

# Norcros

## In-line update highlights undervalued entity

FY23 trading update

Construction and materials

14 April 2023

Norcros's FY23 trading update highlighted a solid performance, particularly in the UK in H2, as well as the closure of the loss-making Norcros Adhesives division. We believe that Norcros's proven strategy remains on track, which should allow it to unlock significant market share gain and M&A opportunities given its robust balance sheet. We also believe that its key strengths are undervalued and that most, if not all, of the legacy issues, particularly relating to the pension, have been resolved. We maintain our estimates and our 252p/share valuation implying c 40% upside.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 12/21    | 324.2        | 27.4      | 29.7     | 8.2     | 6.0     | 4.6       |
| 12/22    | 396.3        | 38.6      | 38.7     | 10.0    | 4.6     | 5.6       |
| 12/23e   | 448.9        | 41.8      | 37.5     | 10.0    | 4.7     | 5.6       |
| 12/24e   | 462.6        | 38.9      | 33.7     | 9.3     | 5.3     | 5.2       |

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

## FY23 trading robust and in line with consensus

Norcros traded well in FY23 considering the challenging macroeconomic conditions and is likely to report revenue of c £440m, up 11.3% on a reported basis, and up 1.3% on a constant currency and like-for-like (l-f-l) basis. The principal difference between the two growth rates was the inclusion of Grant Westfield from the end of May 2022. Underlying operating profit is expected to increase 10% to be in line with consensus, which is £45.9m. Net debt is expected to be c £50m (FY22: net cash of £8.6m), again, in line with market expectations following the M&A.

## UK H2 recovery, RSA weaker.

The UK business was resilient in tough markets and returned to l-f-l growth of 3.3% in H2 after a decline of 3.4% in H1. In total, UK l-f-l revenue declined 0.2% for the full year, benefiting from Norcros's breadth of distribution channels, strong stock management and high service levels which drove market share gains. South Africa reported FY l-f-l growth of 3.9%, which was affected by 'load shedding', particularly in H2, which reported a decline of 2.2% after l-f-l growth of 10% in H1. After a review of the loss-making Norcros Adhesives business, the group has decided to close the operation. It lost c £3m on c £13m of revenue, which will be included in the full year trading numbers. However, it is expected that the c £5m cost of closure will be treated as an exceptional at the preliminary results.

## Valuation: 252p/share implies c 40% upside

Norcros is trading at the low end of its long-term forward P/E range on 4.7x, suggesting that a lot of bad news is priced in. In fact, the stock has only traded materially below the current rating for a brief period in early 2020 during the COVID-19 pandemic, and again recently. We maintain our existing forecasts and retain our 252p/share valuation based on the average of our P/E-based model of 253p and our dividend discount model, which implies a value of 250p/share. Our valuation implies c 40% upside.

**Price** 177p

**Market cap** £158m

ZAR22.80/£

Net debt (£m) at 31 March 2023 c 50.0

Shares in issue 89.3m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (7.3) (14.5) (26.6)

Rel (local) (7.8) (14.2) (27.2)

52-week high/low 263p 165p

## Business description

Norcros is a leading supplier of showers, enclosures and trays, tiles, taps and related fittings and accessories for bathrooms, kitchens, washrooms and other commercial environments. It has operations in the UK and South Africa, with some export activity from both countries.

## Next events

FY23 preliminary results 15 June 2023

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**Exhibit 1: Financial summary**

