

Walker Greenbank

AGM update

Seeing improving signs

Comments at the AGM point to lower headline sales ytd but underlying patterns and indications of further improvement in H2 offer encouragement. Our estimates are unchanged and at this level the share price appears to offer excellent value if the company can deliver against FY19 guidance.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 01/17 | 92.4 | 10.4 | 12.9 | 3.6 | 8.8 | 3.2 |
| 01/18 | 108.8 | 12.5 | 14.4 | 4.4 | 7.9 | 3.9 |
| 01/19e | 111.0 | 12.8 | 14.4 | 4.6 | 7.9 | 4.1 |
| 01/20e | 114.4 | 13.3 | 15.0 | 4.9 | 7.6 | 4.3 |

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

Starting to turn sales performance around

In the first four-and-a-half months of FY19, Brand revenues were c 5% lower y-o-y we estimate (comprising -6% in the UK, -1.9% overseas and a modest FX translation headwind). While this is behind the implied run rate for H218 as a whole, it does represent progress from a weaker Q4 as evidenced by management's expectation of 'further improvement' with regard to H2 trading. Following a strong start to FY18, we would also point to tough comparatives at the beginning of the year, which serve to mask the recovery pattern of recent months. Licensing has been a small but growing contributor (FY18 £3.1m sales, +21.6% y-o-y) and momentum appears to be continuing so far in FY19 in this higher-margin income category. Manufacturing performance will have been influenced by Brand division activity levels but also third-party customers and should have seen a boost from work at Anstey that was deferred from the end of FY18.

Reasons for H2 positivity

For the record, our FY19 estimates include group revenue growth of c 2%, comprising less than 1% from Brands and +5-6% in Manufacturing. We are reminded that the second half is traditionally a stronger trading period; while this did not transpire in FY18 in revenue terms due to irregular and weak demand patterns, it does mean the comparatives become easier for these reasons as the year progresses. Even on flat H1/H2 revenues last year, both gross and operating profit were higher in the second half. Hence, we believe it is reasonable to retain our existing projections. We anticipate hearing more about the development of international sales and licence income as the year progresses.

Valuation: Catalyst for share price recovery

The share price continues to sit towards the lower end of its ytd trading range. We believe that meeting this year's estimates would be sufficient to stimulate a share price pick up and management has indicated it is on track to do so. Hence, the current year P/E and EV/EBITDA (adjusted for pension cash contributions) of 7.9x and 5.8x respectively offer investors an excellent entry point, in our view.

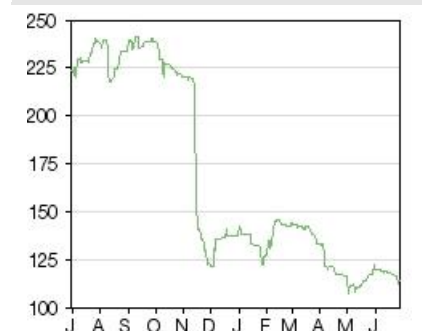
Care & household goods

28 June 2018

Price 113.5p
Market cap £80m

| | |
|-----------------------------------|-------|
| Net debt (£m) at end January 2018 | 5.3 |
| Shares in issue | 70.9m |
| Free float | 92% |
| Code | WGB |
| Primary exchange | AIM |
| Secondary exchange | N/A |

Share price performance



| % | 1m | 3m | 12m |
|------------------|--------|--------|--------|
| Abs | (3.4) | (16.5) | (46.6) |
| Rel (local) | (2.1) | (23.1) | (48.3) |
| 52-week high/low | 241.5p | 107.5p | |

Business description

Walker Greenbank is a luxury interior furnishings group combining specialist design skills with high-quality upstream UK manufacturing facilities. Leading brands include Harlequin, Sanderson, Morris & Co, Scion, Anthology, Zoffany and Clarke & Clarke. FY18 revenue: UK 58%, International 39% and Licence income 3%

