

McBride

Consumer
6 September 2019

Tough environment easing slightly

Despite the challenges encountered during FY18, McBride delivered underlying revenue growth of 3.7% excluding aerosols. Raw material and labour cost increases hampered profit and margin progression, but the inflationary trends have started to stabilise, so there should be less pressure during FY20. The 'Prepare' phase of the strategy has been reinvigorated, such that management's expectation for FY20 remains of flat revenues and earnings slightly below FY19.

Reinvigorating 'Prepare'

Interim CEO Chris Smith has reinvigorated the 'Prepare' phase of the company's Repair, Prepare, Grow strategy, recognising that there is more to do as the competitive environment has evolved. FY20 is likely to be a transition year as costs begin to stabilise and a permanent CEO is sought.

McBride remains a strong player

McBride is well-placed from a competitive standpoint, as it commands leading market share in a fragmented space. That said, the problem in the private-label segment remains the long tail of private, family-owned competitors which do not always appear to act rationally, or which can afford longer periods of underperformance. Over the long term, the European private-label household space is likely to see consolidation and rationalisation, which should lead to margin improvement, but the pace of change is likely to be slow.

Environment is challenging

FY results were in line with guidance set out at the July trading update, but fell materially short of what was expected at the start of the year. The new fiscal year has had a satisfactory start, but the margin environment remains challenging. While input costs are starting to stabilise, prices are still up year-on-year, and due to the tough competitive environment, it is hard to pass on the inflationary pressures.

Valuation: Profit warnings have dented rating

McBride trades on 5.9x FY20e P/E and 5.8x 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 during FY19, and then a longer-term 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 remains comfortable at 2.6x, and the dividend is 2.9x covered with an 8.2% 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	4.1	8.3
06/19	721.3	24.5	9.7	3.3	5.3	6.4
06/20e	720.4	22.6	8.8	4.2	5.9	8.2
06/21e	726.8	28.3	11.2	4.4	4.6	8.6

Source: Company data, Refinitiv

Price **52p**
Market cap **£94m**

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.
- Danlind acquisition continues to provide scope for growth in new geographies and channels, and efficiency savings.

Bear

- Raw materials still up year-on-year.
- Customer service levels still below where they should be.
- Execution risks remain with the turnaround programme, potential change of CEO.

Analysts

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