

Norcros

Positive progress in H1

The Norcros H119 pre-close update reiterated management's expectations for progress in FY19. Trading newsflow was similar to that reported in Q1 – with a good uplift to UK EBIT anticipated for H119 and a growing South African top-line – albeit with an implicitly slightly quieter second quarter. Brand presence, coupled with product and channel diversity, appears to be supporting ongoing progress in variable market conditions. Our estimates are unchanged and H119 results are scheduled for 15 November.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	271.2	20.7	24.4	7.2	8.4	3.5
03/18	300.1	24.4	26.8	7.8	7.6	3.8
03/19e	328.7	30.9	29.3	8.4	7.0	4.1
03/20e	338.0	32.9	31.0	9.0	6.6	4.4

Note: *PBT and EPS FD are normalised, excluding amortisation of acquired intangibles, exceptional items and change in fair value of derivatives.

Good UK EBIT uplift anticipated for H119

A c £19m maiden H1 revenue contribution from Merlyn with above UK average divisional margins is likely to be a key trading highlight when the interim results are reported. While Johnson Tiles' revenues will be lower y-o-y – reducing B&Q sales exposure – a recovery to profitability, following its restructuring should also provide a boost to EBIT. Apart from these specific features, organic revenue growth from the other UK portfolio companies collectively was c 2.5% in H1. Trade remains the most resilient sub-sector, especially in the residential new build supply chain while retail channels have been more challenging (eg in DIY with Homebase) and export markets variable.

Growing the South African top line

South Africa continues to deliver good revenue growth rates, achieving +7.1% progress in H1 in local currency (or +3.9% in sterling) all organically. Johnson Tiles SA has had a busy period enhancing processes to improve production yields and effectively raise capacity, while at the same time growing revenues including third-party product. Implicitly, the Tile Africa retail operations and TAL Adhesives must also be making some top line progress. We note that the rand has weakened against sterling since the beginning of the year; the H1 average rate was broadly in line with our modelled £/ZAR 17.5 assumption but we may need to revisit this when the interim results are reported if the current £/ZAR 18.7 level persists.

Valuation: Superior performance, inferior rating

The Norcros share price has outperformed the FTSE All-Share Index by c 20% ytd having risen by c 12% over this time period. Nevertheless, the company's FY19e P/E and EV/EBITDA multiples (adjusted for pension recovery cash) are still only 7.0x and 5.1x respectively. A triennial DB pension scheme review is underway (based on a 1 April 2018 valuation). Norcros can comfortably meet its existing funding obligations and we consider that this is unlikely to change. Therefore, this should not be a drag on valuation.

H119 pre close update

Construction & materials

18 October 2018

Price **205p**

Market cap **£164m**

£/ZAR18.7

Net debt (£m) at end March 2018 47.1

Shares in issue 80.2m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (1.0) (3.3) 15.4

