

SigmaRoc

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SigmaRoc CEO outlines 2019 strategy as expansion continues

Construction materials group SigmaRoc PLC (LON:SRC) has picked up more acquisitions as its buy-and-build strategy continues apace.

In December, the company announced the acquisition of concrete blocks and paving stones maker CCP Building Products for £15.21mln.

This was accompanied by an update where the firm said trading had been "strong", with year-on-year revenue, underlying earnings and earnings per share all "significantly improved".

Another update in January appeared to have borne out these predictions, with revenues forecast to jump 52% to £41.2mln in the 2018 fiscal year while operating profits (EBITDA) were expected to be in-line with market expectations.

READ: SigmaRoc forecasts revenue jump of over 50% in full year update
Max Vermorken, chief executive of SigmaRoc, says that the CCP acquisition formed part of a strategy to create a "cross-UK" footprint from the South-East to the North-West.

The push to create a UK network of businesses is the first part of a longer-term strategy of expansion for the company, with step two involving the creation of a third divisional platform for Sigma in the South-West, which began with the acquisition of Foelfach, a high polished stone mine in Carmarthenshire, South Wales.

READ: SigmaRoc acquires Foelfach quarry in Carmarthenshire and appoints new managing director

"It gives us a hub to start from" Vermorken says of the Foelfach mine, which was acquired for a "non-material sum" in 2018 and has since been proved up from an initial resource of 1.8mln tonnes of high polished stone value (PSV) materials to around 4mln tonnes following geological work at the site.

The company is aiming to ramp up production at Foelfach to around 80,000 tonnes per year, a level likely to be reached in 2019, which would serve as a launch pad for an expansion into high PSV and asphalt.

Given only 8% of UK quarries produce high PSV materials, the market is wide open.

While acquiring a mine is not usually part of SigmaRoc's MO, Vermorken says the purchase was mainly down to the non-material price and the opportunity to reach a high-value material.

"The cost benefit was very clearly in our advantage...not only do we get the benefit of a quality product, we get a footprint in a new region and a profitable business that can then fund the infrastructure and people we need to build that

Price: 45

Market Cap: £114.18 m

1 Year Share Price Graph



Share Information

Code: SRC

Listing: AIM

52 week High Low
53 21.8001

Sector: Builders and building materials

Website:

Company Synopsis:

SigmaRoc plc is an AIM listed buy-and-build construction materials company founded to generate shareholder value from a highly targeted investment strategy. Construction materials are a local product, consumed and produced locally and due to their high mass to price ratio, they tend to travel less far than other commodities like oil or metals.

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presence out."

The new South-West platform will also be under the leadership of David McClelland, a former member of the executive committee of Tarmac UK who oversaw 83 of that firm's quarries, asphalt and concrete plants in the central and western region before moving to SigmaRoc.

The company is also working on several side projects in its current business, notably a new concrete plant in the Channel Islands where its Ronez platform is located.

READ: SigmaRoc to open new concrete plant in Jersey

The plant will be "one of the most significant investments by the industry in the island in recent times" Vermorken says, taking local supply for infrastructure projects to its highest levels.

European focus

Looking to later in the year, the next step will be for the company to gain a foothold in mainland Europe.

"That's been our ambition for a while", Vermorken says, adding that the firm "wanted to create a base [in the UK] first and get a bit of recognition and presence to ensure shareholders that we could run a good business".

"What we now need to do is make a start in Europe".

The first part of this goal will be to develop a fourth platform in Northern Europe just on the opposite side of the English Channel.

Vermorken says that there is "plenty to go at" when it comes to potential acquisitions, adding that the company has already been in discussions with potential targets.

"Some of our targets are friends, connections and former colleagues from years before...it takes a long time to get the right target for the right price, but we don't think that's a problem as we're doing that with six or seven targets at any one time".

Fifth and sixth platforms in the pipeline

In the longer term, the main aim is scale and size, Vermorken says, with the fifth and sixth platforms to follow "fairly soon after" the fourth.

"We're able to grow EPS quit (quite) significantly each time we buy something, and that's on a fully diluted basis...as long as we can keep doing that it creates value for everybody".

He adds that with the company getting "significantly larger over time" with each acquisition, eventually Sigma will be able to self-fund its expansion and there will be no dilution for shareholders.

However, Vermorken says that the company doesn't just chase deals for the fun of it, there are "significant" internal hurdles to approving purchases.

These include making sure the purchase is "earnings enhancing on a fully diluted basis no matter what" and that there is sufficient asset backing for the acquisition as the firm is more focused on cash generation than rapid growth.

With shares trading around 41.2p as of 21 January, SigmaRoc carries a market cap of £56.2mln.

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