

Walker Greenbank

Back on course

FY trading update

Care & household goods

7 February 2017

Price 202p
Market cap £122m

Walker Greenbank's pre-close trading statement reinforces market estimates, puts its major flood largely into the history books and enables the market to concentrate on the future. April's FY results announcement could signal the end of a prolonged period of consolidation for the shares.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/15	83.37	8.13	11.20	2.31	18.0	1.1
01/16	87.84	8.95	12.13	2.89	16.7	1.4
01/17e**	92.40	10.40	12.66	3.20	16.0	1.6
01/18e**	123.00	14.30	15.93	3.35	12.7	1.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments; EPS is diluted. **Clarke & Clarke consolidated from 1 October 2016.

Strong H2 recovery

As anticipated, Walker Greenbank has delivered a strong recovery from the impact of the December 2015 flash flood, which disrupted the H117 performance. FY17 revenue is indicated at £92.4m, consolidating £7.3m from Clarke & Clarke (C&C); this is marginally above our earlier £92.0m estimate. FY brand sales, excluding C&C, are down by 2.2% on a constant currency basis (+1.5% actual currency), compared with a 4.7% (-2.0%) reduction at the interim stage. Similar recoveries are indicated for all regions, reflecting a continued sound underlying performance in a challenging market place, but with improved supply of printed fabrics, following the return of the Lancaster factory to full production. As was seen at the interim stage, profits will be credited with further loss of profit payments from insurers. We leave our underlying FY17 PBT estimate of £10.4m unchanged.

Positive outlook

The key message is that the group is back on course. The warehouse is reported to be fully stocked, including a full range of printed textiles. The Brexit vote apparently is having more of an effect on UK demand than on exports. We understand from management that C&C is running in line with earlier management expectations, implying a material positive impact on FY18 earnings; we maintain our FY18 estimates. With the Lancaster factory re-equipped with more modern machinery, continued investment in new and exciting collections across the brands and with medium-term synergy benefits from C&C still to come, the outlook remains positive, despite the challenging trading conditions. With a £17m (gross) equity fund-raising falling short of the £25m cash element of the C&C acquisition, the group moved into debt during the second half. We believe that our FY17 net debt estimate of £5.5m remains realistic.

Valuation: Acquisition benefits not recognised

On the basis of CY18 prospective earnings, Walker Greenbank is rated at a 27% discount to its peer group (12.7x vs 17.7x). Forthcoming results should place the flood into history, enabling the market to look positively at the potential benefits of ongoing consistent investment, including the C&C acquisition.

Net cash (£m) at 31 July 2016	2.5
Shares in issue	60.6m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.5)	(0.3)	4.4
Rel (local)	(1.1)	(6.8)	(13.9)
52-week high/low	218.5p	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, Zoffany and Clarke & Clarke (from October 2016).

Next event

Preliminary FY17 results	26 April 2017
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Exhibit 1: Financial summary

	£000s	2013	2014	2015	2016	2017e	2018e
Year end 31 January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		75,725	78,434	83,373	87,839	92,400	123,000
Cost of Sales		(30,193)	(30,347)	(32,674)	(35,875)	(37,738)	(54,120)
Gross Profit		45,532	48,087	50,699	51,964	54,662	68,880
EBITDA		8,625	9,730	10,689	11,764	13,500	17,400
Operating Profit (before amort. and except.)		6,577	7,513	8,340	9,126	10,700	14,500
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	9,800	13,600
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	10,400	14,300
Profit Before Tax (FRS 3)		4,934	5,495	6,329	7,338	8,900	12,700
Tax		(972)	(451)	(1,224)	(1,466)	(2,250)	(2,700)
Profit After Tax (norm)		5,412	6,606	6,908	7,481	8,150	11,600
Profit After Tax (FRS 3)		3,962	5,044	5,105	5,872	6,650	10,000
Average Number of Shares Outstanding (m)		57.5	58.5	59.3	60.0	62.7	69.1
EPS - normalised (p)		9.41	11.30	11.64	12.47	13.00	16.79
EPS - normalised and fully diluted (p)		9.41	10.66	11.20	12.13	12.66	15.93
EPS - FRS 3 (p)		6.89	8.63	8.60	9.79	10.61	14.47
Dividend per share (p)		1.48	1.85	2.31	2.89	3.20	3.35
Gross Margin (%)		60.1	61.3	60.8	59.2	59.2	56.0
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	14.1
Operating Margin (before GW and except.) (%)		8.7	9.6	10.0	10.4	11.6	11.8
BALANCE SHEET							
Fixed Assets		18,506	21,142	21,463	18,899	37,153	37,591
Intangible Assets		6,683	7,289	7,158	7,104	21,854	21,804
Tangible Assets		9,808	11,690	12,714	11,687	15,087	15,687
Deferred income tax assets		2,015	2,163	1,591	108	212	100
Current Assets		32,618	35,295	37,105	40,286	49,559	57,431
Stocks		16,825	18,428	22,004	18,104	29,000	33,104
Debtors		12,810	13,884	14,130	19,280	21,500	24,220
Cash		2,920	2,830	971	2,902	-941	107
Other		63	153	0	0	0	0
Current Liabilities		(17,340)	(19,435)	(20,710)	(19,392)	(27,900)	(26,682)
Creditors		(16,940)	(19,035)	(20,310)	(18,992)	(23,500)	(24,282)
Short term borrowings		(400)	(400)	(400)	(400)	(4,400)	(2,400)
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	54,612	64,139
CASH FLOW							
Operating Cash Flow		6,023	6,165	3,468	7,103	9,209	11,358
Net Interest		(209)	(152)	(181)	(149)	(300)	(200)
Tax		(16)	(18)	(32)	(630)	(2,354)	(2,588)
Capex		(3,119)	(4,735)	(3,230)	(2,510)	(3,500)	(3,500)
Acquisitions/disposals		0	0	0	0	(25,000)	0
Financing		(145)	(28)	(367)	(66)	15,950	(50)
Dividends		(711)	(900)	(1,144)	(1,444)	(1,852)	(1,973)
Net Cash Flow		1,823	332	(1,486)	2,304	(7,847)	3,048
Opening net debt/(cash)		667	(1,156)	(1,488)	(2)	(2,306)	5,541
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)	5,541	2,493

Source: Walker Greenbank accounts, Edison Investment Research

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