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International Greetings

Year-end trading update

Investment pays dividends

Care & household goods

Now two years into its three-year plan to grow profits, reduce debt and drive earnings, International Greetings (IGR) is hitting its targets well ahead of schedule. The year-end update outlines a strong Q4 (with March an important trading month for the group), meaning our earlier forecasts for profits, debt and EPS will all have been comfortably exceeded. Historic leverage of under two times EBITDA clears the way for a welcome return to the dividend list. Management's credentials on delivery are well established, with capital investment now paying back. The shares are clearly undervalued.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/13	225.2	7.8	8.7	0.0	9.5	N/A
03/14	224.5	8.1	9.0	0.0	9.2	N/A
03/15e	228.0	9.7	11.7	1.0	7.1	1.2
03/16e	233.5	10.0	12.0	2.0	6.9	2.4

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

Investment paying back

FY15 had a full-year benefit of the European capital investment and five months of the significant upgrade programme in South Wales. Along with the Enper acquisition (July 2014), these investments have been paying back more quickly than had been expected, with a strong Q4 lifting full year earnings performance. This has more than offset the continued difficult trading backdrop to the Australian activities (50:50 JV). Replacing these part-owned and more highly taxed earnings with wholly owned, lower-tax earnings growth, and lowering the minority element, has further boosted earnings per share. A strong working capital performance and tight cost control have made significant headway in reducing the net debt position – a key group indicator. Management had indicated that dividend payments would be considered when leverage reduced through two times EBITDA, previously anticipated for FY16. This has been achieved a year ahead of schedule.

More to come from the US

The strong earnings growth has primarily come from mainland Europe and the UK. The US is clearly a very important market for the group and, while the top line in the US has been growing as the group has been expanding its customer reach, optimisation of returns has been delayed following the untimely death of the US CEO last year. A successor, Gideon Schlessinger, has now been appointed and we would anticipate improving returns following planned investment.

Valuation: Re-rating catalysts

With strong returns from the capital investment coming through and the profit and tax benefits of the mix boosting growth in earnings per share, the rating has notched down sharply. IGR now stands at a considerable P/E discount to its only remaining quoted peer (NYSE: CSS), its DCF-derived valuation and the group's underlying NAV. These last two measures justify a base for the valuation of 102p to 106p, well above the current share price level.

21 April 2015

Price	**83p**
Market cap	**£48m**

Net debt (£m) at March 2014	36.9
Shares in issue	57.9m
Free float	50.8%
Code	IGR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	9.2	12.7	16.9
Rel (local)	6.8	5.0	10.0
52-week high/low		86.0p	68.5p

Business description

International Greetings (IGR) is one of the world's leading designers, innovators and manufacturers of gift packaging and greetings, social expression giftware, stationery and creative play products.

Next event

Final results	23 June 2015e

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International Greetings is a research client of Edison Investment Research Limited

Upgraded forecasts

The company has a generally circumspect attitude on budgeting, with the importance of the first quarter of the calendar year militating against early adjustments to estimates. The financial results for FY15 to end March now outlined in the year-end trading update indicate a significant outperformance versus our earlier forecasts – effectively pulling them forward by a year.

Gaining a year in earnings

Exhibit 1: Revisions to forecasts

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2014	9.0	9.0		8.1	8.1		15.1	15.1	
2015e	9.3	11.7	26	8.4	9.7	15	15.3	16.2	6
2016e	11.0	12.0	9	9.5	10.0	5	16.4	16.5	1

Company accounts, Edison Investment Research

We have adjusted our published historic EBITDA numbers to reflect an earlier double counting of accelerated depreciation.

The numbers we now show for FY15 show that the effect of the good operating performance at the EBITDA level is magnified at the pre-tax level. This reflects the sharply reduced net interest charge. The consequent further reduction in blended tax rate and the reduced minority charge amplify the benefit at the EPS level.

Although it is difficult to model accurately, our revised forecasts make some attempt to anticipate the effect of recent strength in the US$, which will represent a headwind to the group in FY16. The group's operations buy dollars against their base currencies and may not be able to pass the effect on to customers immediately.

Leverage hits target

Management has indicated for a while that it would consider resuming dividend payments once the leverage ratio of year-end net debt to EBITDA decreased through two times. We had anticipated that this would happen in FY16. However, this threshold has been achieved 'comfortably' in FY15 aided by

- the strong underlying trading;
- good working capital performance;
- lower capital spend (albeit partially a matter of timing); and
- improved tax position.

