



SFPI

Misc. Bldg & Construct Prod / France

As fit as possible

Earnings/sales releases - 20/05/2020

2020 worries will obviously wipe out all the 2019 solid achievements. Even more so since the owner-manager went for substantial book cleaning. SFPI comes out as an ever-more robust no-nonsense proposition in safety-locks and a scarce one, able to face its own COVID-19 disruptions.

Fact

SFPI released its summary accounts on 23 April, now complemented by exhaustive earnings. The summary view shows sales at €562.5m, below expectations (€565m) with limited growth (+2.3%) driven by acquisitions.

The recurring part of the operating income is, conversely, somewhat above expectations (€25m) at €30.6m, implying a flattish margin. This and a strong FCF generation should have been music to investors' ears but the group decided to both amortise stale layers of goodwill and forward restructuring costs so that the bottom line drops to a measly €3.8m (vs. €13.7m in 2018 for the group share). As a reminder, goodwill amortisation is not tax deductible in France.

SFPI's robust accounting hardly impacts its balance sheet with shareholders' funds at €199m (only modestly impacted by actuarial negatives on pension matters) and a net cash position at €15m.

The controlling family owner and manager decided to pass the 2019 dividend to prepare for the 2020 unknowns.

Analysis

On the financial front, 2019 at SFPI is a case of healthy conservatism. The business is certainly not growing fast but makes the right decisions including by making the tough ones without delays when assets are not performing as expected.

As a reminder, while the small engineering group with a focus nowadays on protection and safety is growing largely by acquisitions, it keeps a keen eye on individual companies and their individual financial performance so that laggards are not permitted to remain so. The common sense attached to direct ownership will not want to procrastinate.

Solidity in Safety

2019 delivered on the promise to turn safety & protection related operations into a prime business. This is primarily accounted for by the DOM subsidiary (36% of group sales, mostly locks) and a fair proportion of those of MAC which encompasses a number of smaller legal entities with exposure to closures and safety products dedicated to construction. These businesses are briskly going down the digital route when it comes to marketing with surprising successes for B2B operations. This bodes well for the near-term future and clearly in a COVID-charged context.

The balance of the business is related to engineering capabilities (air processing, heat exchangers) aimed at industry. While business has been flatlining somewhat as a whole, management decided to write off c. €10m in goodwill and is going through a bout of pre-emptive restructuring.



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Buy	Upside: 168%
Target Price (6 months)	€ 3.07
Share Price	€ 1.15
Market Cap. €M	114
Price Momentum	UNFAVORABLE
Extremes 12Months	0.83 ▶ 2.30
Bloomberg	SFPI FP Equity
Reuters	SFPI.PA


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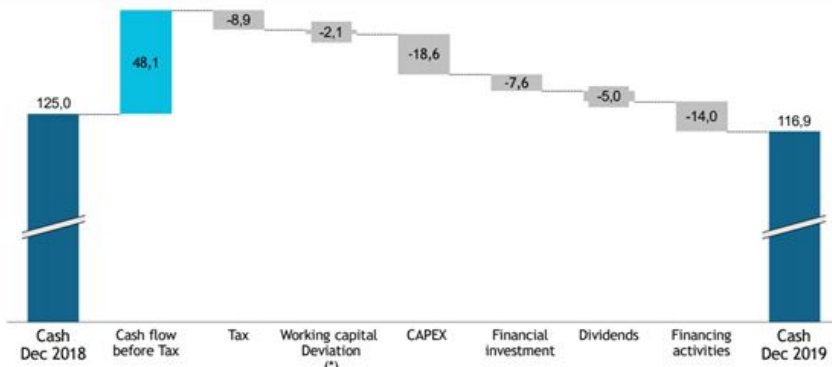

PERF	1w	1m	3m	12m
SFPI Group	-7.29%	-0.43%	-29.8%	-46.0%
Building Prod. & Materials	3.11%	6.47%	-20.8%	-15.2%
STOXX 600	-0.32%	1.81%	-21.8%	-11.0%

Last updated: 08/02/2020	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	15.9	13.2	5.52	4.56
Dividend yield (%)	1.83	2.72	6.11	6.99
EV/EBITDA(R) (x)	6.03	4.66	1.77	1.30
Adjusted EPS (€)	0.17	0.17	0.21	0.25
Growth in EPS (%)	-17.5	-2.76	24.4	20.9
Dividend (€)	0.05	0.06	0.07	0.08
Sales (€M)	550	565	585	601
EBIT margin (%)	5.52	4.43	5.28	6.17
Attributable net profit (€M)	13.7	16.6	20.6	24.9
ROE (after tax) (%)	6.94	7.80	9.04	10.1
Gearing (%)	-19.1	-14.6	-18.2	-22.4

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

From a fund flow standpoint, 2019 was as well a perfectly decent year. The following bridge chart is helpful in this respect with the gross cash position essentially unchanged at €117m.

