# SFPI

Misc. Bldg & Construct Prod / France

## Disappointing 2022 heralds a more tightly managed ship

Earnings/sales releases - 26/04/2023

**Pierre-Yves GAUTHIER**
buildingmaterials@alphavalue.eu
+33 (0) 1 70 61 10 50
corporate.alphavalue.com



| **Buy** | **Upside: 113%** |
|---|---|
| Target Price (6 months) | € 4.80 |
| Share Price | € 2.25 |
| Market Cap. €M | 223 |
| Price Momentum | UNFAVORABLE |
| Extremes 12Months | 2.02 ▸ 2.99 |
| Sustainability score | 2.8 /10 |
| Credit Risk | BBB |
| Bloomberg | SFPI FP Equity |
| Reuters | SFPI.PA |

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| PERF | 1w | 1m | 3m | 12m |
|---|---|---|---|---|
| SFPI Group | -9.27% | -5.66% | -4.26% | -23.0% |
| Building Prod. & Materials | -0.97% | 3.17% | 3.64% | 4.18% |
| STOXX 600 | -0.33% | 6.13% | 3.32% | 4.94% |

| Last updated: 10/10/2022 | 12/21A | 12/22E | 12/23E | 12/24E |
|---|---|---|---|---|
| Adjusted P/E (x) | 7.99 | 8.70 | 6.05 | 5.96 |
| Dividend yield (%) | 2.98 | 3.05 | 3.78 | 4.00 |
| EV/EBITDA(R) (x) | 3.89 | 4.32 | 3.32 | 3.06 |
| Adjusted EPS (€) | 0.34 | 0.30 | 0.37 | 0.38 |
| Growth in EPS (%) | 45.1 | -10.3 | 23.4 | 1.52 |
| Dividend (€) | 0.08 | 0.08 | 0.09 | 0.09 |
| Sales (€M) | 569 | 627 | 693 | 707 |
| EBIT margin (%) | 7.66 | 6.73 | 6.65 | 6.66 |
| Attributable net profit (€M) | 32.5 | 26.8 | 32.3 | 32.8 |
| ROE (after tax) (%) | 14.5 | 10.9 | 12.1 | 11.5 |
| Gearing (%) | -25.5 | -17.9 | -11.4 | -14.7 |

Company Valuation - Company Financials

**SFPI's FY2022 disappointed. While it firmly stuck to its top-line objectives, margins were squeezed by fast(er) rising costs and a €4m mighty provisioning for a refoundation of its MAC division (windows, awnings, etc.). Accelerated capex is to follow. Earnings dropped by c. a third to €22m. We were banking on €26.8m. While management confirms its entrepreneurial skills (more capex, a stream of useful acquisitions, proactive deployment of ESG metrics), our 2023 earnings expectations need to be trimmed.**

### Fact

SFPI published a net profit down 33% on sales up 10.5%, or 7% pro forma. The following table provides the detail with discussion in the Analysis section below.

Despite a sharply-contracting FCF generation (on account of working capital needs), the balance sheet remains remarkably healthy with a €25m net cash position.

Dividend is trimmed to €0.05 from €0.08 in 2021 to reflect lower earnings.

| M€ | 2021 | % of sales | 2022 | % of sales |
|---|---|---|---|---|
| **Sales** | **569,0** | | **629,1** | |
| Gross margin | 338,5 | 59,5% | 361,4 | 57,4% |
| Payroll expenses | (185,3) | 32,6% | (201,3) | 32,0% |
| Other operating costs | (86,9) | 15,3% | (98,1) | 15,6% |
| Taxes | (4,2) | | (4,6) | |
| Depreciation | (18,5) | 3,2% | (21,4) | 3,4% |
| **Recurring operating income** | **43,6** | **7,7%** | **36,0** | **5,7%** |
| Non-recurring cost and amortization | 1,0 | | (3,9) | |
| **Operating income** | **44,6** | **7,8%** | **32,1** | **5,1%** |
| Financial Charges | (0,4) | | (0,2) | |
| Corporate Income Tax | (12,0) | | (10,2) | |
| **Consolidated Net Income** | **32,4** | **5,7%** | **21,8** | **3,5%** |
| **Group share** | **32,2** | | **22,0** | |

### Analysis

In a summary analysis, SFPI's earnings gave way to higher materials costs (gross margin down to 57.4% from 59.5%) and a €4m one-off to rejig the MAC business. The payroll looks comparably under control.

The gross margin erosion is above our mid-year expectations and somewhat at odds with the ongoing talk of (admittedly much larger) capital goods and construction materials stocks. Ergo, SFPI's bargaining power is less. Its MAC division notably suffered a 4% drop in its gross margin to 52.4%. There is only so much that one can expect to pass through to consumers.

