

# Low & Bonar

Trading update

## Slightly softer end to FY17

A year end update led to a c 5% reduction in our FY17 PBT expectation. More detail on trading performance will emerge with the FY17 results due on 31 January and we will review our group estimates fully at that time. Investors will look for signs of trading stability and prospective cash generation, while eyeing a dividend yield of c 6%. The search for a new CEO is unlikely to have concluded by then, in our view; the role is being covered in the short term by an experienced existing NED.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
11/15	362.1	27.4	5.8	2.8	9.6	5.2
11/16	402.2	29.2	6.0	3.0	8.9	5.7
11/17e	445.0	30.3	6.1	3.2	8.6	6.0
11/18e	445.4	36.3	7.4	3.3	7.2	6.2

Note: \*PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles and exceptional items. Excludes disposed gross yarns business.

## Weaker final quarter in Coated Technical Textiles

Year-end management guidance (20 December) pointed to a likely PBT norm outturn in the £30-31m range. (Our pre-update expectation was £31.8m, market range £31.8-33.0m.) Action taken to move older, lower-margin Coated Technical Textiles (CTT) inventory affected sales mix in the final quarter, leading to revised guidance. This suggests that H217 CTT profitability was flat to slightly down y-o-y, after a good H1 performance. As a result, we have reduced our FY17 PBT norm estimate by 4.7%. Market conditions were otherwise described as stable, although there were no further specific comments on trading in the other business units.

## More detail to emerge with FY17 results

FY17 results are due to be released on 31 January and we will review group estimates more fully at that time in the context of a more detailed update. (We are aware that others may have also lowered out-year estimates although the basis for this is not clear.) We note that end-FY17 net debt is expected to be c £138m. In addition to a trading overview, we expect FY17 results to provide commentary on the previously flagged Civil Engineering business unit strategic review. With the intended departure of Brett Simpson for the CEO role at Fenner in April, results presentations are likely to be led by NED/interim CEO Trudy Schoolenberg alongside CFO Philip de Klerk (appointed in October 2017).

## Valuation: Single-digit P/E, yield approaching 6%

The trading update was followed by a c 20% share price reduction on the day of the announcement, which may have reflected larger downgrades elsewhere. On our estimates, the closing year P/E and EV/EBITDA (adjusted for pensions cash and on a projected debt basis) multiples are 8.6x and 6.3x respectively. While we acknowledge that greater clarity on future prospects would be helpful, we consider that FY18 earnings are likely to show reasonable progress and, hence, generate prospective multiples below those noted for FY17 with a yield approaching 6%.

### Construction & materials

3 January 2018

**Price** **53.0p**
**Market cap** **£175m**

£1.12/£

Net debt (£m) at end May 2017 149

Shares in issue 329.4m

Free float 99%

Code LWB

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(19.1)	(34.2)	(19.1)
Rel (local)	(22.6)	(36.0)	(25.4)

52-week high/low 89.8p 53.0p

### Business description

Low & Bonar produces specialist performance materials for a variety of end-markets by combining polymers with specialty additives and pigments. It now reports as four global business units: Civil Engineering (23% of FY16 revenue), Building & Industrial (18%), Interiors & Transport (26%), and Coated Technical Textiles (33%).

### Next events

FY17 results 31 January 2018

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**Exhibit 1: Financial summary**

