



# SFPI

Misc. Bldg &amp; Construct Prod / France

## SFPI disappoints in 2018 but prepares its future

Earnings/sales releases - 24/04/2019

**SFPI 2018 earnings fell short of expectations. The key highlight of FY18 is that SFPI Group sought to simplify its structure in mid-2018 by submitting a simplified tender offer (OPAS) on 10% of DOM Security (oversubscribed) and then merging with DOM Security through a stock exchange. This prepares the group for future profits.**

### Fact

#### Key information

- Revenue increased by 9% on a reported basis and by 3.4% on a lfl basis (vs 2.7% in FY17).
- Gross margin decreased by 190bp from 60.2% in FY17 to 58.3% in FY18.
- Current operating income decreased by 7%.
- Operating income was impacted by some €3.8m of exceptional items (of which €2.7m from the merger).
- Tax rate was 37.2% vs 30.9% in FY17 notably because of the change in tax rate on deferred tax assets.
- Adjusted net income is some 15% below our estimate.
- Dividend proposal €0.05 per share for FY18 vs €0.06 per share in FY17 came as a surprise.

### Analysis

#### The positives behind this disappointing earnings release are:

- The organic increase in revenue is robust at 3.4%.
- Despite serious raw material inflation, the company managed to keep a decent current operating income.
- As a percentage of sales, labour costs decreased slightly, showing proper cost control.

#### By division

- DOM Security: this division registered a 4.9% increase in lfl sales. This confirmed, if needed, that DOM Security is the gem of the company, so that the ridding out of minorities through the 2018 merger was a proper step. The business managed a 6.3% increase in current operating income in spite of higher capex(€10.5m vs usually €5m) /depreciation due to the building of a new plant.
- MAC disappointed with a halving of operating earnings: 1/ it suffered from volume decrease in Q4 due to uncertainties about the French tax credit for energy transition (CITE) and pricing pressure due to starker competition; 2/ raw material prices increased; and 3/ French social unrest had a €1.3m negative impact.
- NEU-JKF: the full consolidation of JKF in FY18 helped drive revenues up 32.9%, or 7% organically. Profits did not match this gain.
- MMD saw revenues up 6% and operating income up 10%.

#### Merger and acquisitions



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AlphaValue is contracted by SFPI Group to provide equity research on SFPI Group, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

### Buy Upside: 80.1%

Target Price (6 months)	€ 4.16
Share Price	€ 2.31
Market Cap. €M	229
Price Momentum	<b>GOOD</b>
Extremes 12Months	2.06 ▶ 3.44
Bloomberg	SFPI FP Equity
Reuters	SFPI.PA


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PERF	1w	1m	3m	12m
SFPI Group	-7.60%	0.87%	-3.75%	-25.3%
Building Prod. & Materials	1.01%	11.6%	19.3%	-2.51%
STOXX 600	0.55%	4.07%	10.3%	2.13%

Last updated: 03/03/2019	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)	14.7	13.8	10.1	9.03
Dividend yield (%)	1.96	2.00	3.01	3.37
EV/EBITDA(R) (x)	5.86	5.80	3.65	3.08
Adjusted EPS (€)	0.21	0.22	0.23	0.26
Growth in EPS (%)	4.56	5.83	3.67	12.1
Dividend (€)	0.06	0.06	0.07	0.08
Sales (€M)	504	548	564	579
EBIT margin (%)	6.52	5.92	6.48	7.00
Attributable net profit (€M)	25.2	19.8	22.7	25.4
ROE (after tax) (%)	10.6	9.74	10.0	10.4
Gearing (%)	-29.3	-24.4	-26.9	-31.1

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

- In 2018, SFPI Group sought to simplify its structure by submitting a simplified tender offer (OPAS) on 10% of DOM Security (oversubscribed) and then merging with DOM Security through a stock swap. That raises liquidity on SFPI Group stock from 18.9% to 26.2% which cannot hurt. As the two listings were not justified, SFPI saves on headquarter costs as well.
- Only one company was sold, namely Spomasz (MMD division).
- Acquired growth included the purchase of three companies, namely a 70% stake in Eliot ET Cie (DOM Security), a 74% stake in Italian Antipanic (DOM Security) as well as 100% of Cipriani (MMD). Note that SFPI has call options to raise its stake to 100% in the first two companies.

The global purchase price at €16.9m was partly compensated by the €6.6m collected on Spomasz.

### **A solid business model**

The core of the business model is to target niche markets among the rather slow-growing building and industrial sectors. SFPI Group is a discreet leader in several of its fragmented niche markets. Management has considerable experience when identifying target companies, working out potential synergies, assessing restructuring and operational leverage of acquired companies. It has executed more than 80 (bolt-on) acquisitions since setting up the company in 1985. Through acquisitions, the current management's goal is to diversify outside France.

The business model has been shifting as happened elsewhere to provide more services and more product categories in order to become a solution partner instead of a mere building/ industrial products provider.

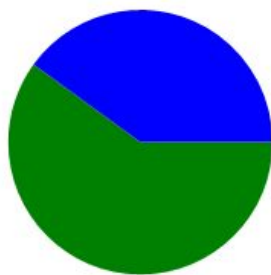
### **Business models differ by division:**

- DOM Security's (which represents c.45% of our NAV) is to design high security, easy to use and control protection solutions.
- MAC's has been to grow its distribution network and build up a following of loyal craftsmen. This is a process that takes decades and explains why MAC is rather slow at growing organically outside France.
- The Industrial division is striving to become a one-stop-shop.

