

Norcros

Trading update

Momentum maintained

Following the latest trading update, we have increased our earnings estimates again. Trading momentum is expected to continue beyond the year end and we now expect dividends to normalise more quickly. Although there are still some market issues to contend with (most obviously easing COVID-19 restrictions and a tight freight industry), recent updates suggest the company is meeting the challenges well.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/19	331.0	30.9	29.6	8.4	9.0	3.1
03/20	342.0	27.1	26.1	3.1	10.3	1.2
03/21e	324.7	25.9	25.0	4.0	10.7	1.5
03/22e	335.8	29.4	28.2	7.8	9.5	2.9

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptionals, pension net finance costs and change in fair value of derivatives.

Powering through to year end

Norcros has updated its guidance for the second time in the final month of its trading year. Management is guiding to an uplift in expected group EBIT to 'not less than £31m' (previously £28m) and an ungeared balance sheet (ie no core net debt, pre IFRS 16 finance), which is c £8m better than we were anticipating. In context, FY20 EBIT was £32.3m; although this outturn was also COVID-19 affected (noted as a c £4m year-end hit) to get within touching distance in FY21 is a very creditable result, in our view. We understand that trading in recent weeks has seen a continuation of trends into the early part of February rather than a change in trajectory and this update reflects management's natural caution at that time, including supply chain challenges, which have been successfully navigated so far. It should also be noted that FY21 performance is all organic.

Estimates raised again

We have adjusted our FY21 model in line with guidance (including a raised revenue run rate and cash inflow). As things stand, the momentum and upward pressure on FY21 estimates should follow through into subsequent years; our PBT estimate for the closing year is now c 15% higher, with increases in the following two years of around 10%. We have assumed a faster normalisation of dividend payments. Over and above these changes, the balance sheet position does provide plenty of headroom for the company to make acquisitions again subject to appropriate opportunities arising. A fuller year-end update is scheduled for 15 April.

Valuation: FY22 P/E below 10x

The latest trading update should serve to consolidate share price gains made after the one made at the beginning of March, which partly retraced in the last week. The ytd increase of c 34% is well ahead of the c 3% achieved by the FTSE All Share Index over the same period. Following our earnings upgrades, Norcros is now trading on a P/E and EV/EBITDA (adjusted for pensions cash) of 9.5x and 6.0x respectively for FY22.

Construction & materials

7 April 2021

Price **268p**
Market cap **£216m**

ZAR20.9/£

Net debt (£m) at 7 February 2021 5.7

Shares in issue 80.8m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	16.5	32.8	113.6
Rel (local)	12.6	27.4	73.2

52-week high/low 268.0p 120.0p

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

FY21 year-end update 15 April

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Exhibit 1: Financial summary

