

Norcros

Good start to the year

Q1 and AGM update

Construction & materials

FY19 has started well for Norcros and management expectations for full-year progress are unchanged. The maiden Q1 contribution from Merlyn has more than offset Johnson Tiles' (JT's) revenue reduction and other operations collectively continue to show good growth. As before, we maintain that a positive re-rating is likely.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	271.2	20.7	24.4	7.2	9.0	3.3
03/18	300.1	24.4	26.8	7.8	8.2	3.6
03/19e	328.7	30.9	29.3	8.4	7.5	3.8
03/20e	338.0	32.9	31.0	9.0	7.1	4.1

Note: *PBT and EPS FD are normalised, excluding amortisation of acquired intangibles, exceptional items and change in fair value of derivatives.

UK operations mostly outperforming

Excluding Merlyn and JT, I-f-I revenue growth from the bulk of the UK operating base (ie companies accounting for c 70% of FY18 sales) was +5.2% in Q1. This was sequentially below that seen in the prior year but against comments elsewhere in the UK RMI space (eg ERA/Tyman, Kingfisher/B&Q) it represents a strong relative performance. As previously flagged, JT has lost share at B&Q following supplier consolidation and, until the annual effect works through in H219, this will dilute overall UK I-f-I revenue development. JT has substantially implemented a cost-reduction plan to counter this effect. More positively, Merlyn (acquired in November) appears to have bedded in well to the Norcros portfolio, having performed 'strongly' in the year to date.

South Africa sustaining high single-digit growth

At +8.9% I-f-I, we believe that South African revenue growth in Q1 has nudged up from rates seen in FY18. Given constraints on manufacturing capacity at JTSA and an unhelpful macroeconomic backdrop (eg negative GDP/construction growth in Q1), ongoing high single digit organic progress for Norcros remains a commendable performance. Noting some risks, the OECD is forecasting rising GDP growth in 2018 (to 1.9%) and 2019 (2.2%) and monetary easing. Consumer confidence readings are also markedly better than a year ago, so the prospective general business environment could be considered to better than that seen so far in 2018.

Valuation: Growth focus, value rating

The share price has settled back a little from post-FY18 results highs (230p) in June but remains well ahead on 12-month and year-to-date bases. We reiterate our earlier observation that management's growth aspirations are somewhat above current market expectations and, as the two converge, a positive re-rating is the most likely outcome in our view. On unchanged estimates, the current FY19e P/E and EV/EBITDA (adjusted for pension recovery cash) are little changed from our [longer June note](#) at 7.5x and 5.4x respectively.

30 July 2018

Price **219p**

Market cap **£175m**

£/ZAR17.5

Net debt (£m) at end March 2018 47.1

Shares in issue 80.2m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.0) 16.6 21.6

