

Walker Greenbank

AGM update

Maintaining momentum

AGM comments were very much in line with those at the beginning of the year and our estimates are unchanged. Walker Greenbank is on track for a good profit uplift in FY18 derived from organic progress in both divisions and a full year contribution from Clarke & Clarke. Moreover, the business retains significant financial flexibility for further investment. We would expect the share price to regain or exceed the higher levels seen earlier this year in due course.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/16	87.8	8.9	11.6	2.9	17.4	1.4
01/17	92.4	10.4	12.9	3.6	15.6	1.8
01/18e	114.7	14.3	16.1	4.4	12.6	2.2
01/19e	119.7	15.2	17.0	5.1	11.8	2.5

Note: *PBT and EPS (fully diluted) are normalised, excluding exceptional items and LTIP charges.

Early H1 trading trends confirmed

The Brands division's organic revenue growth in the first four and a half months of FY18 was +4.5% y-o-y (or +1.1% at constant currency), which is in line with figures cited for the first 12 weeks of the year (ie +4.4% and +0.9%, respectively). Demand in overseas markets has been firmer than in the UK, which is broadly flat. Clarke & Clarke (acquired in October 2016) is trading in line with management expectations and will contribute an additional six months' trading in Brands' H118 results. The Manufacturing division's year-to-date revenue performance was not quantified but is said to be on an improving trend, again with a pick-up in export orders noted. H117 trading was affected by flood-related factory disruption and, hence, will be a relatively weak comparator for H118.

Insurance claim complete, trading progress expected

The company's insurance claim relating to the Lancaster (ie Standfast & Barracks) factory flood has now reached the full settlement. A £2.4m final cash payment is expected to be received by the end of H118, which together with previous receipts – including £1.5m outstanding at the end of FY17, now received – equates to total claim proceeds of £19.3m. The final settlement is in line with existing guidance. By the end of July, we will have more visibility on regained momentum in Manufacturing and trading at Clarke & Clarke, and the development of new and existing markets outside the UK is likely to continue to be a feature.

Valuation: Good prospects

Walker Greenbank's share price has eased back since the end of May and has now under-performed the FTSE All Share Index by c 9% since its FY17 results announcement in April. Our expectations are unchanged and the prospects for a strong step forward in profitability in FY18 with further progress thereafter remain good in our view. We do not feel that this earnings profile is fully factored into the valuation, with Walker Greenbank now trading on a current year P/E of 12.6x and EV/EBITDA (before pension cash adjustments) of 9.1x.

Care & household goods

21 June 2017

Price 202p
Market cap £142m

Net debt (£m) at end January 2017	5.3
Shares in issue	70.4m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(5.9)	(9.1)	12.0
Rel (local)	(5.9)	(10.1)	(6.6)
52-week high/low		222.5p	159.5p

Business description

Walker Greenbank is a luxury interior furnishings group combining specialist design skills with high-quality upstream manufacturing facilities. Leading brands include Harlequin, Sanderson, Morris & Co, Scion, Anthology, Zoffany and Clarke & Clarke.

Next events

Ex-dividend: FY17 final DPS 3.06p	21 July
FY17 final DPS paid	11 August
H118 results	October

Analysts

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Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018e	2019e	2020e
Year end 31 January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		75.7	78.4	83.4	87.8	92.4	114.7	119.7	124.2
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(45.0)	(46.9)	(48.7)
Gross Profit		45.5	48.1	50.7	52.0	56.2	69.7	72.7	75.5
EBITDA		8.6	9.7	10.7	11.8	12.7	17.4	18.4	19.3
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	14.6	15.4	16.1
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	13.6	14.4	15.1
Net Interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	(0.1)
Intangible Amortisation - acquired		0	0	0	0	(0.3)	(1.0)	(1.0)	(1.0)
Pension net finance charge		(0.7)	(0.9)	(0.8)	(0.7)	(0.5)	(0.7)	(0.7)	(0.7)
Exceptionals		0	0	0	0	(1.8)	1.0	0.0	0.0
Other		0	0	0	0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		6.4	7.3	8.1	8.9	10.4	14.3	15.2	16.0
Profit Before Tax (FRS 3)		4.9	5.5	6.3	7.3	7.0	12.7	12.6	13.3
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(2.7)	(2.7)	(2.7)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	11.6	12.5	13.3
Profit After Tax (FRS 3)		4.0	5.0	5.1	5.9	5.4	10.0	9.9	10.6
Average Number of Shares Outstanding (m)		57.5	58.5	59.3	60.0	62.7	70.2	71.0	71.4
EPS - normalised (p) FD		9.4	10.7	11.2	11.6	12.9	16.1	17.0	18.0
EPS - FRS 3 (p)		6.9	8.6	8.6	9.8	8.6	14.2	13.9	14.9
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.4	5.1	5.8
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.8	60.8	60.8
EBITDA Margin (%)		11.4	12.4	12.8	13.4	13.7	15.2	15.3	15.5
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	11.9	12.0	12.1
BALANCE SHEET									
Fixed Assets		18.5	21.1	21.5	18.9	47.5	46.2	44.7	43.0
Intangible Assets		6.7	7.3	7.2	7.1	31.6	30.6	29.6	28.6
Tangible Assets		9.8	11.7	12.7	11.7	15.8	15.6	15.1	14.4
Investments		2.0	2.2	1.6	0.1	0.0	0.0	0.0	0.0
Current Assets		32.6	35.3	37.1	40.3	51.3	60.6	61.6	69.7
Stocks		16.8	18.4	22.0	18.1	30.3	31.6	33.0	34.2
Debtors		12.8	13.9	14.1	19.3	15.5	17.7	18.4	19.0
Cash		2.9	2.8	1.0	2.9	1.5	5.9	4.9	11.2
Other		0.1	0.2	0.0	0.0				
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(35.6)	(30.4)	(32.0)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(28.7)	(30.4)	(32.0)
Short term borrowings		(0.4)	(0.4)	(0.4)	(0.4)	(6.8)	(6.8)	0.0	0.0
Long Term Liabilities		(9.6)	(10.2)	(10.9)	(4.5)	(12.7)	(9.9)	(7.1)	(4.1)
Long term borrowings		(1.4)	(0.9)	(0.6)	(0.2)	0.0	0.0	0.0	0.0
Other long term liabilities		(8.2)	(9.2)	(10.4)	(4.3)	(12.7)	(9.9)	(7.1)	(4.1)
Net Assets		24.2	26.9	26.9	35.3	51.3	61.3	68.8	76.6
CASH FLOW									
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	13.5	15.4	16.3
Net Interest		(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.3)	(0.2)	(0.1)
Tax		(0.0)	(0.0)	(0.0)	(0.6)	(2.3)	(2.7)	(2.7)	(2.7)
Capex		(3.1)	(4.7)	(3.2)	(2.5)	(6.7)	(3.5)	(3.5)	(3.5)
Acquisitions/disposals		0.0	0.0	0.0	0.0	(27.1)	0.0	0.0	0.0
Financing		(0.1)	(0.0)	(0.4)	(0.1)	18.3	0.0	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.6)	(3.2)	(3.7)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	4.4	5.8	6.3
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	0.9	(4.9)
HP finance leases initiated		0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0
Closing net debt/(cash)		(1.2)	(1.5)	(0.0)	(2.3)	5.3	0.9	(4.9)	(11.2)

Source: Walker Greenbank accounts, Edison Investment Research

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