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Slow Investing, Special Situations & Occasionally Wild Punts

Disclaimer: This is not investment advice. PLEASE DO YOUR OWN RESEARCH !!!

Samse Group (ISIN FR0000060071) - A Hidden French Compounder that is as exciting as watching Paint dry ?



After teasing a new position in the Nabaltec “Post Mortem”, I proudly present the next (hopefully) super boring company for my boring portfolio.

Samse SA is a French company that distributes building materials to “professional” customers like contractors, craftsmen etc. It also has a smaller “Direct to consumer” DIY store segment, which represents around 20% of sales. Samse is active only in France and No. 2 after Saint Gobain, which, however is much bigger even only in this specific sector (2000 outlets vs. 350).

Here is an overview of relevant “KPIs” at a share price of 190 EUR (time of writing):

	A	B
Market Cap		650 mn
P/E LTM		7,3
EV/EBIT LTM		8,0
P/B		1,0
ROE 2022		16,1%
EBIT margin 2022		6,6%
Sales CAGR 2006-2022		8,9%
EPS CAGR 2006-2022		12,7%
IRR 2006-2023		9,6%

At first sight, the company looks cheap but not overly attractive as margins are quite low and return on capital only so so. Only post Covid, 2021 and 2022, margins and especially returns on capital increased significantly and reached pre GFC levels as we can see in this Chart from Tigr:

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* Annual Financials in Millions of Euro from 31/12/02 to 30/06/23

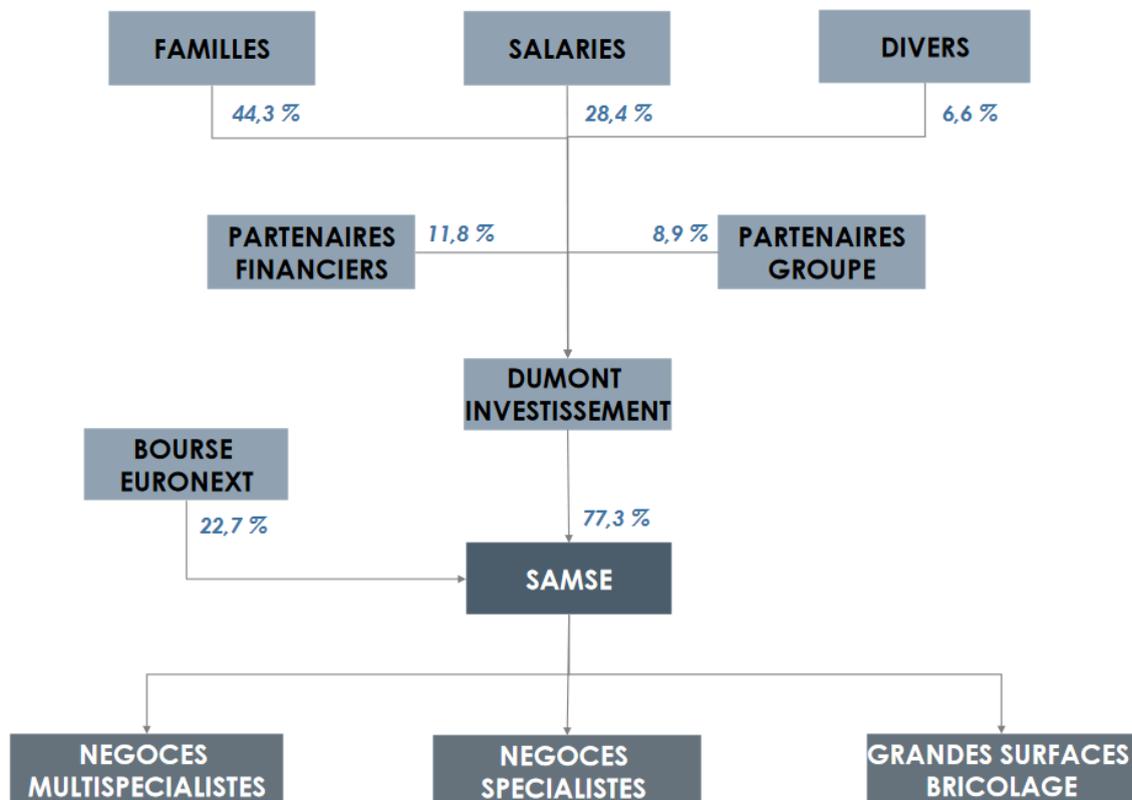


But behind the surface, there is a company that has been growing and compounding slowly but steadily and despite a very volatile environment (GFC, EUR crisis, Covid) never showed a loss since 2002 (Starting year in TIKR for information).