|  | £'m | 2020    | 2021    | 2022    | 2023e   | 2024e   | 2025e   |
|--|-----|---------|---------|---------|---------|---------|---------|
| 31-March                                       |     | IFRS    | IFRS    | IFRS    | IFRS    | IFRS    | IFRS    |
| <b>INCOME STATEMENT</b>                        |     |         |         |         |         |         |         |
| Revenue  |     | 342.0   | 324.2   | 396.3   | 448.9   | 462.6   | 468.8   |
| EBITDA   |     | 39.1    | 39.2    | 47.0    | 53.6    | 52.4    | 53.9    |
| Normalised operating profit                    |     | 32.3    | 33.8    | 41.8    | 47.7    | 46.2    | 46.8    |
| Share-based payments                           |     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Operating profit - Underlying                  |     | 32.3    | 33.8    | 41.8    | 47.7    | 46.2    | 46.8    |
| IAS 19R Pension scheme expenses                |     | (1.5)   | (1.4)   | (1.7)   | (1.7)   | (1.7)   | (1.7)   |
| Exceptionals                                   |     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Impairment and acquisition related costs       |     | (4.0)   | (3.7)   | (4.8)   | (8.9)   | (8.2)   | (8.2)   |
| Other  |     | (9.0)   | (3.8)   | 0.9     | 0.0     | 0.0     | 0.0     |
| Reported operating profit                      |     | 17.8    | 24.9    | 36.2    | 37.1    | 36.3    | 36.9    |
| Net Interest                                   |     | (2.8)   | (6.4)   | (3.2)   | (5.9)   | (7.3)   | (6.3)   |
| Profit Before Tax (norm)                       |     | 29.5    | 27.4    | 38.6    | 41.8    | 38.9    | 40.5    |
| PBT - Underlying                               |     | 28.8    | 30.6    | 39.3    | 42.6    | 39.7    | 41.3    |
| Profit Before Tax (reported)                   |     | 15.0    | 18.5    | 33.0    | 31.2    | 29.0    | 30.6    |
| Reported tax                                   |     | (4.1)   | (3.5)   | (7.3)   | (8.7)   | (9.0)   | (9.5)   |
| Profit After Tax (norm)                        |     | 25.4    | 23.9    | 31.3    | 33.0    | 29.9    | 31.0    |
| Profit After Tax (Underlying)                  |     | 22.8    | 25.1    | 31.5    | 33.8    | 30.7    | 31.8    |
| Profit After Tax (reported)                    |     | 10.9    | 15.0    | 25.2    | 22.4    | 20.0    | 21.1    |
| Net income (normalised)                        |     | 25.4    | 23.9    | 31.3    | 33.0    | 29.9    | 31.0    |
| Net income (Underlying)                        |     | 22.8    | 25.1    | 31.5    | 33.8    | 30.7    | 31.8    |
| Net income (reported)                          |     | 10.9    | 15.0    | 25.2    | 22.4    | 20.0    | 21.1    |
| Basic average number of shares outstanding (m) |     | 80      | 81      | 81      | 88      | 89      | 89      |
| EPS - basic normalised (p)                     |     | 31.63   | 29.65   | 38.70   | 37.53   | 33.67   | 34.90   |
| EPS - diluted normalised (p)                   |     | 31.37   | 29.58   | 37.99   | 35.86   | 32.89   | 34.09   |
| EPS - Diluted, underlying                      |     | 28.16   | 31.06   | 38.23   | 36.73   | 33.77   | 34.97   |
| EPS - basic reported (p)                       |     | 13.57   | 18.61   | 31.15   | 25.49   | 22.53   | 23.76   |
| Dividend (p)                                   |     | 3.10    | 8.20    | 10.00   | 10.00   | 9.25    | 9.50    |
| Revenue growth (%)                             |     | 3.3     | (-5.2)  | 22.2    | 13.3    | 3.1     | 0.0     |
| EBITDA Margin (%)                              |     | 11.4    | 12.1    | 11.9    | 11.9    | 11.3    | 11.5    |
| Normalised Operating Margin                    |     | 9.4     | 10.4    | 10.5    | 10.6    | 10.0    | 10.0    |
| <b>BALANCE SHEET</b>                           |     |         |         |         |         |         |         |
