

Walker Greenbank

Year-end update

Expectations met, tough UK conditions persist

Year-end comments confirm FY19 results are expected to be in line with management estimates. Strong Licensing performance is likely to have contributed meaningfully to this outcome and towards an ungeared balance sheet position. UK market trends remain weak and cause us to reduce our earnings estimates by 20–25% for FY20 and FY21 although, in the absence of fresh guidance, we have assumed that DPS is maintained at FY18 levels ahead of FY19 results, which are scheduled for 10 April.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/17	92.4	10.4	12.9	3.6	5.7	4.9
01/18	108.8	12.5	14.4	4.4	5.1	5.9
01/19e	113.0	9.5	10.8	4.4	6.9	5.9
01/20e	106.8	7.3	8.6	4.4	8.6	5.9

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

International sales performing better than UK

Indicative FY19 revenue appears to be £4–5m ahead of our current estimate of c £113m. A strong H2 Brands/Licensing performance (implicitly £4m+ revenue following £2m in H119 and £3.1m in FY18) is a factor here and an important contributor to EBIT. Also, we believe that Brands/International y-o-y revenue performance improved in H2 after a -4.3% H1 dip; US sales momentum and some recovery in Europe after distributor changes will have been beneficial here. In Brands/UK product sales remain soft; the full-year decline was similar to that for H1 (-6.2% versus -5.9% respectively) although this was after some improvement noted at the beginning of H2. No revenue performance figures were referenced for the Manufacturing division but highlighted trends were similar to Brands, with overseas sales providing some offset to weaker UK trends.

Ungeared at year end, FY19 market trends continuing

Management expects to present an ungeared year-end balance sheet, beating our forecast c £5m net debt. A H2 working capital inflow and higher Licensing receipts are the most likely contributors to this outcome in our view. Beyond FY19 our estimates already included lower FY20 Licensing income and further international Brand sales growth but weak UK momentum seen thus far causes us to reduce expected contributions from both divisions. Some cost-reduction actions are to be undertaken and we expect more details with the FY19 results announcement. On our revised earnings estimates, FY20 dividend cover reduces significantly to c 2x; we have not changed our DPS forecasts but acknowledge that others are lower.

Valuation: Single-digit multiples and 5.9% yield

A weak share price followed the year-end update as investors absorbed lower earnings expectations. Walker Greenbank is now trading on a prospective P/E of 8.6x and EV/EBITDA (adjusted for pensions cash) of 5.7x. Our maintained dividend across all estimate periods yields 5.9% at the current share price, which sits on a c 20% discount to our expected end FY19 NAV.

Care & household goods

26 February 2019

Price 74.0p
Market cap £52m

Net debt (£m) at end July 2018	3.4
Shares in issue	70.9m
Free float	92%
Code	WGB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(15.4)	(4.6)	(48.4)
Rel (local)	(18.3)	(8.3)	(48.0)
52-week high/low	144.0p	64.0p	

Business description

Walker Greenbank is a luxury interior furnishings group combining specialist design skills with high-quality upstream UK manufacturing facilities. Leading brands include Harlequin, Sanderson, Morris & Co, Scion, Anthology, Zoffany and Clarke & Clarke. FY18 revenue: UK 58%, International 39% and Licence income 3%.

Next events

FY19 results announcement	10 April 2019
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Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue		75.7	78.4	83.4	87.8	92.4	108.8	113.0	106.8	108.6
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(43.3)	(42.9)	(41.6)	(42.4)
Gross Profit		45.5	48.1	50.7	52.0	56.2	65.5	70.1	65.1	66.3
EBITDA		8.6	9.7	10.7	11.8	13.4	15.9	13.0	11.0	11.4
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	12.8	9.8	7.7	8.0
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	12.4	9.2	7.1	7.4
Net Interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Intangible Amortisation - acquired		0	0	0	0	(0.3)	(1.0)	(1.0)	(1.0)	(1.0)
Pension net finance charge		(0.7)	(0.9)	(0.8)	(0.7)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Exceptionals		0	0	0	0	(1.8)	2.3	0.5	0.0	0.0
Other		0	0	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	12.5	9.5	7.3	7.7
Profit Before Tax (FRS 3)		4.9	5.5	6.3	7.3	7.0	12.8	7.8	5.1	5.5
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(1.0)	(1.9)	(1.3)	(1.3)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	11.5	7.6	6.1	6.3
Profit After Tax (FRS 3)		4.0	5.0	5.1	5.9	5.4	11.8	5.9	3.8	4.1
Average Number of Shares Outstanding (m)		57.5	58.5	59.3	60.0	62.7	70.4	70.7	70.7	70.7
EPS - normalised (p) FD		9.4	10.7	11.2	11.6	12.9	14.4	10.8	8.6	9.0
EPS - FRS 3 (p)		6.9	8.6	8.6	9.8	8.6	16.7	8.3	5.4	5.8
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.4	4.4	4.4	4.4
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.2	62.0	61.0	61.0
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	14.6	11.5	10.3	10.5
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	11.4	8.1	6.6	6.8
BALANCE SHEET										
Fixed Assets		18.5	21.1	21.5	18.9	47.5	47.7	46.6	45.3	43.9
Intangible Assets		6.7	7.3	7.2	7.1	31.6	31.8	30.6	29.5	28.4
Tangible Assets		9.8	11.7	12.7	11.7	15.8	16.0	16.0	15.8	15.6
Investments		2.0	2.2	1.6	0.1	0.0	0.0	0.0	0.0	0.0
Current Assets		32.6	35.3	37.1	40.3	51.3	51.9	49.7	49.6	50.5
Stocks		16.8	18.4	22.0	18.1	30.3	29.4	27.2	26.4	26.8
Debtors		12.8	13.9	14.1	19.3	19.5	21.2	20.7	19.9	20.2
Cash		2.9	2.8	1.0	2.9	1.5	1.3	1.8	3.3	3.5
Other		0.1	0.2	0.0	0.0					
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(28.9)	(24.1)	(24.0)	(24.7)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(22.4)	(22.5)	(22.5)	(23.2)
Short term borrowings		(0.4)	(0.4)	(0.4)	(0.4)	(6.8)	(6.6)	(1.5)	(1.5)	(1.5)
Long Term Liabilities		(9.6)	(10.2)	(10.9)	(4.5)	(12.7)	(9.1)	(7.2)	(5.1)	(2.8)
Long term borrowings		(1.4)	(0.9)	(0.6)	(0.2)	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(8.2)	(9.2)	(10.4)	(4.3)	(12.7)	(9.1)	(7.2)	(5.1)	(2.8)
Net Assets		24.2	26.9	26.9	35.3	51.3	61.6	65.0	65.8	66.8
CASH FLOW										
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	7.0	13.6	9.2	8.0
Net Interest		(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Tax		(0.0)	(0.0)	(0.0)	(0.6)	(2.3)	(2.2)	(1.9)	(1.3)	(1.3)
Capex		(3.1)	(4.7)	(3.2)	(2.5)	(6.7)	(3.5)	(3.0)	(3.0)	(3.0)
Acquisitions/disposals		0.0	0.0	0.0	0.0	(27.1)	0.0	0.0	0.0	0.0
Financing		(0.1)	(0.0)	(0.4)	(0.1)	18.3	1.8	0.0	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.7)	(3.1)	(3.1)	(3.1)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	0.1	5.4	1.5	0.2
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	(0.3)	(1.8)	(1.8)
HP finance leases initiated		0.0	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)	(0.1)	0.1	0.0	0.0
Closing net debt/(cash)		(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	(0.3)	(1.8)	(2.0)

Source: Company accounts, Edison Investment Research

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