



SFPI

Misc. Bldg & Construct Prod / France

Sound business shows its mettle in Covid and post Covid times

Earnings/sales releases - 04/06/2021

SFPI has navigated the Covid shock particularly well through tight management and a very healthy balance sheet that turned out to be even stronger by Dec 2020. 2021 looks very promising as splashing out on building continues and capex demand accelerates. We have upgraded our target price on this very sound industrial mini conglomerate.

Fact

While the bulk of the 2020 delivery unsurprisingly happened over H2, the extent of the business rebound and the quality of the delivery over this second half were a positive surprise.

Total annual sales finally dropped by 'only' 11% after -21% in H1 and the €-2m loss Ebit loss had morphed into a €27m profit by the year end.

Also quite remarkable, the net cash position at Dec 2020 rose to €65m from €29m in 2019. Like most industries keeping inventories low in a zero visibility context, SFPI's net cash position reflects a drop in working capital requirement but this should not mask the cash generation stemming from operations.

In early 2020, SFPI's family-controlled Board decided to pass on the 2019 dividend, a highly commendable decision at the time to provide the business with as much cash resources as possible. On the back of a strong H2, it decided to reinstate a €0.06 2020 dividend.

Analysis

As ever, SFPI is a tale of 2 stories reflecting its two main end markets, each serviced by a set of 2 main fully-owned operations.

Building boom

One year into Covid and central bank support, we all now take it for granted that building is a great beneficiary of this weird period. It certainly was not that way when entering the crisis in March 2020. Staying at home and home refurbishment only started in Q2-2020, on the proviso that there would be enough available staff at manufacturing sites and delivery capacity.

Dom is the biggest unit in the group and concentrates on protection products, essentially all sorts of locking systems. With working from home, one might have expected households to be less keen on protection. Good products, e-channels and a range of antimicrobials – touchless products for corporate needs – have all helped sustain the solid demand. This branded business has enormous potential, the right industrial tools and all the innovation attached to the digitisation of security. Its recurring operating margin, historically stuck at c. 9%, had surged to 15% by H2-2020, raising hopes that the normalised basis could be between 10% and 12% on sales up 4% a year.

MAC manufactures closures and windows, mostly in aluminium and plastic frames, for corporate as well as domestic deployment. The business, which is



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Buy **Upside: 75.0%**

Target Price (6 months) € 4.73

Share Price € 2.70

Market Cap. €M 268

Price Momentum **STRONG**

Extremes 12Months 1.06 ▶ 2.70

Sustainability score 2.0 /10

Credit Risk **BBB** →

Bloomberg **SFPI FP Equity**

Reuters **SFPI.PA**



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PERF	1w	1m	3m	12m
SFPI Group	5.68%	16.6%	57.4%	118%
Building Prod. & Materials	1.86%	6.07%	15.1%	53.8%
STOXX 600	0.97%	3.95%	9.04%	22.2%

Last updated: 04/06/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	5.82	10.9	10.2	8.96
Dividend yield (%)	4.45	2.41	2.59	2.78
EV/EBITDA(R) (x)	2.90	4.51	4.12	3.52
Adjusted EPS (€)	0.23	0.25	0.27	0.30
Growth in EPS (%)	44.5	6.79	7.33	13.5
Dividend (€)	0.06	0.07	0.07	0.08
Sales (€M)	499	543	567	588
EBIT margin (%)	5.41	6.40	7.00	7.28
Attributable net profit (€M)	19.8	22.6	24.4	27.9
ROE (after tax) (%)	9.57	9.95	9.93	10.7
Gearing (%)	-16.0	-26.7	-32.1	-35.1

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

structurally highly-competitive and hinges on a number of incentives to cut energy bills, has been pulled up by demand from households. The division relies on a number of discrete legal entities which have been made more efficient by concentrating manufacturing and relying heavily on the online channel with a fair degree of success (21% of revenues up from 14%). With the French business likely to be further propped up by the French government accelerating support to energy saving household spending, the outlook is brisk. This should extend well beyond 2022 with normalised top-line growth now seen at 5% but the recurring ebit margin liable to encounter further competition thus sticking at around 2.5% or so.

Industry

The two industrial lines of business cater for 30% or so of the group's top line. They are fully BtoB type businesses.

The first, NEU-JFK is about HVAC (heating, ventilation and air-conditioning). 2020 was saved through extra capex and cost control but ended with a very full orderbook meaning that the near term future is promising. The division also made a reputational splash with an air purification system able to deal with viruses. This appears to be flying off the shelves at €5k a pop. We assume expect ebit margins to revert to the 6% last seen in 2015.

The second business is about heat exchangers for industry. This unit managed to preserve its 10% Ebit margin in the crisis and seems able to retain those with a full order book. It too is contemplating the potential of a hydrogen value chain that could be the next big thing supported by Europe as part of its attempts to go carbon light.

Across business checks

As is clear across many industries, capacity squeezes on one side and strong demand driven by inventory rebuilding on the other are seeing prices zoom higher. AlphaValue takes the view that this won't last but will most certainly lead to input price hikes for SFPI by H2-2021. It is not clear that SFPI will be able to pass these hikes on as it operates in rather competitive businesses. That is the main reason why the exceptionally high operating margins over H2-2020 are bound to remain just that, exceptional.

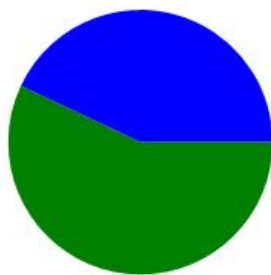
The semi conductor shortage should be irrelevant for the group as the control units of its various final products do not need top-of-the-range micro-processors or controllers.