The full figures are scheduled for release around 23 June, but we have read into the statement that the year-end net debt position will be in the order of £30m, against our earlier projection of £36m, despite a £3m capital spend in the year. Capex is likely to tick up again in FY16 as investment is made in the US operations. Nevertheless, we anticipate a further reduction in the overall debt position to £26m for end FY16 (previously £30m).

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Exhibit 2: Financial summary

£'000s	2012	2013	2014	2015e	2016e
Year end 31 March	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	220,755	225,211	224,462	228,000	233,500
Cost of Sales	(178,190)	(183,941)	(185,244)	(188,328)	(192,638)
Gross Profit	42,565	41,270	39,218	39,672	40,863
EBITDA	15,010	15,047	15,096	16,175	16,500
Operating Profit (before amort and except)	11,257	11,240	11,238	12,425	12,500
Intangible Amortisation	(534)	(494)	(576)	(576)	(576)
Exceptionals	(3,918)	(1,603)	(2,298)	(1,400)	0
Share-based payments	0	(22)	(82)	(575)	(500)
Operating Profit	6,805	9,121	8,282	9,874	11,424
Net Interest	(3,635)	(3,466)	(3,177)	(2,775)	(2,500)
Profit Before Tax (norm)	7,622	7,774	8,061	9,650	10,000
Profit Before Tax (FRS 3)	3,170	5,655	5,187	7,674	9,424
Tax	(1,753)	(1,601)	(1,459)	(1,919)	(2,205)
Profit After Tax (norm)	5,869	6,173	6,602	7,732	7,795
Profit After Tax (FRS 3)	1,417	4,054	3,728	5,756	7,219
Average Number of Shares Outstanding (m)	54.2	56.2	57.5	57.9	57.9
EPS - normalised (p)	8.2	9.3	9.3	12.2	12.5
EPS - normalised fully diluted (p)	7.6	8.7	9.0	11.7	12.0
EPS - (IFRS) (p)	0.3	6.0	5.2	8.9	11.4
Dividend per share (p)	0.0	0.0	0.0	1.0	2.0
Gross Margin (%)	19.3	18.3	17.5	17.4	17.5
EBITDA Margin (%)	6.8	6.7	6.7	7.1	7.1
Operating Margin (before GW and except.) (%)	5.1	5.0	5.0	5.4	5.4
BALANCE SHEET					
Fixed Assets	69,089	67,038	67,664	68,253	70,238
Intangible Assets	32,916	32,795	31,950	33,734	34,350
Tangible Assets	36,173	34,243	35,714	34,519	35,888
Investments	0	0	0	0	0
Current Assets	66,738	75,700	76,261	77,062	78,349
Stocks	42,628	50,114	48,460	49,962	51,935
Debtors	20,942	23,285	19,690	20,600	21,414
Cash	3,168	2,301	8,111	6,500	5,000
Other	0	0	0	0	0
Current Liabilities	(46,328)	(52,693)	(51,965)	(46,256)	(44,751)
Creditors	(34,985)	(39,273)	(39,139)	(39,756)	(39,751)
Short term borrowings	(11,343)	(13,420)	(12,826)	(6,500)	(5,000)
Long Term Liabilities	(36,951)	(33,473)	(34,799)	(34,356)	(30,356)
Long term borrowings	(33,679)	(31,019)	(32,232)	(30,000)	(26,000)
Other long term liabilities	(3,272)	(2,454)	(2,567)	(4,356)	(4,356)
Net Assets	52,548	56,572	57,161	64,704	73,480
CASH FLOW					
Operating Cash Flow	12,340	7,533	13,724	18,900	16,625
Net Interest	(3,491)	(3,285)	(3,221)	(2,775)	(2,500)
Tax	(1,131)	(937)	(60)	(1,689)	(2,062)
Capex	(3,764)	(1,705)	(5,291)	(3,000)	(6,000)
Acquisitions/disposals	(111)	0	140	(2,000)	0
Financing/Other	146	159	1,225	(920)	0
Dividends	(918)	(968)	(1,014)	(829)	(1,329)
Net Cash Flow	3,071	797	5,503	7,687	4,734
Opening net debt/(cash)	44,599	41,854	42,138	36,947	30,000
HP finance leases initiated	49	(1,649)	296	0	0
Other	(375)	568	(608)	(740)	(734)
Closing net debt/(cash)	41,854	42,138	36,947	30,000	26,000

Source: Company accounts, Edison Investment Research

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