

Norcros

Making good organic and acquisitive progress

FY19 year-end update

Construction & materials

FY19 ended in line with management's expectations following a good H2 sales performance. Momentum here is to be supplemented by the post year-end acquisition of RAP Plumbing Supplies, which enhances earnings estimates by c 3%. Norcros is executing well against its strategy but the rating suggests that this is being overlooked by the market.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	271.2	20.7	24.4	7.2	8.3	3.6
03/18	300.1	24.4	26.8	7.8	7.6	3.9
03/19e	331.0	31.1	29.5	8.4	6.9	4.1
03/20e	355.2	34.0	32.0	9.0	6.3	4.4

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

Solid close to FY19

Sales momentum in the UK and South Africa has been good in H2 leading to slightly better outturns than we had expected in both countries. In the UK (+13.6% actual, -0.2% LFL) Merlyn has implicitly achieved slightly higher revenue in H2 versus H1 while referencing 'new listings' back to the H1 results suggests that Abode also performed well in H2. The South African division (+3.7% actual, +7.5% in constant currency) saw underlying sales progress pick up slightly from already healthy H1 levels especially in the context of a sluggish local economy. With a degree of vertical integration, all three SA subsidiaries are likely to have contributed here. We note that group net debt ended the year slightly lower than we had previously modelled (ie £36m versus £40m); no further guidance was given on profitability and we have assumed in our adjusted FY19 estimates that the debt reduction was a working capital effect at this stage.

Earnings enhancing South African deal completes

We have increased our FY20 and FY21 earnings estimates by 3% following the post year end acquisition of RAP Plumbing Supplies (originally announced on 16 January) after the receipt of local regulatory clearances. This specialist plumbing products distributor increases the exposure to the trade channel, provides an additional potential outlet for other group products and complements Tile Africa's retail presence. The initial c £9.7m consideration has been funded from cash generated by local operations and represents a c 5.2x EBITDA entry multiple.

Valuation: Delivering progress

The company's share price is up c 7% and at the top end of its YTD trading range (though slightly lagging the FTSE All Share Index + c11%) after recently regaining December levels following a softer Q1. Overall, the rating is little changed from our [last note](#) and on a 6.9x P/E and 5.1x EV/EBITDA (adjusted for pensions cash) for the year that has just closed (or 6.3x and 4.7x, respectively, for FY20), management is still not being given the credit for the strategic progress and earnings development being delivered – with little assistance from underlying markets – in our view.

26 April 2019

Price **202.5p**

Market cap **£164m**

ZAR18.5/£

Net debt (£m) at end March 2019 36

Shares in issue 80.2m

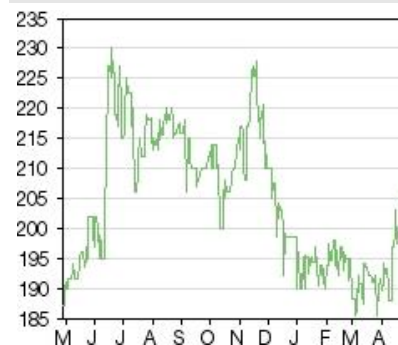
Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 8.3 7.4 7.4

Rel (local) 4.3 (1.2) 6.9

52-week high/low 230p 186p

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

FY19 results 12 June

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

[Edison profile page](#)

