

McBride

Consumer
10 September 2020

Another reboot

McBride has delivered a mixed FY20 performance, with a weaker H1 and a bounce back in H2 as a result of increased demand due to COVID-19. A strategy review has been undertaken, and the company will be reorganised into separately managed product divisions. Time will tell if this will successfully address McBride's long-term challenges, but the new CEO has a thorough knowledge of the business, and we await further details, which are due to be announced in February.

H2 performance bounced back

The business performed better in H2 given increased demand for cleaning products, with Q3 seeing high levels of stockpiling. Demand returned to more normal levels by the end of the period. Different geographies had varying consumer preferences, with branded household products gaining share in the UK and Germany, while private label gained share in France. There has been no significant operating business disruption from COVID-19. Group revenues were £706.2m, down 1.7% at constant currency, mostly caused by the exit from UK aerosols. Adjusted operating profit was £28.3m, down 2.1%. Adjusted EPS was 9.5p, also down 2.1%.

Strategic reorganisation

Chris Smith, previously CFO and interim CEO, was appointed CEO in June. He has launched a new strategy, Programme Compass, which aims to profitably grow annual revenues to €1bn over the next five years. From 1 January 2021 the business will be moved to a product technology-led divisional structure, which the management believes will deliver better revenue growth and margins through improved performance and responsiveness in each category.

Valuation: Re-rating contingent on a turnaround

McBride trades on 6.7x FY21e P/E and c 5.2x FY21e EV/EBITDA, which is a sharp discount to the household sector. A re-rating is conditional on the new strategy being successful, with a focus on improving revenue growth and margins, and ensuring any cost savings and operating leverage fall through to the bottom line. There have been a number of new strategies at McBride over the last few years, and while much has been done to simplify the business, revenue growth and margins have been below expectations. Adjusted operating margins stood at just 4.0% for FY20 and ROCE at 16.1%, up from 15.3% in FY19, but down from a peak of 27.7% in FY17. With net debt falling to £101.5m, net debt cover remained comfortable at 2.1x at end FY20. The proposed interim dividend of 0.8p was cancelled due to COVID-19, and a full year payment has been proposed at 1.1p.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/19	721.3	23.7	9.4	3.3	6.6	5.3
06/20	706.2	24.2	9.5	1.1	6.5	1.8
06/21e	712.6	23.9	9.3	2.6	6.7	4.2
06/22e	725.4	24.8	9.7	2.7	6.4	4.4

Source: Refinitiv, company data

Price
62p
Market cap
£113m

Share price graph



Share details

Code	MCB
Listing	LSE
Shares in issue	182.8m

Business description

McBride is one of Europe's leading providers 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

- New divisional structure should improve focus and accountability.
- Contract manufacturing continues to be a source of growth.
- The Asian business continues to grow, and the new Malaysian production facility is now expected to be operational in December 2020.

Bear

- Execution risks with the future strategy (Programme Compass).
- Input costs are mixed, increased use of recycled plastics has added cost, and transport costs are increasing.
- Demand levels remain mixed and the consumer environment uncertain due to the effects of the COVID-19 pandemic.

Analysts

Sara Welford	+44 (0) 20 3077 5700
Russell Pointon	+44 (0) 20 3077 5700

consumer@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

General disclaimer and copyright

This report has been prepared and issued by Edison. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.