

Low & Bonar

AGM update

AGM flags significant FY17 progress expected

In a brief AGM statement, management stated that FY17 was off to a good start with unchanged guidance for the year. There is tangible evidence of strategic actions and their benefits extend beyond the current financial year. Low & Bonar's share price has picked up recently and is beginning to acknowledge the company's growth prospects.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
11/15	362.1	27.4	5.8	2.8	14.0	3.5
11/16	402.2	29.2	6.0	3.0	13.5	3.7
11/17e	436.0	35.4	7.3	3.2	11.1	4.0
11/18e	457.4	39.2	8.1	3.3	10.0	4.1

Note: *PBT and EPS fully diluted are normalised, excluding amortisation of acquired intangibles and exceptional items. Figures shown are for ongoing businesses only.

Confidence in expected FY17 progress

Four months into the financial year, management sounds confident that FY17 will be a year of significant progress. No further detail on individual business unit progress was included in the update. We see the full benefit from the new China Colback plant (phase one), restored operational performance at Coated Technical Textiles and margin mix development in Civil Engineering as the most notable, high level growth drivers this year. At current levels, there will also be some favourable year-on-year FX translation benefit though below prior year levels (ie c £2.5m vs £3.4m reported for FY16). Low & Bonar has invested well above depreciation in the last three years. The company is committed to do so again in FY17, including a phase two expansion in China underscoring the success and local acceptance of the initial greenfield set-up. Consequently, we expect to see net debt increase over the course of the year.

Commercial momentum

Organisational change in 2015 (adopting a global business unit/group operations platform model) is clearly bedded in now and, to us, stronger group branding indicates growing corporate commercial confidence. The acid test will be the extent to which enhanced customer engagement supported by investment in plant and new product development translates to revenue and profit progress. Additionally, we would expect the active portfolio management strategy to result in rising group ROCE, which should, in turn, boost cash generation.

Valuation: Focusing on growth

Low & Bonar's share price has mostly traded around the 70p level since the FY16 results announcement (1 February) before ticking up thus far during April. Consequently, it has out-performed the FTSE All Share Index by over 20% in the year to date, and is at its highest level since August 2014. The company's FY17 P/E is now 11.1x with an EV/EBITDA (adjusted for pensions cash) of 7.0x. Our earnings growth estimates reduce these metrics to 9.5x and 5.9x, respectively, by FY19. An above-average dividend yield (3.7% historic) offers a further attraction.

Construction & materials

13 April 2017

Price **81.00p**
Market cap **£267m**

€1.14/£

Net debt (£m) as at end November 2016 111.0

Shares in issue 329.3m

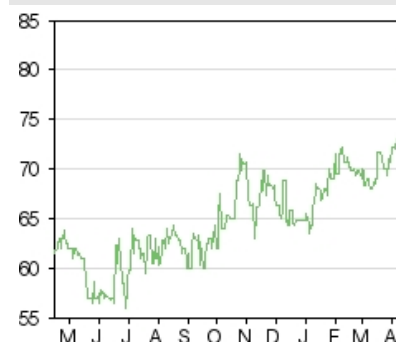
Free float 99%

Code LWB

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 19.1 18.3 33.9

Rel (local) 18.5 16.2 14.0

52-week high/low 81.0p 56.0p

Business description

Low & Bonar produces specialist performance materials for a variety of end-markets by combining polymers with specialty additives and pigments. It now reports as four global business units: Civil Engineering (23% of FY16 revenue), Building & Industrial (18%), Interiors & Transport (26%), and Coated Technical Textiles (33%).

