

# Low & Bonar

AGM update

## Transition year

A new senior management team is in place with a clear agenda to improve operational and financial performance. FY18 is going to be a transition year but investors will still want to see evidence of progress from the two strongest business units and in addressing specific issues in the other two. We have not changed estimates at this stage, but note the increased H2 bias flagged by management. The attraction of the current valuation will depend on the level of investor confidence in underlying prospects.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
11/16	400.0	29.2	6.0	3.0	9.0	5.6
11/17	446.5	30.7	6.3	3.1	8.5	5.7
11/18e	417.0	30.1	6.4	3.3	8.3	6.2
11/19e	429.5	32.4	6.9	3.5	7.7	6.4

Note: \*PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles and exceptional items. Excludes disposed grass yarns business.

## Progress and challenges

Overall demand conditions appear to be stable against previous updates and Q1 revenues were ahead of the prior year (although volume, price and FX effects were not separately disclosed). The largest two divisions (46% of FY17 revenue, 77% of EBIT before central costs) remain the better performers in this regard, although product mix and input costs are both flagged as headwinds. There were short progress reports on performance improvement initiatives in Civil Engineering (now under a special projects team) and Coated Technical Textiles, which were consistent with previous comments and reminded us they are not quick fixes. Our model factors in £5m exceptional costs into FY18 estimates and more clarity will emerge here as the year progresses.

## Amplified H2 bias due to H1 markets and actions

Reducing working capital/net debt and improving operating efficiency are key focal points for the year. The roll-out of a new ERP system will facilitate these steps and a new CFO appointment adds to strong board finance representation. Low & Bonar's markets typically generate H2 profit bias, which should be exaggerated in FY18 by actions taken during H1. Our flat FY18 EBIT expectation is comprised of an uplift in Civil offset by lower contributions from the two largest divisions; we will review this mix and the extent of the implied H2 required to meet our estimates at the interim stage.

## Valuation: Requiring positive newsflow

Low & Bonar's share price has fallen by c 40% over the last 12 months and, after a rally during Q1, is now back to lows seen at the beginning of 2018. On our existing estimates, the company is trading on a current year P/E of 8.3x and EV/EBITDA (adjusted for pensions cash) of 6.0x. We acknowledge that there may be some downside risk to our forecast; positive operational newsflow is likely to be a key determinant of future share price progress.

## Diversified industrials

17 April 2018

**Price** **53.6p**
**Market cap** **£177m**

€1.13/£

Net debt (£m) at end November 2017 138.4

Shares in issue 329.4m

Free float 99%

Code LWB

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (9.5) (3.9) (33.4)

Rel (local) (9.8) 3.1 (32.7)

52-week high/low 89.8p 52.6p

## Business description

Low & Bonar produces specialist performance materials for a variety of end-markets by combining polymers with specialty additives and pigments. It reports as four global business units: Building & Industrial (19% of FY17 revenue), Civil Engineering (23%), Coated Technical Textiles (31%), and Interiors & Transportation (27%).

## Next events

H118 end May

H118 results 11 July

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**Exhibit 1: Financial summary**

