

# Low and Bonar

## Re-set dividend expectations, targeting recovery

Improving operating and financial performance and lower net debt are key management objectives. FY18 results should provide some evidence of progress here, although our revised estimates now contain lower margin and dividend expectations in all three forecast years. Balance sheet clarity and margin recovery will be key share price catalysts, in our view.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 11/16    | 400.0        | 29.2      | 6.0      | 3.0     | 2.8     | 18.2      |
| 11/17    | 446.5        | 30.7      | 6.3      | 3.1     | 2.6     | 18.5      |
| 11/18e   | 429.5        | 17.0      | 3.6      | 2.1     | 4.6     | 12.7      |
| 11/19e   | 441.3        | 21.0      | 4.4      | 2.1     | 3.7     | 12.7      |

Note: \*PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles and exceptional items. Excludes disposed grass yarns business.

## Trading challenges, operating progress

An end-FY18 trading update pointed to a PBT outturn c 8% lower than our previous estimates although indicated revenue and net debt were slightly better. Divisional comments were similar to [before](#) but the recovery of input cost increases (especially polymers and freight) may be more patchy or taking longer to achieve in current markets. Actions taken to improve operating performance in Civil Engineering (CE) and Coated Technical Textiles (CTT), despite fire disruption at one site, appear to be starting to take effect and FY18 should also demonstrate progress with cost and working capital reduction.

## Estimates and dividend expectations lowered

We have aligned our FY18 estimates with year-end guidance, chiefly by lowering the CTT and Building & Industrial contributions. No new forward guidance beyond this was provided; we have lowered subsequent years' estimates by just over 10% to incorporate more modest margin progression although we acknowledge that actions to improve operational performance in some areas could counter this. As part of an ongoing review of capital structure, management has flagged a lower expected final dividend; we now assume it matches the H1 payout and at this level (2.1p for the year and going forward, around one-third lower than before) earnings and cash cover are both c 2x from FY19. A mooted disposal (of CE) and potential equity raise may also have a bearing on balance sheet structure in due course.

## Valuation: Balancing value and perceived risk

Low & Bonar's share price is around one-third of the level that it started 2018 and most of this decline has occurred in the last three months. At 16.5p, the company's enterprise value is less than 0.5x revenue and equivalent to 5.1x (adjusted for pensions cash) EBITDA for FY18. It is also at a significant discount to our estimated end FY18 NAV of 49p. In the current climate, gearing and interest cover ratios may not be at comfortable levels for investors (ie net debt: EBITDA 3.3x and P&L interest cover c 4x), who may also be eyeing management comments regarding a potential equity issues as a way to lower perceived financial risk. On our revised dividend profile, earnings cover exceeds 2x in FY19 and is yielding 12%+.

## Year-end trading update

### General industrials

19 December 2018

**Price** **16.5p**

**Market cap** **£54m**

£/€ 1.12

Net debt (£m) at end November 2018 c 129

Shares in issue 330.0m

Free float 99%

Code LWB

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (44.9) (70.6) (77.9)

Rel (local) (42.1) (67.6) (75.0)

52-week high/low 67.8p 15.0p

### Business description

Low & Bonar produces specialist performance materials for a variety of end markets by combining polymers with specialty additives and pigments. It reports as four global business units: Building & Industrial (19% of FY17 revenue), Civil Engineering (23%), Coated Technical Textiles (31%), and Interiors & Transportation (27%).

### Next events

FY18 results 30 January 2019

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**Exhibit 1: Financial summary**