Next events

H117 period end May 2017

Completion of Saudi JV exit tbc

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Low & Bonar is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£m	2014	2015	2015	2016	2017e	2018e	2019e
Year end 30 November		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS		IAS19R	IAS19R	Restated IAS19R	IAS19R	IAS19R	IAS19R	IAS19R
Revenue		410.6	395.8	362.1	402.2	436.0	457.4	471.8
Cost of Sales		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
EBITDA		45.6	46.9	46.0	52.8	59.1	63.9	66.7
Operating Profit (ex SBP)		32.3	33.4	32.5	35.6	40.9	44.7	46.5
Net Interest		(5.0)	(4.2)	(4.3)	(5.4)	(4.5)	(4.5)	(4.3)
SBP		(0.6)	(0.6)	(0.6)	(0.9)	(0.9)	(0.9)	(0.9)
Saudi JV		(1.1)	(1.8)	0.0	0.0	0.0	0.0	0.0
PNFC		(0.4)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Profit Before Tax (company norm)		25.2	26.5	27.4	29.2	35.4	39.2	41.2
Intangible Amortisation		(5.2)	(4.1)	(4.1)	(4.0)	(4.0)	(4.0)	(4.0)
Exceptionals		(3.3)	(10.1)	(1.9)	0.7	0	0	0
Profit Before Tax (FRS 3)		16.7	12.4	21.4	25.9	31.4	35.2	37.2
Tax		(4.9)	(6.3)	(6.2)	(8.2)	(10.7)	(11.8)	(12.4)
Minorities		(0.3)	(0.5)	(0.5)	(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	24.2	26.9	28.3
Profit After Tax (FRS 3)		11.8	6.1	5.7	13.9	20.1	22.8	24.2
Average Number of Shares Outstanding (m)		327.0	328.1	328.1	329.0	329.1	329.1	329.1
EPS FD- normalised (p)		5.4	5.5	5.8	6.0	7.3	8.1	8.5
EPS - FRS 3 (p)		3.5	1.7	1.7	5.2	6.1	6.9	7.3
Dividend per share (p)		2.7	2.8	2.8	3.0	3.2	3.3	3.5
Gross Margin (%)								
EBITDA Margin (%)		11.1	11.8	11.8	13.1	13.6	14.0	14.1
Operating Margin (before amort. and except) (%)		7.9	8.4	8.4	8.9	9.4	9.8	9.8
BALANCE SHEET								
Fixed Assets		230.2	232.0		261.2	278.2	283.2	286.2
Intangible Assets		105.8	89.9		104.8	105.1	103.1	100.1
Tangible Assets		119.3	132.0		150.3	167.0	174.0	180.0
Investments		5.1	10.1		6.1	6.1	6.1	6.1
Current Assets		192.0	187.6		202.9	202.3	213.2	225.3
Stocks		90.9	82.6		97.5	95.7	98.4	99.5
Debtors		62.8	62.9		70.3	73.3	75.9	77.2
Other		12.5	8.2		8.7	11.6	13.8	15.1
Cash		25.8	33.9		26.3	21.7	25.2	33.5
Current Liabilities		(87.7)	(114.4)		(88.9)	(100.5)	(108.0)	(114.3)
Creditors		(87.7)	(82.9)		(88.8)	(100.5)	(108.0)	(114.3)
Short term borrowings		0.0	(31.5)		(0.1)	0.0	0.0	0.0
Long Term Liabilities		(147.6)	(133.3)		(171.5)	(167.0)	(162.5)	(158.0)
Long term borrowings		(113.8)	(104.5)		(137.2)	(137.2)	(137.2)	(137.2)
Other long term liabilities		(33.8)	(28.7)		(34.3)	(29.8)	(25.3)	(20.8)
Net Assets		186.9	171.9		203.6	213.0	225.9	239.2
CASH FLOW								
Operating Cash Flow		34.1	35.3		33.9	58.6	57.8	62.4
Net Interest		(4.5)	(4.5)		(4.9)	(4.5)	(4.5)	(4.3)
Tax		(7.7)	(7.5)		(10.8)	(10.7)	(11.8)	(12.4)
Capex		(20.2)	(33.7)		(22.2)	(35.0)	(27.0)	(26.0)
Acquisitions/disposals		3.0	0.0		21.7	(2.9)	(0.5)	0.0
Financing		0	(1)		(0)	0	0	0
Dividends		(8.8)	(9.0)		(9.2)	(10.0)	(10.5)	(11.5)
Net Cash Flow		(4.0)	(20.2)		8.4	(4.5)	3.5	8.3
Opening net debt/(cash)		86.8	88.0		102.1	111.0	115.5	112.0
HP finance leases initiated		0.0	0.0		0.0	0.0	0.0	0.0
Other		2.8	6.1		(17.3)	0.0	0.0	0.0
Closing net debt/(cash)		88.0	102.1		111.0	115.5	112.0	103.7

Source: Low & Bonar accounts, Edison Investment Research

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