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McBride

Consumer

26 February 2021

Resetting the business

McBride has delivered a good performance over H121, with higher revenues and improved gross margins. Input costs have started to increase, but the board's expectations for the full year are unchanged. The company gave an update on its new strategy, Programme Compass, and as previously announced, the business has been reorganised into product divisions to sharpen focus, improve execution and increase speed to market. McBride has been through several strategy resets over the years and time will tell if this successfully addresses the company's long-term challenges. The CEO has thorough knowledge of the business and there are not expected to be substantial exceptional or capital costs associated with the programme.

Good H1 performance

Group revenues were £362.9m in H1, 3.6% ahead of the prior year, or +1.7% at constant FX. Adjusted PBT was £16.9m, 74% above H120, and adjusted diluted EPS from continuing operations was 7.1p vs 3.7p in H120. The dividend policy has been reviewed as part of the strategy reset and no interim dividend was proposed. Demand levels continue to be more variable than usual due to the pandemic and there were some contract losses caused by McBride's current lack of agility and speed. Management is seeking to address this by moving to a new structure.

New structure

The European household business has been reorganised into three business units from 1 January 2021: liquids, unit dosing and powders, to run alongside the existing divisions of Asia Pacific and aerosols. These will be supported by a smaller central structure. The headline objective is to reach €1bn of annual revenues in the next five years, with EBITA margins increasing by 200–400bp and ROCE improving by five to 10 percentage points. Progress is not expected to be linear over the next five years, with less growth expected in the initial two-year phase, as the focus is on cost reduction and readying the business for increased innovation and agility.

Valuation: Reflects balance of risk and opportunity

McBride trades on 7.1x FY21e P/E and 4.8x FY20e EV/EBITDA, which is a sharp discount to the household sector. A re-rating is conditional on the new strategy successfully delivering stable growth, improving margins and ensuring any cost savings and operating leverage fall through to the bottom line. The group is targeting an accounting basis net debt/EBITDA below 2x. Because this was 2.2x at December 2020, the board believes it is not prudent to pay an interim dividend. The board also intends to move to a single annual dividend payment (after FY results).

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/19	721.3	24.5	9.7	3.3	8.7	4.0
06/20	706.2	24.2	9.5	1.1	8.6	1.3
06/21e	719.4	27.7	11.5	2.2	7.1	2.7
06/22e	728.1	29.4	11.6	2.3	7.1	2.8

Source: Refinitiv, company data

Price	81.8p
Market cap	£149m

Share price graph

Share details

Code	MCB
Listing	LSE
Shares in issue	182.4m

Business description

McBride is Europe's leading provider of private-label and contract-manufactured products for household and professional cleaning markets. Supplying Europe's top retailers, it has production capability in 10 countries and is growing a presence in Central and Eastern Europe and South-East Asia.

Bull

- Management focused on profitable growth.
- Contract manufacturing continues to be a source of growth.
- The Asian business continues to grow and the new Malaysian production facility is expected to be operational later this year.

Bear

- Input costs are starting to increase again.
- Private-label detergents continue to be an intensely competitive space.
- Execution risks with the future strategy and turnaround programme.

Analysts

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