

# De La Rue

## Withdrawal from subscale activity

De La Rue has announced it is selling its International ID Solutions business for £42m. Following the loss of the UK Passport Contract last year, the remaining activities lacked critical mass in a consolidating sector and disposal to Assa Abloy has been deemed to be the most favourable solution. The deal will be earnings dilutive as the passport contract winds down and by the end of FY20 there will be no contribution from ID Solutions from FY21. Our EPS for FY21 is reduced by 8% to 31.9p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18**	461.4	47.5	38.2	25.0	8.0	8.2
03/19	516.6	54.1	42.9	25.0	7.1	8.2
03/20e	493.0	42.9	32.7	25.0	9.3	8.2
03/21e	390.7	41.2	31.9	25.0	9.5	8.2

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Restated for the sale of Paper and IFRS 15.

## Sale of International ID

De La Rue is selling its international identity solutions contracts to HID Corporation Limited (HID Global), a subsidiary of Assa Abloy of Sweden. The cash proceeds of £42m will be subject to usual working capital adjustments and will be received on completion, which we expect early in H220. In FY19 the activity being sold had revenues of £37.8m and an operating profit of £2.3m after allocated central costs. With the winding down of the UK Passport Contract also expected by the end of FY20, the remaining single-digit revenue ID security features and components will be absorbed into the new Authentication division.

## A simplified business moving forward

With the already announced reorganisation and restructuring creating a two-division structure for the group, the exit from the ID Solutions activities helps to simplify the business. Security Features will move from Currency, as will the small element of retained security products and components in the ID business to join the existing Product Authentication and Traceability business in the newly created Authentication division. The reorganisation should provide a significant portion of the recently announced £20m of costs savings by removing associated overheads, not least relating to the ID Solution activity. Currency will consist of the Banknote Print activity and the growing Polymer substrate business. FY21 revenue and profits now look a relatively clean basis on which to base future expectations.

## Valuation: Rating still looks unduly low

After the dilution that the complete withdrawal from ID Solutions generates, a single-digit P/E ratio for FY21e looks undemanding. Our DCF value falls by 8% to 522p (from 568p) reflecting the reduction of future earnings and a 1.4% increase in share count. While the dividend yield looks supportive, the market is regarding the low level of cover and the reducing cashflow stream as likely to lead to a rebasing. While we have maintained the payment in our current forecasts, it is worth noting that c 2x covered dividend in FY21 of 16p would still provide a yield of over 5%.

## Sale of International ID

### Industrial support services

14 June 2019

Price **304p**

Market cap **£315m**

Net debt (£m) at 31 March 2019 107.5

Shares in issue 103.8m

Free float 100%

Code DLAR

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (30.4) (27.4) (45.3)

Rel (local) (32.0) (29.1) (42.3)

52-week high/low 557p 300p

### Business description

De La Rue is a world leader in anti-counterfeiting and security for currency and brand protection. The company operates across 140 countries and is the number one commercial designer and producer of banknotes and security features on both paper and increasingly polymer substrates.

### Next events

AGM 25 July 2019

Interim result November 2019

### Analyst

Andy Chambers +44 (0)20 3681 2525

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

[Edison profile page](#)

**De La Rue is a research client  
of Edison Investment  
Research Limited**

## Earnings revisions

We have assumed the disposal of International ID completes in October 2019. We have also corrected the average share count for FY20 and FY21 with a 1.4% increase to 103.8m. A summary of the changes to our estimates is shown below.

<b>Exhibit 1: De La Rue earnings estimates changes</b>						
Year to March (£m)	2020e		% change	2021e		% change
	Prior	New		Prior	New	
Currency	355.0	355.0	0.0%	291.1	291.1	0.0%
ID Solutions	77.1	61.3	-20.4%	59.4	0.0	-100.0%
PA&T	76.6	76.6	0.0%	99.6	99.6	0.0%
<b>Sales</b>	<b>508.7</b>	<b>493.0</b>	<b>-3.1%</b>	<b>450.1</b>	<b>390.7</b>	<b>-13.2%</b>
<b>EBITDA</b>	<b>72.8</b>	<b>69.8</b>	<b>-4.2%</b>	<b>75.1</b>	<b>67.9</b>	<b>-9.5%</b>
Currency	19.5	19.5	0.0%	21.8	21.8	0.0%
ID Solutions	12.3	9.8	-20.4%	4.7	0.0	-100.0%
PA&T	20.7	20.7		26.9	26.9	
<b>Underlying EBITA</b>	<b>52.5</b>	<b>50.0</b>	<b>-4.8%</b>	<b>53.5</b>	<b>48.7</b>	<b>-8.9%</b>
<b>Underlying PTP</b>	<b>44.4</b>	<b>42.9</b>	<b>-3.5%</b>	<b>44.0</b>	<b>41.2</b>	<b>-6.3%</b>
<b>EPS - underlying continuing (p)</b>	<b>34.4</b>	<b>32.7</b>	<b>-5.0%</b>	<b>34.6</b>	<b>31.9</b>	<b>-8.0%</b>
DPS (p)	25.0	25.0	0.0%	25.0	25.0	0.0%
Net debt / (cash)	140.2	97.7	-30.3%	155.3	113.3	-27.0%
Source: Edison Investment Research estimates						

