other assets	€M 40.0	40.8	41.6
Total assets (net of short term liab.)	€M 411	417	422
Ordinary shareholders' equity	€M 249	260	279
Quasi Equity & Preferred	€M		
Minority interests	€M 0.14	1.00	1.00
Provisions for pensions	€M 55.0	43.1	44.2
Other provisions for risks and liabilities	€M 13.2	15.0	15.0
Total provisions for risks and liabilities	€M 68.2	58.1	59.2
Tax liabilities	€M 8.73	8.91	8.91
Other liabilities	€M 89.5	91.3	91.3
Net debt (cash)	€M -4.58	-2.52	-16.8
Total liab. and shareholders' equity	€M 411	417	422

Capital Employed

	12/22A	12/23E	12/24E
Capital employed after depreciation	€M 340	344	348

Profits & Risks Ratios

	12/22A	12/23E	12/24E
ROE (after tax)	% 9.03	6.75	9.71
ROCE	% 7.91	7.62	9.44
Gearing (at book value)	% -14.0	-1.36	-3.46
Adj. Net debt/EBITDA(R)	x -0.08	-0.05	-0.26
Interest cover (x)	x 176	-110	-125

Valuation Ratios

	12/22A	12/23E	12/24E
Reference P/E (benchmark)	x 9.39	8.32	5.66
Free cash flow yield	% 1.11	9.56	14.7
P/Book	x 0.97	0.61	0.57
Dividend yield	% 1.91	2.89	3.47

EV Calculation

	12/22A	12/23E	12/24E
Market cap	€M 242	159	159
+ Provisions	€M 68.2	58.1	59.2
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00
+ Net debt at year end	€M -28.9	-27.3	-42.0
+ Leases debt equivalent	€M 0.00	0.00	0.00
- Financial fixed assets (fair value)	€M 2.00	2.00	2.00
+ Minority interests (fair value)	€M 2.00	2.00	2.00
= EV	€M 281	190	177
EV/EBITDA(R)	x 4.92	3.40	2.71
EV/Sales	x 0.45	0.27	0.25

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 09/10/2023.