

Coats Group

FY16 results

FY16 ahead, estimates nudged up

A busy year for Coats concluded with progress on earnings and pensions. There is more to be done on both but with pension distractions substantially resolved and good cash credentials there are more strategic options available to management. The valuation has begun to normalise now and the return to dividend payment contributes to this.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	1,472.5	127.3	5.0	0.0	14.4	N/A
12/16	1,457.3	140.7	5.8	0.8	12.3	1.1
12/17e	1,478.9	146.3	6.2	1.5	11.5	2.1
12/18e	1,528.1	152.4	6.5	1.7	11.0	2.4

Note: Continuing operations only. *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Ahead of estimates and dividend payments resumed

Reported FY16 normalised PBT (we exclude pension net finance costs) for the continuing businesses came to c US\$5m above our estimate (at US\$140.7m with EPS on the same basis of 5.8c). This outcome was attributable broadly equally to higher divisional EBIT (despite small revenue shortfalls) and lower than anticipated pension admin costs. Margins in both divisions were up slightly versus our model; Industrial did ease back compared to the first six months, but H216 was up year-on-year, while Crafts picked up markedly after the flagged H1 issues. The previously flagged resolution of a substantial portion of the UK DB pension scheme is helpful to the investment case, as is a return to the dividend list, a year earlier than we had anticipated.

Pro forma net debt: continuing EBITDA of 1.3x

The net cash movement (to US\$78m, down US\$162m from a year ago) was the result of US\$78m underlying free cash inflow more than offset by outflows of c US\$119m from exceptional items (chiefly pensions cash plus some reorganisation costs and discontinued effects), plus US\$40m acquisition spend and US\$81m adverse FX effects (on sterling cash balances). Adjusting for US\$290m agreed pension recovery cash outstanding (giving pro forma net debt of US\$212m) and excluding the resulting c US\$53m parent company cash we estimate that net debt:EBITDA for the continuing businesses was 1.3x for FY16. Our underlying free cash inflow estimate (before re-set pension cash contributions of c US\$24m pa, but after capex around 1.5x depreciation) is c US\$65m for FY17, rising to c US\$75m in FY19. After allowing for cash dividend payments, our model shows group FY19 net debt:EBITDA at 0.7x.

Valuation: Becoming more mainstream

We have nudged our FY17 and FY18 estimates ahead (by c 3% and c 2% respectively) following the results announcement. On this basis, Coats Group's P/E is now 11.5x for the current year, falling to 10.5x on our new FY19 estimates. The corresponding EV/EBITDAs (adjusted for annual pension cash recovery payments) are 6.8x and 6.1x. Greater attention will now fall on the rate of investment across the group and the impact this has on earnings growth. (Our EPS CAGR to FY19 is 5.3%.) Annualised effects also point to a rising dividend in FY17.

General industrials

10 March 2017

Price **56.50p**
Market cap **£796m**

US\$1.26:£

Net cash (US\$m) at end December 2016 78.2

Shares in issue 1,407.6m

Free float 97%

Code COA

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.2) 47.7 100.0

Rel (local) (7.4) 40.1 69.3

52-week high/low 61.5p 25.0p

Business description

Coats Group is a leading producer of industrial thread and consumer craft textiles with over 70 manufacturing sites internationally. Its divisions are Industrial: Apparel & Footwear (c 67%) and Performance Materials (c 17%); and Crafts (16%), based on FY16 revenue.

Next event

AGM 17 May 2017

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Exhibit 1: Financial summary

