

# Norcros

## FY20 outturn affected by COVID-19

The developing coronavirus pandemic has affected year-end trading for Norcros, with an indicated c £4m impact on EBIT. Operational shutdowns mirroring those of its customers have been undertaken and, as elsewhere, actions to preserve cash are being taken. The company has up to c £110m headroom under existing banking facilities representing a strong year end liquidity position. Forward guidance and our estimates for FY21 onwards have been withdrawn pending greater clarity on the scale and duration of the lockdown conditions being widely enacted currently.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	300.1	24.4	26.8	7.8	4.8	6.0
03/19	331.0	30.9	29.6	8.4	4.4	6.5
03/20e	344.2	26.0	25.3	9.3	5.1	7.2

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.

## Building and materials sector dialled down

Widespread customer shutdowns in the wake of the coronavirus spread have been the catalyst for similar actions from Norcros operations in the UK, Eire and South Africa. Manufacturing activities have ceased for the time being with significantly scaled down distribution-related capacity remaining in place for now. It is anticipated that announced government support measures will be accessed as appropriate.

## Financial impact, headroom and guidance

As a consequence of the impact on March trading, pre-IFRS 16 EBIT guidance for FY20 has been revised to c £31m (IFRS 16 lifts reported EBIT by c £0.6m on an annual basis) versus market consensus of £35m previously. To reflect this, we have reduced our group revenue and EBIT estimates by £10m and £4m. This EBIT adjustment effectively bridges the difference between our previous year-end core (pre-IFRS 16) net debt expectation and the c £40m now flagged by management. This is well within c £150m existing banking facilities (ie £120m RCF and £30m accordion, both to November 2022). At this stage, the company has not ruled out a final dividend payment (though many others have) but implicitly flags that it is under active review, along with other cash preservation actions.

Management has suspended forward guidance and we have withdrawn our [previous estimates](#) for FY21 onwards pending greater clarity on the duration and shape of business recovery from the COVID-19 pandemic. Under normal conditions, gross profit margins are understood to be similar for the UK and SA divisions (in the 35–40% range). Individual companies operate under a range of business models and therefore the way in which they are affected will vary through their ability to flex costs and manage their supply chains effectively. The sub-sectors served (including housebuilders, trade/merchants, specialist and DIY retail) will also have differing supplier requirements once the business recovery phase begins. Operating companies need to be well positioned to facilitate a currently indeterminate return path to normal trading.

Further COVID-19 update

### Construction & materials

2 April 2020

**Price** 129p

**Market cap** £104m

ZAR22.0/£

Net debt (£m) at end March (excluding IFRS 16 lease liabilities of £30m) 40

Shares in issue 80.2m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (40.0) (53.9) (31.9)

Rel (local) (25.6) (35.4) (9.0)

52-week high/low 305.0p 125.5p

### 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

FY20 results tbc

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**Exhibit 1: Financial summary**

	£m	2015	2016	2017	2018	2019	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>		<b>Cont.</b>	<b>Cont.</b>	<b>Cont.</b>	<b>Cont.</b>	<b>Cont.</b>	<b>Cont.</b>
Revenue		222.1	235.9	271.2	300.1	331.0	344.2
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	39.9
Op Profit (before SBP)		18.3	22.5	25.2	28.3	35.6	32.9
Net Interest		(1.2)	(0.9)	(0.9)	(1.1)	(1.8)	(1.8)
Other financial - norm		(3.1)	(3.1)	(3.6)	(2.8)	(2.9)	(5.1)
Other financial		2.1	(0.2)	(4.2)	(4.5)	2.3	(0.8)
Intangible Amortisation		(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(4.0)
Exceptionals		(4.8)	(2.0)	(3.8)	(4.2)	(4.3)	(1.0)
Profit Before Tax (norm)		14.0	18.5	20.7	24.4	30.9	26.0
Profit Before Tax (company norm)		15.8	20.4	22.9	26.3	32.6	28.0
Profit Before Tax (statutory)		11.0	15.4	11.5	13.5	25.4	20.2
Tax		(3.0)	(2.4)	(3.0)	(3.6)	(6.0)	(4.8)
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	21.3
Profit After Tax (statutory)		8.1	13.0	8.5	9.9	19.4	15.5
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	81.3
EPS FD - norm (p)		18.0	24.7	24.4	26.8	29.6	25.3
EPS FD - co norm (p)		21.1	27.7	27.8	29.5	31.7	27.8
EPS - statutory (p)		13.2	20.8	13.4	14.1	23.9	19.0
Dividend per share (p)		5.6	6.6	7.2	7.8	8.4	9.3
Gross Margin (%)		N/A	N/A	36.7	36.6	37.5	N/A
EBITDA Margin (%)		10.9	11.9	11.7	11.6	12.8	11.6
Op Margin (before GW and except.) (%)		8.2	9.5	9.3	9.4	10.8	9.6
<b>BALANCE SHEET</b>							
Fixed Assets		78.3	93.4	98.8	147.9	138.0	168.1
Intangible Assets		26.9	44.7	44.8	98.9	94.9	98.3
Tangible Assets		37.6	38.2	43.0	45.0	42.3	69.0
Investments		13.8	10.5	11.0	4.0	0.8	0.8
Current Assets		100.4	119.4	165.3	165.1	169.5	174.1
Stocks		52.2	60.1	70.3	74.9	79.5	82.7
Debtors		42.6	53.4	57.5	64.4	62.8	67.5
Cash		5.6	5.9	37.5	25.8	27.2	23.9
Current Liabilities		(60.0)	(67.6)	(105.7)	(89.8)	(85.1)	(87.0)
Creditors		(58.6)	(64.8)	(74.8)	(81.3)	(81.3)	(87.0)
Short term borrowings		(1.4)	(2.8)	(30.9)	(8.5)	(3.8)	0.0
Long Term Liabilities		(67.4)	(97.6)	(101.8)	(118.6)	(96.7)	(118.5)
Long term borrowings		(18.4)	(35.6)	(29.8)	(64.4)	(58.4)	(63.5)
Other long term liabilities		(49.0)	(62.0)	(72.0)	(54.2)	(38.3)	(55.0)
Net Assets		51.3	47.6	56.6	104.6	125.7	136.7
<b>CASH FLOW</b>							
Operating Cash Flow		16.2	18.5	25.5	23.5	35.3	36.2
Net Interest		(1.3)	(0.9)	(0.9)	(1.1)	(1.8)	(3.6)
Tax		(0.5)	(1.0)	(1.9)	(4.9)	(4.6)	(6.0)
Capex		(1.4)	(6.6)	(8.0)	(7.7)	(5.5)	(10.0)
Acquisitions/disposals		3.3	(23.6)	(2.7)	(59.1)	(2.1)	(9.7)
Financing		0.2	0.1	0.0	30.1	(0.9)	(1.0)
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	(1.1)
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	(4.0)
Other		(0.2)	(1.2)	1.4	0.3	(1.9)	0.5
Closing net debt/(cash)		14.2	32.5	23.2	47.1	35.0	39.6
IFRS 16 lease liabilities							(27.7)

Source: Company accounts, Edison Investment Research

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