

Low & Bonar

Slow trading start to FY19, disposals underway

May trading newsflow causes us to lower earnings estimates significantly. Improvements to operational performance and further de-leveraging are firmly on management's agenda and the disposal of the construction fibres operation will help in the latter regard. Metrics point to attractions for deep-value investors.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS* (p)	P/E (x)	Yield (%)
11/17	446.5	30.7	5.4	2.6	1.7	29.2
11/18	431.9	16.7	3.0	1.2	3.0	13.6
11/19e	402.9	8.3	0.9	0.4	9.6	4.2
11/20e	412.4	15.7	1.6	0.6	5.7	7.1

Note: *PBT and EPS (fully diluted) are company normalised, excluding amortisation of acquired intangibles and exceptional items. Historical EPS and DPS are adjusted for bonus element of equity fund-raising.

Tough trading continues in the first four months

Many of the subsector trends from the end of the prior year have continued in FY19. The 20 May update specifically referenced softness in automotive and flooring demand – in the US and China – while European roofing markets remain competitive. Progress is evident with previously highlighted internal manufacturing issues at Coated Technical Textiles, although this is not yet translating to improved sales. Taken together, overall volumes have been below management expectations including a lower than expected rate of improvement in Q2 so far. H119 earnings are flagged as materially lower than last year (£9m reported EBIT). Low & Bonar's trading year has a natural H2 bias; we have set our H219 estimates slightly below the prior year, leaving a lower FY19 outturn overall. At group level, we have lowered FY19 PBT expectations by around half, taking a more conservative view on the rate of recovery thereafter (with FY20 and FY21 reduced by around a quarter and 17% respectively). Adjusting for reduced capex and dividend outflows, this re-setting of our estimates has no material impact on net debt.

Disposal proceeds to lower net debt

The proposed disposal of Construction Fibres (for £5.6m; announced 3 June, due to complete around 1 July) is the first step in exiting Civil Engineering activities. The transaction is broadly neutral in P&L terms (with net interest benefits offsetting low level profitability foregone) and brings our expected year end net debt down to c £88m (or c 2.7x our FY19e EBITDA). Discussions over the sale of the larger Needle-Punched Non-Woven operations are said to be ongoing.

Valuation: Markers of value

Sentiment has been weighed down by downgrades and the share price is close to its low for the year. While market conditions remain soft in places, financial risk was reduced by the February equity raise. It should reduce further if flagged CE disposals complete, as management expects, during the current financial year. The FY19 P/E and EV/EBITDA (adjusted for pensions cash) multiples are now 9.6x and 5.3x, respectively. Other markers of value include EV sitting at 0.37x revenue and a projected 25p end FY19 NAV (ie a c 65% discount).

May trading update and disposal

General industrials

14 June 2019

Price 9.0p

Market cap £62m

€1.13/£

Net debt (£m) at end November 2018 128.5

Shares in issue 689.7m

Free float 99%

Code LWB

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (41.2) (47.7) (81.9)

Rel (local) (42.5) (48.9) (80.9)

52-week high/low 50.7p 8.6p

Business description

Low & Bonar produces specialist performance materials for a variety of end-markets by combining polymers with specialty additives and pigments. FY18 business units were: Building & Industrial (21% of FY18 revenue), Civil Engineering (18%), Coated Technical Textiles (32%), and Interiors & Transportation (29%). From FY19 Building & Industrial and Interiors & Transportation will be combined as the Colbond division.

Next events

H119 results July - tbc

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

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Exhibit 1: Financial summary