	US\$m	2014	2015	2016 (cont)	2017e	2018e	2019e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		1,561.4	1,489.5	1,457.3	1,478.9	1,528.1	1,579.5
Cost of Sales		(993.4)	(930.1)	(892.3)	(905.6)	(935.7)	(967.1)
Gross Profit		568.0	559.4	565.0	573.4	592.5	612.4
EBITDA		170.0	183.0	198.6	200.0	204.6	212.2
Operating Profit (before GW and except.)		123.4	139.4	157.9	162.8	169.4	176.0
Net Interest		(8.7)	(6.3)	(10.1)	(13.5)	(14.0)	(14.0)
Other finance		13.5	(6.3)	(7.1)	(3.0)	(3.0)	(3.0)
Intangible Amortisation - acquired		0.0	0.0	0.0	0.0	0.0	0.0
Pension Net Finance Costs		(11.3)	(17.1)	(13.6)	(13.0)	(13.0)	(13.0)
Exceptionals		(20.0)	(29.9)	(3.3)	0.0	0.0	0.0
Profit Before Tax (norm)		128.2	126.8	140.7	146.3	152.4	159.0
Profit Before Tax (FRS 3)		96.9	79.8	123.8	133.3	139.4	146.0
Tax		(45.1)	(43.7)	(46.8)	(46.1)	(48.0)	(50.1)
Discontinued		(27.2)	(75.5)	(4.5)	0.0	0.0	0.0
Profit After Tax (norm)		55.9	7.6	89.4	100.3	104.4	108.9
Profit After Tax (FRS 3)		24.6	(39.4)	72.5	87.3	91.4	95.9
Minorities		(9.6)	(11.2)	(11.9)	(12.2)	(12.5)	(12.8)
Profit Attributable to Shareholders		15.0	(-50.6)	60.6	75.1	79.0	83.1
Average Number of Shares Outstanding (m)		1,407.4	1,400.8	1,386.6	1,386.6	1,386.6	1,386.6
EPS - normalised (c)		5.2	5.0	5.8	6.2	6.5	6.8
EPS - FRS 3 (c)		1.1	(3.6)	4.4	5.4	5.7	6.0
Dividend per share (c)		0.0	0.0	0.8	1.5	1.7	2.0
Gross Margin (%)		36.4	37.6	38.8	38.8	38.8	38.8
EBITDA Margin (%)		10.9	12.3	13.6	13.5	13.4	13.4
Operating Margin (before GW and except.) (%)		7.9	9.4	10.8	11.0	11.1	11.1
BALANCE SHEET							
Fixed Assets		653.9	627.9	654.8	675.0	692.2	708.4
Intangible Assets		256.7	261.2	291.8	291.0	293.2	295.4
Tangible Assets		298.2	273.0	265.9	286.9	301.9	315.9
Pension Surplus		51.0	52.5	50.8	50.8	50.8	50.8
Other		48.0	41.2	46.3	46.3	46.3	46.3
Current Assets		1,308.4	1,122.6	937.8	666.9	704.4	744.1
Stocks		257.8	204.0	205.8	208.9	215.8	223.1
Debtors		311.6	268.7	255.5	258.5	265.4	272.7
Cash		739.0	649.9	476.5	199.5	223.2	248.4
Current Liabilities		(576.6)	(437.9)	(660.3)	(379.4)	(402.9)	(427.8)
Creditors		(463.1)	(417.7)	(652.6)	(379.4)	(402.9)	(427.8)
Short term borrowings		(113.5)	(20.2)	(7.7)	0.0	0.0	0.0
Long Term Liabilities		(985.1)	(958.6)	(841.3)	(817.0)	(792.7)	(768.4)
Long term borrowings		(304.6)	(389.1)	(390.6)	(390.6)	(390.6)	(390.6)
Other long term liabilities		(680.5)	(569.5)	(450.7)	(426.4)	(402.1)	(377.8)
Net Assets		400.6	354.0	91.0	145.6	201.0	256.4
CASH FLOW							
Operating Cash Flow		161.2	87.7	75.7	(119.4)	173.2	180.5
Net Interest		(13.5)	(5.3)	(10.0)	(13.5)	(14.0)	(14.0)
JV/Minorities		(5.2)	(10.1)	(13.4)	(12.2)	(12.5)	(12.8)
Tax		(55.7)	(49.3)	(57.9)	(51.1)	(52.0)	(53.1)
Capex		(40.8)	(31.4)	(35.3)	(55.0)	(50.0)	(50.0)
Acquisitions/disposals		0.4	(5.4)	(40.1)	0.0	0.0	0.0
Financing		0.2	(7.6)	(2.7)	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	(18.2)	(21.1)	(25.3)
Net Cash Flow		46.6	(21.4)	(83.7)	(269.3)	23.6	25.3
Opening net debt/(cash)		(274.3)	(320.9)	(240.6)	(78.2)	191.1	167.4
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	(58.9)	(78.7)	0.0	0.0	0.0
Closing net debt/(cash)		(320.9)	(240.6)	(78.2)	191.1	167.4	142.2

Source: Company accounts, Edison Investment Research

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