The €4m provision aimed at rethinking MAC's industrial operations covers an inside-out review of the 11 industrial sites to optimise productivity, logistics and working conditions. This will be complemented by faster capex plans up to 2025. This rejigging of industrial assets strikes us as indicative of SFPI tightening up of its management of of its industrial assets, with upgrades to industrial tools and working practices now required to defend margins. Productivity gains can be substantial as the MAC industrial set-up was not optimal. Underlying markets for

MAC (housing renovation, amply subsidised) do not seem to be an issue. However pro forma sales up 10% have been driven by prices, indicating that end markets may not accept much more and that indeed MAC needs to work on its costs. Separately, it may be that the discretionary bit of MAC's offer (blinds, awnings) starts to feel even more the pressure of households' tighter pockets.

Other divisions fared comparably a bit better. DOM (everything about locks) wrote down assets for €3.7m but continued to invest in new technologies such as cloud-based access control. On the industrial front, Neu-JFK (HVAC systems for air cleaning) made brisk business out of heat exchangers that were sought after in the energy crisis. MMD (heat exchangers and sterilisation (pasteurisation) lines) also held its turf well and closed the year with still very strong orderbooks.

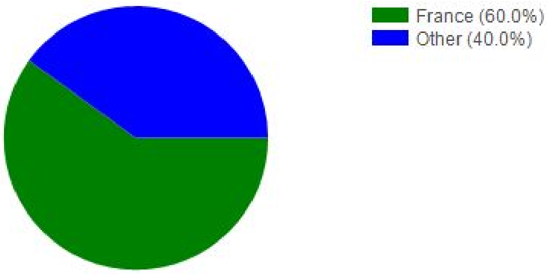
**Balance sheet: only a bit less comfortable**

SFPI is driven utterly cautiously, and rightly so. The surge in working capital requirement, in capex and an eroding EBITDA have bitten sharply into the net cash position which retreats to €25m vs. €75m a year earlier. This was bound to happen as SFPI had to pay up or shut up vis a vis suppliers which not only raised prices above their own inflation but also argued that they were short of goods. Hopefully, such excesses on the part of suppliers will be down. As a reminder, higher prices do inflate inventories too and bite in working capital terms.

## Impact

The FY2022 management comments suggest that the company is on a strong footing but will firm up that footing even more by investing more heavily into a simpler industrial set-up where needed, in spite of the near-term cash costs. AlphaValue tends to hold a positive view of businesses with a keen eye on preparing for their future. A methodological group approach to ESG matters seems to have helped unveil corners of the business which could do with upgrades. This may lead the small industrial conglomerate to move on to tigher management of its assets, i.e. with a keener search for synergies. It is unlikely to be anything but positive. In the meantime, our forecasts clearly need to be trimmed for 2023 by c. 15%.

## Sales by Geography




## Valuation Summary

| Benchmarks | Value | Weight |
|---|---|---|
| DCF | € 4.35 | 35% |
| NAV/SOTP per share | € 6.55 | 20% |
| EV/Ebitda | € 4.50 | 20% |
| P/E | € 4.50 | 10% |
| Dividend Yield | € 3.94 | 10% |
| P/Book | € 4.50 | 5% |
| TARGET PRICE | € 4.80 | 100% |

NAV/SOTP Calculation

**Largest comparables**

- dormakaba
- GEA Group
- Alfa Laval
- IMI
- Travis Perkins

## Consolidated P&L Accounts

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| Sales | €M | 569 | 627 | 693 |
| Change in sales | % | 14.0 | 10.3 | 10.4 |
| Change in staff costs | % | 10.0 | 11.3 | 12.7 |
| EBITDA | €M | 62.1 | 59.9 | 66.0 |
| **EBITDA(R) margin** | **%** | **10.9** | **9.55** | **9.53** |
| Depreciation | €M | -18.1 | -20.0 | -20.0 |
| Underlying operating profit | €M | 43.9 | 39.9 | 46.0 |
| **Operating profit (EBIT)** | **€M** | **44.9** | **36.7** | **43.3** |
| Net financial expense | €M | -0.41 | -0.20 | -0.20 |
| of which related to pensions | €M | | -0.95 | -0.97 |
| Exceptional items & other | €M | | | |
| Corporate tax | €M | -12.0 | -9.70 | -10.8 |
| Equity associates | €M | 0.20 | 0.20 | 0.20 |
| Minority interests | €M | -0.22 | -0.22 | -0.22 |
| **Adjusted attributable net profit** | **€M** | **32.2** | **27.8** | **34.3** |
| NOPAT | €M | 30.9 | 28.8 | 33.1 |

