



SFPI

Misc. Bldg & Construct Prod / France

Dedicated to safety for people, goods and the environment

Initiation cov. - 05/12/2018

The core of SFPI Group's business model is to target niche markets among the rather moderately-growing building and industrial sectors.

SFPI Group has a c.€230m market cap.

We initiate coverage of SFPI Group with a Buy recommendation and a c.70% upside.

Following the success of the merger-absorption of DOM Security, we believe that the company now has greater firepower and could rapidly announce new bolt-on acquisitions.

Business model and market cap

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

Moreover, the strength of the business model is to provide more and more services and product categories in order to become a solution partner instead of a mere building/ industrial products provider.

Despite the fact that the group consolidates more than 80 companies, with very different brand names, there is a clear willingness to consolidate the number of brands.

Digitalisation is also at the heart of SFPI Group's investments in future growth.

The business model differs by division:

- There are three important points to be noted about the business model of DOM Security (which represents c.45% of our NAV): what it designs has high security features, are easy to use and people should feel by using its products to be in control.
- One of the strengths of MAC has been the constant development of its distribution network. The company has built up a significant network of loyal craftsmen. This is a process that takes decades and explains why MAC is rather slow at growing organically outside France.
- On its side, the Industrial division is striving to become a one-stop-shop.

Overall, SFPI Group, based on the fact that the construction industry is a local industry, believes that it is not necessary to be of extremely large size to be efficient.

SFPI Group has a c.€230m market cap.

Recommendation, upside and main earnings drivers

We initiate coverage of SFPI Group with a Buy recommendation and a c.70% upside.



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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: 69.7%
Target Price (6 months)	€ 3.99
Share Price	€ 2.35
Market Cap. €M	233
Price Momentum	UNFAVORABLE
Extremes 12Months	2.35 ▶ 3.49
Bloomberg	SFPI FP Equity
Reuters	SFPI.PA



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PERF	1w	1m	3m	12m
SFPI Group	-6.00%	-17.5%	-28.1%	-22.6%
Building Prod. & Materials	-1.69%	-5.95%	-11.4%	-21.0%
STOXX 600	0.29%	-1.55%	-5.63%	-7.49%

Last updated: 05/12/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	14.7	14.7	10.5	10.1
Dividend yield (%)	1.71	1.96	2.63	3.01
EV/EBITDA(R) (x)	5.89	5.86	4.37	3.71
Adjusted EPS (€)	0.20	0.21	0.22	0.23
Growth in EPS (%)	154	4.56	7.59	3.70
Dividend (€)	0.05	0.06	0.06	0.07
Sales (€M)	475	504	554	571
EBIT margin (%)	6.64	6.52	5.95	6.51
Attributable net profit (€M)	16.8	25.2	20.1	23.1
ROE (after tax) (%)	10.3	10.6	9.91	10.2
Gearing (%)	-33.7	-29.3	-24.1	-26.4

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Main earnings drivers:

- MAC could be slightly impacted by the end of tax credits in the renovation market.
- MAC's performance is mainly driven by energy efficiency gains.
- DOM Security is a late-cyclical business in the buildings industry.
- NEU-JKF should benefit from the momentum in industrial turnover and more stringent air regulations.
- MMD (Cipriani/Barriquand) will benefit from global warming.
- MMD (Steriflow) will benefit from the growing agrofood sector.

Need to know

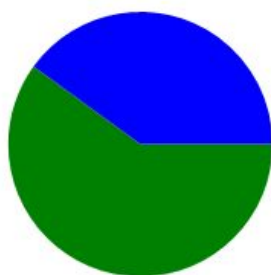
There are three essential points of note:

- The group was founded in 1985 by a group of entrepreneurs who still owns the company and assumes management.
- There are two branches, four operating divisions and more than 80 companies specialised in safety for people, goods and the environment.
- The group has become more and more a European group (40% of sales in Europe) with strong international ambitions.