Next events

| | |
|---------------------------|----------------|
| FY18 final DPS 3.68p XD | 20 July 2018 |
| H119 ends | July 2018 |
| FY18 Final DPS to be paid | 10 August 2018 |

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Exhibit 1: Financial summary

| | £m | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|---|----|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| January | | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | | | | | |
| Revenue | | 75.7 | 78.4 | 83.4 | 87.8 | 92.4 | 108.8 | 111.0 | 114.4 | 118.7 |
| Cost of Sales | | (30.2) | (30.3) | (32.7) | (35.9) | (36.2) | (43.3) | (43.7) | (45.1) | (46.8) |
| Gross Profit | | 45.5 | 48.1 | 50.7 | 52.0 | 56.2 | 65.5 | 67.3 | 69.3 | 71.9 |
| EBITDA | | 8.6 | 9.7 | 10.7 | 11.8 | 13.4 | 15.9 | 16.2 | 16.8 | 17.5 |
| Operating Profit (before GW, except. & LTIP) | | 6.6 | 7.5 | 8.3 | 9.1 | 10.6 | 12.8 | 13.1 | 13.5 | 14.1 |
| Operating Profit (before GW and except.) - reported | | 5.8 | 6.5 | 7.3 | 8.2 | 9.8 | 12.4 | 12.5 | 12.9 | 13.5 |
| Net Interest | | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.3) | (0.3) | (0.1) | (0.0) |
| Intangible Amortisation - acquired | | 0 | 0 | 0 | 0 | (0.3) | (1.0) | (1.0) | (1.0) | (1.0) |
| Pension net finance charge | | (0.7) | (0.9) | (0.8) | (0.7) | (0.5) | (0.6) | (0.6) | (0.6) | (0.6) |
| Exceptionals | | 0 | 0 | 0 | 0 | (1.8) | 2.3 | 0.0 | 0.0 | 0.0 |
| Other | | 0 | 0 | 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 | 12.5 | 12.8 | 13.3 | 14.1 |
| Profit Before Tax (FRS 3) | | 4.9 | 5.5 | 6.3 | 7.3 | 7.0 | 12.8 | 10.6 | 11.1 | 11.9 |
| Tax | | (1.0) | (0.5) | (1.2) | (1.5) | (1.6) | (1.0) | (2.6) | (2.7) | (2.9) |
| Profit After Tax (norm) | | 5.4 | 6.6 | 6.9 | 7.5 | 8.6 | 11.5 | 10.2 | 10.6 | 11.2 |
| Profit After Tax (FRS 3) | | 4.0 | 5.0 | 5.1 | 5.9 | 5.4 | 11.8 | 8.0 | 8.4 | 9.0 |
| Average Number of Shares Outstanding (m) | | 57.5 | 58.5 | 59.3 | 60.0 | 62.7 | 70.4 | 70.7 | 70.7 | 70.7 |
| EPS - normalised (p) FD | | 9.4 | 10.7 | 11.2 | 11.6 | 12.9 | 14.4 | 14.4 | 15.0 | 15.8 |
| EPS - FRS 3 (p) | | 6.9 | 8.6 | 8.6 | 9.8 | 8.6 | 16.7 | 11.3 | 11.9 | 12.7 |
| Dividend per share (p) | | 1.5 | 1.9 | 2.3 | 2.9 | 3.6 | 4.4 | 4.6 | 4.9 | 5.1 |
| Gross Margin (%) | | 60.1 | 61.3 | 60.8 | 59.2 | 60.8 | 60.2 | 60.6 | 60.6 | 60.6 |
| EBITDA Margin (%) | | 11.4 | 12.4 | 12.8 | 13.4 | 14.6 | 14.6 | 14.6 | 14.6 | 14.7 |
| Operating Margin (before GW and except.) (%) | | 7.7 | 8.3 | 8.8 | 9.3 | 10.7 | 11.4 | 11.2 | 11.3 | 11.4 |