Rel (local) 3.1 4.7 22.7

52-week high/low 230.0p 172.0p

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

H119 results 15 November

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Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					Cont.	Cont.	Cont.	Cont.	Cont.	Cont.	Cont.
Revenue		200.3	210.7	218.7	222.1	235.9	271.2	300.1	328.7	338.0	345.7
Cost of Sales		N/A	N/A	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	N/A	N/A
EBITDA		18.6	19.9	22.9	24.3	28.0	31.6	34.7	42.3	44.5	46.1
Operating Profit (before SBP)		12.3	13.7	17.0	18.3	22.5	25.2	28.3	35.6	37.6	39.2
Net Interest		(1.4)	(1.3)	(1.5)	(1.2)	(0.9)	(0.9)	(1.1)	(2.0)	(2.0)	(1.9)
Other financial - norm		(0.9)	(2.4)	(2.6)	(3.1)	(3.1)	(3.6)	(2.8)	(2.7)	(2.7)	(2.7)
Other financial		0.6	(0.2)	(5.2)	2.1	(0.2)	(4.2)	(4.5)	(1.4)	(1.4)	(1.4)
Intangible Amortisation		0.0	0.0	(0.4)	(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(3.5)	(3.5)
Exceptionals		(1.2)	(4.4)	(1.5)	(4.8)	(2.0)	(3.8)	(4.2)	(1.0)	(1.0)	(1.0)
Profit Before Tax (norm)		10.0	10.0	12.9	14.0	18.5	20.7	24.4	30.9	32.9	34.6
Profit Before Tax (company norm)		10.7	11.7	14.6	15.8	20.4	22.9	26.3	32.7	34.7	36.4
Profit Before Tax (FRS 3)		9.4	5.4	5.8	11.0	15.4	11.5	13.5	25.0	27.0	28.7
Tax		0.0	0.2	4.3	(3.0)	(2.4)	(3.0)	(3.6)	(6.1)	(6.5)	(6.9)
Other		0.0	0.0	(1.4)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)		10.4	9.3	13.9	11.1	16.1	17.7	20.8	24.8	26.4	27.7
Profit After Tax (FRS 3)		9.4	5.6	8.7	8.1	13.0	8.5	9.9	18.9	20.5	21.8
Average Number of Shares Outstanding (m)		57.7	58.0	58.4	59.2	60.6	61.1	68.0	80.5	81.2	81.9
Average Number of Shares Outstanding FD (m)		58.0	58.9	60.8	61.5	62.2	63.1	69.8	82.2	82.9	83.6
EPS FD - normalised (p)		17.9	15.8	22.8	18.0	24.7	24.4	26.8	29.3	31.0	32.3
EPS FD - company normalised (p)		19.2	18.7	27.9	21.1	27.7	27.8	29.5	31.5	33.1	34.5
EPS - FRS 3 (p)		16.2	9.5	14.3	13.2	19.7	9.8	11.2	22.1	23.9	25.3
Dividend per share (p)		4.2	4.6	5.1	5.6	6.6	7.2	7.8	8.4	9.0	9.8
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		9.3	9.4	10.5	10.9	11.9	11.7	11.6	12.9	13.2	13.3
Operating Margin (before GW and except.) (%)		6.1	6.5	7.8	8.2	9.5	9.3	9.4	10.8	11.1	11.3
BALANCE SHEET											
Fixed Assets		80.0	86.7	80.0	78.3	93.4	98.8	147.9	149.7	149.3	148.9
Intangible Assets		23.4	27.6	27.1	26.9	44.7	44.8	98.9	97.4	93.9	90.4
Tangible Assets		44.8	43.5	36.9	37.6	38.2	43.0	45.0	48.3	51.4	54.5
Investments		11.8	15.6	16.0	13.8	10.5	11.0	4.0	4.0	4.0	4.0
Current Assets		89.7	104.6	102.2	100.4	119.4	165.3	165.1	170.0	187.4	205.1
Stocks		45.5	52.8	50.2	52.2	60.1	70.3	74.9	75.0	77.2	78.9
Debtors		34.5	36.3	48.1	42.6	53.4	57.5	64.4	68.8	70.8	72.5
Cash		2.9	6.8	3.9	5.6	5.9	37.5	25.8	26.1	39.4	53.7
Current Liabilities		(52.5)	(54.0)	(58.1)	(60.0)	(67.6)	(105.7)	(89.8)	(85.2)	(89.9)	(94.4)
Creditors		(52.1)	(53.5)	(57.3)	(58.6)	(64.8)	(74.8)	(81.3)	(85.2)	(89.9)	(94.4)
Short term borrowings		(0.4)	(0.5)	(0.8)	(1.4)	(2.8)	(30.9)	(8.5)	0.0	0.0	0.0
Long Term Liabilities		(46.1)	(75.7)	(58.6)	(67.4)	(97.6)	(101.8)	(118.6)	(117.5)	(116.2)	(115.0)
Long term borrowings		(20.3)	(37.0)	(30.5)	(18.4)	(35.6)	(29.8)	(64.4)	(64.4)	(64.4)	(64.4)
Other long term liabilities		(25.8)	(38.7)	(28.1)	(49.0)	(62.0)	(72.0)	(54.2)	(53.1)	(51.8)	(50.6)
Net Assets		71.1	61.6	65.5	51.3	47.6	56.6	104.6	117.0	130.5	144.7
CASH FLOW											
Operating Cash Flow		6.0	6.6	13.6	16.2	18.5	25.5	23.5	35.3	38.4	40.4
Net Interest		(1.6)	(1.3)	(1.6)	(1.3)	(0.9)	(0.9)	(1.1)	(2.0)	(2.0)	(1.9)
Tax		(0.6)	(1.0)	(1.7)	(0.5)	(1.0)	(1.9)	(4.9)	(6.0)	(6.1)	(6.5)
Capex		(6.7)	(4.2)	(2.8)	(1.4)	(6.6)	(8.0)	(7.7)	(10.0)	(10.0)	(10.0)
Acquisitions/disposals		0.0	(10.6)	0.1	3.3	(23.6)	(2.7)	(59.1)	(2.0)	0.0	0.0
Financing		0.2	0.3	0.4	0.2	0.1	0.0	30.1	0.0	0.0	0.0
Dividends		(2.2)	(2.5)	(2.8)	(3.1)	(3.6)	(4.2)	(5.0)	(6.5)	(7.0)	(7.7)
Net Cash Flow		(4.9)	(12.7)	5.2	13.4	(17.1)	7.9	(24.2)	8.8	13.3	14.3
Opening net debt/(cash)		10.6	17.8	30.7	27.4	14.2	32.5	23.2	47.1	38.3	25.0
HP finance leases initiated		(0.8)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(1.5)	(0.1)	(1.9)	(0.2)	(1.2)	1.5	0.3	0.0	0.0	0.0
Closing net debt/(cash)		17.8	30.7	27.4	14.2	32.5	23.1	47.1	38.3	25.0	10.7

Source: Company data, Edison Investment Research

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