

Epwin Group

H124 results

Third FY24 EPS uplift this year

Construction and materials

17 September 2024

Price 99p
Market cap £139m

Net debt (£m) at 30 June 2024 19.5
Shares in issue 140.2m
Free float 67%
Code EPWN
Primary exchange AIM
Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	13.8	5.9	42.5
Rel (local)	14.3	3.8	31.9
52-week high/low		100p	63p

Business description

Epwin Group supplies functional low-maintenance exterior building products (including windows, doors, roofline and rainwater goods) into a number of UK market segments and is a modest exporter. It has a vertically integrated model in windows and doors and a leading market position in roofline products.

Next events

FY24 trading update	January 2025
Preliminary results	March 2025

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Epwin Group's H124 results were robust, with management navigating inflationary pressures well. That said, we have reduced our revenue estimates reflecting the H1 performance, maintained underlying operating profit estimates and raised EPS forecasts due to the impact of the increased share buyback programme. Long-term, well-established growth trends imply that Epwin is well-placed to leverage increasing demand for its energy-efficient and low-maintenance building products. The company offers an attractive investment case with the potential for uplifts from additional self-funded M&A. It trades on an FY24e P/E ratio of 9.3x, below the long-term average of 10.5x, and yields more than 5%. The extended share buyback programme should help support the share price.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/22	355.8	16.5	8.9	4.5	11.1	4.5
12/23	345.4	18.0	9.7	4.8	10.2	4.8
12/24e	326.2	19.3	10.6	5.0	9.3	5.1
12/25e	336.0	19.5	11.0	5.2	9.0	5.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Underlying profit growth implies strong H1 margins

H124 headline revenue reduced as levied surcharges fell away and input prices normalised. A better measure of underlying performance is underlying operating profit, which was up 1% to £12.0m, implying an underlying operating margin of 7.6%, the highest since H116. Adjusted PBT rose by just over 1%, EPS was flat at 4.7p as the benefit of the share buyback was offset by a higher corporation tax rate and DPS was lifted 5% to 2.1p. Epwin ended the period with pre-IFRS 16 net debt of £19.5m, up from £14.4m at the end of FY23 reflecting working capital seasonality, the share buyback and the dividend.

Long-term trends set to drive future profits

For many years, Epwin has followed a set of strategic targets that drive the development of the business and improve profitability and its sustainability credentials. In 2024 and beyond, we believe Epwin will continue to evolve these strategic targets, which include product and materials development, operational leverage and efficiency, cross-selling and business development, the pursuit of value-enhancing acquisitions and sustainability developments.

Valuation: Share buyback boosted EPS

Our underlying operating profit estimates are unchanged despite the reduction in revenue, but we have increased FY24 and FY25 EPS estimates for the third time this year, this time driven by the expanded share buyback. Our revised forecasts imply normalised EPS of 10.6p in FY24 and 11.0p in FY25, which in turn gives an FY24e P/E ratio of 9.3x, a material discount to its long-term average of 10.5x. The company is cash generative and remains acquisitive. We note that the shares offer an attractive 5.1% prospective yield from a twice-covered dividend.

Good results in challenging markets

Epwin's H124 results were characterised by reduced surcharge-related revenue and modest growth in underlying operating profit leading to strong operating profit margins. Net debt also increased modestly due to deliberate management actions, but nevertheless left Epwin with a net debt to EBITDA ratio of only 0.6x. The dividend was increased and the share buyback was expanded by a further 5m shares. As a result, our underlying operating profit forecasts are unchanged, but we increase EPS and net debt modestly.

Profit growth despite revenue headwind

Epwin's H124 headline revenue was down 12% to £158.0m as levied surcharges relating to elevated PVC input prices in the comparative year fell away. Input prices have now stabilised, but remain at an elevated level. A better measure of underlying performance is underlying operating profit, which was up 1% to £12.0m, implying an underlying operating margin of 7.6%, the highest since H116. Adjusted PBT rose by just over 1%.

EPS was flat at 4.7p as the benefit of the share buyback was offset by a higher corporation tax rate and DPS was lifted 5% to 2.1p, in line with the company's progressive policy. Epwin ended the period with pre-IFRS 16 net debt of £19.5m, up from £16.1m at the end of H123 and £14.4m at the end of FY23, reflecting working capital seasonality, payment of the £4.0m final dividend and a net outflow of £3.3m relating to the share buyback programme.