Some “Specialties” about Samse:

1) Share ownership

77% of the shares are held by a Holdco, which itself is held by several investor groups, with the largest being the founder’s families, followed by employees



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On a look-through basis, there is very high ownership of Employees (22% of shares are owned by employees, 75% of all employees own shares). This seems to be also an “artifact” of some kind of Employee buyout in 1988 according to the Company’s annual reports..

1988
 The company is taken over in a management buyout (MBO). The Dumont Investissement holding company is set up, with the management as majority shareholders.

2) Corporate Culture /Decentralization

SMASE runs a very decentralized organization, the SAMSE brand is only used for the initial organization in the Grenoble region. The acquired brands are usually run under their original name and often with the selling shareholders still running the company. This explains the slightly “messy” chart with all the brands under the SAMSE Group’s roof:



In general, SAMSE seems to run a very conservative, low risk business model:

- More than 50% of the real estate owned
- They have their own logistics (own trucks) etc.
- low financial leverage (zero at YE 2022)

This makes the company maybe less capital efficient but very resilient. Also the company culture looks very unique:

- Focus on all stakeholders, including landlords

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- Very collaborative approach (Finance employees went into shops to help out after floodings, Logistics employees help in the stores if they don't drive)

They also seem to run a “**Slow motion**” **roll up business model**. The industry is still very fragmented and SAMSE has been able to acquire smaller players on a regular basis. Either to expand the regional footprint or along specialist lines (Wood). The CEO in a recent interview mentioned that they have a lot of growth runway left in France and don't plan to go into neighboring countries anytime soon.

3) Capital allocation:

Historically, SAMSE has retained around 70%-80% of earnings to fund growth. However there was a large increase of dividends in recent years because of leverage in Holdco.

In 2020, the Holdco Dumont Investissement, bought 21% of the shares in SAMSE from Blackstone/CRH who had been a shareholder for some time. In the past, Samse and CRH operated a subsidiary together and [there was even a possibility that SAMSE and CRH might merge](#).

Despite the large dividend, financial leverage at the operational level reached zero at YE 2022. During the year, leverage usually goes up to fund working capital.

	2023	2022	2021	2020	2019
Emprunts et dettes financières	182 885	179 529	163 513	202 836	188 839
Trésorerie nette	95 179	54 578	104 591	79 415	19 790
Endettement financier net	87 706	124 951	58 922	123 421	169 049

In the past 2-3 years, SAMSE didn't do any M&A because they thought that prices were too high this has changed quite recently with a potential transaction that could be a “soft catalyst” in the mid term.

In the past they seem to have done some share buy backs, but nothing big. That's maybe the only slightly negative aspect of the capital allocation.

Soft catalyst: The potential Herige Deal

Herige (formerly known as VM Matériaux) is a supplier to the construction sector with 3 main segments:

Construction materials distribution, concrete and joinery.

Herige seems to have had a real problem with too much debt. Financial debt had doubled from 80 mn to 160 mn which represents 3,6x EBITDA which is quite a lot. The reason seem

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to have been M&A in the concrete and joineries segments, which, from a timing perspective was clearly not optimal. It seems that they had to do something.

This is what they communicated some days ago:

ÉVOLUTION STRATÉGIQUE

Le Groupe HERIGE s'affirme comme un industriel de référence au service de la construction durable et annonce entrer en négociations exclusives avec le Groupe SAMSE en vue de la cession de sa branche Négoce

Fort d'une montée en puissance opérée sur ses activités Menuiserie (ATLANTEM) et Béton (EDYCEM) lui ayant permis de devenir un acteur industriel français de premier plan et de l'accent mis ces dernières années sur l'engagement RSE, le Groupe HERIGE souhaite accélérer ses actions vers l'efficacité industrielle, l'innovation et la décarbonation au sein de ses deux branches.

À la suite de l'approbation du Conseil de Surveillance du Groupe, réuni le 2 décembre 2023, HERIGE annonce être entré en négociations exclusives avec le Groupe SAMSE en vue de la cession de ses activités Négoce de matériaux, de travaux publics et de pierres naturelles (VM Matériaux, LNTP et Cominex).