Cash generation bridge – 2019



(*) excluding change in working capital from discontinuing operations

It is worth pointing out that the parent company's own financial position is a healthy one with no net debt. It collected c. €10m from its subsidiaries in 2019 and paid out c.€5m (2018 dividend).

2020: shock ready

The COVID-related drop in business was felt as soon as mid March 2020 so that Q1 sales were down to €87m vs. €110m in 2020. April and May are expected to record only very modest sales in non-French business (40% of total) where the lockdown has been less tight and essentially close to zero in France.

While June was expected to see a degree of recovery, the business is marred by logistical issues meaning that installers just cannot work.

We have allowed for the following 2020 business development (a best guess likely to change every month), i.e. a 23% drop in sales.

Guesstimate of quarterly revenues

In €m	Q1	Q2	Q3	Q4	Total
2019 revenues	110	177	124	150	561
2020 revenues	87	92	100	150	429
% change	-21%	-48%	-19%	0%	-23%

On the cost front, the French staff (c. 2,400) has been put on short work presumably on c. two months with the bulk of the cost to be supported by the French labour protection system. To get a sense of magnitude, this would be a €9m monthly charge avoided (c. €20m in all?). Still the 12-month cost base is c. €420m, of which a good half must be fixed so that it would be a surprising development if SFPI avoided losses at the EBIT level in 2020. We assume €0m at the time of writing

The prime issue and prime unknown is how deep the scars will be. While the industry-related business may revert to nominal in 12 months, it is anybody's guess when it comes to how the office and residential construction markets will react.

Big ticket items spending (say new closures) may be pushed back but cheap credit and/or subsidies may be supportive.

To be on the safe side, we have assumed that industry-related clients would be back to pre-crisis levels in summer 2021, while we assume that the process will take 24 months (summer 2022) to be ticking at 2019 levels. All very arbitrary indeed.

Funding: so far so cautious

SFPI's management preference for a sterling balance sheet is an obvious strength to face COVID unknowns. The message sent by means of a cancelled dividend is clear that management will take no chance. It is also good that pre-emptive restructuring / reorganisation of sub-businesses has been provisioned in 2019. Hopefully, operations are thus as robust and lean as wished for to face the operating unknowns of 2020.

Funding issues boil down to unavoidable working capital tensions but on a quarterly basis which is too granular for external observers to judge. It is worth remembering that SFPI does not make a living from its suppliers as it values the quality of its supply chains so that it is bound to bear the strain of missing clients (a few late payers so far) and continuing running costs

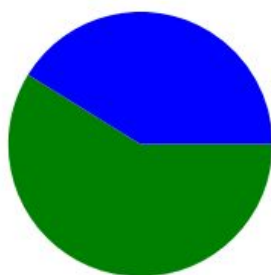
As a first dab at the 2020 stress, we expect the FCF generation to be beefed up by falling receivables in relation to the drop in sales so that its net cash position would expand to €25-30m, up c. €10-15m. Obviously, the reverse is bound to happen in 2021 with cash being swallowed by working capital requirements.

■ Impact

We amply cut our EPS from pre-COVID expectations at €0.21 and €0.25 for 2020 and 2021, respectively, to nil and c.€0.15-0.17, respectively. For the record, adjusted EPS for 2019 retreated from an expected €0.17 to €0.16.

On the balance sheet front, we do not anticipate unbearable tensions as SFPI might free up some working capital.

