Morning Wrap

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Equity Research 05 Jun 2025 08:44

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Company Events

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Economic Events

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05-Jun	GDP
	ILO Unemployment Rate
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	Live Register
12-Jun	CPI

United Kingdom

05-Jun	CIPS Construction PMI
10-Jun	ILO Unemployment Rate
12-Jun	Construction Output
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	Manufacturing Production
	Trade Balance

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Kingspan ramp-up US Roofing investment ($750m -> $1bn)

Recommendation: Buy
Closing Price:€74.10

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Kingspan has published a statement this morning noting that it is ramping up its Roofing investment in the US from $750m to $1bn. Kingspan notes "The One Big Beautiful Act, when enacted, should make the returns even more compelling".

As a reminder, at its FY23 results (February 2024), Kingspan outlined an ambitious strategy to build out a roofing platform in North America. It noted that over 5 years the Group will deploy – and has ringfenced - €750m of capital with the initial targets of:

• Gaining a 15% share of the relevant flat roofing market; and
• Generating a 15% return on sales.

In a relatively short period of time the Group has already made significant progress in terms of the organic US expansion strategy. It has already purchased two large scale facilities in Oklahoma (the larger of the two will house a TPO membrane plant and polyiso board production) and in Maryland. Progress in terms of building on these facilities is happening at pace and both are planned to be in production in early 2026. Furthermore, in H224 the Group acquired IB Roof Systems - a high-performance PVC membrane provider, headquartered in Texas. IB offers "PVC membrane solutions for non-residential roofs, working with roofing consultants and building designers to supply complete roof systems, including insulation and accessories, directly to roofing contractors". The acquisition represented Kingspan's first entry in the US single-ply roofing space and gives the Group an established position within the PVC membrane category.

Given the "significant market and cross sell opportunity", the Group is now ramping up its investment in the space from $750m to $1bn as it explores an entry into the shingles category which could potentially be based at its hundred-acre roofing campus in Oklahoma, thus offering logistical synergies. The Group notes that the ROCE will be in excess of 20% within 4 years on the additional $250m investment. This will bring Kingspan more meaningfully into the US residential market and provides for scope to ramp up insulation sales around a potential shingle offering.

We are bullish on Kingspan achieving its goals in terms of building out its US roofing platform and clearly with the investment already announced, coupled with the planned future investment, this is happening at pace. The expansion into the US roofing market will not be without its challenges but Kingspan have been here before in terms breaking into new markets. Given the strength of its pre-existing Insulation based relationships and its advantageous position of being able to use price as a lever to generate its desired returns, we see limited roadblocks in the Group delivering upon its strategy. Moreover, we would also note that from an investor sentiment perspective (particularly post our recent trip to US), the tone around the US Roofing strategy has become incrementally more positive and this latest announcement offers multi-phase expansion optionality.

Kingspan is our top pick across our Industrials coverage with US roofing strategy, which has just been enlarged, just one of many reasons. With its leading portfolio of high-performance building solutions, Kingspan has a unique, more sustainable offering than its competitors. With the stock trading on just 11.5x FY26 EV/EBITDA versus a long-term (10year) average of 13.5x, we see material upside to shares.

Please call if you would like to discuss.

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Economic view Irish services sector rebounds in May

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Ireland's services sector rebounded last month, with the AIB Services PMI rising to 54.7 from 52.8 in April. This means the performance not only marked a solid month for the Irish services but was above international peers. For comparison, the euro area's services PMI came in at 48.9, the UK's at 50.2, and the US at 52.3, placing Ireland firmly ahead in terms of service sector momentum. The improvement was largely driven by a pickup in new business, particularly in the Technology, Media & Telecoms (TMT) sector, which continued to lead all sub-sectors. Business Services and Financial Services also expanded, while Transport, Tourism & Leisure remained the only sector in contraction, posting its steepest decline since October 2023.

Despite the growth in activity, job creation slowed, with the weakest employment growth since January. Notably, Transport, Tourism & Leisure saw job losses for the first time since August 2024, and Financial Services hiring nearly stalled. On the pricing front, input cost inflation eased to its lowest level in eight months, especially in Financial Services, with wages being the biggest cost driver.