	£m	2014	2015	2015	2016	2017e	2018e	2019e
Year end 30 November		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>		<b>IAS19R</b>	<b>IAS19R</b>	<b>Restated IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>
Revenue		410.6	395.8	362.1	402.2	445.0	445.4	459.6
Cost of Sales		N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross Profit		N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA		45.6	46.9	46.0	52.8	54.3	61.3	64.5
Operating Profit (ex SBP)		32.3	33.4	32.5	35.6	36.1	42.1	44.3
Net Interest		(5.0)	(4.2)	(4.3)	(5.4)	(4.5)	(4.5)	(4.3)
SBP		(0.6)	(0.6)	(0.6)	(0.9)	(1.2)	(1.2)	(1.2)
Saudi JV		(1.1)	(1.8)	0.0	0.0	0.0	0.0	0.0
PNFC		(0.4)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Profit Before Tax (company norm)		25.2	26.5	27.4	29.2	30.3	36.3	38.7
Intangible Amortisation		(5.2)	(4.1)	(4.1)	(4.0)	(4.0)	(4.0)	(4.0)
Exceptionals		(3.3)	(10.1)	(1.9)	0.7	(11)	0	0
Profit Before Tax (FRS 3)		16.7	12.4	21.4	25.9	15.7	32.3	34.7
Tax		(4.9)	(6.3)	(6.2)	(8.2)	(8.6)	(10.9)	(11.6)
Minorities		(0.3)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Other				(9.0)	(3.2)			
Profit After Tax (norm)		18.3	18.6	19.0	19.9	20.6	24.8	26.5
Profit After Tax (FRS 3)		11.8	6.1	5.7	13.9	6.4	20.7	22.4
Average Number of Shares Outstanding (m)		327.0	328.1	328.1	329.0	329.3	329.3	329.3
EPS FD- normalised (p)		5.4	5.5	5.8	6.0	6.1	7.4	7.9
EPS - FRS 3 (p)		3.5	1.7	1.7	5.2	2.0	6.3	6.8
Dividend per share (p)		2.7	2.8	2.8	3.0	3.2	3.3	3.5
Gross Margin (%)								
EBITDA Margin (%)		11.1	11.8	11.8	13.1	12.2	13.8	14.0
Operating Margin (before amort. and except) (%)		7.9	8.4	8.4	8.9	8.1	9.5	9.6
<b>BALANCE SHEET</b>								
Fixed Assets		230.2	232.0		261.2	266.1	272.1	275.1
Intangible Assets		105.8	89.9		104.8	110.5	109.5	106.5
Tangible Assets		119.3	132.0		150.3	149.0	156.0	162.0
Investments		5.1	10.1		6.1	6.6	6.6	6.6
Current Assets		192.0	187.6		202.9	224.7	227.8	236.9
Stocks		90.9	82.6		97.5	107.9	106.0	107.4
Debtors		62.8	62.9		70.3	78.8	77.9	79.4
Other		12.5	8.2		8.7	10.3	10.3	10.3
Cash		25.8	33.9		26.3	27.7	33.6	39.8
Current Liabilities		(87.7)	(114.4)		(88.9)	(94.1)	(96.9)	(101.9)
Creditors		(87.7)	(82.9)		(88.8)	(93.9)	(96.9)	(101.9)
Short term borrowings		0.0	(31.5)		(0.1)	(0.2)	0.0	0.0
Long Term Liabilities		(147.6)	(133.3)		(171.5)	(194.7)	(190.2)	(185.7)
Long term borrowings		(113.8)	(104.5)		(137.2)	(165.5)	(165.5)	(165.5)
Other long term liabilities		(33.8)	(28.7)		(34.3)	(29.2)	(24.7)	(20.2)
Net Assets		186.9	171.9		203.6	202.0	212.9	224.4
<b>CASH FLOW</b>								
Operating Cash Flow		34.1	35.3		33.9	29.6	60.6	59.6
Net Interest		(4.5)	(4.5)		(4.9)	(4.5)	(4.5)	(4.3)
Tax		(7.7)	(7.5)		(10.8)	(9.1)	(10.9)	(11.6)
Capex		(20.2)	(33.7)		(22.2)	(35.0)	(28.0)	(26.0)
Acquisitions/disposals		3.0	0.0		21.7	5.1	(0.5)	0.0
Financing		0	(1)		(0)	(1)	0	0
Dividends		(8.8)	(9.0)		(9.2)	(10.1)	(10.5)	(11.5)
Net Cash Flow		(4.0)	(20.2)		8.4	(24.6)	6.1	6.2
Opening net debt/(cash)		86.8	88.0		102.1	111.0	138.0	131.9
HP finance leases initiated		0.0	0.0		0.0	0.0	0.0	0.0
Other		2.8	6.1		(17.3)	(2.4)	0.0	0.0
Closing net debt/(cash)		88.0	102.1		111.0	138.0	131.9	125.7

Source: Company accounts, Edison Investment Research

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