	£m	2014	2015	2015	2016	2017	2018	2019e	2020e	2021e
Year end 30 November		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS		IAS19R	IAS19R	Restated IAS19R	IAS19R	IAS19R	IAS19R	IAS19R	IAS19R	IAS19R
Revenue		410.6	395.8	362.1	400.0	446.5	431.9	402.9	412.4	422.8
Cost of Sales		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross Profit		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA		45.6	46.9	46.0	52.8	55.8	39.2	32.6	39.0	42.7
Operating Profit (ex SBP)		32.3	33.4	32.5	35.6	36.2	22.0	14.4	20.8	24.5
Net Interest		(5.0)	(4.2)	(4.3)	(5.4)	(4.6)	(5.4)	(5.3)	(4.3)	(4.2)
SBP		(0.6)	(0.6)	(0.6)	(0.9)	(0.7)	0.2	(0.7)	(0.7)	(0.7)
Saudi JV		(1.1)	(1.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PNFC		(0.4)	(0.2)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Profit Before Tax (company norm)		25.2	26.5	27.4	29.2	30.7	16.7	8.3	15.7	19.5
Intangible Amortisation		(5.2)	(4.1)	(4.1)	(4.0)	(3.7)	(2.8)	(2.8)	(2.8)	(2.8)
Exceptionals		(3.3)	(10.1)	(1.9)	0.7	(47)	(56)	(3)	0	0
Profit Before Tax (statutory)		16.7	12.4	21.4	25.9	(19.7)	(42.2)	2.2	12.9	16.7
Tax		(4.9)	(6.3)	(6.2)	(8.2)	2.1	(3.4)	(2.2)	(4.1)	(5.1)
Minorities		(0.3)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.3)	(0.6)	(0.6)
Other				(9.0)	(3.2)					
Profit After Tax (norm)		18.3	18.6	19.0	19.9	21.4	11.8	5.9	11.1	13.9
Profit After Tax (statutory)		11.8	6.1	5.7	13.9	(18.2)	(46.2)	(0.3)	8.2	11.0
Average Number of Shares Outstanding (m)*		327.0	328.1	328.1	329.0	329.4	329.9	613.6	689.7	689.7
EPS FD- normalised (p)*		4.6	4.7	5.0	5.1	5.4	3.0	0.9	1.6	2.0
EPS - statutory (p)*		3.0	1.5	1.5	4.5	(4.8)	(12.1)	(0.1)	1.2	1.6
Dividend per share (p)*		2.3	2.4	2.4	2.6	2.6	1.2	0.4	0.6	0.8
Gross Margin (%)										
EBITDA Margin (%)		11.1	11.8	11.8	13.2	12.5	9.1	8.1	9.4	10.1
Operating Margin (before amort. and except) (%)		7.9	8.4	8.4	8.9	8.1	5.1	3.6	5.0	5.8
BALANCE SHEET										
Fixed Assets		230.2	232.0		261.2	257.0	209.4	200.4	200.4	200.4
Intangible Assets		105.8	89.9		104.8	91.7	51.6	48.5	45.4	42.3
Tangible Assets		119.3	132.0		150.3	144.5	137.0	131.1	134.2	137.3
Investments		5.1	10.1		6.1	20.8	20.8	20.8	20.8	20.8
Current Assets		192.0	187.6		202.9	222.4	222.2	190.4	194.8	201.2
Stocks		90.9	82.6		97.5	97.3	93.9	84.7	84.7	84.8
Debtors		62.8	62.9		63.4	72.3	63.9	56.6	57.0	57.4
Other		12.5	8.2		15.7	14.6	16.6	21.3	21.3	21.3
Cash		25.8	33.9		26.3	38.2	47.8	27.8	31.8	37.7
Current Liabilities		(87.7)	(114.4)		(88.9)	(94.7)	(104.1)	(74.8)	(77.5)	(80.4)
Creditors		(87.7)	(82.9)		(88.8)	(92.0)	(99.1)	(74.8)	(77.5)	(80.4)
Short term borrowings		0.0	(31.5)		(0.1)	(2.7)	(5.0)	0.0	0.0	0.0
Long Term Liabilities		(147.6)	(133.3)		(171.5)	(204.4)	(200.0)	(140.5)	(136.6)	(133.3)
Long term borrowings		(113.8)	(104.5)		(137.2)	(173.9)	(171.3)	(115.7)	(115.7)	(115.7)
Other long term liabilities		(33.8)	(28.7)		(34.3)	(30.5)	(28.7)	(24.8)	(20.9)	(17.6)
Net Assets		186.9	171.9		203.7	180.3	127.5	175.4	181.0	187.9
CASH FLOW										
Operating Cash Flow		34.1	35.3		33.9	32.2	47.9	10.5	36.6	40.9
Net Interest		(4.5)	(4.5)		(4.9)	(4.4)	(5.1)	(5.3)	(4.3)	(4.2)
Tax		(7.7)	(7.5)		(10.8)	(10.3)	(5.4)	(2.2)	(4.1)	(5.1)
Capex		(20.2)	(33.7)		(22.2)	(34.4)	(16.0)	(16.0)	(21.0)	(21.0)
Acquisitions/disposals		3.0	0.0		21.7	3.8	0.0	5.6	0.0	0.0
Financing		0	(1)		(0)	(1)	0	50	0	0
Dividends		(8.8)	(9.0)		(9.2)	(10.0)	(10.1)	(2.0)	(3.2)	(4.7)
Net Cash Flow		(4.0)	(20.2)		8.4	(23.9)	11.5	40.6	4.1	5.9
Opening net debt/(cash)		86.8	88.0		102.1	111.0	138.4	128.5	87.9	83.9
Finance leases initiated		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Other		2.8	6.1		-17.3	-3.5	-1.6	0.0	0.0	0.0
Closing net debt/(cash)		88.0	102.1		111.0	138.4	128.5	87.9	83.9	78.0

Source: Low and Bonar accounts, Edison Investment Research. Note: *Following the placing and open offer (announced 30 January 2019) we have amended historical reported EPS and DPS using an adjustment factor of 1.16. The number of shares shown for these years (up to and including FY18) is as they were originally reported.

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