

# IG Design Group

## Outperformance in the bag

Trading update

Care & household goods

24 March 2017

**Price** **264.5p**

**Market cap** **£166m**

£1:\$1.24

Net debt (£m) at end September 2016 76.4

Shares in issue 62.6m

Free float 53.8%

Code IGR

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (0.6) 3.9 58.9

Rel (local) (1.7) (0.3) 35.3

52-week high/low 309.0p 145.0p

### Business description

IG Design Group is one of the world's leading designers, innovators and manufacturers of gift packaging and greetings, social expression giftware, stationery and creative play products.

### Next events

Prelims End June 2017

### Analysts

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IG Design has had a very good second half trading and has issued a year-end update indicating that numbers will exceed market estimates. We have lifted our FY17 and FY18 numbers by 8-10% at the pre-tax and EPS levels, following an 11% uplift to earnings with the interims. Particularly notable is the comment on strong cash flow, with the group reaching its target of average leverage less than 2.5x EBITDA two years ahead of plan. With the earnings and cash flow momentum, strong balance sheet and progressive dividend, there is good potential for further share price upside.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	229.0	9.6	11.8	1.0	22.4	0.4
03/16	237.0	11.1	13.5	2.5	19.6	0.9
03/17e	305.0	16.0	17.5	4.0	15.1	1.5
03/18e	325.8	18.1	19.3	5.0	13.7	1.9

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Progress driven by US and Continental Europe

US progress, both organic and with the integration of Lang, is very encouraging and gives good momentum into the new financial year. Market opportunities are substantial as the group addresses new segments, such as the drug stores, and widens product categories. A shift in the Australian client base, disclosed earlier, will have restrained short-term profits but should boost margins in future periods. The UK, despite currency headwinds, is also broadening its market offer and internal reorganisation will help drive efficiency. The continental European business's top line is growing well helped by customer expansion, with consequent efficiency gains boosted further by internal initiatives.

## Cash converter

Our reports were once focused mainly on debt management (the group was 100% geared as recently as FY10). With the strong cash generation indicated in the update, we now expect the group to have ended its financial year with a very modest net debt position (£1.2m), down from the £10m we had previously forecast, and moving into net cash by end FY18. The half year will inevitably show a substantial number as the group has considerable working capital requirements. Peak net debt (normally end October, early November) will continue to rise as the business grows, hence the target focus being on average leverage.

## Valuation: DCF implies further upside

The share price now recognises the group's transformation from an indebted manufacturer in deflation-prone commodity markets into a confident, global, designed, efficient partnership supplier to retail channels. However, a reverse DCF shows that the current share price assumes that either there is no medium-term growth or that EBITDA margins will fall. Given that the latter have been in a tight range of 6.8% to 7.4% for the last five years, even a modest growth assumption of 2% beyond the forecast period would indicate a share price of 308p. The strong cash flow generation and large step-up in dividend reinforce the positive outlook.

**Exhibit 1: Financial summary**

	2014	2015	2016	2017e	2018e
Year end 31 March	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue	224,462	229,025	236,950	305,000	325,750
Cost of Sales	(185,244)	(189,048)	(193,552)	(248,575)	(265,487)
Gross Profit	39,218	39,977	43,398	56,425	60,264
EBITDA	16,352	16,227	16,505	21,500	23,950
Operating Profit (before amort and except)	11,320	11,692	12,909	17,400	19,500
Intangible Amortisation	(576)	(428)	(285)	(500)	(500)
Exceptionals	(2,298)	(1,235)	0	(800)	(400)
Share-based payments	(82)	(623)	(908)	(2,000)	(1,700)
Operating Profit	8,364	9,406	11,716	14,100	16,900
Net Interest	(3,177)	(2,726)	(2,763)	(1,400)	(1,400)
Profit Before Tax (norm)	8,143	9,589	11,054	16,000	18,100
Profit Before Tax (FRS 3)	5,269	7,303	9,861	14,700	17,200
Tax	(1,582)	(1,346)	(2,219)	(3,810)	(4,927)
Profit After Tax (norm)	6,643	8,243	8,835	12,190	13,173
Profit After Tax (FRS 3)	3,687	5,957	7,642	10,890	12,273
Average Number of Shares Outstanding (m)	57.5	58.1	59.3	61.6	62.6
EPS - normalised (p)	9.5	12.3	13.9	17.8	19.7
EPS - normalised fully diluted (p)	9.2	11.8	13.5	17.5	19.3
EPS - (IFRS) (p)	5.2	9.7	12.2	16.7	18.6
Dividend per share (p)	0.0	1.0	2.5	4.0	5.0
Gross Margin (%)	17.5	17.5	18.3	18.5	18.5
EBITDA Margin (%)	7.3	7.1	7.0	7.0	7.4
Operating Margin (before GW and except.) (%)	5.0	5.1	5.4	5.7	6.0
<b>BALANCE SHEET</b>					
Fixed Assets	67,664	65,688	66,722	71,609	78,659
Intangible Assets	31,950	31,692	32,236	33,450	32,950
Tangible Assets	35,714	33,996	34,486	38,159	45,709
Investments	0	0	0	0	0
Current Assets	76,261	71,312	75,791	93,237	98,733
Stocks	48,460	46,162	46,006	56,257	60,085
Debtors	19,690	22,304	21,405	28,930	30,898
Cash	8,111	2,846	8,380	8,050	7,750
Other	0	0	0	0	0
Current Liabilities	(51,965)	(45,722)	(48,331)	(54,157)	(56,222)
Creditors	(39,139)	(39,982)	(42,765)	(52,407)	(55,972)
Short term borrowings	(12,826)	(5,740)	(5,566)	(1,750)	(250)
Long Term Liabilities	(34,799)	(28,694)	(22,810)	(11,856)	(9,356)
Long term borrowings	(32,232)	(26,479)	(20,297)	(7,500)	(5,000)
Other long term liabilities	(2,567)	(2,215)	(2,513)	(4,356)	(4,356)
Net Assets	57,161	62,584	71,372	98,833	111,814
<b>CASH FLOW</b>					
Operating Cash Flow	13,724	17,851	20,744	27,500	24,800
Net Interest	(3,221)	(2,775)	(1,961)	(1,400)	(1,400)
Tax	(60)	(1,263)	(1,797)	(3,415)	(4,569)
Capex	(5,291)	(2,100)	(3,191)	(6,000)	(12,000)
Acquisitions/disposals	140	(1,451)	0	(2,794)	0
Financing/Other	1,225	(1,347)	74	5,086	0
Dividends	(1,014)	(829)	(1,032)	(2,672)	(3,141)
Net Cash Flow	5,503	8,086	12,837	16,306	3,690
Opening net debt/(cash)	42,138	36,947	29,373	17,483	1,200
HP finance leases initiated	296	0	0	0	0
Other	(608)	(512)	(947)	(23)	10
Closing net debt/(cash)	36,947	29,373	17,483	1,200	(2,500)

Source: Company accounts, Edison Investment Research

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