

# Walker Greenbank

## Becoming clearer

Trading update

Care & household goods

3 August 2016

**Price** 197.0p  
**Market cap** £119m

Things are clearing: trading is in line with expectations; the Lancaster factory is almost back to full production and working on its order backlog; insurance payments are coming in; and new business streams are being established. The share price is justifiably holding up well.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/15	83.37	8.13	11.20	2.31	17.6	1.2
01/16	87.84	8.95	12.13	2.89	16.2	1.5
01/17e	90.00	7.50	10.10	3.00	19.5	1.5
01/18e	98.00	9.80	12.92	3.15	15.2	1.6

Note: \* PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments; EPS is diluted.

Net cash (£m) at 31 January 2016	2.3
Shares in issue	60.2m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	11.0	(0.8)	(15.1)
Rel (local)	9.3	(6.0)	(14.2)
52-week high/low	238.0p	159.5p	

### Business description

Walker Greenbank is a luxury interior furnishings group, combining specialist design skills with high-quality upstream manufacturing facilities. Leading brands include Harlequin, Sanderson, Morris & Co, Scion, Anthology and Zoffany.

### Next events

Interim results	Mid-October 2016
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## In line with board expectations

The key message in the half-year trading update is that trading is in line with board expectations. Under the continued influence of the major flood last December at its fabric printing business, Brand sales are 2.1% down in reported currency (4.2% in ccy), with an improvement in export sales just failing to balance a 6.1% drop in UK sales. There seems little doubt that interim results, to be announced in mid-October, will show underlying pre-tax profits, before the add back of the loss of profits claim, significantly below the £3.68m declared for the previous year.

## Positive vibes

The group has announced receipt of a further £4.0m, making £12m to date, from its insurers. We look for further payments to be agreed and paid in the coming months. The factory is reported to be almost back to full production and making sound progress towards fulfilling the backlog of printed fabric orders for both internal and third-party customers; replacement capacity includes some more modern and more efficient machinery, raising the medium-term potential. Other positive vibes include the indication that Brexit will be marginally positive from a currency viewpoint, while last month's announcement of a new licensing agreement for the supply of bed linen into the US is another indication that the group continues to look forward positively. We introduced a profit estimate of £7.5m for FY17 several months ago taking account of likely damage and loss of profits related to the flood; the extent of the insurance payments already agreed suggests the balance between underlying trading and loss of profits receipts will need revising, but we await the interim results announcement before adjusting this target. More significantly, we remain optimistic that the underlying performance for the full year, following the precedent set last year and consolidating loss of profits receipts, will meet our earlier adjusted pre-tax estimate of £9.4m. We do not propose to change our FY18 estimates.

## Valuation: Sound value

The Walker Greenbank share price continues to hold steady in the face of uncertainty. A prospective rating of 15.6x CY17 earnings is 5.8% below the 16.5x of its peer group. This represents sound value in the context of the group's consistent record and recovery potential from short-term challenges.

**Exhibit 1: Financial summary**

	£000s	2013	2014	2015	2016	2017e	2018e
Year end 31 January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		75,725	78,434	83,373	87,839	90,000	98,000
Cost of Sales		(30,193)	(30,347)	(32,674)	(35,875)	(36,758)	(40,025)
Gross Profit		45,532	48,087	50,699	51,964	53,242	57,975
EBITDA		8,625	9,730	10,689	11,764	10,400	12,800
Operating Profit (before amort. and except.)		6,577	7,513	8,340	9,126	7,700	10,000
Intangibles Amortisation		0	0	0	0	0	0
LTIP / Exceptionals		(746)	(970)	(1,005)	(924)	(900)	(900)
Other		0	0	0	0	0	0
Operating Profit		5,831	6,543	7,335	8,202	6,800	9,100
Net Interest/defined benefit pension charge		(897)	(1,048)	(1,006)	(864)	(900)	(900)
Other		0	0	0	0	0	0
Profit Before Tax (norm)		6,384	7,333	8,132	8,947	7,500	9,800
Profit Before Tax (FRS 3)		4,934	5,495	6,329	7,338	5,900	8,200
Tax		(972)	(451)	(1,224)	(1,466)	(1,250)	(1,800)
Profit After Tax (norm)		5,412	6,606	6,908	7,481	6,250	8,000
Profit After Tax (FRS 3)		3,962	5,044	5,105	5,872	4,650	6,400
Average Number of Shares Outstanding (m)		57.5	58.5	59.3	60.0	60.2	60.2
EPS - normalised (p)		9.41	11.30	11.64	12.47	10.38	13.29
EPS - normalised and fully diluted (p)		9.41	10.66	11.20	12.13	10.10	12.92
EPS - FRS 3 (p)		6.89	8.63	8.60	9.79	7.72	10.63
Dividend per share (p)		1.48	1.85	2.31	2.89	3.00	3.15
Gross Margin (%)		60.1	61.3	60.8	59.2	59.2	59.2
EBITDA Margin (%)		11.4	12.4	12.8	13.4	11.6	13.1
Operating Margin (before GW and except.) (%)		8.7	9.6	10.0	10.4	8.6	10.2
<b>BALANCE SHEET</b>							
Fixed Assets		18,506	21,142	21,463	18,899	21,203	21,716
Intangible Assets		6,683	7,289	7,158	7,104	7,054	7,004
Tangible Assets		9,808	11,690	12,714	11,687	13,987	14,687
Deferred income tax assets		2,015	2,163	1,591	108	162	25
Current Assets		32,618	35,295	37,105	40,286	40,689	48,045
Stocks		16,825	18,428	22,004	18,104	20,500	23,322
Debtors		12,810	13,884	14,130	19,280	15,000	16,833
Cash		2,920	2,830	971	2,902	5,189	7,889
Other		63	153	0	0	0	0
Current Liabilities		(17,340)	(19,435)	(20,710)	(19,392)	(20,900)	(22,722)
Creditors		(16,940)	(19,035)	(20,310)	(18,992)	(20,500)	(22,322)
Short term borrowings		(400)	(400)	(400)	(400)	(400)	(400)
Long Term Liabilities		(9,602)	(10,150)	(10,921)	(4,509)	(4,200)	(4,200)
Long term borrowings		(1,364)	(942)	(569)	(196)	(200)	(200)
Other long term liabilities		(8,238)	(9,208)	(10,352)	(4,313)	(4,000)	(4,000)
Net Assets		24,182	26,852	26,937	35,284	36,792	42,838
<b>CASH FLOW</b>							
Operating Cash Flow		6,023	6,165	3,468	7,103	9,109	9,967
Net Interest		(209)	(152)	(181)	(149)	(200)	(200)
Tax		(16)	(18)	(32)	(630)	(1,304)	(1,663)
Capex		(3,119)	(4,735)	(3,230)	(2,510)	(3,500)	(3,500)
Acquisitions/disposals		0	0	0	0	0	0
Financing		(145)	(28)	(367)	(66)	(50)	(50)
Dividends		(711)	(900)	(1,144)	(1,444)	(1,772)	(1,854)
Net Cash Flow		1,823	332	(1,486)	2,304	2,283	2,700
Opening net debt/(cash)		667	(1,156)	(1,488)	(2)	(2,306)	(4,589)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	(0)	0
Closing net debt/(cash)		(1,156)	(1,488)	(2)	(2,306)	(4,589)	(7,289)

Source: Walker Greenbank accounts, Edison Investment Research. Note: FY16 profit includes £1.4m loss of profits insurance payment.

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