Rel (local) (4.8) 13.6 17.2

52-week high/low 230.0p 165.6p

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 event

H119 end September

H119 results 15 November

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

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Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					Cont.	Cont.	Cont.	Cont.	Cont.	Cont.	Cont.
Revenue		200.3	210.7	218.7	222.1	235.9	271.2	300.1	328.7	338.0	345.7
Cost of Sales		N/A	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	N/A
EBITDA		18.6	19.9	22.9	24.3	28.0	31.6	34.7	42.3	44.5	46.1
Operating Profit (before SBP)		12.3	13.7	17.0	18.3	22.5	25.2	28.3	35.6	37.6	39.2
Net Interest		(1.4)	(1.3)	(1.5)	(1.2)	(0.9)	(0.9)	(1.1)	(2.0)	(2.0)	(1.9)
Other financial - norm		(0.9)	(2.4)	(2.6)	(3.1)	(3.1)	(3.6)	(2.8)	(2.7)	(2.7)	(2.7)
Other financial		0.6	(0.2)	(5.2)	2.1	(0.2)	(4.2)	(4.5)	(1.4)	(1.4)	(1.4)
Intangible Amortisation		0.0	0.0	(0.4)	(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(3.5)	(3.5)
Exceptionals		(1.2)	(4.4)	(1.5)	(4.8)	(2.0)	(3.8)	(4.2)	(1.0)	(1.0)	(1.0)
Profit Before Tax (norm)		10.0	10.0	12.9	14.0	18.5	20.7	24.4	30.9	32.9	34.6
Profit Before Tax (company norm)		10.7	11.7	14.6	15.8	20.4	22.9	26.3	32.7	34.7	36.4
Profit Before Tax (FRS 3)		9.4	5.4	5.8	11.0	15.4	11.5	13.5	25.0	27.0	28.7
Tax		0.0	0.2	4.3	(3.0)	(2.4)	(3.0)	(3.6)	(6.1)	(6.5)	(6.9)
Other		0.0	0.0	(1.4)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)		10.4	9.3	13.9	11.1	16.1	17.7	20.8	24.8	26.4	27.7
Profit After Tax (FRS 3)		9.4	5.6	8.7	8.1	13.0	8.5	9.9	18.9	20.5	21.8
Average Number of Shares Outstanding (m)		57.7	58.0	58.4	59.2	60.6	61.1	68.0	80.5	81.2	81.9
Average Number of Shares Outstanding FD (m)		58.0	58.9	60.8	61.5	62.2	63.1	69.8	82.2	82.9	83.6
EPS FD - normalised (p)		17.9	15.8	22.8	18.0	24.7	24.4	26.8	29.3	31.0	32.3
EPS FD - company normalised (p)		19.2	18.7	27.9	21.1	27.7	27.8	29.5	31.5	33.1	34.5
EPS - FRS 3 (p)		16.2	9.5	14.3	13.2	19.7	9.8	11.2	22.1	23.9	25.3
Dividend per share (p)		4.2	4.6	5.1	5.6	6.6	7.2	7.8	8.4	9.0	9.8
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		9.3	9.4	10.5	10.9	11.9	11.7	11.6	12.9	13.2	13.3
Operating Margin (before GW and except.) (%)		6.1	6.5	7.8	8.2	9.5	9.3	9.4	10.8	11.1	11.3
BALANCE SHEET											
Fixed Assets		80.0	86.7	80.0	78.3	93.4	98.8	147.9	149.7	149.3	148.9
Intangible Assets		23.4	27.6	27.1	26.9	44.7	44.8	98.9	97.4	93.9	90.4
Tangible Assets		44.8	43.5	36.9	37.6	38.2	43.0	45.0	48.3	51.4	54.5
Investments		11.8	15.6	16.0	13.8	10.5	11.0	4.0	4.0	4.0	4.0
Current Assets		89.7	104.6	102.2	100.4	119.4	165.3	165.1	170.0	187.4	205.1
Stocks		45.5	52.8	50.2	52.2	60.1	70.3	74.9	75.0	77.2	78.9
Debtors		34.5	36.3	48.1	42.6	53.4	57.5	64.4	68.8	70.8	72.5
Cash		2.9	6.8	3.9	5.6	5.9	37.5	25.8	26.1	39.4	53.7
Current Liabilities		(52.5)	(54.0)	(58.1)	(60.0)	(67.6)	(105.7)	(89.8)	(85.2)	(89.9)	(94.4)
Creditors		(52.1)	(53.5)	(57.3)	(58.6)	(64.8)	(74.8)	(81.3)	(85.2)	(89.9)	(94.4)
Short term borrowings		(0.4)	(0.5)	(0.8)	(1.4)	(2.8)	(30.9)	(8.5)	0.0	0.0	0.0
Long Term Liabilities		(46.1)	(75.7)	(58.6)	(67.4)	(97.6)	(101.8)	(118.6)	(117.5)	(116.2)	(115.0)
Long term borrowings		(20.3)	(37.0)	(30.5)	(18.4)	(35.6)	(29.8)	(64.4)	(64.4)	(64.4)	(64.4)
Other long term liabilities		(25.8)	(38.7)	(28.1)	(49.0)	(62.0)	(72.0)	(54.2)	(53.1)	(51.8)	(50.6)
Net Assets		71.1	61.6	65.5	51.3	47.6	56.6	104.6	117.0	130.5	144.7
CASH FLOW											
Operating Cash Flow		6.0	6.6	13.6	16.2	18.5	25.5	23.5	35.3	38.4	40.4
Net Interest		(1.6)	(1.3)	(1.6)	(1.3)	(0.9)	(0.9)	(1.1)	(2.0)	(2.0)	(1.9)
Tax		(0.6)	(1.0)	(1.7)	(0.5)	(1.0)	(1.9)	(4.9)	(6.0)	(6.1)	(6.5)
Capex		(6.7)	(4.2)	(2.8)	(1.4)	(6.6)	(8.0)	(7.7)	(10.0)	(10.0)	(10.0)
Acquisitions/disposals		0.0	(10.6)	0.1	3.3	(23.6)	(2.7)	(59.1)	(2.0)	0.0	0.0
Financing		0.2	0.3	0.4	0.2	0.1	0.0	30.1	0.0	0.0	0.0
Dividends		(2.2)	(2.5)	(2.8)	(3.1)	(3.6)	(4.2)	(5.0)	(6.5)	(7.0)	(7.7)
Net Cash Flow		(4.9)	(12.7)	5.2	13.4	(17.1)	7.9	(24.2)	8.8	13.3	14.3
Opening net debt/(cash)		10.6	17.8	30.7	27.4	14.2	32.5	23.2	47.1	38.3	25.0
HP finance leases initiated		(0.8)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(1.5)	(0.1)	(1.9)	(0.2)	(1.2)	1.5	0.3	0.0	0.0	0.0
Closing net debt/(cash)		17.8	30.7	27.4	14.2	32.5	23.1	47.1	38.3	25.0	10.7

Source: Company data, Edison Investment Research

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