

Walker Greenbank

H118 update

Earnings pressure but asset backing

Management recently flagged licence and UK order book development below levels anticipated at the AGM and lowered FY19 PBT guidance to the £9.5–10m range. The share price is now at its lowest level for over five years and – trading below NAV – implicitly attributes no value to the brand portfolio. A dividend yield in excess of 5% could also be an attraction.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/17	92.4	10.4	12.9	3.6	6.0	4.7
01/18	108.8	12.5	14.4	4.4	5.4	5.6
01/19e	106.0	9.5	10.8	4.4	7.2	5.6
01/20e	107.9	9.6	10.9	4.4	7.1	5.6

Note: *PBT and EPS (fully diluted) are normalised, excluding exceptional items and LTIP charges.

Recent trading newsflow disappoints

Disappointing sales development in the last month prompted a weak trading update (24 July). Licence income has grown in recent years (to £3.1m in FY18) and the largest single agreement to date was signed in H1, all to be booked in FY19.

However, earlier expectations were for it to have been higher value; any shortfall in this revenue stream has a disproportionate impact on profit. Secondly, UK Brand order intake has disappointed in recent weeks (H119 revenue -6.8% overall). John Lewis Partnership's weekly sales development corroborates this; year-to-date Home category sales development has gone from -2.7% (and stable) just before Walker Greenbank's AGM to -4.0% four trading weeks later, with more variable negative weekly figures. More positively, US Brand sales (+4.9% I-f-I), Licensing (+40.4%) and third-party Manufacturing (+11.1%) have all shown good y-o-y progress ytd.

Estimate revisions focused on the UK

Retailers generally have pointed to better outdoor category sales in the UK and it remains to be seen whether the consumer has been distracted temporarily (by the hot weather / World Cup / Brexit newsflow) or whether the current activity levels are to be sustained. Taking management's FY19 PBT guidance, we have lowered our current year estimate by 26%, substantially driven by Brands. Moreover, we now assume no UK Brand growth from a reduced FY19 base level in FY20 and FY21, and this feeds through to similar PBT reductions in these two years also, pending more positive consumer confidence readings.

Valuation: Low rating in context

The company's share price gapped down following the 24 July update and is at levels last seen in early 2013 during the post-recession recovery phase. Increased confidence in the earnings outlook would naturally result in some expansion of valuation multiples from current levels (FY19 P/E 7.2x, EV/EBITDA, adjusted for pensions cash 4.6x), in our view. In the light of our estimate revisions, we have elected to factor in a flat DPS profile (previously a 5.5% CAGR); on this basis earnings cover remains comfortably above 2x and the balance sheet to us seems strong. Indeed, the share price now sits below our projected 90p end-FY19 NAV.

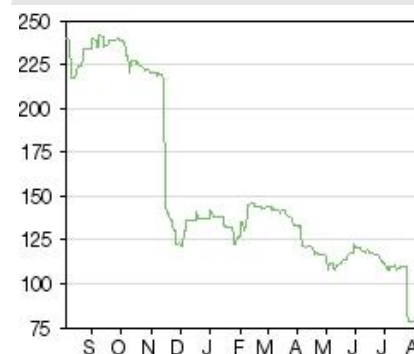
Care & household goods

3 August 2018

Price 77.5p
Market cap £55m

Net debt (£m) at end January 2018	5.3
Shares in issue	70.9m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(28.6)	(27.9)	(67.2)
Rel (local)	(28.8)	(28.2)	(68.0)
52-week high/low	241.5p	77.5p	

Business description

Walker Greenbank is a luxury interior furnishings group combining specialist design skills with high-quality upstream UK manufacturing facilities. Leading brands include Harlequin, Sanderson, Morris & Co, Scion, Anthology, Zoffany and Clarke & Clarke. FY18 revenue: UK 58%, International 39% and Licence income 3%.