Exhibit 1: Interim results summary

£m	H119	H120	H121	H122	H123	H124	Y-o-y % change
Total revenues from external customers	140.0	93.3	157.8	178.0	180.0	158.0	-12.2%
Underlying operating profit	9.4	(1.8)	9.4	10.7	11.9	12.0	0.8%
Underlying operating margin	6.7%	-1.9%	6.0%	6.0%	6.6%	7.6%	-
Adjusted PBT	7.3	(4.1)	7.1	8.3	8.7	8.8	1.1%
Profit before tax (post exceptionals and other)	6.7	(4.8)	6.6	7.9	7.9	8.0	1.3%
EPS – diluted, adjusted (p)	4.2	(2.2)	4.0	4.6	4.7	4.7	-1.3%
Dividend per share (p)	1.8	0.0	1.8	1.9	2.0	2.1	5.0%
Underlying net cash/(debt)	(29.2)	(21.3)	(15.8)	(7.3)	(16.1)	(19.5)	21.1%

Source: Epwin Group

Epwin consists of two trading divisions: Extrusion and Moulding (61% of revenue, 79% of underlying operating profit) and Fabrication and Distribution (39% of revenue, 21% of underlying operating profit).

Extrusion and Moulding saw revenues decline by 15% to £96.2m, affected by the twin issues of reduced surcharges and lower new-build and repair, maintain, improve demand. These headwinds were offset by pricing action and operational efficiency, which resulted in a £0.3m increase in underlying operating profit to £10.9m and an increase in the margin from 9.3% to 10.3%.

In Fabrication and Distribution, revenue declined 6% to £61.8m, as distribution demand declined but social housing demand increased. The former is an area still facing increased competition, which is pushing margins down, and Epwin continues to respond by balancing price with volume. Margins were flat year-on-year.

Share buyback gives EPS a boost

Following the interims results we have made no change to our underlying operating profit expectations, but we have reduced our revenue expectations to reflect the H1 performance. We have also updated our forecasts to reflect the extended share buyback programme, assuming that

half of the 5m additional shares will be bought in the current year and half next year. The net effect is that net debt increases by the c £2.5m share buyback extension, plus those shares bought back in the year-to-date, and that diluted underlying EPS is increased by 1.2% in FY24 and 3.5% in FY25.

Exhibit 2: Revised estimates							
	2023	2024e			2025e		
£m		Old	New	% change	Old	New	% change
Revenue	345.4	345.5	326.2	-5.6%	349.0	336.0	-3.7%
Y-o-y % change	-1.7%	1.5%	-5.6%	-	1.0%	3.0%	-
EBITDA - Edison basis	50.1	43.8	43.8	0.1%	44	44.0	0.0%
Y-o-y % change	1.1%	1.2%	-12.5%	-	0.5%	0.4%	-
Underlying operating profit	25.5	25.8	25.8	0.2%	26.0	26.0	0.0%
Y-o-y % change	11.9%	2.1%	1.3%	-	0.8%	0.6%	-
PBT (adjusted, pre-exceptionals)	18.0	19.4	19.3	-0.3%	19.7	19.5	-1.0%
Y-o-y % change	9.1%	3.8%	7.4%	-	1.5%	-0.8%	-
EPS (p) - diluted, underlying	9.6	10.3	10.4	1.2%	10.5	10.9	3.5%
Y-o-y % change	8.5%	-0.4%	8.8%	-	1.9%	4.2%	-
DPS (p)	4.8	5.0	5.0	0.0%	5.2	5.2	0.0%
Y-o-y % change	1.1%	2.2%	4.2%	-	4.0%	4.0%	-
Net (debt)/cash (pre IFRS 16)	(14.4)	(14.0)	(18.5)	32.4%	(12.5)	(19.5)	56.0%
Y-o-y % change	-18.3%	-1.4%	28.7%	-	-10.7%	5.2%	-