	£m	2014	2015	2015	2016	2017	2018e	2019e	2020e
Year end 30 November		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>		<b>IAS19R</b>	<b>IAS19R</b>	<b>Restated IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>	<b>IAS19R</b>
Revenue		410.6	395.8	362.1	400.0	446.5	417.0	429.5	440.2
Cost of Sales		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
EBITDA		45.6	46.9	46.0	52.8	55.8	55.1	58.4	60.7
Operating Profit (ex SBP)		32.3	33.4	32.5	35.6	36.2	36.0	38.3	40.6
Net Interest		(5.0)	(4.2)	(4.3)	(5.4)	(4.6)	(5.0)	(5.0)	(4.8)
SBP		(0.6)	(0.6)	(0.6)	(0.9)	(0.7)	(0.7)	(0.7)	(0.7)
Saudi JV		(1.1)	(1.8)	0.0	0.0	0.0	0.0	0.0	0.0
PNFC		(0.4)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Profit Before Tax (company norm)		25.2	26.5	27.4	29.2	30.7	30.1	32.4	35.0
Intangible Amortisation		(5.2)	(4.1)	(4.1)	(4.0)	(3.7)	(3.7)	(3.7)	(3.7)
Exceptionals		(3.3)	(10.1)	(1.9)	0.7	(47)	(5)	0	0
Profit Before Tax (FRS 3)		16.7	12.4	21.4	25.9	(19.7)	21.4	28.7	31.3
Tax		(4.9)	(6.3)	(6.2)	(8.2)	2.1	(7.9)	(8.5)	(9.2)
Minorities		(0.3)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Other				(9.0)	(3.2)				
Profit After Tax (norm)		18.3	18.6	19.0	19.9	21.4	21.8	23.5	25.4
Profit After Tax (FRS 3)		11.8	6.1	5.7	13.9	(18.2)	12.9	19.6	21.5
Average Number of Shares Outstanding (m)		327.0	328.1	328.1	329.0	329.4	329.7	329.7	329.7
EPS FD- normalised (p)		5.4	5.5	5.8	6.0	6.3	6.4	6.9	7.5
EPS - FRS 3 (p)		3.5	1.7	1.7	5.2	(5.5)	3.9	5.9	6.5
Dividend per share (p)		2.7	2.8	2.8	3.0	3.1	3.3	3.5	3.6
Gross Margin (%)									
EBITDA Margin (%)		11.1	11.8	11.8	13.2	12.5	13.2	13.6	13.8
Operating Margin (before amort. and except) (%)		7.9	8.4	8.4	8.9	8.1	8.6	8.9	9.2
<b>BALANCE SHEET</b>									
Fixed Assets		230.2	232.0		261.2	257.0	260.8	261.6	262.4
Intangible Assets		105.8	89.9		104.8	91.7	91.0	88.3	85.6
Tangible Assets		119.3	132.0		150.3	144.5	149.0	152.5	156.0
Investments		5.1	10.1		6.1	20.8	20.8	20.8	20.8
Current Assets		192.0	187.6		202.9	222.8	219.0	227.6	237.5
Stocks		90.9	82.6		97.5	97.3	88.9	89.5	89.8
Debtors		62.8	62.9		63.4	71.8	66.0	67.0	67.7
Other		12.5	8.2		15.7	15.5	15.5	15.5	15.5
Cash		25.8	33.9		26.3	38.2	48.6	55.6	64.5
Current Liabilities		(87.7)	(114.4)		(88.9)	(93.7)	(96.3)	(100.8)	(105.0)
Creditors		(87.7)	(82.9)		(88.8)	(91.0)	(96.3)	(100.8)	(105.0)
Short term borrowings		0.0	(31.5)		(0.1)	(2.7)	0.0	0.0	0.0
Long Term Liabilities		(147.6)	(133.3)		(171.5)	(204.4)	(200.2)	(196.0)	(191.8)
Long term borrowings		(113.8)	(104.5)		(137.2)	(173.9)	(173.9)	(173.9)	(173.9)
Other long term liabilities		(33.8)	(28.7)		(34.3)	(30.5)	(26.3)	(22.1)	(17.9)
Net Assets		186.9	171.9		203.7	181.7	183.3	192.5	203.1
<b>CASH FLOW</b>									
Operating Cash Flow		34.1	35.3		33.9	32.2	59.0	55.0	57.9
Net Interest		(4.5)	(4.5)		(4.9)	(4.4)	(5.0)	(5.0)	(4.8)
Tax		(7.7)	(7.5)		(10.8)	(10.3)	(7.9)	(8.5)	(9.2)
Capex		(20.2)	(33.7)		(22.2)	(34.4)	(25.5)	(23.5)	(23.5)
Acquisitions/disposals		3.0	0.0		21.7	3.8	3.0	0.0	0.0
Financing		0	(1)		(0)	(1)	0	0	0
Dividends		(8.8)	(9.0)		(9.2)	(10.0)	(10.6)	(11.0)	(11.5)
Net Cash Flow		(4.0)	(20.2)		8.4	(23.9)	13.1	7.0	8.9
Opening net debt/(cash)		86.8	88.0		102.1	111.0	138.4	125.3	118.3
HP finance leases initiated		0.0	0.0		0.0	0.0	0.0	0.0	0.0
Other		2.8	6.1		-17.3	-3.5	0.0	0.0	0.0
Closing net debt/(cash)		88.0	102.1		111.0	138.4	125.3	118.3	109.4

Source: Company, Edison Investment Research

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