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McBride

Consumer

24 February 2020

Awaiting the new strategy

McBride's H1 results revealed a mixed picture by geography. Household revenues were down 1.4% at constant currency and group revenues were down 4.4%. Adjusted operating profit was down c 30%, and there was a marked slowdown in the business during November and December. However, January saw an improvement. FY guidance has been maintained, implying a better H2 helped by easier comps and a relatively benign raw material outlook, although we note that distribution costs were higher during H1, and management highlights that markets remain challenging. The new CEO, Ludwig de Mot, has initiated a comprehensive review of the business, on which he expects to report at the FY results in September. Following a series of disappointments, the valuation fairly reflects the balance of risk and opportunity.

McBride remains a strong player

Industry overcapacity remains a problem, especially as the smaller, privately held suppliers are often prepared to accept lower margins. McBride is well-placed in that it commands leading market shares in a fragmented space, but the long tail of small suppliers continues to pose a challenge. Consolidation and rationalisation in the space is long overdue, but the pace of change is likely to be slow.

Markets remain challenging

In the results statement, management highlights that the markets remain challenging. Raw material costs have stabilised, but distribution costs were up, and the full-year effect of some contract losses is still being felt. Some of these contract losses occurred due to greater focus on profitability, leading to the loss of some very low-margin business. Others, however, were symptomatic of the tough environment: for example in fabric conditioner, Aldi changed its supply back to dual sourcing, where previously McBride enjoyed sole supplier status.

Valuation: Reflects balance of risk and opportunity

McBride trades on 9.0x FY20e P/E and 5.5x FY20e EV/EBITDA, which is a sharp discount to the household sector. A re-rating is conditional on a successful stabilisation of the business following the profit warnings over the past 18 months, and then a convincing turnaround strategy with a focus on improving margins and ensuring any cost savings and operating leverage fall through to the bottom line. Adjusted operating margins stood at just 4.0% for FY19 and ROCE at 15.3%, down from a peak of 27.7% in FY17. Net debt cover remained comfortable at 2.2x as of December 2019, and the dividend is 2.4x covered with a 4.7% yield for FY20e.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/18	689.8	33.2	12.7	4.3	5.2	6.5
06/19	721.3	24.5	9.7	3.3	6.8	5.0
06/20e	697.7	18.9	7.4	3.1	9.0	4.7
06/21e	702.7	20.6	8.0	3.1	8.2	4.7

Source: Refinitiv, company data

Price	66.0p
Market cap	£121m

Share price graph

Share details

Code	MCB
Listing	LSE
Shares in issue	182.8m

Business description

McBride is Europe's leading provider of private-label household and personal care products, supplying Europe's top 50 retailers. It has production capability in 11 countries and is growing a presence in Central and Eastern Europe, and South-East Asia.

Bull

- Management focused on tight cost control.
- Contract manufacturing continues to be a source of growth.
- The Asian business continues to grow, and the new Malaysian production facility is now expected to be operational later this year.

Bear

- Distribution costs up year-on-year.
- Customer service levels still below where they should be.
- Execution risks with the future strategy and turnaround programme.

Analysts

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