### **■ Impact**

Following this earnings release, we expect to cut our FY18 EPS by some 15%, our FY19 EPS by some 10% and our target price by 10%. We remain convinced that SFPI will outperform in the long run. Our Buy recommendation is unchanged.

## Sales by Geography



■ France (60.0%)  
■ Other (40.0%)

## Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€M	504	548	564
Change in sales	%	6.11	8.62	2.97
Change in staff costs	%	6.37	12.0	-3.85
EBITDA	€M	46.8	48.2	52.8
<b>EBITDA(R) margin</b>	<b>%</b>	<b>9.27</b>	<b>8.80</b>	<b>9.36</b>
Depreciation	€M	-13.9	-15.8	-16.2
Underlying operating profit	€M	32.9	32.5	36.6
<b>Operating profit (EBIT)</b>	<b>€M</b>	<b>34.1</b>	<b>31.5</b>	<b>36.6</b>
Net financial expense	€M	-0.63	-0.67	-1.64
of which related to pensions	€M		-0.83	-0.89
Exceptional items & other	€M			
Corporate tax	€M	-10.3	-10.2	-11.5
Equity associates	€M	0.06	0.07	0.15
Minority interests	€M	-4.18	-0.89	-0.89
<b>Adjusted attributable net profit</b>	<b>€M</b>	<b>18.2</b>	<b>20.6</b>	<b>22.7</b>
NOPAT	€M	23.1	23.4	26.4

## Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€M	46.8	48.2	52.8
Change in WCR	€M	-8.23	-1.64	-2.43
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-8.78	-10.2	-11.5
Exceptional items	€M	0.44		
Other operating cash flows	€M	10.0		
Total operating cash flows	€M	40.2	36.4	38.9
Capital expenditure	€M	-14.3	-16.4	-16.9
Total investment flows	€M	-35.5	-34.4	-16.9
Net interest expense	€M	-0.63	-0.67	-1.64
Dividends (parent company)	€M	-4.38	-5.27	-5.95
Dividends to minorities interests	€M	-1.53	-1.53	-0.30
New shareholders' equity	€M	-4.26		
Total financial flows	€M	9.07	22.9	-7.00
Change in cash position	€M	13.7	34.9	14.9
<b>Free cash flow (pre div.)</b>	<b>€M</b>	<b>25.3</b>	<b>19.3</b>	<b>20.3</b>

## Per Share Data

		12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...)	Mio	87.9	99.3	99.3
Number of diluted shares (average)	Mio	87.7	93.6	99.3
<b>Benchmark EPS</b>	<b>€</b>	<b>0.21</b>	<b>0.22</b>	<b>0.23</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.06</b>	<b>0.06</b>	<b>0.07</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 4.54	35%	■ Saint-Gobain
NAV/SOTP per share	€ 4.42	20%	■ Legrand
EV/Ebitda	€ 4.62	20%	■ Gea Group
P/E	€ 3.25	10%	■ Alfa Laval
Dividend Yield	€ 2.30	10%	■ Rexel
P/Book	€ 4.14	5%	■ Travis Perkins
TARGET PRICE	€ 4.16	100%	■ IMI

### NAV/SOTP Calculation

## Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€M	49.8	50.1	50.1
Total intangible	€M	53.8	54.1	54.1
Tangible fixed assets	€M	72.6	81.3	82.9
Financial fixed assets	€M	39.9	40.7	41.6
WCR	€M	106	108	110
Other assets	€M	17.0	17.0	17.0
Total assets (net of short term liab.)	€M	294	301	306
<b>Ordinary shareholders' equity</b>	<b>€M</b>	<b>189</b>	<b>218</b>	<b>235</b>
Quasi Equity & Preferred	€M			
Minority interests	€M	29.8	0.00	0.00
Provisions for pensions	€M	55.1	59.1	59.8
Other provisions for risks and liabilities	€M	10.7	15.7	16.0
Total provisions for risks and liabilities	€M	65.9	74.8	75.9
Tax liabilities	€M	3.64	3.71	3.79
Other liabilities	€M	56.2	60.3	61.5
<b>Net debt (cash)</b>	<b>€M</b>	<b>-50.4</b>	<b>-55.8</b>	<b>-70.7</b>
Total liab. and shareholders' equity	€M	294	301	306

## Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€M	272	284	289

## Profits & Risks Ratios

		12/17A	12/18E	12/19E
<b>ROE (after tax)</b>	<b>%</b>	<b>10.6</b>	<b>9.74</b>	<b>10.0</b>
ROCE	%	8.47	8.23	9.13
<b>Gearing (at book value)</b>	<b>%</b>	<b>-29.3</b>	<b>-24.4</b>	<b>-26.9</b>
Adj. Net debt/EBITDA(R)	x	-1.08	-1.16	-1.34
Interest cover (x)	x	52.4	-212	48.8

## Valuation Ratios

		12/17A	12/18E	12/19E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>14.7</b>	<b>13.8</b>	<b>10.1</b>
Free cash flow yield	%	9.42	6.41	8.85
P/Book	x	1.42	1.38	0.98
<b>Dividend yield</b>	<b>%</b>	<b>1.96</b>	<b>2.00</b>	<b>3.01</b>

## EV Calculation

		12/17A	12/18E	12/19E
Market cap	€M	269	302	229
+ Provisions	€M	65.9	74.8	75.9
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-50.4	-55.8	-70.7
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	39.9	40.7	41.6
+ Minority interests (fair value)	€M	29.8	0.00	0.00
= EV	€M	274	280	193
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>5.86</b>	<b>5.80</b>	<b>3.65</b>
EV/Sales	x	0.54	0.51	0.34

Analyst : Felix Brunotte, Changes to Forecasts : 03/03/2019.