

Victoria

Strategy continues to deliver strong growth

Victoria's management continues to drive revenue and margin growth through a combination of acquisition, closer integration of operations and organic growth. Having completed four acquisitions during FY17, the group now intends to strengthen its presence in mainland Europe and is embarking on a major restructuring of the UK manufacturing and logistics operations. The shares trade on prospective multiples that reflect the anticipated rate of earnings growth.

Delivering on management goals

FY17 revenues rose by 29% y-o-y to £330.4m. While this was primarily driven by acquisitions, l-f-l growth in constant currency was 4.6%, which management estimates was ahead of the market as a whole. Underlying EBITDA increased by 41% (10.6% l-f-l) to £45.7m, giving 13.8% EBITDA margin, close to its long-term target of 14% as achieved by major US manufacturers. L-f-l margin improvement was driven by operational improvements including some logistics savings. Acquisitions included two underlay manufacturers, one in the UK, one in Australia, complementing the underlay offer from Interfloor, and two smaller businesses in the Netherlands making artificial turf for domestic and commercial deployments, thus realising management's goal of establishing a presence in mainland Europe.

More growth to come

Management intends to continue with its acquisition strategy to build the group up to around \$1bn revenues in the medium term. Management notes that it could add up to £30m EBITDA (c 60% growth) without raising equity or requiring new debt facilities. Further acquisitions are likely to be in mainland Europe. The appointment of CEO Philippe Hamers in March 2017 brings an industry veteran to drive organic growth while generating margin improvement from existing operations. The next project designed to enhance margins is to transfer manufacturing operations from Kidderminster to the group's other two UK carpet production facilities, then create a distribution centre serving all the UK businesses at the vacated Kidderminster site.

Valuation: Growth trajectory justifies premium

The share price has doubled over the last year, reflecting growing investor awareness of management's ability to deliver sustained revenue and earnings growth. The shares trade on prospective multiples that are in line with the mean of our sample of peers in the consumer discretionary sector. Given the track record of earnings-enhancing acquisitions, a premium to the mean appears justified.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/16	255.2	18.2*	16.9*	0.0	30.2	N/A
03/17	330.4	29.4*	25.3*	0.0	20.2	N/A
03/18e	392.5	37.6	30.8	0.0	16.6	N/A
03/19e	401.9	41.2	33.7	0.0	15.1	N/A

Source: Bloomberg, brokers' estimates. Note: *Adjusted for exceptional items and amortisation of acquired intangibles.

Consumer discretionary

27 July 2017

Price 510p
Market cap £464m

Share price graph



Share details

Code	VCP
Listing	AIM
Shares in issue	91.0m

Business description

Victoria is a manufacturer, supplier and distributor of design-led carpets and flooring for the premium-end and mid-markets. It has operations in the UK, Australia and continental Europe.

Bull

- Proven track record of identifying and integrating acquisitions.
- Acquisition strategy brings economies of scale in purchasing, improving margins.
- In-house logistics operation helps attract retailers and supports margins.

Bear

- Flooring is a discretionary item that is highly sensitive to a downturn in consumer sentiment.
- Markets served are low growth.
- 113% gearing end FY17 (but net debt/EBITDA 1.6x).

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