Next events

FY18 final DPS to be paid	10 August 2018
H119 results	October – date tbc

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

[Edison profile page](#)

**Walker Greenbank is a
research client of Edison
Investment Research Limited**

Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue		75.7	78.4	83.4	87.8	92.4	108.8	106.0	107.9	111.0
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(43.3)	(41.8)	(42.5)	(43.7)
Gross Profit		45.5	48.1	50.7	52.0	56.2	65.5	64.2	65.4	67.3
EBITDA		8.6	9.7	10.7	11.8	13.4	15.9	13.0	13.3	14.1
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	12.8	9.9	10.0	10.7
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	12.4	9.3	9.4	10.1
Net Interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.3)	(0.3)
Intangible Amortisation - acquired		0	0	0	0	(0.3)	(1.0)	(1.0)	(1.0)	(1.0)
Pension net finance charge		(0.7)	(0.9)	(0.8)	(0.7)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Exceptionals		0	0	0	0	(1.8)	2.3	0.0	0.0	0.0
Other		0	0	0	0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		6.4	7.3	8.1	8.9	10.4	12.5	9.5	9.6	10.4
Profit Before Tax (FRS 3)		4.9	5.5	6.3	7.3	7.0	12.8	7.3	7.4	8.2
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(1.0)	(1.9)	(1.9)	(2.1)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	11.5	7.6	7.7	8.3
Profit After Tax (FRS 3)		4.0	5.0	5.1	5.9	5.4	11.8	5.4	5.5	6.1
Average Number of Shares Outstanding (m)		57.5	58.5	59.3	60.0	62.7	70.4	70.7	70.7	70.7
EPS - normalised (p) FD		9.4	10.7	11.2	11.6	12.9	14.4	10.8	10.9	11.8
EPS - FRS 3 (p)		6.9	8.6	8.6	9.8	8.6	16.7	7.7	7.8	8.7
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.4	4.4	4.4	4.4
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.2	60.6	60.6	60.6
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	14.6	12.3	12.3	12.7
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	11.4	8.7	8.7	9.1
BALANCE SHEET										
Fixed Assets		18.5	21.1	21.5	18.9	47.5	47.7	47.6	46.8	45.9
Intangible Assets		6.7	7.3	7.2	7.1	31.6	31.8	30.6	29.5	28.4
Tangible Assets		9.8	11.7	12.7	11.7	15.8	16.0	16.9	17.3	17.5
Investments		2.0	2.2	1.6	0.1	0.0	0.0	0.0	0.0	0.0
Current Assets		32.6	35.3	37.1	40.3	51.3	51.9	53.1	54.8	57.4
Stocks		16.8	18.4	22.0	18.1	30.3	29.4	30.4	30.9	31.8
Debtors		12.8	13.9	14.1	19.3	19.5	21.2	21.4	21.6	22.1
Cash		2.9	2.8	1.0	2.9	1.5	1.3	1.3	2.3	3.5
Other		0.1	0.2	0.0	0.0					
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(28.9)	(29.6)	(30.2)	(31.1)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(22.4)	(23.0)	(23.6)	(24.5)
Short term borrowings		(0.4)	(0.4)	(0.4)	(0.4)	(6.8)	(6.6)	(6.6)	(6.6)	(6.6)
Long Term Liabilities		(9.6)	(10.2)	(10.9)	(4.5)	(12.7)	(9.1)	(7.1)	(5.0)	(2.8)
Long term borrowings		(1.4)	(0.9)	(0.6)	(0.2)	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(8.2)	(9.2)	(10.4)	(4.3)	(12.7)	(9.1)	(7.1)	(5.0)	(2.8)
Net Assets		24.2	26.9	26.9	35.3	51.3	61.6	63.9	66.3	69.4
CASH FLOW										
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	7.0	9.3	9.8	10.2
Net Interest		(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Tax		(0.0)	(0.0)	(0.0)	(0.6)	(2.3)	(2.2)	(1.9)	(1.9)	(2.1)
Capex		(3.1)	(4.7)	(3.2)	(2.5)	(6.7)	(3.5)	(4.0)	(3.5)	(3.5)
Acquisitions/disposals		0.0	0.0	0.0	0.0	(27.1)	0.0	0.0	0.0	0.0
Financing		(0.1)	(0.0)	(0.4)	(0.1)	18.3	1.8	0.0	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.7)	(3.1)	(3.1)	(3.1)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	0.1	(0.0)	1.0	1.2
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	5.3	4.3
HP finance leases initiated		0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	(0.2)	(0.1)	0.0	0.0	0.0
Closing net debt/(cash)		(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	5.3	4.3	3.1

Source: Company, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Walker Greenbank and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.