Norcros

H120 pre-close update

Maintaining forward progress

Construction & materials

Sustained UK progress is the headline message from the H120 update in our view. Low single-digit growth here is not eye-catching but is certainly better than underlying markets. Management expectations and our own estimates are unchanged and consistent delivery against these benchmarks should be reflected in an improved rating in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	300.1	24.4	26.8	7.8	8.3	3.5
03/19	331.0	30.9	29.6	8.4	7.5	3.8
03/20e	359.9	34.0	32.0	9.0	7.0	4.0
03/21e	368.4	35.9	33.5	9.8	6.7	4.4

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

Outperforming challenging markets

In underlying terms, H1 revenues grew by 1.3% y-o-y in the UK operations and were flat in South Africa (compared with -0.4% and +0.8%, respectively, at the end of Q1). The progress in the **UK** was all organic and comprised domestic growth of 3.4%, including market share gains arising from both new products and existing listings, together with some benefit from wider supply chain challenges. While the general UK market tone is soft, the Norcros multi-channel proposition (leading brands, breadth of product portfolio, service and financial strength) continues to outperform. After a relatively weak start to the year, UK export performance improved in Q2 although it still currently lags prior year levels. In **South Africa**, domestic conditions remain challenging, especially in commercial and export markets. Hence, at face value, comparable underlying revenue to H119 looks creditable. House of Plumbing was acquired at the beginning of the year for c £10m; initial integration steps have now been completed and its revenue contribution in the first six months was in the order of ZAR225m/£12m. Business development planning is underway here and future aspirations may become more apparent as the year progresses. Lastly, the flagged period end **net debt** position of c £42m implies a small underlying cash inflow in H1 (prior to the acquisition), compared to a small outflow in H119.

Valuation: Credit due for relative performance

The shares having hit a year high of 243p earlier this month, recent gains have subsequently retraced; the stock is currently c 17% ahead ytd and up c 4% on a one-year view, slightly ahead of the FTSE All-Share Index over the same period. Norcros is navigating its markets carefully and gaining share in the process, although it is receiving little credit for doing so in our view, measured by its rating. The P/E and EV/EBITDA (adjusted for pensions cash) are slightly improved from our last note but still sit at just 7.0x and 5.1x, respectively, for the current year and with a prospective 4% dividend yield.

18 October 2019

Price	**223p**
Market cap	**£179m**
	ZAR19.0/£
Net debt (£m) at end March 2019	35
Shares in issue	80.2m
Free float	98%
Code	NXR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.6)	2.1	7.8
Rel (local)	(1.3)	5.7	5.3
52-week high/low		243.0p	185.5p