| BALANCE SHEET | | | | | | | | | | |
| Fixed Assets | | 18.5 | 21.1 | 21.5 | 18.9 | 47.5 | 47.7 | 47.6 | 46.8 | 45.9 |
| Intangible Assets | | 6.7 | 7.3 | 7.2 | 7.1 | 31.6 | 31.8 | 30.6 | 29.5 | 28.4 |
| Tangible Assets | | 9.8 | 11.7 | 12.7 | 11.7 | 15.8 | 16.0 | 16.9 | 17.3 | 17.5 |
| Investments | | 2.0 | 2.2 | 1.6 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Assets | | 32.6 | 35.3 | 37.1 | 40.3 | 51.3 | 51.9 | 53.5 | 54.4 | 59.6 |
| Stocks | | 16.8 | 18.4 | 22.0 | 18.1 | 30.3 | 29.4 | 30.2 | 31.1 | 32.3 |
| Debtors | | 12.8 | 13.9 | 14.1 | 19.3 | 19.5 | 21.2 | 22.0 | 22.5 | 23.1 |
| Cash | | 2.9 | 2.8 | 1.0 | 2.9 | 1.5 | 1.3 | 1.3 | 0.8 | 4.2 |
| Other | | 0.1 | 0.2 | 0.0 | 0.0 | | | | | |
| Current Liabilities | | (17.3) | (19.4) | (20.7) | (19.4) | (34.8) | (28.9) | (27.4) | (24.6) | (25.6) |
| Creditors | | (16.9) | (19.0) | (20.3) | (19.0) | (28.0) | (22.4) | (23.7) | (24.6) | (25.6) |
| Short term borrowings | | (0.4) | (0.4) | (0.4) | (0.4) | (6.8) | (6.6) | (3.7) | 0.0 | 0.0 |
| Long Term Liabilities | | (9.6) | (10.2) | (10.9) | (4.5) | (12.7) | (9.1) | (7.1) | (5.0) | (2.8) |
| Long term borrowings | | (1.4) | (0.9) | (0.6) | (0.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | | (8.2) | (9.2) | (10.4) | (4.3) | (12.7) | (9.1) | (7.1) | (5.0) | (2.8) |
| Net Assets | | 24.2 | 26.9 | 26.9 | 35.3 | 51.3 | 61.6 | 66.5 | 71.5 | 77.0 |
| CASH FLOW | | | | | | | | | | |
| Operating Cash Flow | | 6.0 | 6.2 | 3.5 | 7.1 | 12.4 | 7.0 | 12.7 | 12.9 | 13.3 |
| Net Interest | | (0.2) | (0.2) | (0.2) | (0.1) | (0.2) | (0.2) | (0.2) | (0.1) | 0.0 |
| Tax | | (0.0) | (0.0) | (0.0) | (0.6) | (2.3) | (2.2) | (2.6) | (2.7) | (2.9) |
| Capex | | (3.1) | (4.7) | (3.2) | (2.5) | (6.7) | (3.5) | (4.0) | (3.5) | (3.5) |
| Acquisitions/disposals | | 0.0 | 0.0 | 0.0 | 0.0 | (27.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | | (0.1) | (0.0) | (0.4) | (0.1) | 18.3 | 1.8 | 0.0 | 0.0 | 0.0 |
| Dividends | | (0.7) | (0.9) | (1.1) | (1.4) | (1.8) | (2.7) | (3.1) | (3.4) | (3.5) |
| Net Cash Flow | | 1.8 | 0.3 | (1.5) | 2.3 | (7.4) | 0.1 | 2.8 | 3.2 | 3.4 |
| Opening net debt/(cash) | | 0.7 | (1.2) | (1.5) | (0.0) | (2.3) | 5.3 | 5.3 | 2.4 | (0.8) |
| HP finance leases initiated | | 0.0 | 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) | (0.1) | 0.0 | 0.0 | 0.0 |
| Closing net debt/(cash) | | (1.2) | (1.5) | (0.0) | (2.3) | 5.3 | 5.3 | 2.4 | (0.8) | (4.2) |

Source: Company accounts, Edison Investment Research

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