Daily comment

Tuesday 24 February 2015

GKN, Meggitt, Bowleven, Low & Bonar

GKN GKN:LN 375p Mkt cap £6.2bn Analyst: Sash Tusa

GKN's results are slightly below our top of the range forecasts: both Aerospace and Driveline revenues fell short, although Land Systems exceeded our estimates. In terms of trading profits, Aerospace beat our forecasts (£277m vs our £270m); the other divisions were 2-3% short.

The statement suggests a pretty subdued 2015: flat organic growth at Aerospace (civil up, but defence offsetting down), Driveline and Powder Metallurgy up perhaps 4%, but Land Systems hit by softer agricultural markets and a planned restructuring charge. Although GKN has avoided warning of a bigger than usual H1:H2 split, it is likely to be H1 results, and the dividend decision at that time, before we get a decent indication of the strength of earnings going into 2016.

Meggitt MGGT:LN 555p Mkt Cap £4.4bn Analyst: Sash Tusa

Meggitt's FY14 results look good, and the dividend (up 8%) sends an especially strong signal about the company's confidence for 2015. Coupled with the ongoing share buyback, it is hard to escape the conclusion that Meggitt is feeling especially positive towards its shareholders at present.

Both sales and EBIT were 3% above our forecasts, with a particularly strong performance in Control Systems and Sensing Systems. Sensing Systems and Braking Systems were the two strongest divisions in profits terms. Having increased the dividend by 8% at the H1 stage we had expected a slight slowdown to +6% for the full year, but Meggitt maintained the 8% increase.

Meggitt's guidance is not particularly granular, especially in terms of profitability, with expectations of low- to mid-single-digit organic growth. But this is in line with the IMS in November and, coupled with margin benefits from the Meggitt Production System roll-out, suggests our estimates of 4% revenue growth and 7% EBIT growth look conservative.

Bowleven BLVN:LN 31.75p Mkt cap £103m Analyst: Will Forbes

Bowleven's announcement this morning that the presidential decree has been "gazetted" is good news and takes the company one step away from closing the Etinde farm-out. This will trigger the formal transferral of some of Bowleven's interest in Etinde (leaving it with 20%), and a reciprocal payment of $170m, two carried appraisal wells and further contingent cash of up to $40m. Once complete, the farm-down transforms the company into a fully-funded developer of Etinde with material cash reserves to pursue other opportunities, if sought.

We note that the current price of around 30p/share implies a market cap of around $160m, below the cash it should receive in about 15 days' time.

Low & Bonar LWB:LN 59.4p Mkt cap £195m Analyst: Toby Thorrington

Although not reflected in headline financial progress, the benefits of recent investment were seen in improved performance in two of Low & Bonar's three divisions. Bonar, the largest division, is also investing for growth but weak civils demand affected FY14 profitability. We expect the new CEO to endorse and refresh the existing strategy later this year as the company targets improved financial performance. While the share price showed a positive response to the results announcement, the rating still offers investors a balance between reasonably priced growth and income.

FY14 results were in line with Q4 guidance – and the prior year – with expectations having been lowered to reflect weaker demand conditions in the European civil engineering market and slow product approvals progress for the Saudi JV. While the results demonstrated the headwinds the company faced during the year (including FX), they also contained some good areas of progress that were somewhat obscured by headline results. The Technical Coated Fabrics and Yarns divisions both delivered good profit uplifts compared to FY13 and, within Bonar, the Flooring and Industrial segments also grew well. Growth investment was a feature of cash flow in the year, particularly initial spending on a greenfield factory for Bonar products in China. Year-end net debt rose modestly over the year to £88m.

New CEO Brett Simpson joined the company in September and is starting to put his own mark on the business. No major strategic changes have been flagged at this stage. No radical change in direction is anticipated but we expect a capital markets event in May to be used to refresh key financial and operational targets including greater focus on customer service globally. As far as the headwinds go, sterling has strengthened further against the euro since the year end and wider European demand also seems very subdued. These effects remain on the watchlist but progress is anticipated in FY15.

Low & Bonar's share price has responded positively to the FY14 results newsflow and outlook comments. On modestly lower PBT estimates, LWB is trading on an FY15 P/E of 10.1x, EV/EBITDA (adjusted for pensions cash flow) of 6.4x and a prospective 4.9% yield. Investor sentiment appears to be improving, but these metrics still offer a good entry point ahead of greater clarity on the impact of new management initiatives and the benefits of investment coming through.

Best regards,
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