SFPI reasonably expects its working capital requirements to shoot up as the business normalises. This is why it will keep its cash dry and not commit to (too expensive anyway) external growth.

■ Impact

The excellent H2-2020 and strong start to 2021 lead us to anticipate sales of €543m admittedly only marginally above the perennially cautious management guidance of €540m. This caution is supported by the fact that logistics and supply chains may be a brake to filling up underlying robust demand. A streamlined cost base and hopefully contained input inflation lead us to raise our 2021 and 2022 earnings forecasts by c.15%.

Sales by Geography



■ France (57.0%)
■ Other (43.0%)

Consolidated P&L Accounts

	12/20A	12/21E	12/22E
Sales	€M 499	543	567
Change in sales	% -11.4	8.84	4.35
Change in staff costs	% -9.48	4.50	3.47
EBITDA	€M 48.7	55.9	59.7
EBITDA(R) margin	% 9.76	10.3	10.5
Depreciation	€M -20.2	-21.0	-21.5
Underlying operating profit	€M 28.6	34.9	38.2
Operating profit (EBIT)	€M 27.0	32.2	35.5
Net financial expense	€M 3.20	-0.20	-0.20
of which related to pensions	€M	-0.97	-0.99
Exceptional items & other	€M		
Corporate tax	€M -10.5	-9.55	-11.0
Equity associates	€M 0.16	0.20	0.20
Minority interests	€M -0.11	-0.11	-0.11
Adjusted attributable net profit	€M 23.0	24.6	26.4
NOPAT	€M 20.1	25.3	27.7

Cashflow Statement

	12/20A	12/21E	12/22E
EBITDA	€M 48.7	55.9	59.7
Change in WCR	€M 17.4	-0.55	-4.79
Actual div. received from equity holdi...	€M 0.00	0.00	0.00
Paid taxes	€M -10.2	-9.55	-11.0
Exceptional items	€M		
Other operating cash flows	€M -1.00	-1.00	-1.00
Total operating cash flows	€M 54.9	44.8	42.9
Capital expenditure	€M -11.4	-18.5	-19.3
Total investment flows	€M -11.7	-18.5	-24.3
Net interest expense	€M 3.20	-0.20	-0.20
Dividends (parent company)	€M 0.00	-5.96	-6.46
Dividends to minorities interests	€M -0.10	-0.10	-0.10
New shareholders' equity	€M -1.20		
Total financial flows	€M 1.35	-5.28	-31.1
Change in cash position	€M 44.5	21.1	-12.5
Free cash flow (pre div.)	€M 46.6	26.2	23.4

Per Share Data

		12/20A	12/21E	12/22E
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	€	0.23	0.25	0.27
Restated NAV per share	€			
Net dividend per share	€	0.06	0.07	0.07

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 4.23	35%	■ IMI
NAV/SOTP per share	€ 5.03	20%	■ Travis Perkins
EV/Ebitda	€ 5.40	20%	■ Alfa Laval
P/E	€ 5.40	10%	■ GEA Group
Dividend Yield	€ 3.47	10%	
P/Book	€ 5.40	5%	
TARGET PRICE	€ 4.73	100%	

NAV/SOTP Calculation

Balance Sheet

	12/20A	12/21E	12/22E
Goodwill	€M 47.0	47.0	47.0
Total intangible	€M 52.8	52.8	52.8
Tangible fixed assets	€M 78.4	80.0	81.6
Financial fixed assets	€M 2.40	2.45	2.45
WCR	€M 110	110	115
Other assets	€M 45.3	46.2	46.2
Total assets (net of short term liab.)	€M 309	315	322
Ordinary shareholders' equity	€M 214	239	252
Quasi Equity & Preferred	€M		
Minority interests	€M 1.60	2.00	1.63
Provisions for pensions	€M 66.5	67.0	67.9
Other provisions for risks and liabilities	€M 9.80	10.00	15.0
Total provisions for risks and liabilities	€M 76.3	77.0	82.9
Tax liabilities	€M 9.10	9.28	9.47
Other liabilities	€M 61.0	62.2	63.4
Net debt (cash)	€M -53.3	-74.4	-87.3
Total liab. and shareholders' equity	€M 309	315	322

Capital Employed

	12/20A	12/21E	12/22E
Capital employed after depreciation	€M 243	245	252

Profits & Risks Ratios

		12/20A	12/21E	12/22E
ROE (after tax)	%	9.57	9.95	9.93
ROCE	%	8.29	10.3	11.0
Gearing (at book value)	%	-16.0	-26.7	-32.1
Adj. Net debt/EBITDA(R)	x	-1.09	-1.33	-1.46
Interest cover (x)	x	-8.92	-45.1	-48.4

Valuation Ratios

		12/20A	12/21E	12/22E
Reference P/E (benchmark)	x	5.82	10.9	10.2
Free cash flow yield	%	34.8	9.76	8.74
P/Book	x	0.63	1.12	1.07
Dividend yield	%	4.45	2.41	2.59

EV Calculation

		12/20A	12/21E	12/22E
Market cap	€M	134	268	268
+ Provisions	€M	76.3	77.0	82.9
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-67.9	-92.4	-105
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	2.40	2.45	2.00
+ Minority interests (fair value)	€M	1.60	2.00	2.00
= EV	€M	142	252	246
EV/EBITDA(R)	x	2.90	4.51	4.12
EV/Sales	x	0.28	0.46	0.43

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 04/06/2021.