Next trigger

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 with a parity of 20 SFPI Group shares for one DOM Security share. The main goal beyond the simplification of the structure was to offer a higher liquidity on SFPI Group stock, whose free float will increase from 18.9% to 26.5%. The other goal was to simplify the operations of the group, with lower operational costs as the two listings were not justified. The deal will naturally increase the net income attributable to SFPI Group's shareholders as well as the equity of the group, which should give additional firepower to the company. We, hence, expect new acquisitions to follow the merger of SFPI Group with DOM Security. We especially see bolt-on acquisitions in the locking solutions sector as likely in the foreseeable future. The merger with DOM Security makes such acquisitions easier, with no longer any conflict of interest, as difficulties in acquiring companies in the past may have arisen due to the double listing (the listing of DOM Security and the listing of SFPI Group, which controlled around 70% of DOM Security pre-merger).

Sales by Geography



■ France (60.0%)
■ Other (40.0%)

Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€M	504	554	571
Change in sales	%	6.11	9.89	2.99
Change in staff costs	%	6.37	12.0	-3.85
EBITDA	€M	46.8	48.8	53.4
EBITDA(R) margin	%	9.27	8.79	9.35
Depreciation	€M	-13.9	-15.8	-16.2
Underlying operating profit	€M	32.9	33.0	37.2
Operating profit (EBIT)	€M	34.1	32.0	37.2
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	-10.3	-11.7
Equity associates	€M	0.06	0.07	0.15
Minority interests	€M	-4.18	-0.89	-0.89
Adjusted attributable net profit	€M	18.2	20.9	23.1
NOPAT	€M	23.1	23.7	26.8

Cashflow Statement

EBITDA	€M	46.8	48.8	53.4
Change in WCR	€M	-8.23	-2.90	-2.47
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-8.78	-10.3	-11.7
Exceptional items	€M	0.44		
Other operating cash flows	€M	10.0		
Total operating cash flows	€M	40.2	35.5	39.2
Capital expenditure	€M	-14.3	-16.6	-17.1
Total investment flows	€M	-35.5	-34.6	-17.1
Net interest expense	€M	-0.63	-0.67	-1.64
Dividends (parent company)	€M	-4.38	-5.27	-6.05
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	-7.10
Change in cash position	€M	13.7	33.8	15.0
Free cash flow (pre div.)	€M	25.3	18.2	20.4

Per Share Data

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
Benchmark EPS	€	0.21	0.22	0.23
Restated NAV per share	€			
Net dividend per share	€	0.06	0.06	0.07

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 4.49	35%	■ Saint-Gobain
NAV/SOTP per share	€ 4.47	20%	■ Legrand
EV/Ebitda	€ 4.45	20%	■ Gea Group
P/E	€ 2.77	10%	■ Alfa Laval
Dividend Yield	€ 1.96	10%	■ Rexel
P/Book	€ 3.14	5%	■ Travis Perkins
TARGET PRICE	€ 3.99	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	109	111
Other assets	€M	17.0	17.0	17.0
Total assets (net of short term liab.)	€M	294	302	307
Ordinary shareholders' equity	€M	189	218	235
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
Net debt (cash)	€M	-50.4	-54.7	-69.6
Total liab. and shareholders' equity	€M	294	302	307

Capital Employed

Capital employed after depreciation	€M	272	285	290
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Profits & Risks Ratios

ROE (after tax)	%	10.6	9.91	10.2
ROCE	%	8.47	8.32	9.23
Gearing (at book value)	%	-29.3	-24.1	-26.4
Adj. Net debt/EBITDA(R)	x	-1.08	-1.12	-1.30
Interest cover (x)	x	52.4	-216	49.6

Valuation Ratios

Reference P/E (benchmark)	x	14.7	10.5	10.1
Free cash flow yield	%	9.42	7.80	8.76
P/Book	x	1.42	1.07	0.99
Dividend yield	%	1.96	2.63	3.01

EV Calculation

Market cap	€M	269	233	233
+ 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	-54.7	-69.6
+ 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	213	198
EV/EBITDA(R)	x	5.86	4.37	3.71
EV/Sales	x	0.54	0.38	0.35

Analyst : Felix Brunotte, Changes to Forecasts : 05/12/2018.