

Norcros

Year end update

Solid H2 performance

An in-line year end update pointed to an improved H2 trading period for UK based operations and good ongoing progress in South Africa. Full details on underlying profit trends will come with the FY17 results but we feel that the business is performing well in its markets and this is not being fully reflected in the company's valuation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	222.1	14.0	18.0	5.6	9.5	3.3
03/16	235.9	18.5	24.7	6.6	6.9	3.9
03/17e	266.3	20.2	24.0	7.2	7.1	4.2
03/18e	274.4	21.8	25.7	7.5	6.6	4.4

Note: *PBT and EPS FD are normalised, excluding intangible amortisation and exceptional items. EPS/DPS are adjusted for a one-to-10 share consolidation (30 September 2015).

UK bounces back, South Africa progressing well

The FY17 trading update indicated group revenues of c £271m for the year, with a useful breakdown (actual, constant FX and LFL) of how this was achieved. The group figure is slightly above our estimate and existing UK operations (before acquisitions) appear to be the driver. H117 was a comparatively tough trading period for these businesses so the second half bounce back (LFL: H1 -5.0%, H2 +8.3%, FY +1.8%) is encouraging. This is clearly ahead of underlying RMI spend patterns and we understand that more regular demand was seen across most UK channels with a better export picture also. Acquired UK businesses also performed well. We note that the well-publicised economic challenges in South Africa have not affected trading and LFL progress remained very healthy (H1 +10.0%, H2 +7.0%, FY +8.4%). The average £/rand c 18.0 for the year was also in line with our model. Group net debt at the year-end was c £24m (vs our c £27m estimate).

Mixed market signals persist

The recent reporting season continues to highlight general caution on the impact of input price increases. Norcros had longer hedges in place than most and, we understand, is substantially through supply chain and customer negotiations. UK export performance already seems to have picked up, which may or may not be related to FX movements. We will revisit this and review estimates fully with FY17 results; our model currently includes some underlying progress in both reporting regions. One new item is the planned improvement in operating efficiencies and flagged capacity reduction at Johnson Tiles. As one of only two UK scale producers – with weaker sterling also feeding into import pricing – this may serve to tighten a flat market. The £2.3m cash cost (in H117) has an expected one year payback.

Valuation: Rating lags performance

Having responded well to the H117 results initially, the Norcros share price had given up most of the gains made from December's 185p before rallying again in April. The company remains very lowly rated in our view (FY17e P/E 7.1x and EV/EBITDA, adjusted for pensions cash of 4.6x) with an attractive 4.2% trailing dividend yield. Underlying business performance is not fully factored in at this level.

Construction & materials

18 April 2017

Price **170.25p**

Market cap **£104m**

£/ZAR 18.0

Net debt (£m) at end September 2016 27.5

Shares in issue 61.3m

Free float 98.3%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 5.4 (1.0) (4.4)

Rel (local) 4.4 (4.8) (13.6)

52-week high/low 197.0p 138.0p

Business description

Norcros is a leading supplier of showers, tiles, taps and related fittings and accessories for bathrooms, kitchens, washrooms and other commercial environments. It has operations in the UK and South Africa, with some export activity from both countries.

Next events

FY17 results 14 June 2017

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Exhibit 1: Financial summary