**Exhibit 2: Financial summary**

	£m	2018	2019	2020e	2021e
Year end 31 March		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		461.4	516.6	493.0	390.7
EBITDA		78.4	79.5	69.8	67.9
Operating Profit (before amort. and except.)		59.5	62.8	52.9	52.1
Intangible Amortisation		(2.6)	(2.7)	(2.9)	(3.3)
Exceptionals		74.6	(28.6)	(20.7)	(2.7)
Other		0.0	0.0	0.0	0.0
Operating Profit		131.5	31.5	29.3	46.0
Net Interest		(9.4)	(6.0)	(7.2)	(7.5)
Profit Before Tax (norm)		47.5	54.1	42.9	41.2
Profit Before Tax (FRS 3)		122.1	25.5	22.2	38.5
Tax		(18.9)	(4.8)	(3.5)	(6.2)
Profit After Tax (norm)		40.3	45.4	35.2	34.5
Profit After Tax (FRS 3)		103.2	20.7	18.6	32.4
Average Number of Shares Outstanding (m)		101.9	102.9	103.8	103.8
EPS - normalised (p)		38.2	42.9	32.7	31.9
EPS - normalised and fully diluted (p)		37.8	42.7	32.7	31.9
EPS - (IFRS) (p)		93.6	16.5	16.8	29.8
Dividend per share (p)		25.0	25.0	25.0	25.0
EBITDA Margin (%)		17.0	15.4	14.2	17.4
Operating Margin (before GW and except.) (%)		12.9	12.2	10.7	13.3
<b>BALANCE SHEET</b>					
Fixed Assets		149.0	155.6	117.9	120.6
Intangible Assets		29.5	33.3	36.2	38.7
Tangible Assets		112.8	115.0	74.4	74.6
Investments		6.7	7.3	7.3	7.3
Current Assets		179.9	219.7	209.8	178.9
Stocks		34.1	42.3	41.4	37.1
Debtors		102.3	139.3	130.6	105.5
Cash		15.5	12.2	12.2	12.2
Other		28.0	25.9	25.6	24.1
Current Liabilities		(252.7)	(321.6)	(302.0)	(289.0)
Creditors		(187.3)	(201.9)	(192.5)	(164.3)
Short term borrowings		(65.4)	(119.7)	(109.9)	(125.5)
Long Term Liabilities		(96.6)	(82.9)	(61.9)	(39.9)
Long term borrowings		0.0	0.0	0.0	0.0
Other long term liabilities		(96.6)	(82.9)	(61.9)	(39.9)
Net Assets		(20.4)	(29.2)	(36.6)	(30.2)
<b>CASH FLOW</b>					
Operating Cash Flow		93.2	(6.3)	21.5	43.6
Net Interest		(4.6)	(3.8)	(3.9)	(5.1)
Tax		(30.6)	(0.9)	0.6	(5.6)
Capex		(24.7)	(25.4)	(24.7)	(22.5)
Acquisitions/disposals		57.7	0.2	42.0	0.0
Financing		2.0	4.3	0.0	0.0
Dividends		(25.8)	(26.2)	(25.7)	(26.0)
Other		3.8	0.5	0.00	0.0
Net Cash Flow		71.0	(57.6)	10.2	(15.6)
Opening net debt/(cash)		120.9	49.9	107.5	97.7
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	(0.0)	0.0
Closing net debt/(cash)		49.9	107.5	97.7	113.3

Source: Company data, Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by De La Rue and prepared and issued by Edison, in consideration of a fee payable by De La Rue. 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 research department of Edison 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

This document is prepared and provided by Edison 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.

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.

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