

Walker Greenbank

Trading update

Weaker order intake in Q4

Order variability was referenced in H1 results, but latterly intake patterns have weakened. This has affected UK premium brands, following through into manufacturing activity also. We have reflected this in lower earnings estimates (c 10% for this year and next, with a smaller reduction for FY20) ahead of greater clarity on consumer behaviour in this segment. This news has been received harshly – judging by a sharp negative share price reaction – but feels overdone in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/16	87.8	8.9	11.6	2.9	13.0	1.9
01/17	92.4	10.4	12.9	3.6	11.7	2.4
01/18e	110.7	12.9	14.5	4.5	10.4	3.0
01/19e	115.2	13.4	15.1	5.6	10.0	3.7

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

Patchy order intake gives way to weaker trend

An encouraging order intake period just before the H118 results announcement has proved to be a false read for the remainder of the year. A previously variable UK intake profile has weakened in the last few weeks across Walker Greenbank's premium brand portfolio, although Clarke & Clarke is understood to be showing good y-o-y progress. Elsewhere in Brands, International and Licensing revenues are trading well and ahead of the prior year. Given that approaching half of the Manufacturing division's gross revenue supports Brand activities, the weaker sales trend clearly has profit implications in a vertically integrated model.

Estimates lowered

Current year PBT guidance has been lowered by c 10%; we have reflected this in our estimates, with a slightly larger reduction for FY19 (-12%) and a more moderate one for FY20 (-6.5%). Our EBIT revisions are split between both divisions, being proportionately larger in Manufacturing but larger by value in Brands. Having increased our dividend growth expectations – particularly for future years – at the interim stage, we may revisit this at the full year stage, although we note that FY20 cover of 2.4x on revised estimates is still comfortable in conventional terms. Balance sheet gearing is expected to be modest at the end of FY18, with positive cash generation thereafter.

Valuation: Reaction overdone

While the trading update was disappointing, we consider that a downward share price move of c 28% is disproportionate set against the scale of estimate revisions. Consequently, the current year P/E and EV/EBITDA have compressed to 10.4x and 6.7x respectively. Financial risk is very low and a prospective FY18 dividend yield of c 3% (3.2x covered) offers another indication of value.

Care & household goods

16 November 2017

Price 150.5p
Market cap £107m

Net debt (£m) at end July 2017	5.2
Shares in issue	70.9m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(33.7)	(31.3)	(25.7)
Rel (local)	(32.2)	(31.2)	(32.1)
52-week high/low		241.5p	150.5p

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

H118 DPS paid 17 November 2017

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

[Edison profile page](#)

**Walker Greenbank is a
 research client of Edison
 Investment Research Limited**

Exhibit 1: Financial summary

	£'ms	2013	2014	2015	2016	2017	2018e	2019e	2020e
January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		75.7	78.4	83.4	87.8	92.4	110.7	115.2	120.7
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(44.3)	(46.1)	(48.3)
Gross Profit		45.5	48.1	50.7	52.0	56.2	66.4	69.1	72.4
EBITDA		8.6	9.7	10.7	11.8	13.4	16.6	17.3	19.0
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	13.2	13.6	15.0
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	12.2	12.6	14.0
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)	(1.1)	(1.1)	(1.1)
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)	(0.5)	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	12.9	13.4	14.9
Profit Before Tax (FRS 3)		4.9	5.5	6.3	7.3	7.0	9.7	10.7	12.2
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(2.3)	(2.4)	(2.5)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	10.6	11.0	12.4
Profit After Tax (FRS 3)		4.0	5.0	5.1	5.9	5.4	7.5	8.3	9.7
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	14.5	15.1	16.8
EPS - FRS 3 (p)		6.9	8.6	8.6	9.8	8.6	10.7	11.8	13.6
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.5	5.6	7.0
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.0	60.0	60.0
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	15.0	15.0	15.7
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	11.0	10.9	11.6
BALANCE SHEET									
Fixed Assets		18.5	21.1	21.5	18.9	47.5	47.4	46.2	44.7
Intangible Assets		6.7	7.3	7.2	7.1	31.6	31.5	30.2	29.0
Tangible Assets		9.8	11.7	12.7	11.7	15.8	15.9	15.9	15.7
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	57.0	56.1	62.8
Stocks		16.8	18.4	22.0	18.1	30.3	32.3	33.6	35.3
Debtors		12.8	13.9	14.1	19.3	15.5	17.1	17.7	18.5
Cash		2.9	2.8	1.0	2.9	1.5	4.4	1.6	6.0
Other		0.1	0.2	0.0	0.0				
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(35.5)	(30.2)	(31.9)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(28.7)	(30.2)	(31.9)
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)	(10.2)	(7.3)	(4.4)
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)	(10.2)	(7.3)	(4.4)
Net Assets		24.2	26.9	26.9	35.3	51.3	58.8	64.7	71.1
CASH FLOW									
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	9.9	13.4	14.7
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)	(2.3)	(2.4)	(2.5)
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	1.8	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.7)	(3.3)	(4.2)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	2.9	4.0	4.4
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	2.4	(1.6)
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	2.4	(1.6)	(6.0)

Source: Company accounts, Edison Investment Research. Note: This note calculates EV/EBITDA multiples using last reported net debt.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Walker Greenbank and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "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.