	£'ms	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
			IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
March										
Revenue		196.1	200.3	210.7	218.7	222.1	235.9	266.3	274.4	283.4
Cost of Sales		N/A	N/A	N/A						
Gross Profit		N/A	N/A	N/A						
EBITDA		18.2	18.6	19.9	22.9	24.3	28.0	31.4	32.9	34.5
Operating Profit (before SBP)		11.6	12.3	13.7	17.0	18.3	22.5	24.8	26.3	27.9
Net Interest		(1.5)	(1.4)	(1.3)	(1.5)	(1.2)	(0.9)	(1.5)	(1.4)	(1.3)
Other financial - norm		(1.1)	(0.9)	(2.4)	(2.6)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Other financial		(0.4)	0.6	(0.2)	(5.2)	2.1	(0.2)	(1.5)	(2.0)	(2.0)
Intangible Amortisation		0.0	0.0	0.0	(0.4)	(0.3)	(0.9)	(1.2)	(1.2)	(1.2)
Exceptionals		(1.1)	(1.2)	(4.4)	(1.5)	(4.8)	(2.0)	(1.0)	(1.0)	(1.0)
Profit Before Tax (norm)		9.0	10.0	10.0	12.9	14.0	18.5	20.2	21.8	23.5
Profit Before Tax (company norm)		10.2	10.7	11.7	14.6	15.8	20.4	22.1	23.7	25.4
Profit Before Tax (FRS 3)		7.5	9.4	5.4	5.8	11.0	15.4	16.5	17.6	19.3
Tax		(0.8)	0.0	0.2	4.3	(3.0)	(2.4)	(4.1)	(4.8)	(5.2)
Other		0.0	0.0	0.0	(1.4)	0.1	0.0	0.0	0.0	0.0
Profit After Tax (norm)		8.2	10.4	9.3	13.9	11.1	16.1	16.1	17.1	18.4
Profit After Tax (FRS 3)		6.7	9.4	5.6	8.7	8.1	13.0	12.4	12.9	14.2
Average Number of Shares Outstanding (m)		57.7	57.7	58.0	58.4	59.2	60.6	61.3	62.0	62.7
Average Number of Shares Outstanding FD (m)		57.7	58.0	58.9	60.8	61.5	62.2	63.0	63.7	64.4
EPS FD - normalised (p)		14.1	17.9	15.8	22.8	18.0	24.7	24.0	25.7	27.4
EPS FD - company normalised (p)		16.3	19.2	18.7	27.9	21.1	27.7	27.0	28.7	30.4
EPS - FRS 3 (p)		11.6	16.2	9.5	14.3	13.2	19.7	18.1	19.1	20.9
Dividend per share (p)		3.6	4.2	4.6	5.1	5.6	6.6	7.2	7.5	8.0
Gross Margin (%)		N/A	N/A	N/A						
EBITDA Margin (%)		9.3	9.3	9.4	10.5	10.9	11.9	11.8	12.0	12.2
Operating Margin (before GW and except.) (%)		5.9	6.1	6.5	7.8	8.2	9.5	9.3	9.6	9.9
BALANCE SHEET										
Fixed Assets		80.7	80.0	86.7	80.0	78.3	93.4	102.9	103.7	107.2
Intangible Assets		23.9	23.4	27.6	27.1	26.9	44.7	44.4	43.5	45.3
Tangible Assets		49.1	44.8	43.5	36.9	37.6	38.2	42.4	44.0	45.7
Investments		7.7	11.8	15.6	16.0	13.8	10.5	16.2	16.2	16.2
Current Assets		94.4	89.7	104.6	102.2	100.4	119.4	135.2	148.6	160.1
Stocks		42.3	45.5	52.8	50.2	52.2	60.1	69.1	71.2	73.5
Debtors		36.4	34.5	36.3	35.5	37.5	47.3	53.4	55.0	56.8
Cash		7.7	2.9	6.8	3.9	5.6	5.9	6.9	16.5	23.9
Current Liabilities		(56.4)	(52.5)	(54.0)	(58.1)	(60.0)	(67.6)	(73.1)	(79.5)	(85.8)
Creditors		(53.3)	(52.1)	(53.5)	(57.3)	(58.6)	(64.8)	(73.1)	(79.5)	(85.8)
Short term borrowings		(3.1)	(0.4)	(0.5)	(0.8)	(1.4)	(2.8)	0.0	0.0	0.0
Long Term Liabilities		(39.3)	(46.1)	(75.7)	(58.6)	(67.4)	(97.6)	(137.7)	(137.2)	(136.6)
Long term borrowings		(15.2)	(20.3)	(37.0)	(30.5)	(18.4)	(35.6)	(33.7)	(33.7)	(33.7)
Other long term liabilities		(24.1)	(25.8)	(38.7)	(28.1)	(49.0)	(62.0)	(104.0)	(103.5)	(102.9)
Net Assets		79.4	71.1	61.6	65.5	51.3	47.6	27.4	35.7	45.0
CASH FLOW										
Operating Cash Flow		10.8	6.0	6.6	13.6	16.2	18.5	23.3	27.8	29.1
Net Interest		(1.0)	(1.6)	(1.3)	(1.6)	(1.3)	(0.9)	(1.5)	(1.4)	(1.3)
Tax		(0.6)	(0.6)	(1.0)	(1.7)	(0.5)	(1.0)	(2.0)	(3.6)	(4.3)
Capex		(6.3)	(6.7)	(4.2)	(2.8)	(1.4)	(6.6)	(8.3)	(8.3)	(8.3)
Acquisitions/disposals		4.4	0.0	(10.6)	0.1	3.3	(23.6)	(2.7)	(0.4)	(3.0)
Financing		0.0	0.2	0.3	0.4	0.2	0.1	0.0	0.0	0.0
Dividends		(0.7)	(2.2)	(2.5)	(2.8)	(3.1)	(3.6)	(4.1)	(4.6)	(4.9)
Net Cash Flow		6.6	(4.9)	(12.7)	5.2	13.4	(17.1)	4.8	9.6	7.4
Opening net debt/(cash)		15.9	10.6	17.8	30.7	27.4	14.2	32.5	26.8	17.2
HP finance leases initiated		0.0	(0.8)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Other		(1.3)	(1.5)	(0.1)	(1.9)	(0.2)	(1.2)	0.9	0.0	(0.0)
Closing net debt/(cash)		10.6	17.8	30.7	27.4	14.2	32.5	26.8	17.2	9.8

Source: Company accounts, Edison Investment Research

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