Source: Epwin Group, Edison Investment Research

Exhibit 3: Financial summary

	£m	2020	2021	2022	2023	2024e	2025e	2026e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		241.0	329.6	355.8	345.4	326.2	336.0	339.4
Cost of Sales		(168.8)	(236.9)	(250.5)	(231.4)	(230.6)	(237.6)	(239.9)
Gross Profit		72.2	92.7	105.3	114.0	95.6	98.4	99.4
EBITDA		28.6	36.3	41.6	50.1	43.8	44.0	44.1
Normalised operating profit		9.4	18.5	21.5	25.5	25.8	26.0	26.1
Operating profit - Underlying		9.4	18.5	21.5	25.5	25.8	26.0	26.1
Amortisation of acquired intangibles		(0.3)	(0.3)	(0.3)	(1.0)	(1.0)	(1.0)	(1.0)
Exceptionals		(2.8)	(0.1)	(3.7)	(4.2)	0.0	0.0	0.0
Other		0.0	(0.4)	(0.6)	0.4	(0.7)	(0.7)	(0.7)
Reported operating profit		6.3	17.7	16.9	20.7	24.1	24.3	24.4
Net Interest		(4.4)	(4.8)	(5.0)	(7.5)	(6.5)	(6.5)	(6.3)
Profit Before Tax (norm)		5.0	13.7	16.5	18.0	19.3	19.5	19.8
Profit Before Tax (reported)		1.9	12.9	11.9	13.2	17.6	17.8	18.1
Reported tax		0.7	(0.4)	(3.5)	(3.9)	(4.4)	(4.5)	(4.5)
Profit After Tax (norm)		5.7	13.3	13.0	14.1	14.9	15.1	15.3
Profit After Tax (reported)		2.6	12.5	8.4	9.3	13.2	13.4	13.6
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		5.7	13.3	13.0	14.1	14.9	15.1	15.3
Net income (reported)		2.6	12.5	8.4	9.3	13.2	13.4	13.6
Basic average number of shares outstanding (m)		143	145	145	145	141	137	135
EPS - basic normalised (p)		3.99	9.16	8.95	9.71	10.58	11.03	11.29
EPS - diluted normalised (p)		3.98	9.06	8.84	9.58	10.43	10.87	11.13
EPS - basic reported (p)		1.82	8.61	5.78	6.41	9.37	9.78	10.04
Dividend (p)		1.00	4.10	4.45	4.80	5.00	5.20	5.30
Revenue growth (%)		(-14.6)	36.8	7.9	(-2.9)	0.0	0.0	0.0
Gross Margin (%)		30.0	28.1	29.6	33.0	29.3	29.3	29.3
EBITDA Margin (%)		11.9	11.0	11.7	14.5	13.4	13.1	13.0
Normalised Operating Margin		3.9	5.6	6.0	7.4	7.9	7.7	7.7
BALANCE SHEET								
Fixed Assets		176.9	177.0	209.9	203.8	193.9	185.8	178.2
Intangible Assets		75.0	77.9	99.5	94.9	93.9	92.9	91.9
Tangible Assets		29.5	28.5	34.3	35.4	30.6	27.6	25.1
Investments & other		72.4	70.6	76.1	73.5	69.4	65.3	61.2
Current Assets		87.2	94.6	97.6	87.5	84.3	85.4	85.4
Stocks		29.6	41.0	41.1	37.4	35.9	37.0	37.3
Debtors		44.3	43.6	40.5	35.8	34.1	34.1	33.8
Cash & cash equivalents		13.1	9.8	15.1	13.1	13.1	13.1	13.1
Other		0.2	0.2	0.9	1.2	1.2	1.2	1.2
Current Liabilities		(79.0)	(83.0)	(83.9)	(71.9)	(68.6)	(70.3)	(70.9)
Creditors		(57.6)	(71.5)	(72.5)	(60.0)	(56.7)	(58.4)	(59.0)
Tax and social security		0.0	(0.4)	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Short term borrowings		(10.9)	(0.5)	0.0	0.0	0.0	0.0	0.0
Other		(10.5)	(10.6)	(11.4)	(11.8)	(11.8)	(11.8)	(11.8)
Long Term Liabilities		(96.3)	(90.3)	(122.5)	(117.3)	(107.9)	(95.4)	(80.8)
Long term borrowings		(17.3)	(14.6)	(29.8)	(24.6)	(28.7)	(29.7)	(28.6)
Other long term liabilities		(79.0)	(75.7)	(92.7)	(92.7)	(79.2)	(65.7)	(52.2)
Net Assets		88.8	98.3	101.1	102.1	101.6	105.5	112.0
Shareholders' equity		88.8	98.3	101.1	102.1	101.6	105.5	112.0
CASH FLOW								
Op Cash Flow before WC and tax		28.6	36.3	41.6	50.1	43.8	44.0	44.1
Working capital		(1.8)	(1.4)	1.4	(5.3)	(0.4)	0.3	0.2
Exceptional & other		(3.1)	0.0	(4.4)	(5.1)	0.0	0.0	0.0
Tax		(0.8)	(0.5)	(2.2)	(2.1)	(4.4)	(4.5)	(4.5)
Net operating cash flow		22.9	34.4	36.4	37.6	39.1	39.8	39.8
Capex		(8.0)	(0.6)	(9.1)	(8.6)	(9.2)	(10.0)	(10.5)
Acquisitions/disposals		0.0	(5.3)	(18.1)	(1.8)	(4.0)	(5.0)	(5.0)
Net interest		(1.4)	(1.5)	(1.6)	(3.1)	(2.8)	(2.8)	(2.6)
Equity financing		0.0	(0.4)	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	(4.0)	(6.2)	(6.6)	(7.0)	(7.1)	(7.1)
Other		(15.6)	(13.5)	(9.9)	(14.0)	(20.2)	(16.0)	(13.5)
Net Cash Flow		(2.1)	9.1	(8.5)	3.5	(4.1)	(1.0)	1.1
Opening net debt/(cash)		16.4	18.5	9.4	17.9	14.4	18.5	19.5
Other non-cash movements		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		18.5	9.4	17.9	14.4	18.5	19.5	18.4

Source: Company accounts, Edison Investment Research

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