Looking ahead, businesses remained cautiously optimistic. Confidence ticked up slightly from April's post-pandemic low, with firms citing investments in AI, new services, and tourism as reasons for hope. However, concerns over international trade relations continued to weigh on sentiment. Overall, while Ireland's services sector is clearly outperforming its global counterparts, the mood appears to be one of cautious progress rather than unbridled optimism.

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Bank of Ireland FCA sets out considerations for potential redress scheme

Recommendation: Buy
Closing Price:€11.98

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The key takeaways, in our view, from this morning's update by the FCA are the commitment to confirm within 6 weeks of the Supreme Court judgement whether a redress scheme will be initiated and also the commentary around any redress scheme needing to balance fairness to consumers who have lost out and ensuring the integrity of the motor finance market such that it continues to work well for future consumers. The latter is a point that was formally made by the regulatory body in the recent Supreme Court appeal. As a reminder, we have set aside provisions totalling €270m (of which, €172m was recognised in FY24) to cover potential redress by Bank of Ireland who maintain a c.2% share of new lending and a loan book of c.€3bn in the UK motor finance market.

The FCA is reviewing whether consumers lost out due to discretionary commission arrangements (DCAs) used before they were banned in January 2021. Under DCAs, brokers could increase interest rates to earn higher commissions, which may not have been disclosed to consumers. The Court of Appeal ruled that failing to disclose such commissions was unlawful, prompting a Supreme Court appeal heard in April 2025. The FCA has paused further decisions until the Supreme Court issues its judgment, expected before the end of the summer.

The FCA will confirm within 6 weeks of the Supreme Court judgement whether it is proposing to introduce a redress scheme. The potential scheme would include rules for assessing claims and calculating redress, aiming to be simple and accessible without needing legal help. Stakeholder engagement is ongoing to shape the scheme’s design, including whether it should be opt-in or opt-out. The FCA will balance fairness to consumers with the need to maintain a competitive and stable motor finance market. A consultation, including draft rules and a cost-benefit analysis, will follow the Supreme Court decision, with implementation expected in 2026 if approved.

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Fever-Tree Drinks AGM statement confirms FY outlook in c.FX

Recommendation: Hold
Closing Price: £8.84

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FEVR has issued a trading update today ahead of its AGM. While no numbers are provided, overall FEVR is trading "in-line with expectations" with "good progress" being made in the US under the new partnership with Molson Coors. On outlook, the statement notes that FEVR are "comfortable" with consensus expectations of low-single digit c.FX sales growth and a c.12% adj EBITDA margin (pro forma for US brand sales), though FX is likely an incremental headwind on USD weakness. By region: the brand continues to gain share in the US market with transition to the Molson Coors system underway and the 10% import tariff from the UK is being shared equally between TAP and FEVR; in the UK, FEVR is maintaining its mixers leadership in the on and off-trade; in Europe there is good momentum in the Netherlands and France, albeit Germany remains a drag; in RoW, local production in Australia is supporting local brand momentum and market shares.

Shares are +31% ytd leaving FEVR trading on a full 36.6x 2025 P/E and 21.8x EV/EBITDA. The transition of its US operations to the Molson Coors system financially de-risks the mid-term growth story in the market (35% FY24 sales) for FEVR shareholders with the cash received from TAP facilitating the return of £100m cash via a buyback in 2025 (£42.5m done to date). On a pro forma basis, we currently model £375m sales (+1.6% yoy), £44.9m adj EBITDA (-11% yoy), 12.0% margin (-170bp yoy) and 24.2p adj EPS (-14% yoy). While the confidence in the ability to mitigate/manage the short-term tariff pressures is welcome (before the US production is transferred to TAP), FX is likely to be a low-to-mid single-digit headwind on earnings on a spot basis. Consumption in UK/Europe has likely received a boost from recent benign weather, albeit overall performance in the wholly-owned ex-US business remains very modest amid continued pressures on International Spirits consumption.

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