

Avon Rubber

AEF disposal

Strategy continues to take shape

This morning, Avon Rubber announced completion of the disposal of Avon Engineered Fabrications (AEF) for \$9.25m. The company announced in its FY17 annual report that it was considering the strategic options for the business. We estimate that this deal should add c £6m to cash at current exchange rates. Overall, the company's threefold growth strategy remains in place and we are encouraged to see the actions management is taking.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	142.9	20.7	70.5	9.5	18.0	0.7
09/17	163.2	25.6	82.3	12.3	15.4	1.0
09/18e	163.2	26.4	74.5	16.0	17.0	1.3
09/19e	169.2	28.1	74.7	20.8	17.0	1.6

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

The AEF business, based in Mississippi, US, delivers world-class coated fabrics to a broad range of end-markets, including hovercraft skirts and liquid storage tanks. Reported in the Avon Protection division, the FY17 revenue contribution was £4m (FY16: £4.8m). The company has stated that the group's acquisition strategy would result, in the medium term, in AEF losing its US small business regime benefits. Hence, although AEF had a strong Q417 and a healthy order book, the FY17 annual report mentioned that the group was "considering the strategic options for this business".

The sale for \$9.25m to Performance Inflatables Co, a Pinewell Capital portfolio company, is on a cash and debt-free basis subject to a customary working capital adjustment. We estimate that the cash contribution will be £6m at current exchange rates, after adjustments, costs and tax. AEF will be reported in discontinued operations for FY18.

This disposal demonstrates that Avon management is focused on delivering its threefold growth strategy. The overall approach is to grow the core, add selective product development and make value-enhancing acquisitions to accelerate growth. In Avon Protection, recent progress shows the strength of opportunity with the US Department of Defense and law enforcement organisations. The company is expected to report H118 numbers on 2 May 2018.

Aerospace & defence

3 April 2018

Price 1,270p

Market cap £394m

\$1.42/£1

Net cash (£m) at 30 September 2017 24.7

Shares in issue 31.0m

Free float 96%

Code AVON

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

Avon Rubber designs, develops and manufactures products in the respiratory protection, defence (70% of 2017 sales) and dairy (30%) sectors. Its major contracts are with national security and safety organisations such as the DoD. 75% of sales are from the US and 25% are from Europe.

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