

McBride

Consumer
8 September 2017

Repairs complete

McBride has completed its Repair phase of the turnaround programme and has commenced the Prepare phase. The business is performing in line with what management had set out at the start of the programme, and overall progress demonstrates that McBride is indeed now more focused on the bottom line, as key financial ratios are improving. The acquisition of Danlind for £39m, announced earlier this week, demonstrates that execution of the Prepare phase is already well underway.

Holding up in a challenging environment

FY results were in line with expectations and trading in the new fiscal year has had a satisfactory start. Revenue pressures remain, but the company's unrelenting focus on cost and efficiency should continue to mitigate them. Management expects performance to be weighted towards H2 – a reversal of the trend in FY17 – as most of the raw material cost increases seen last year will be more evident in H1, with comparatives easing in H2. The current trend for food price inflation makes it hard to pass on price increases in other consumer categories such as household, which is not helpful, and the termination of the PCA (aerosols) business sale is an additional distraction as the business needs to be reintegrated into the company.

Contract manufacturing and I&I: New growth?

As outlined at the H117 results, there is an increased trend towards contract manufacturing. Branded manufacturers are increasingly under pressure to review cost structures, and McBride has engaged meaningfully with a number of potential customers. These projects will take a while to come through, but progress is nonetheless encouraging as the segment could be a new area of growth. Separately, the Danlind acquisition brings a new channel to McBride Institutional and Industrial (I&I: hospitals, hotels, restaurants etc). This is a segment where the company has no historical presence and could provide an interesting new growth opportunity if McBride chooses to expand the I&I business beyond Danlind's Danish core.

Valuation: Turnaround yet to be reflected

McBride trades on 12.6x FY18e P/E and 11.0x FY19e P/E, which is a sharp discount to the household sector. A re-rating is conditional on successful delivery of the turnaround programme and ensuring that cost savings fall through to the bottom line; so far the results have been encouraging. Adjusted EBITA margin continued on the right trajectory and was 5.9% for FY17, the net debt cover ratio (net debt/EBITDA) was down to 1.2x (this will rise post-Danlind) and ROCE was 27.7%.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/17	705.2	34.6	13.1	4.3	14.9	2.2
06/18e	738.5	40.5	15.5	5.2	12.6	2.7
06/19e	762.6	45.9	17.7	5.8	11.0	3.0
06/20e	781.3	50.6	19.6	6.2	10.0	3.2

Source: Bloomberg

Price 195.25p
Market cap £356m

Share price graph



Share details

Code	MCB
Listing	LSE
Shares in issue	182.1m

Business description

McBride is Europe's leading provider of private-label household and personal care products, supplying Europe's top 50 retailers. It has production capability in 11 countries and is growing a presence in Central and Eastern Europe, and South-East Asia.

Bull

- Management focused on tight cost control.
- Contract manufacturing and I&I channel a new source of growth.
- Danlind acquisition provides scope for growth in new geographies and channels, and efficiency savings.

Bear

- Raw materials increasing.
- Termination of PCA business sale a distraction.
- Execution risks remain with the turnaround programme.

Analysts

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