Ces dernières années, HERIGE a orienté ses activités de recherche et développement sur des produits répondant aux enjeux du secteur vers un bâtiment plus durable, comme le développement de sa démarche Vitaliss® à travers son offre de béton à empreinte carbone réduite. En parallèle, le Groupe a fortement renforcé son positionnement industriel, comme en témoignent les opérations de croissances externes¹ menées, lui permettant d'intensifier son maillage territorial au plan national et de développer des synergies sur de nouveaux marchés.

Ainsi, dans la continuité d'une ambition affichée de croissance profitable à impact positif, cette opération donnerait les moyens à HERIGE d'accélérer sa trajectoire d'investissements industriels orientés productivité et performance opérationnelle en consolidant son positionnement en faveur des enjeux énergétiques et d'économie circulaire.

Le projet de cession² représente 383,5 M€ de chiffre d'affaires et 79 points de vente dans le Grand Ouest. L'ensemble des 1 155 collaborateurs rejoindraient le Groupe SAMSE, reconnu pour ses valeurs humaines fortes et participeraient ainsi au renforcement du maillage géographique de l'enseigne et à son développement commercial tout en conservant les valeurs de proximité clients.

La valeur d'entreprise du périmètre cédé est estimée selon un multiple d'EBITDA³. La valeur des titres est calculée en déduisant de cette valeur d'entreprise une dette financière nette ajustée. Cette opération permettrait à HERIGE de réaliser un désendettement de l'ordre de 120 M€ (amélioration du gearing à hauteur de 83 points) et de réaliser une plus-value de cession d'environ 24 M€, soit +16% sur fonds propres. Le Groupe bénéficierait ainsi de moyens additionnels pour le développement de ses deux branches industrielles : le Béton avec EDYCEM et la Menuiserie avec ATLANTEM.

Herige's distribution business had sales of 423 mn EUR in 2022 with an operating profit of 16 mn EUR, i.e. an EBIT margin of ~3,8% compared to 6,6% for Samse.

Herige's distribution business was considered as a perfect partner for SAMSE due to the geographic fit of its locations. There seem to have been discussions in previous AGMs not if but when they would merge with Herige.

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This is a picture I borrowed from Philippe Luchesi from a twitter post that shows that the Herige branches more or less exactly cover the blank space in Samse's coverage:



As Samse has shown in the past that they can successfully integrate regional players into their business model, I think that the risk should be manageable.

If consummated, the Herige Acquisition would add +20% of sales to SAMSE. Samse has shown in the past that within 2-3 years they can bring any acquired company to SAMSE's standards.

Herige mentioned something of a purchase price of 120 mn EUR which would translate into ~7x 2022 EV/EBITDA. Whether that is cheap or not is also dependent on how much real estate comes with the deal.

So over the next 2-3 years, this deal could clearly boost SAMSE's earnings by a decent amount. Overall, I really like this transaction as it clearly shows that they are able and willing to take advantage of tough times. It might look as a risky move to buy into a crisis, but in the long term, these are often the best acquisitions

However, even if the deal does not materialize, I think there are plenty of opportunities for SAMSE to expand through the downturn.

Pro's and Con's

What do I like:

- Family owned/controlled
- Exceptionally high employee ownership
- Conservative financial profile and business model
- Countercyclical M&A
- Decentralized organization
- Very good company culture

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- business that I kind of understand (distribution)
- not attractive at first sight
- potential “soft catalyst” through acquisition in tough times

Risks

- Still Leverage on Holdco level-
- maybe over earning in 2021 and 2022
- Cycle in building materials might still get worse
- low free float
- adds to my sector exposure (Thermador, Sto, Solar)
- For some reason, they have discontinued English reports from 2018 onwards