| Fixed Assets                                   |     | 150.8   | 141.2   | 158.8   | 226.7   | 209.6   | 204.2   |
| Intangible Assets                              |     | 96.5    | 93.6    | 90.3    | 83.3    | 75.7    | 68.1    |
| Tangible Assets                                |     | 29.0    | 28.0    | 29.0    | 111.5   | 114.3   | 116.5   |
| Investments & other                            |     | 25.3    | 19.6    | 39.5    | 31.9    | 19.6    | 19.6    |
| Current Assets                                 |     | 188.7   | 171.0   | 200.7   | 231.0   | 241.8   | 244.7   |
| Stocks   |     | 78.9    | 78.1    | 100.6   | 116.7   | 124.9   | 126.6   |
| Debtors  |     | 60.5    | 64.6    | 71.1    | 85.3    | 87.9    | 89.1    |
| Cash & cash equivalents                        |     | 47.3    | 28.3    | 27.4    | 27.4    | 27.4    | 27.4    |
| Other  |     | 2.0     | 0.0     | 1.6     | 1.6     | 1.6     | 1.6     |
| Current Liabilities                            |     | (79.2)  | (104.1) | (110.8) | (125.1) | (123.0) | (124.6) |
| Creditors                                      |     | (72.9)  | (95.4)  | (102.4) | (116.7) | (120.3) | (121.9) |
| Tax and social security                        |     | (1.0)   | (1.0)   | (2.7)   | (2.7)   | (2.7)   | (2.7)   |
| Short term borrowings                          |     | (0.1)   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other  |     | (5.2)   | (7.7)   | (5.7)   | (5.7)   | 0.0     | 0.0     |
| Long Term Liabilities                          |     | (155.9) | (59.7)  | (48.4)  | (100.0) | (87.2)  | (64.4)  |
| Long term borrowings                           |     | (83.6)  | (17.8)  | (18.8)  | (78.8)  | (69.4)  | (51.8)  |
| Other long term liabilities                    |     | (72.3)  | (41.9)  | (29.6)  | (21.2)  | (17.8)  | (12.6)  |
| Shareholders' equity                           |     | 104.4   | 148.4   | 200.3   | 232.6   | 241.2   | 259.9   |
| <b>CASH FLOW</b>                               |     |         |         |         |         |         |         |
| Op Cash Flow before WC and tax                 |     | 39.1    | 39.2    | 47.0    | 53.6    | 52.4    | 53.9    |
| Working capital                                |     | (4.8)   | 21.8    | (23.6)  | (16.0)  | (7.2)   | (1.2)   |
| Exceptional & other                            |     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Tax  |     | (5.3)   | (3.5)   | (6.5)   | (8.7)   | (9.0)   | (9.5)   |
| Other  |     | 0.4     | (2.0)   | (0.9)   | (2.9)   | (0.9)   | (0.9)   |
| Net operating cash flow                        |     | 29.4    | 55.5    | 16.0    | 25.9    | 35.2    | 42.3    |
| Capex  |     | (4.8)   | (2.8)   | (5.4)   | (8.0)   | (8.5)   | (9.0)   |
| Acquisitions/disposals                         |     | (9.2)   | 0.0     | 0.0     | (80.0)  | 0.0     | 0.0     |
| Net interest                                   |     | (3.5)   | (3.2)   | (2.5)   | (3.4)   | (4.8)   | (3.8)   |
| Equity financing                               |     | (0.9)   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Dividends                                      |     | (7.0)   | 0.0     | (9.1)   | (8.3)   | (8.8)   | (8.2)   |
| Other  |     | (3.8)   | (3.2)   | (2.5)   | 13.7    | (3.7)   | (3.7)   |
| Net Cash Flow                                  |     | 0.2     | 46.3    | (3.5)   | (60.0)  | 9.4     | 17.6    |
| Opening net debt/(cash)                        |     | 35.0    | 36.4    | (10.5)  | (8.6)   | 51.4    | 42.0    |
| FX   |     | (1.6)   | 0.6     | 1.6     | 0.0     | 0.0     | 0.0     |
| Closing net debt/(cash)                        |     | 36.4    | (10.5)  | (8.6)   | 51.4    | 42.0    | 24.4    |

Source: Company data and Edison Investment Research

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