

Walker Greenbank

Year-end update

Management expectations met

FY18 closed in line with management expectations showing good top-line progress overall despite some UK market variability. The latter appears to have affected sentiment – as reflected in single-digit prospective P/E multiples – but there are positive mix effects also that should not be overlooked. A rising dividend provides an additional attraction.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/16	87.8	8.9	11.6	2.9	11.4	2.2
01/17	92.4	10.4	12.9	3.6	10.3	2.7
01/18e	108.9	12.4	14.0	4.5	9.5	3.4
01/19e	115.2	13.9	15.6	5.6	8.5	4.2

Note: *PBT and EPS (FD) are normalised, excluding exceptional items and LTIP charges.

Progress evident, although UK weak at year end

As previously noted, some UK market variability was seen towards the end of FY18 but, in overall terms, both divisions made good y-o-y revenue and, we expect, profit progress. In constant currency, international Brands sales grew (+1.6% organic, +18.9% including Clarke & Clarke) and favourable FX effects boosted this progress in sterling terms. Clarke & Clarke's positive full year contribution is underpinned by ongoing underlying growth while Licensing income (+21.2% y-o-y) continues to develop and contribute usefully to profitability. Manufacturing has recovered well from a flood-affected prior year and the fire-affected line at Anstey is in the process of being restored to operation. Underlying conditions for the important premium UK Brands activities remain difficult to read and Q4's trading softness is reflected in 6.1% lower segment revenue for the year as a whole.

Estimates now reflect short-term Anstey disruption

The year-end update contained no substantive commentary on market conditions and in their absence we assume that they remain similar to previous reports, with more favourable international conditions and a relatively challenging domestic market. Our only change of note to estimates is an explicit adjustment for the Anstey fire (moving c £1m revenue and c £0.5m EBIT from FY18 into FY19 as the affected machine comes back on line and catches up the associated sales). Otherwise, we made a minor revision to other underlying revenue based on FY18 run rates with profitability unchanged.

Valuation: Discounting weak markets?

While Walker Greenbank's share price is above December lows, it has not made any meaningful recovery from a sharp decline following the 15 November update. The c 36% fall between then and now compares to underlying downgrades of 12% for FY19 (excluding the Anstey adjustment) and 7% for FY20, so there has clearly been a significant de-rating during this period. The FY18 (effectively now historic) P/E is now below 10x with EV/EBITDA just above 6x, reducing further beyond this on our estimates. We acknowledge that consumer-facing stocks are experiencing weak sentiment currently, but investors should not lose sight of the company's leading market and strong financial positions.

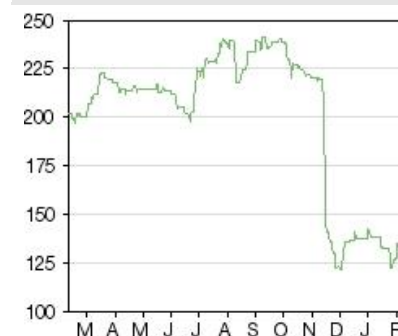
Care & household goods

7 February 2018

Price **132.5p**
Market cap **£94m**

Net debt (£m) at end July 2017	5.2
Shares in issue	70.9m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.3)	(39.9)	(34.6)
Rel (local)	3.5	(36.4)	(35.0)
52-week high/low	241.5p	121.5p	

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.

Next events

FY18 results	5 April 2018
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Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018e	2019e	2020e
January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		75.7	78.4	83.4	87.8	92.4	108.9	115.2	119.7
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(43.6)	(46.1)	(47.9)
Gross Profit		45.5	48.1	50.7	52.0	56.2	65.3	69.1	71.8
EBITDA		8.6	9.7	10.7	11.8	13.4	16.1	17.8	19.0
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	12.7	14.1	15.0
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	11.7	13.1	14.0
Net Interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	(0.1)
Intangible Amortisation - acquired		0	0	0	0	(0.3)	(1.1)	(1.1)	(1.1)
Pension net finance charge		(0.7)	(0.9)	(0.8)	(0.7)	(0.5)	(0.7)	(0.7)	(0.7)
Exceptionals		0	0	0	0	(1.8)	(0.5)	0.0	0.0
Other		0	0	0	0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		6.4	7.3	8.1	8.9	10.4	12.4	13.9	14.9
Profit Before Tax (FRS 3)		4.9	5.5	6.3	7.3	7.0	9.2	11.2	12.2
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(2.2)	(2.5)	(2.5)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	10.2	11.4	12.4
Profit After Tax (FRS 3)		4.0	5.0	5.1	5.9	5.4	7.1	8.7	9.7
Average Number of Shares Outstanding (m)		57.5	58.5	59.3	60.0	62.7	70.2	71.0	71.4
EPS - normalised (p) FD		9.4	10.7	11.2	11.6	12.9	14.0	15.6	16.8
EPS - FRS 3 (p)		6.9	8.6	8.6	9.8	8.6	10.1	12.3	13.6
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.5	5.6	7.0
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.0	60.0	60.0
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	14.8	15.5	15.9
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	10.7	11.4	11.7
BALANCE SHEET									
Fixed Assets		18.5	21.1	21.5	18.9	47.5	47.4	46.2	44.7
Intangible Assets		6.7	7.3	7.2	7.1	31.6	31.5	30.2	29.0
Tangible Assets		9.8	11.7	12.7	11.7	15.8	15.9	15.9	15.7
Investments		2.0	2.2	1.6	0.1	0.0	0.0	0.0	0.0
Current Assets		32.6	35.3	37.1	40.3	51.3	54.8	54.4	60.9
Stocks		16.8	18.4	22.0	18.1	30.3	32.7	34.6	36.0
Debtors		12.8	13.9	14.1	19.3	15.5	16.9	17.7	18.3
Cash		2.9	2.8	1.0	2.9	1.5	2.0	(1.0)	3.5
Other		0.1	0.2	0.0	0.0				
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(34.0)	(28.9)	(30.4)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(27.2)	(28.9)	(30.4)
Short term borrowings		(0.4)	(0.4)	(0.4)	(0.4)	(6.8)	(6.8)	0.0	0.0
Long Term Liabilities		(9.6)	(10.2)	(10.9)	(4.5)	(12.7)	(10.2)	(7.3)	(4.4)
Long term borrowings		(1.4)	(0.9)	(0.6)	(0.2)	0.0	0.0	0.0	0.0
Other long term liabilities		(8.2)	(9.2)	(10.4)	(4.3)	(12.7)	(10.2)	(7.3)	(4.4)
Net Assets		24.2	26.9	26.9	35.3	51.3	58.0	64.4	70.8
CASH FLOW									
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	7.4	13.2	14.8
Net Interest		(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.3)	(0.2)	(0.1)
Tax		(0.0)	(0.0)	(0.0)	(0.6)	(2.3)	(2.2)	(2.5)	(2.5)
Capex		(3.1)	(4.7)	(3.2)	(2.5)	(6.7)	(3.5)	(3.5)	(3.5)
Acquisitions/disposals		0.0	0.0	0.0	0.0	(27.1)	0.0	0.0	0.0
Financing		(0.1)	(0.0)	(0.4)	(0.1)	18.3	1.8	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.7)	(3.3)	(4.2)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	0.5	3.8	4.5
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	4.8	1.0
HP finance leases initiated		0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0
Closing net debt/(cash)		(1.2)	(1.5)	(0.0)	(2.3)	5.3	4.8	1.0	(3.5)
Source: Company accounts, Edison Investment Research. Note: This note calculates EV/EBITDA multiples using last reported net debt.									

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