|                                                 | £m | 2014    | 2015    | 2015            | 2016    | 2017    | 2018e   | 2019e   | 2020e   |
|-------------------------------------------------|----|---------|---------|-----------------|---------|---------|---------|---------|---------|
| Year end 30 November                            |    | IFRS    | IFRS    | IFRS            | IFRS    | IFRS    | IFRS    | IFRS    | IFRS    |
| <b>PROFIT &amp; LOSS</b>                        |    | IAS19R  | IAS19R  | Restated IAS19R | IAS19R  | IAS19R  | IAS19R  | IAS19R  | IAS19R  |
| Revenue                                         |    | 410.6   | 395.8   | 362.1           | 400.0   | 446.5   | 429.5   | 441.3   | 452.1   |
| Cost of Sales                                   |    | 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     |
| EBITDA                                          |    | 45.6    | 46.9    | 46.0            | 52.8    | 55.8    | 39.9    | 45.8    | 50.5    |
| Operating Profit (ex SBP)                       |    | 32.3    | 33.4    | 32.5            | 35.6    | 36.2    | 22.5    | 27.4    | 32.1    |
| Net Interest                                    |    | (5.0)   | (4.2)   | (4.3)           | (5.4)   | (4.6)   | (5.6)   | (5.5)   | (5.3)   |
| SBP                                             |    | (0.6)   | (0.6)   | (0.6)           | (0.9)   | (0.7)   | 0.3     | (0.7)   | (0.7)   |
| Saudi JV                                        |    | (1.1)   | (1.8)   | 0.0             | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| PNFC                                            |    | (0.4)   | (0.2)   | (0.2)           | (0.1)   | (0.2)   | (0.2)   | (0.2)   | (0.2)   |
| Profit Before Tax (company norm)                |    | 25.2    | 26.5    | 27.4            | 29.2    | 30.7    | 17.0    | 21.0    | 26.0    |
| Intangible Amortisation                         |    | (5.2)   | (4.1)   | (4.1)           | (4.0)   | (3.7)   | (2.8)   | (2.8)   | (2.8)   |
| Exceptionals                                    |    | (3.3)   | (10.1)  | (1.9)           | 0.7     | (47)    | (22)    | 0       | 0       |
| Profit Before Tax (FRS 3)                       |    | 16.7    | 12.4    | 21.4            | 25.9    | (19.7)  | (7.4)   | 18.2    | 23.2    |
| Tax                                             |    | (4.9)   | (6.3)   | (6.2)           | (8.2)   | 2.1     | (3.0)   | (5.5)   | (6.8)   |
| Minorities                                      |    | (0.3)   | (0.5)   | (0.5)           | (0.6)   | (0.6)   | (0.6)   | (0.6)   | (0.6)   |
| Other                                           |    | 0.0     | 0.0     | (9.0)           | (3.2)   | 0.0     | 0.0     | 0.0     | 0.0     |
| Profit After Tax (norm)                         |    | 18.3    | 18.6    | 19.0            | 19.9    | 21.4    | 12.1    | 15.1    | 18.7    |
| Profit After Tax (FRS 3)                        |    | 11.8    | 6.1     | 5.7             | 13.9    | (18.2)  | (11.0)  | 12.1    | 15.7    |
| Average Number of Shares Outstanding (m)        |    | 327.0   | 328.1   | 328.1           | 329.0   | 329.4   | 329.8   | 330.0   | 330.0   |
| EPS FD- normalised (p)                          |    | 5.4     | 5.5     | 5.8             | 6.0     | 6.3     | 3.6     | 4.4     | 5.5     |
| EPS - FRS 3 (p)                                 |    | 3.5     | 1.7     | 1.7             | 5.2     | (5.5)   | (3.3)   | 3.7     | 4.8     |
| Dividend per share (p)                          |    | 2.7     | 2.8     | 2.8             | 3.0     | 3.1     | 2.1     | 2.1     | 2.1     |
| Gross Margin (%)                                |    |         |         |                 |         |         |         |         |         |
| EBITDA Margin (%)                               |    | 11.1    | 11.8    | 11.8            | 13.2    | 12.5    | 9.3     | 10.4    | 11.2    |
| Operating Margin (before amort. and except) (%) |    | 7.9     | 8.4     | 8.4             | 8.9     | 8.1     | 5.2     | 6.2     | 7.1     |
| <b>BALANCE SHEET</b>                            |    |         |         |                 |         |         |         |         |         |