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

H120 results — 14 November

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Edison profile page

Norcros is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

£m	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Year end March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				**Cont.**	**Cont.**	**Cont.**	**Cont.**	**Cont.**	**Cont.**	**Cont.**	**Cont.**
Revenue	200.3	210.7	218.7	222.1	235.9	271.2	300.1	331.0	359.9	368.4	377.4
Cost of Sales	N/A	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	N/A
EBITDA	18.6	19.9	22.9	24.3	28.0	31.6	34.7	42.2	46.3	48.3	49.9
Operating Profit (pre SBP)	12.3	13.7	17.0	18.3	22.5	25.2	28.3	35.6	39.3	41.1	42.7
Net Interest	(1.4)	(1.3)	(1.5)	(1.2)	(0.9)	(0.9)	(1.1)	(1.8)	(2.3)	(2.2)	(2.3)
Other financial - norm	(0.9)	(2.4)	(2.6)	(3.1)	(3.1)	(3.6)	(2.8)	(2.9)	(3.0)	(3.0)	(3.0)
Other financial	0.6	(0.2)	(5.2)	2.1	(0.2)	(4.2)	(4.5)	2.3	(1.3)	(1.3)	(1.3)
Intangible Amortisation	0.0	0.0	(0.4)	(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(4.0)	(4.0)	(4.0)
Exceptionals	(1.2)	(4.4)	(1.5)	(4.8)	(2.0)	(3.8)	(4.2)	(4.3)	(1.0)	0.0	0.0
Profit Before Tax (norm)	10.0	10.0	12.9	14.0	18.5	20.7	24.4	30.9	34.0	35.9	37.4
Profit Before Tax (co norm)	10.7	11.7	14.6	15.8	20.4	22.9	26.3	32.6	35.7	37.6	39.1
Profit Before Tax (statutory)	9.4	5.4	5.8	11.0	15.4	11.5	13.5	25.4	27.7	30.6	32.1
Tax	0.0	0.2	4.3	(3.0)	(2.4)	(3.0)	(3.6)	(6.0)	(6.8)	(7.2)	(7.5)
Other	0.0	0.0	(1.4)	0.1	0.0	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	24.9	27.2	28.7	29.9
Profit After Tax (statutory)	9.4	5.6	8.7	8.1	13.0	8.5	9.9	19.4	20.9	23.4	24.6
Average number of shares outstanding (m)	57.7	58.0	58.4	59.2	60.6	61.1	68.0	80.2	81.2	81.9	82.6
Average number of shares outstanding FD (m)	58.0	58.9	60.8	61.5	62.2	63.1	69.8	81.1	82.9	83.6	84.3
EPS FD - normalised (p)	17.9	15.8	22.8	18.0	24.7	24.4	26.8	29.6	32.0	33.5	34.6
EPS FD - co normalised (p)	19.2	18.7	27.9	21.1	27.7	27.8	29.5	31.7	34.1	35.6	36.6
EPS - statutory (p)	16.2	9.5	14.3	13.2	19.7	9.8	11.2	22.9	24.4	27.2	28.3
Dividend per share (p)	4.2	4.6	5.1	5.6	6.6	7.2	7.8	8.4	9.0	9.8	10.0
Gross Margin (%)	N/A	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	12.8	12.9	13.1	13.2
Operating Margin (before GW and except.) (%)	6.1	6.5	7.8	8.2	9.5	9.3	9.4	10.8	10.9	11.2	11.3
BALANCE SHEET											
Fixed Assets	80.0	86.7	80.0	78.3	93.4	98.8	147.9	138.0	145.0	146.2	145.0
Intangible Assets	23.4	27.6	27.1	26.9	44.7	44.8	98.9	94.9	96.9	95.3	91.3
Tangible Assets	44.8	43.5	36.9	37.6	38.2	43.0	45.0	42.3	47.3	50.1	52.9
Investments	11.8	15.6	16.0	13.8	10.5	11.0	4.0	0.8	0.8	0.8	0.8
Current Assets	89.7	104.6	102.2	100.4	119.4	165.3	165.1	169.5	185.4	194.8	213.5
Stocks	45.5	52.8	50.2	52.2	60.1	70.3	74.9	79.5	92.4	88.6	90.8
Debtors	34.5	36.3	48.1	42.6	53.4	57.5	64.4	62.8	70.8	69.5	71.2
Cash	2.9	6.8	3.9	5.6	5.9	37.5	25.8	27.2	22.2	36.7	51.5
Current Liabilities	(52.5)	(54.0)	(58.1)	(60.0)	(67.6)	(105.7)	(89.8)	(85.1)	(96.6)	(94.1)	(97.6)
Creditors	(52.1)	(53.5)	(57.3)	(58.6)	(64.8)	(74.8)	(81.3)	(81.3)	(96.6)	(94.1)	(97.6)
Short term borrowings	(0.4)	(0.5)	(0.8)	(1.4)	(2.8)	(30.9)	(8.5)	(3.8)	0.0	0.0	0.0
Long Term Liabilities	(46.1)	(75.7)	(58.6)	(67.4)	(97.6)	(101.8)	(118.6)	(96.7)	(94.8)	(92.7)	(90.7)
Long term borrowings	(20.3)	(37.0)	(30.5)	(18.4)	(35.6)	(29.8)	(64.4)	(58.4)	(58.4)	(58.4)	(58.4)
Other long term liabilities	(25.8)	(38.7)	(28.1)	(49.0)	(62.0)	(72.0)	(54.2)	(38.3)	(36.4)	(34.3)	(32.3)
Net Assets	71.1	61.6	65.5	51.3	47.6	56.6	104.6	125.7	139.0	154.2	170.3
CASH FLOW											
Operating Cash Flow	6.0	6.6	13.6	16.2	18.5	25.5	23.5	35.3	34.8	44.6	43.0
Net Interest	(1.6)	(1.3)	(1.6)	(1.3)	(0.9)	(0.9)	(1.1)	(1.8)	(2.3)	(2.2)	(2.1)
Tax	(0.6)	(1.0)	(1.7)	(0.5)	(1.0)	(1.9)	(4.9)	(4.6)	(6.0)	(6.8)	(7.2)
Capex	(6.7)	(4.2)	(2.8)	(1.4)	(6.6)	(8.0)	(7.7)	(5.5)	(10.0)	(10.0)	(10.0)
Acquisitions/disposals	0.0	(10.6)	0.1	3.3	(23.6)	(2.7)	(59.1)	(2.1)	(9.7)	(2.4)	0.0
Financing	0.2	0.3	0.4	0.2	0.1	0.0	30.1	(0.9)	(1.0)	(1.0)	(1.0)
Dividends	(2.2)	(2.5)	(2.8)	(3.1)	(3.6)	(4.2)	(5.0)	(6.4)	(7.0)	(7.7)	(7.9)
Net Cash Flow	(4.9)	(12.7)	5.2	13.4	(17.1)	7.9	(24.2)	14.0	(1.2)	14.6	14.8
Opening net debt/(cash)	10.6	17.8	30.7	27.4	14.2	32.5	23.2	47.1	35.0	36.2	21.7
Finance leases initiated	(0.8)	(0.1)	0.0	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)	1.4	0.3	(1.9)	0.0	0.0	0.0
Closing net debt/(cash)	17.8	30.7	27.4	14.2	32.5	23.2	47.1	35.0	36.2	21.7	6.9

Source: Company accounts, Edison Investment Research

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