**Norcros is a research client of
Edison Investment Research
Limited**

Exhibit 1: Financial summary

	£'ms	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	331.0	355.2	365.3
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	42.1	45.9	47.9
Operating Profit (before SBP)		12.3	13.7	17.0	18.3	22.5	25.2	28.3	35.3	38.9	40.7
Net Interest		(1.4)	(1.3)	(1.5)	(1.2)	(0.9)	(0.9)	(1.1)	(1.7)	(2.4)	(2.3)
Other financial - norm		(0.9)	(2.4)	(2.6)	(3.1)	(3.1)	(3.6)	(2.8)	(2.5)	(2.5)	(2.5)
Other financial		0.6	(0.2)	(5.2)	2.1	(0.2)	(4.2)	(4.5)	3.1	(1.2)	(1.2)
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	31.1	34.0	35.9
Profit Before Tax (company norm)		10.7	11.7	14.6	15.8	20.4	22.9	26.3	32.7	35.6	37.5
Profit Before Tax (statutory)		9.4	5.4	5.8	11.0	15.4	11.5	13.5	29.7	28.3	30.2
Tax		0.0	0.2	4.3	(3.0)	(2.4)	(3.0)	(3.6)	(7.0)	(6.8)	(7.2)
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	24.1	27.2	28.7
Profit After Tax (statutory)		9.4	5.6	8.7	8.1	13.0	8.5	9.9	22.7	21.5	23.0
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	29.5	32.0	33.5
EPS FD - company norm (p)		19.2	18.7	27.9	21.1	27.7	27.8	29.5	31.5	33.9	35.4
EPS - statutory (p)		16.2	9.5	14.3	13.2	19.7	9.8	11.2	27.8	25.1	26.7
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	12.7	12.9	13.1
Operating Margin (before GW and except.) (%)		6.1	6.5	7.8	8.2	9.5	9.3	9.4	10.7	10.9	11.2
BALANCE SHEET											
Fixed Assets		80.0	86.7	80.0	78.3	93.4	98.8	147.9	139.4	148.9	152.6
Intangible Assets		23.4	27.6	27.1	26.9	44.7	44.8	98.9	94.9	97.4	96.3
Tangible Assets		44.8	43.5	36.9	37.6	38.2	43.0	45.0	43.8	50.8	55.6
Investments		11.8	15.6	16.0	13.8	10.5	11.0	4.0	0.7	0.7	0.7
Current Assets		89.7	104.6	102.2	100.4	119.4	165.3	165.1	180.8	195.4	204.4
Stocks		45.5	52.8	50.2	52.2	60.1	70.3	74.9	72.1	83.4	79.8
Debtors		34.5	36.3	48.1	42.6	53.4	57.5	64.4	69.3	76.0	75.2
Cash		2.9	6.8	3.9	5.6	5.9	37.5	25.8	39.4	36.0	49.4
Current Liabilities		(52.5)	(54.0)	(58.1)	(60.0)	(67.6)	(105.7)	(89.8)	(81.3)	(92.3)	(91.1)
Creditors		(52.1)	(53.5)	(57.3)	(58.6)	(64.8)	(74.8)	(81.3)	(81.3)	(92.3)	(91.1)
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)	(108.2)	(106.7)	(105.3)
Long term borrowings		(20.3)	(37.0)	(30.5)	(18.4)	(35.6)	(29.8)	(64.4)	(75.5)	(75.5)	(75.5)
Other long term liabilities		(25.8)	(38.7)	(28.1)	(49.0)	(62.0)	(72.0)	(54.2)	(32.7)	(31.2)	(29.8)
Net Assets		71.1	61.6	65.5	51.3	47.6	56.6	104.6	130.7	145.2	160.6
CASH FLOW											
Operating Cash Flow		6.0	6.6	13.6	16.2	18.5	25.5	23.5	37.4	34.8	44.6
Net Interest		(1.6)	(1.3)	(1.6)	(1.3)	(0.9)	(0.9)	(1.1)	(1.7)	(2.4)	(2.3)
Tax		(0.6)	(1.0)	(1.7)	(0.5)	(1.0)	(1.9)	(4.9)	(6.0)	(7.0)	(6.8)
Capex		(6.7)	(4.2)	(2.8)	(1.4)	(6.6)	(8.0)	(7.7)	(7.9)	(12.0)	(12.0)
Acquisitions/disposals		0.0	(10.6)	0.1	3.3	(23.6)	(2.7)	(59.1)	(2.0)	(9.7)	(2.4)
Financing		0.2	0.3	0.4	0.2	0.1	0.0	30.1	(1.1)	0.0	0.0
Dividends		(2.2)	(2.5)	(2.8)	(3.1)	(3.6)	(4.2)	(5.0)	(6.3)	(7.0)	(7.7)
Net Cash Flow		(4.9)	(12.7)	5.2	13.4	(17.1)	7.9	(24.2)	12.4	(3.4)	13.5
Opening net debt/(cash)		10.6	17.8	30.7	27.4	14.2	32.5	23.2	47.1	36.1	39.5
HP finance leases		(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)	1.4	0.3	(1.4)	0.0	0.0
Closing net debt/(cash)		17.8	30.7	27.4	14.2	32.5	23.2	47.1	36.1	39.5	26.1

Source: Company, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Norcross and prepared and issued by Edison, in consideration of a fee payable by Norcross. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia