

International Greetings

On a roll

The year-end trading update confirms that the group will have delivered profits in line with market forecasts, albeit with a different geographic split. The performance on cash generation has been better than we were anticipating and the focus on debt reduction will result in a figure below our £44m forecast, despite the recent major capital expenditure. This should reassure the market that the balance sheet improvement is in hand and but not at the expense of future growth potential. The shares remain modestly priced given that the return on all the hard work should start to become apparent in what is now the current financial year.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/12	220.8	7.6	7.6	0.0	10.0	N/A
03/13	225.2	7.8	8.7	0.0	8.7	N/A
03/14e	230.5	7.8	8.7	0.0	8.7	N/A
03/15e	237.3	8.9	9.9	0.0	7.7	N/A

Note: *PBT and EPS are normalised and fd, excluding intangible amortisation, exceptional items and share-based payments.

Capital project on time and on budget

The major project to upgrade the Welsh facilities, switching from gravure to flexographic printing and from solvent-based to water-based inks, is both on time and on budget. Following from the upgrade of the Dutch facilities, it leaves the group with very efficient high-volume manufacturing – essential in a low unit cost product environment where overall market growth is minimal. Capex should fall markedly in FY15, indicating an accelerating reduction in the debt burden over the course of the year.

Europe performance ahead, US shy

While the statement itself contains little detail ahead of the finals scheduled for 2 July, the European business is reported as having delivered “excellent growth” – particularly encouraging given the earlier Dutch investment, while the US suffered from the dreadful winter weather conditions in an otherwise sound trading environment. Our estimates are unchanged. The current year order book is encouraging, giving further credibility to the prospects that it will be FY15 when profits start to move ahead from their current plateau and that the payment of dividends is a more realistic prospect.

Valuation: Clawing back the market discount

As confidence builds that management’s strategy is delivering with respect to the debt reduction and that the payment of dividends is edging closer, the shares have benefitted from some rerating. There is now no sensible international peer group, given one of the US companies has been taken private and the other has limited liquidity. However, our unchanged DCF based on conservative assumptions derives a value of 85p, while we estimate the value of the underlying assets at the year end at 88p.

Pre-close trading statement

Media

25 April 2014

Price 76p
Market cap £43m

Net debt (£m) at 30 September 2013	85
Shares in issue	56.8m
Free float	49.5%
Code	IGR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	10.95	0.33	93.63
Rel (local)	8.49	(0.41)	82.64
52-week high/low		82.5p	29p

Business description

International Greetings is one of the world's leading designers, innovators and manufacturers of gift packaging and greetings, stationery and creative play products.

Next event

Final results	2 July 2014
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[Edison profile page](#)

Exhibit 1: Financial summary

	£'000s	2011	2012	2013	2014e	2015e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		216,857	220,755	225,211	230,500	237,325
Cost of Sales		(179,135)	(178,190)	(183,941)	(187,858)	(191,569)
Gross Profit		37,722	42,565	41,270	42,643	45,756
EBITDA		12,521	15,010	15,047	15,100	15,805
Operating Profit (before amort and except)		8,413	11,257	11,240	11,325	12,030
Intangible Amortisation		(331)	(534)	(494)	(500)	(500)
Exceptionals		(900)	(3,918)	(1,603)	(2,250)	(1,250)
Other		0	0	0	0	0
Operating Profit		7,182	6,805	9,143	8,575	10,280
Net Interest		(2,917)	(3,635)	(3,466)	(3,550)	(3,100)
Profit Before Tax (norm)		5,496	7,622	7,774	7,775	8,930
Profit Before Tax (FRS 3)		4,265	3,170	5,677	5,025	7,180
Tax		693	(1,753)	(1,601)	(1,407)	(1,903)
Profit After Tax (norm)		5,822	5,869	6,173	6,368	7,027
Profit After Tax (FRS 3)		4,958	1,417	4,076	3,618	5,277
Average Number of Shares Outstanding (m)		53.1	54.2	56.2	58.0	58.0
EPS - normalised (p)		9.6	8.2	9.3	9.1	10.3
EPS - normalised fully diluted (p)		8.8	7.6	8.7	8.7	9.9
EPS - (IFRS) (p)		7.7	0.3	6.0	4.7	7.5
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		17.4	19.3	18.3	18.5	19.3
EBITDA Margin (%)		5.8	6.8	6.7	6.6	6.7
Operating Margin (before GW and except.) (%)		3.9	5.1	5.0	4.9	5.1
BALANCE SHEET						
Fixed Assets		69,519	69,089	67,038	69,006	68,253
Intangible Assets		33,385	32,916	32,795	33,118	33,734
Tangible Assets		36,134	36,173	34,243	35,888	34,519
Investments		0	0	0	0	0
Current Assets		69,458	66,738	75,700	77,404	79,230
Stocks		45,582	42,628	50,114	50,778	51,759
Debtors		21,494	20,942	23,285	24,308	25,028
Cash		1,885	3,168	2,301	2,318	2,443
Other		497	0	0	0	0
Current Liabilities		(73,639)	(46,328)	(52,693)	(53,223)	(49,481)
Creditors		(35,631)	(34,985)	(39,273)	(39,803)	(40,981)
Short term borrowings		(38,008)	(11,343)	(13,420)	(13,420)	(8,500)
Long Term Liabilities		(13,028)	(36,951)	(33,473)	(37,356)	(34,856)
Long term borrowings		(8,476)	(33,679)	(31,019)	(33,000)	(30,500)
Other long term liabilities		(4,552)	(3,272)	(2,454)	(4,356)	(4,356)
Net Assets		52,310	52,548	56,572	55,832	63,146
CASH FLOW						
Operating Cash Flow		10,735	12,340	7,533	10,500	16,500
Net Interest		(3,226)	(3,491)	(3,285)	(3,550)	(3,100)
Tax		(420)	(1,131)	(937)	(1,504)	(1,655)
Capex		(3,128)	(3,764)	(1,705)	(6,250)	(3,000)
Acquisitions/disposals		0	(111)	0	0	0
Financing		533	146	159	40	0
Dividends		0	(918)	(968)	(1,000)	(1,000)
Net Cash Flow		4,494	3,071	797	(1,764)	7,745
Opening net debt/(cash)		48,890	44,599	41,854	42,138	44,102
HP finance leases initiated		0	49	(1,649)	0	0
Other		(203)	(375)	568	(200)	(200)
Closing net debt/(cash)		44,599	41,854	42,138	44,102	36,557

Source: Company accounts, Edison

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