

Norcros

AGM update

Clear trading recovery seen

Trading in both divisions has clearly improved post the COVID-19 lockdown and Norcros's robust liquidity position has been maintained. Equally, the focus on cash/cost management, new product innovation and taking market share is undiminished, leaving the company well placed to navigate market conditions. Our estimates remain suspended pending further normalisation of market conditions.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	300.1	24.4	26.8	7.8	5.8	5.0
03/19	331.0	30.9	29.6	8.4	5.2	5.4
03/20	342.0	27.1	26.1	3.1	5.9	2.0

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.

UK sales recovering with July ahead year-on-year

AGM comments quantified the initial impact COVID-19 has had on trading since the FY20 year end and the subsequent recovery trajectory to date. In the UK, ytd sales were 27% below the prior year's 16-week equivalent, including a 50%+ dip in the first nine weeks followed by a sharp rebound in June; July is currently tracking 15% ahead year-on-year. As seen elsewhere, sales channels with robust online customer-facing platforms (including order for delivery and click and collect) have typically traded better than traditional retail and merchant outlets and some market share shifts are likely as a result. From the company, our sense is that the sales mix is favouring smaller ticket items, which fits to some extent with restricted trades access to residential property. Production facilities are all operational now (Johnson Tiles re-started towards the end of July) and furloughed staff levels continue to fall.

Retail leads the way in South Africa

In local currency, South Africa (around one-third of FY20 revenue and one-quarter of EBIT) saw a sharper initial lockdown-related dip (c 70% down), but has been recovering well in the last two months, tracking 5% below the prior year in July (and 41% ytd). A weaker rand amplifies this metric to c 50% down year-on-year in sterling terms. Retail/residential demand led the bounce back (benefiting Tile Africa in particular), whereas commercial sales have lagged thus far. As in the UK, all manufacturing locations are operating and all Tile Africa (retail) outlets are also open.

Strong liquidity position retained

Management reports that a small profit was generated in the first quarter's trading overall and net debt reduced slightly since March (and the 7 June update) to c £35m at the end of June (representing 1x trailing 12-month EBITDA). Government support scheme cash will have benefited the ytd performance, though the deferred payment element is reducing we believe. In contrast to the usual seasonal working capital increase, a reduction since the end of FY20 is likely to have contributed to the net debt outturn. As things stand, Norcros has retained or slightly improved its liquidity position and is clearly operating within the cash outflow scenario outlined by management with its [FY20 results](#).

Construction & materials

3 August 2020

Price **155.3p**
Market cap **£125m**

ZAR21.8/£

Net debt (£m) at end June 2020 35.2

Shares in issue 81.6m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	2.3	(2.2)	(24.9)
Rel (local)	6.3	(2.8)	(5.5)

52-week high/low 305.0p 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

Trading update 15 October

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019	2020
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		222.1	235.9	271.2	300.1	331.0	342.0
Cost of Sales		N/A	N/A	(171.7)	(190.4)	(206.8)	N/A
Gross Profit		N/A	N/A	99.5	109.7	124.2	N/A
EBITDA IFRS 16		24.3	28.0	31.6	34.7	42.2	38.8
Op Profit (before SBP)		18.3	22.5	25.2	28.3	35.6	32.2
Net Interest		(1.2)	(0.9)	(0.9)	(1.1)	(1.8)	(1.6)
Other financial – norm		(3.1)	(3.1)	(3.6)	(2.8)	(2.9)	(3.5)
Other financial		2.1	(0.2)	(4.2)	(4.5)	2.3	0.9
Intangible Amortisation		(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(3.7)
Exceptionals		(4.8)	(2.0)	(3.8)	(4.2)	(4.3)	(9.3)
Profit Before Tax (norm)		14.0	18.5	20.7	24.4	30.9	27.1
Profit Before Tax (company norm)		15.8	20.4	22.9	26.3	32.6	28.8
Profit Before Tax (statutory)		11.0	15.4	11.5	13.5	25.4	15.0
Tax		(3.0)	(2.4)	(3.0)	(3.6)	(6.0)	(4.1)
Other		0.1	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
Profit After Tax (statutory)		8.1	13.0	8.5	9.9	19.4	10.9
Average Number of Shares Outstanding (m)		59.2	60.6	61.1	68.0	80.2	80.3
Average number of Shares Outstanding FD (m)		61.5	62.2	63.1	69.8	81.1	81.0
EPS fully diluted - norm (p)		18.0	24.7	24.4	26.8	29.6	26.1
EPS fully diluted - co norm (p)		21.1	27.7	27.8	29.5	31.7	28.2
EPS - statutory (p)		13.2	20.8	13.4	14.1	23.9	13.5
Dividend per share (p)		5.6	6.6	7.2	7.8	8.4	3.1
Gross Margin (%)		N/A	N/A	36.7	36.5	37.5	N/A
EBITDA Margin (%)		10.9	11.9	11.7	11.6	12.8	11.3
Op Margin (before GW and except.) (%)		8.2	9.5	9.3	9.4	10.8	9.4
BALANCE SHEET							
Fixed Assets		78.3	93.4	98.8	147.9	138.0	150.8
Intangible Assets		26.9	44.7	44.8	98.9	94.9	96.5
Tangible Assets		37.6	38.2	43.0	45.0	42.3	49.6
Investments		13.8	10.5	11.0	4.0	0.8	4.7
Current Assets		100.4	119.4	165.3	165.1	169.5	188.7
Stocks		52.2	60.1	70.3	74.9	79.5	78.9
Debtors		42.6	53.4	57.5	64.4	62.8	62.5
Cash		5.6	5.9	37.5	25.8	27.2	47.3
Current Liabilities		(60.0)	(67.6)	(105.7)	(89.8)	(85.1)	(79.2)
Creditors		(58.6)	(64.8)	(74.8)	(81.3)	(81.3)	(79.1)
Short term borrowings		(1.4)	(2.8)	(30.9)	(8.5)	(3.8)	(0.1)
Long Term Liabilities		(67.4)	(97.6)	(101.8)	(118.6)	(96.7)	(155.9)
Long term borrowings		(18.4)	(35.6)	(29.8)	(64.4)	(58.4)	(83.6)
Other long term liabilities		(49.0)	(62.0)	(72.0)	(54.2)	(38.3)	(72.3)
Net Assets		51.3	47.6	56.6	104.6	125.7	104.4
CASH FLOW							
Operating Cash Flow		16.2	18.5	25.5	23.5	35.3	34.8
Net Interest		(1.3)	(0.9)	(0.9)	(1.1)	(1.8)	(3.5)
Tax		(0.5)	(1.0)	(1.9)	(4.9)	(4.6)	(5.3)
Capex		(1.4)	(6.6)	(8.0)	(7.7)	(5.5)	(4.8)
Acquisitions/disposals		3.3	(23.6)	(2.7)	(59.1)	(2.1)	(9.2)
Financing		0.2	0.1	0.0	30.1	(0.9)	(0.8)
Dividends		(3.1)	(3.6)	(4.2)	(5.0)	(6.4)	(7.0)
Net Cash Flow		13.4	(17.1)	7.9	(24.2)	14.0	4.2
Opening net debt/(cash)		27.4	14.2	32.5	23.2	47.1	35.0
IFRS 16 finance leases		0.0	0.0	0.0	0.0	0.0	(3.8)
Other		(0.2)	(1.2)	1.4	0.3	(1.9)	(1.8)
Closing net debt/(cash)		14.2	32.5	23.2	47.1	35.0	36.4
IFRS 16 lease liabilities							(25.1)

Source: Company accounts

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