Sales by Geography



■ France (58.8%)
■ Other (41.2%)

Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	€M	550	565	585
Change in sales	%	8.98	2.70	3.65
Change in staff costs	%	8.16	4.01	2.67
EBITDA	€M	45.5	45.0	51.4
EBITDA(R) margin	%	8.27	7.96	8.78
Depreciation	€M	-15.1	-19.9	-20.5
Underlying operating profit	€M	30.4	25.0	30.9
Operating profit (EBIT)	€M	26.6	25.3	30.9
Net financial expense	€M	-0.54	-0.80	-0.45
of which related to pensions	€M		-0.82	-0.88
Exceptional items & other	€M			
Corporate tax	€M	-9.75	-8.09	-10.1
Equity associates	€M	0.02	0.15	0.20
Minority interests	€M	-2.64	0.00	0.00
Adjusted attributable net profit	€M	16.1	16.6	20.6
NOPAT	€M	21.3	18.2	22.5

Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	€M	45.5	45.0	51.4
Change in WCR	€M	-2.72	-3.06	-2.93
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-9.38	-8.09	-10.1
Exceptional items	€M	-1.41		
Other operating cash flows	€M	-0.84		
Total operating cash flows	€M	31.1	33.8	38.4
Capital expenditure	€M	-16.1	-19.4	-19.9
Total investment flows	€M	-25.3	-19.4	-19.9
Net interest expense	€M	-0.54	-0.80	-0.45
Dividends (parent company)	€M	-5.27	-4.97	-5.96
Dividends to minorities interests	€M	-1.33	-0.30	-0.30
New shareholders' equity	€M	-18.0		
Total financial flows	€M	2.83	-5.24	-5.83
Change in cash position	€M	8.61	9.19	12.7
Free cash flow (pre div.)	€M	14.5	13.6	18.1

Per Share Data

		12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Mio	99.3	99.3	99.3
Number of diluted shares (average)	Mio	93.6	99.3	99.3
Benchmark EPS	€	0.17	0.17	0.21
Restated NAV per share	€			
Net dividend per share	€	0.05	0.06	0.07

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 3.86	35%	■ IMI
NAV/SOTP per share	€ 3.46	20%	■ Travis Perkins
EV/Ebitda	€ 2.29	20%	■ Alfa Laval
P/E	€ 2.29	10%	■ GEA Group
Dividend Yield	€ 2.29	10%	
P/Book	€ 2.29	5%	
TARGET PRICE	€ 3.07	100%	

NAV/SOTP Calculation

Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	€M	53.6	53.6	53.6
Total intangible	€M	60.4	60.4	60.4
Tangible fixed assets	€M	83.4	85.1	86.8
Financial fixed assets	€M	41.3	42.1	42.9
WCR	€M	106	109	112
Other assets	€M	16.8	16.8	16.8
Total assets (net of short term liab.)	€M	320	325	331
Ordinary shareholders' equity	€M	205	220	236
Quasi Equity & Preferred	€M			
Minority interests	€M	1.87	0.00	0.00
Provisions for pensions	€M	59.7	58.9	59.7
Other provisions for risks and liabilities	€M	9.71	9.90	10.1
Total provisions for risks and liabilities	€M	69.4	68.8	69.8
Tax liabilities	€M	7.64	7.79	7.95
Other liabilities	€M	63.9	65.2	66.5
Net debt (cash)	€M	-27.5	-36.7	-49.4
Total liab. and shareholders' equity	€M	320	325	331

Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	€M	291	296	302

Profits & Risks Ratios

		12/18A	12/19E	12/20E
ROE (after tax)	%	6.94	7.80	9.04
ROCE	%	7.32	6.16	7.45
Gearing (at book value)	%	-19.1	-14.6	-18.2
Adj. Net debt/EBITDA(R)	x	-0.61	-0.82	-0.96
Interest cover (x)	x	56.8	-1,076	-71.3

Valuation Ratios

		12/18A	12/19E	12/20E
Reference P/E (benchmark)	x	15.9	13.2	5.52
Free cash flow yield	%	5.32	6.22	15.9
P/Book	x	1.33	1.00	0.48
Dividend yield	%	1.83	2.72	6.11

EV Calculation

		12/18A	12/19E	12/20E
Market cap	€M	272	219	114
+ Provisions	€M	69.4	68.8	69.8
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-27.5	-36.7	-49.4
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	41.3	42.1	42.9
+ Minority interests (fair value)	€M	1.87	0.00	0.00
= EV	€M	274	209	91.2
EV/EBITDA(R)	x	6.03	4.66	1.77
EV/Sales	x	0.50	0.37	0.16

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 08/02/2020.