## Cashflow Statement

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| EBITDA | €M | 62.1 | 59.9 | 66.0 |
| Change in WCR | €M | -11.7 | -28.1 | -10.7 |
| Actual div. received from equity holdi... | €M | 0.00 | 0.00 | 0.00 |
| Paid taxes | €M | -11.6 | -9.70 | -10.8 |
| Exceptional items | €M | | | |
| Other operating cash flows | €M | 4.50 | -1.00 | -1.00 |
| Total operating cash flows | €M | 43.3 | 21.1 | 43.5 |
| Capital expenditure | €M | -10.7 | -21.3 | -23.6 |
| Total investment flows | €M | -11.1 | -51.3 | -28.6 |
| Net interest expense | €M | -0.41 | -0.20 | -0.20 |
| Dividends (parent company) | €M | -5.68 | -7.95 | -7.95 |
| Dividends to minorities interests | €M | -0.10 | -0.10 | -0.10 |
| New shareholders' equity | €M | -10.0 | 0.00 | 0.00 |
| Total financial flows | €M | -38.7 | 27.5 | -7.28 |
| Change in cash position | €M | -6.51 | -2.81 | 7.71 |
| **Free cash flow (pre div.)** | **€M** | **32.1** | **-0.48** | **19.8** |

## Per Share Data

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| No. of shares net of treas. stock (year... | Mio | 92.2 | 92.2 | 92.2 |
| Number of diluted shares (average) | Mio | 95.7 | 92.2 | 92.2 |
| **Benchmark EPS** | **€** | **0.34** | **0.30** | **0.37** |
| Restated NAV per share | € | | | |
| **Net dividend per share** | **€** | **0.08** | **0.08** | **0.09** |

## Balance Sheet

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| Goodwill | €M | 46.8 | 46.8 | 46.8 |
| Total intangible | €M | 51.0 | 51.0 | 51.0 |
| Tangible fixed assets | €M | 79.1 | 80.7 | 82.3 |
| Financial fixed assets | €M | 2.90 | 2.96 | 3.02 |
| WCR | €M | 129 | 157 | 168 |
| Other assets | €M | 39.3 | 40.1 | 40.9 |
| Total assets (net of short term liab.) | €M | 320 | 381 | 395 |
| **Ordinary shareholders' equity** | **€M** | **233** | **259** | **275** |
| Quasi Equity & Preferred | €M | | | |
| Minority interests | €M | 1.35 | 1.63 | 1.63 |
| Provisions for pensions | €M | 62.1 | 45.2 | 46.1 |
| Other provisions for risks and liabilities | €M | 12.2 | 13.0 | 15.0 |
| Total provisions for risks and liabilities | €M | 74.3 | 58.2 | 61.1 |
| Tax liabilities | €M | 8.81 | 15.0 | 15.3 |
| Other liabilities | €M | 68.6 | 75.0 | 76.5 |
| **Net debt (cash)** | **€M** | **-65.2** | **-27.6** | **-35.3** |
| Total liab. and shareholders' equity | €M | 320 | 381 | 395 |

## Capital Employed

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| Capital employed after depreciation | €M | 262 | 291 | 304 |

## Profits & Risks Ratios

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| **ROE (after tax)** | **%** | **14.5** | **10.9** | **12.1** |
| ROCE | % | 11.8 | 9.88 | 10.9 |
| **Gearing (at book value)** | **%** | **-25.5** | **-17.9** | **-11.4** |
| Adj. Net debt/EBITDA(R) | x | -1.05 | -0.46 | -0.54 |
| Interest cover (x) | x | 106 | -53.4 | -59.9 |

## Valuation Ratios

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| **Reference P/E (benchmark)** | **x** | **7.99** | **8.70** | **6.05** |
| Free cash flow yield | % | 13.0 | -0.20 | 9.54 |
| P/Book | x | 1.06 | 0.93 | 0.75 |
| **Dividend yield** | **%** | **2.98** | **3.05** | **3.78** |

## EV Calculation

| | | 12/21A | 12/22E | 12/23E |
|---|---|---|---|---|
| Market cap | €M | 248 | 242 | 207 |
| + Provisions | €M | 74.3 | 58.2 | 61.1 |
| + Unrecognised acturial losses/(gains) | €M | 0.00 | 0.00 | 0.00 |
| + Net debt at year end | €M | -78.9 | -41.3 | -49.3 |
| + Leases debt equivalent | €M | 0.00 | 0.00 | 0.00 |
| - Financial fixed assets (fair value) | €M | 2.90 | 2.00 | 2.00 |
| + Minority interests (fair value) | €M | 1.35 | 2.00 | 2.00 |
| = EV | €M | 241 | 259 | 219 |
| **EV/EBITDA(R)** | **x** | **3.89** | **4.32** | **3.32** |
| EV/Sales | x | 0.42 | 0.41 | 0.32 |

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 10/10/2022.