Share price

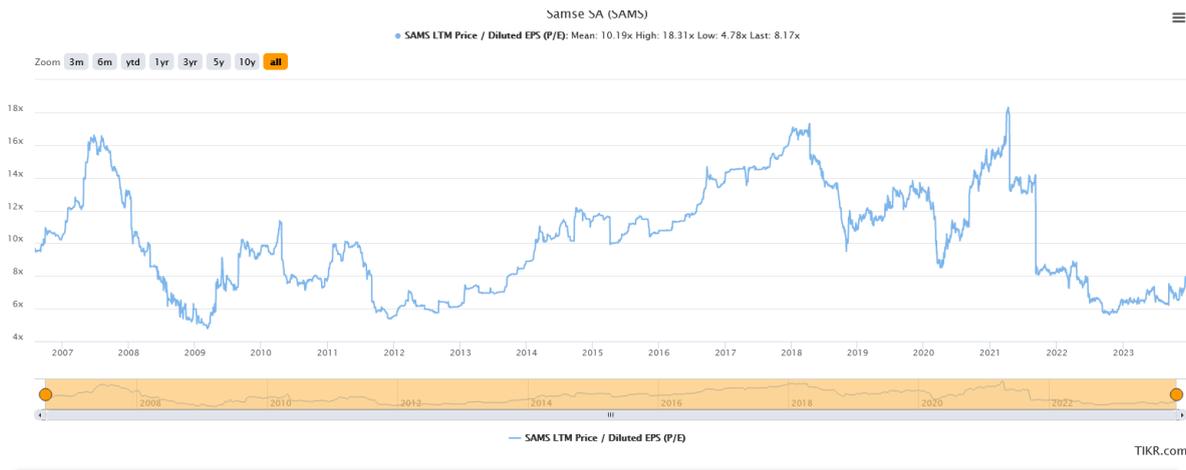
The long term stock chart shows a good value creation but clearly not exceptional:



One of the interesting things is that SAMSE, despite trading at the upper range of historic prices, also trades at the lower bound of historical valuations:

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This is clearly also based on the expectation of a real difficult 2024, but overall shows that multiple contraction might not be the biggest risk for the investment case.

Return expectations:

According to TIKR, analyst expectations are currently 22 EUR EPS for 2023, 19,70 EUR for 2024 and 20,4 EUR for 2025.. So SAMSE trades at around 9,5 times 2024 earnings without the Herige acquisition.

To keep things simple, I calculate with 4% dividend yield (8 EUR, like 2019 & 2020) and assume earnings growth for my target holding period (3-5 years) of somewhere between 6-10% p.a. (vs. 12.7% historically).

That results in an expected return of 10-14% p.a. which is clearly above the “cost of capital” for such a defensive, well managed company.

However, this could and most likely will be a bumpy ride from an EPS perspective. No one knows how deep the recession in Europe and France will be and if and when construction resumes.

One point to remark here, is that France is maybe the European country with the best demographic outlook in Europe. France has a relatively high birth rate and including migration, most projections show future population growth in France. If this increased need for housing and infrastructure transforms into more construction activity is of course the big question, but in my opinion it is better to have a demographic tailwind than a headwind.

Of course, France is not the easiest country in the world to run a business, but there are many world class entrepreneurs in France that are able to run top notch operations in that countries. SAMSE might be one of them.

Sector concentration:

With Thermador (4,6%), Solar (3,3%) and Sto (3,3%), I currently have around 11% direct exposure in the portfolio to the European construction sector. Although I like the sector as a

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countercyclical play with a decent fundamental tailwind, I will need to manage this exposure carefully in case of any tail events.

So even as I like SAMSE, I will start with a smaller position here.

Summary:

SAMSE seems to be one of those high quality “hidden Champion” companies that I am always looking for. The business is extremely boring and subject to economic cycles. On the other hand, the company seems to be very well managed and they seem to be able to use the cycles to get out stronger from the lows than they entered.

I decided to allocate a 3% position into SAMSE at an average price of 190 EUR per share, funded mainly by the sale of the Nabaltec position. The 3% reflects my current exposure to the sector.

Honestly, I do not expect a great and quick run up of the share price. **I actually hope that the share price does very little and that I can add if fundamentals slowly get better** over time like in the Schaffner and Meier Tobler case.

Sources:

A big thanks especially to Jeremy from “French Hidden Champions” and Philippe Luchesi. Both guys are worth following if you are interested in quality French stocks.

Philippe on SAMSE:

<https://www.youtube.com/watch?v=UKQ1S48GAgQ&t=2s>

Jeremy on SAMSE:

<https://frenchhiddenchampions.substack.com/p/sfaf-analyst-meeting-report-samse?s=w>

A recent interview with the CEO:

<https://www.youtube.com/watch?v=eThldfVVEuU>