	£'ms	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
March		IFRS								
PROFIT & LOSS		Cont.								
Revenue		222.1	235.9	271.2	300.1	331.0	342.0	324.7	335.8	344.7
Cost of Sales		N/A	N/A	(171.7)	(190.4)	(206.8)	(217.5)	N/A	N/A	N/A
Gross Profit		N/A	N/A	99.5	109.7	124.2	124.5	N/A	N/A	N/A
EBITDA IFRS16		24.3	28.0	31.6	34.7	42.2	38.8	36.9	39.9	41.7
Op Profit (before SBP)		18.3	22.5	25.2	28.3	35.6	32.2	31.6	34.4	35.9
Net Interest		(1.2)	(0.9)	(0.9)	(1.1)	(1.8)	(1.6)	(1.7)	(1.0)	(0.9)
Other financial - norm		(3.1)	(3.1)	(3.6)	(2.8)	(2.9)	(3.5)	(4.0)	(4.0)	(4.0)
Other financial		2.1	(0.2)	(4.2)	(4.5)	2.3	0.9	(2.3)	(1.0)	(1.0)
Intangible Amortisation		(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(3.7)	(4.2)	(4.2)	(4.2)
Exceptionals		(4.8)	(2.0)	(3.8)	(4.2)	(4.3)	(9.3)	(3.0)	0.0	0.0
Profit Before Tax (norm)		14.0	18.5	20.7	24.4	30.9	27.1	25.9	29.4	31.0
Profit Before Tax (company norm)		15.8	20.4	22.9	26.3	32.6	28.8	27.6	31.1	32.7
Profit Before Tax (statutory)		11.0	15.4	11.5	13.5	25.4	15.0	16.4	24.2	25.8
Tax		(3.0)	(2.4)	(3.0)	(3.6)	(6.0)	(4.1)	(4.5)	(5.8)	(6.1)
Other		0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)		11.1	16.1	17.7	20.8	24.9	23.0	21.5	23.6	24.9
Profit After Tax (statutory)		8.1	13.0	8.5	9.9	19.4	10.9	12.0	18.4	19.7
Avg Number of Shares O/standing (m)		59.2	60.6	61.1	68.0	80.2	80.3	80.7	80.8	80.8
Avg Number of Shares O/standing FD (m)		61.5	62.2	63.1	69.8	81.1	81.0	81.0	81.1	81.1
EPS FD - norm (p)		18.0	24.7	24.4	26.8	29.6	26.1	25.0	28.2	29.8
EPS FD - co norm (p)		21.1	27.7	27.8	29.5	31.7	28.2	27.1	30.3	31.9
EPS - statutory (p)		13.2	20.8	13.4	14.1	23.9	13.5	14.8	22.7	24.3
Dividend per share (p)		5.6	6.6	7.2	7.8	8.4	3.1	4.0	7.8	8.4
Gross Margin (%)		N/A	N/A	36.7	36.5	37.5	36.4	N/A	N/A	N/A
EBITDA Margin (%)		10.9	11.9	11.7	11.6	12.8	11.3	11.4	11.9	12.1
Op Margin (before GW and except.) (%)		8.2	9.5	9.3	9.4	10.8	9.4	9.7	10.2	10.4
BALANCE SHEET										
Fixed Assets		78.3	93.4	98.8	147.9	138.0	150.8	148.9	147.7	145.2
Intangible Assets		26.9	44.7	44.8	98.9	94.9	96.5	93.0	89.8	85.6
Tangible Assets		37.6	38.2	43.0	45.0	42.3	49.6	51.2	53.2	54.9
Other Fixed Assets		13.8	10.5	11.0	4.0	0.8	4.7	4.7	4.7	4.7
Current Assets		100.4	119.4	165.3	165.1	169.5	188.7	166.5	175.4	191.3
Stocks		52.2	60.1	70.3	74.9	79.5	78.9	71.9	76.4	78.4
Debtors		42.6	53.4	57.5	64.4	62.8	62.5	67.1	69.0	70.6
Cash		5.6	5.9	37.5	25.8	27.2	47.3	27.5	30.0	42.3
Current Liabilities		(60.0)	(67.6)	(105.7)	(89.8)	(85.1)	(79.2)	(95.8)	(93.3)	(95.8)
Creditors		(58.6)	(64.8)	(74.8)	(81.3)	(81.3)	(79.1)	(95.8)	(93.3)	(95.8)
Short term borrowings		(1.4)	(2.8)	(30.9)	(8.5)	(3.8)	(0.1)	0.0	0.0	0.0
Long Term Liabilities		(67.4)	(97.6)	(101.8)	(118.6)	(96.7)	(155.9)	(99.6)	(97.2)	(94.8)
Long term borrowings		(18.4)	(35.6)	(29.8)	(64.4)	(58.4)	(83.6)	(27.7)	(27.7)	(27.7)
Other long term liabilities		(49.0)	(62.0)	(72.0)	(54.2)	(38.3)	(72.3)	(71.9)	(69.5)	(67.1)
Net Assets		51.3	47.6	56.6	104.6	125.7	104.4	119.9	132.5	145.9
CASH FLOW										
Operating Cash Flow		16.2	18.5	25.5	23.5	35.3	34.8	51.9	32.4	39.6
Net Interest		(1.3)	(0.9)	(0.9)	(1.1)	(1.8)	(3.5)	(3.5)	(2.8)	(2.7)
Tax		(0.5)	(1.0)	(1.9)	(4.9)	(4.6)	(5.3)	(3.0)	(8.1)	(5.9)
Capex		(1.4)	(6.6)	(8.0)	(7.7)	(5.5)	(4.8)	(5.0)	(7.5)	(7.5)
Acquisitions/disposals		3.3	(23.6)	(2.7)	(59.1)	(2.1)	(9.2)	0.0	(1.0)	0.0
Financing		0.2	0.1	0.0	30.1	(0.9)	(0.8)	(0.8)	(0.8)	(0.8)
Dividends		(3.1)	(3.6)	(4.2)	(5.0)	(6.4)	(7.0)	0.0	(5.7)	(6.4)
Net Cash Flow		13.4	(17.1)	7.9	(24.2)	14.0	4.2	39.6	6.5	16.3
Opening net debt/(cash)		27.4	14.2	32.5	23.2	47.1	35.0	36.4	0.2	(2.3)
IFRS16 Finance leases		0.0	0.0	0.0	0.0	0.0	(3.8)	(4.0)	(4.0)	(4.0)
Other		(0.2)	(1.2)	1.4	0.3	(1.9)	(1.8)	0.6	0.0	0.0
Closing net debt/(cash)		14.2	32.5	23.2	47.1	35.0	36.4	0.2	(2.3)	(14.6)
IFRS16 lease liabilities							(25.1)	(26.6)	(26.6)	(26.6)

Source: Company accounts, Edison Investment Research

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