| Fixed Assets                                    |    | 230.2   | 232.0   |                 | 261.2   | 257.0   | 247.9   | 247.1   | 246.3   |
| Intangible Assets                               |    | 105.8   | 89.9    |                 | 104.8   | 91.7    | 76.7    | 74.9    | 73.1    |
| Tangible Assets                                 |    | 119.3   | 132.0   |                 | 150.3   | 144.5   | 146.5   | 147.5   | 148.5   |
| Investments                                     |    | 5.1     | 10.1    |                 | 6.1     | 20.8    | 24.7    | 24.7    | 24.7    |
| Current Assets                                  |    | 192.0   | 187.6   |                 | 202.9   | 222.4   | 232.1   | 237.8   | 249.5   |
| Stocks                                          |    | 90.9    | 82.6    |                 | 97.5    | 97.3    | 91.6    | 92.1    | 92.4    |
| Debtors                                         |    | 62.8    | 62.9    |                 | 63.4    | 72.3    | 65.6    | 66.3    | 67.0    |
| Other                                           |    | 12.5    | 8.2     |                 | 15.7    | 14.6    | 14.4    | 16.1    | 16.1    |
| Cash                                            |    | 25.8    | 33.9    |                 | 26.3    | 38.2    | 60.6    | 63.3    | 74.0    |
| Current Liabilities                             |    | (87.7)  | (114.4) |                 | (88.9)  | (93.3)  | (97.1)  | (101.1) | (105.8) |
| Creditors                                       |    | (87.7)  | (82.9)  |                 | (88.8)  | (90.6)  | (97.1)  | (101.1) | (105.8) |
| Short term borrowings                           |    | 0.0     | (31.5)  |                 | (0.1)   | (2.7)   | 0.0     | 0.0     | 0.0     |
| Long Term Liabilities                           |    | (147.6) | (133.3) |                 | (171.5) | (204.4) | (218.5) | (215.2) | (211.9) |
| Long term borrowings                            |    | (113.8) | (104.5) |                 | (137.2) | (173.9) | (190.5) | (190.5) | (190.5) |
| Other long term liabilities                     |    | (33.8)  | (28.7)  |                 | (34.3)  | (30.5)  | (28.0)  | (24.7)  | (21.4)  |
| Net Assets                                      |    | 186.9   | 171.9   |                 | 203.7   | 181.7   | 164.4   | 168.7   | 178.1   |
| <b>CASH FLOW</b>                                |    |         |         |                 |         |         |         |         |         |
| Operating Cash Flow                             |    | 34.1    | 35.3    |                 | 33.9    | 32.2    | 45.4    | 39.6    | 48.8    |
| Net Interest                                    |    | (4.5)   | (4.5)   |                 | (4.9)   | (4.4)   | (5.6)   | (5.5)   | (5.3)   |
| Tax                                             |    | (7.7)   | (7.5)   |                 | (10.8)  | (10.3)  | (4.5)   | (5.5)   | (6.8)   |
| Capex                                           |    | (20.2)  | (33.7)  |                 | (22.2)  | (34.4)  | (19.8)  | (19.0)  | (19.0)  |
| Acquisitions/disposals                          |    | 3.0     | 0.0     |                 | 21.7    | 3.8     | 3.0     | 0.0     | 0.0     |
| Financing                                       |    | 0       | (1)     |                 | (0)     | (1)     | 0       | 0       | 0       |
| Dividends                                       |    | (8.8)   | (9.0)   |                 | (9.2)   | (10.0)  | (10.1)  | (6.9)   | (6.9)   |
| Net Cash Flow                                   |    | (4.0)   | (20.2)  |                 | 8.4     | (23.9)  | 8.6     | 2.7     | 10.8    |
| Opening net debt/(cash)                         |    | 86.8    | 88.0    |                 | 102.1   | 111.0   | 138.4   | 129.9   | 127.2   |
| HP finance leases initiated                     |    | 0.0     | 0.0     |                 | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other                                           |    | 2.8     | 6.1     |                 | -17.3   | -3.5    | -0.1    | 0.0     | 0.0     |
| Closing net debt/(cash)                         |    | 88.0    | 102.1   |                 | 111.0   | 138.4   | 129.9   | 127.2   | 116.5   |

Source: Company, Edison Investment Research

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