

Walker Greenbank

AGM update

Year to date trading as expected

Care & household goods

20 June 2019

Price **80.0p**
Market cap **£57m**

Net cash (£m) at end-January 2019 0.4
 Shares in issue 70.9m
 Free float 92%
 Code WGB
 Primary exchange AIM
 Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	4.7	28.8	(31.2)
Rel (local)	4.3	27.9	(28.7)
52-week high/low	117.0p		56.2p

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 was split UK 58%, international 39% and licence income 3%.

Next events

FY19 final DPS of 2.55p to be paid 9 August
 H120 trading update August tbc
 H120 results October tbc

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An in line AGM update is to be welcomed after a tough trading year in FY19. Market conditions have yet to show any marked improvement, but UK cost savings and some international progress support our existing estimates. The new management team expects to deliver a strategy update in the Autumn and this should provide insight regarding future growth prospects. The rating has increased in recent months though FY20 should represent trough earnings in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/18**	112.2	12.7	14.7	4.4	5.5	5.5
01/19	113.3	9.5	10.8	3.2	7.4	4.1
01/20e	109.3	7.3	8.4	2.5	9.5	3.1
01/21e	111.8	7.8	9.0	2.7	8.9	3.4

Note: *PBT and EPS (fully diluted) are normalised, excluding exceptional items and LTIP charges. **Restated for IFRS 15.

Mixed trading patterns continue

AGM comments indicate that trading patterns in the first four months of the year have been similar to those seen in FY19, in line with management expectations. Implicitly, UK Brands sales are still tracking below prior year levels though perhaps to a lesser degree, while a previously flagged US customer disruption for Clarke & Clarke had led to a small sales decline in the territory thus far. Other international markets overall are showing progress. The company's manufacturing operations meet virtually all of the Brands division's wallpaper and approaching half of its fabric requirements (apart from Clarke & Clarke) as well as selling to third parties, though no specific reference was made to performance here.

Strategy update expected later in the year

We are reminded that a strategy review led by the new CEO is in process, with management expecting to update the market in autumn this year, which may or may not coincide with the H120 results. An ungeared balance sheet provides headroom to selectively invest in the business while also being mindful of the need to restart earnings growth. Refined brand and geographic strategies and development of adjacent lines (eg licensing, finished goods, paint) are all potential areas that could help to reinvigorate revenue momentum in our view.

Valuation: Rating starting to rebuild

The share price recovery that started following the FY19 results has continued and it is now only c 6% below start year levels. With no change to our estimates since we last wrote (see April [update note](#)), the company's rating has rebuilt somewhat to a P/E of 9.5x and an EV/EBITDA (adjusted for pensions cash) of 6.0x for the current year, noting that we expect FY20 to be the trough from an earnings perspective. The previously noted discount to NAV has narrowed considerably to just 7% now on the last reported balance sheet.

Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018	2018R	2019	2020e	2021e	2022e
Year end January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS												
Revenue		75.7	78.4	83.4	87.8	92.4	108.8	112.2	113.3	109.3	111.8	114.5
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(43.3)	(44.0)	(45.3)	(44.8)	(45.9)	(46.9)
Gross Profit		45.5	48.1	50.7	52.0	56.2	65.5	68.2	68.0	64.5	66.0	67.5
EBITDA		8.6	9.7	10.7	11.8	13.4	15.9	16.1	13.3	11.3	11.8	12.0
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	12.8	13.0	9.8	7.6	8.0	8.1
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	12.4	12.6	10.4	7.6	7.4	7.5
Net Interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)
Intangible Amort – acquired		0	0	0	0	(0.3)	(1.0)	(1.0)	(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)	(0.7)	(0.7)	(0.7)
Exceptionals		0	0	0	0	(1.8)	2.3	2.3	(2.2)	(0.5)	0.0	0.0
Other		0	0	0	0	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	12.7	9.5	7.3	7.8	7.9
Profit Before Tax (statutory)		4.9	5.5	6.3	7.3	7.0	12.8	13.0	6.3	5.1	5.5	5.6
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(1.0)	(1.1)	(1.2)	(1.4)	(1.4)	(1.4)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	11.5	10.4	7.7	6.0	6.4	6.5
Profit After Tax (statutory)		4.0	5.0	5.1	5.9	5.4	11.8	11.9	5.1	3.7	4.1	4.2
Average number of shares outstanding (m)												
EPS - normalised (p) FD		9.4	10.7	11.2	11.6	12.9	14.43	14.68	10.8	8.4	9.0	9.2
EPS - statutory (p)		6.9	8.6	8.6	9.8	8.6	16.70	16.95	7.2	5.3	5.8	5.9
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.4	4.4	3.2	2.5	2.7	2.8
Gross Margin (%)												
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.2	60.8	60.0	59.0	59.0	59.0
EBITDA Margin (%)												
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	14.6	14.3	11.7	10.3	10.5	10.5
Operating Margin (before GW and except.) (%)												
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	11.4	11.2	9.2	7.0	6.6	6.6
BALANCE SHEET												
Fixed Assets		18.5	21.1	21.5	18.9	47.5	47.7	47.7	46.0	44.4	42.6	40.7
Intangible Assets		6.7	7.3	7.2	7.1	31.6	31.8	31.8	30.8	29.6	28.5	27.3
Tangible Assets		9.8	11.7	12.7	11.7	15.8	16.0	16.0	15.2	14.7	14.1	13.5
Investments		2.0	2.2	1.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		32.6	35.3	37.1	40.3	51.3	51.9	52.1	49.3	50.9	53.7	56.6
Stocks		16.8	18.4	22.0	18.1	30.3	29.4	29.5	28.0	27.7	28.4	29.0
Debtors		12.8	13.9	14.1	19.3	19.5	21.2	21.3	18.9	19.3	19.6	19.9
Cash		2.9	2.8	1.0	2.9	1.5	1.3	1.3	2.4	3.9	5.8	7.6
Other		0.1	0.2	0.0	0.0							
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(28.9)	(28.9)	(23.8)	(24.4)	(25.3)	(26.3)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(22.4)	(22.4)	(21.8)	(22.4)	(23.3)	(24.3)
Short term borrowings		(0.4)	(0.4)	(0.4)	(0.4)	(6.8)	(6.6)	(6.6)	(2.0)	(2.0)	(2.0)	(2.0)
Long Term Liabilities		(9.6)	(10.2)	(10.9)	(4.5)	(12.7)	(9.1)	(9.1)	(10.6)	(8.5)	(6.3)	(4.0)
Long term borrowings		(1.4)	(0.9)	(0.6)	(0.2)	0.0	0.0	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)	(9.1)	(10.6)	(8.5)	(6.3)	(4.0)
Net Assets		24.2	26.9	26.9	35.3	51.3	61.6	61.8	60.9	62.4	64.7	67.0
CASH FLOW												
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	7.0	7.0	12.6	8.3	8.3	8.4
Net Interest		(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.2)	(0.2)
Tax		(0.0)	(0.0)	(0.0)	(0.6)	(2.3)	(2.2)	(2.2)	(0.8)	(1.4)	(1.4)	(1.4)
Capex		(3.1)	(4.7)	(3.2)	(2.5)	(6.7)	(3.5)	(3.5)	(2.8)	(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	0.0	0.0
Financing		(0.1)	(0.0)	(0.4)	(0.1)	18.3	1.8	1.8	0.0	0.0	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.7)	(2.7)	(3.1)	(2.2)	(1.8)	(1.9)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	0.1	0.1	5.7	1.5	1.9	1.8
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	5.3	(0.4)	(1.9)	(3.8)
HP finance leases initiated		0.0	0.0	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	0.0	0.0
Closing net debt/(cash)		(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	5.3	(0.4)	(1.9)	(3.8)	(5.7)

Source: Walker Greenbank, Edison Investment Research. Note: 2018 results restated for IFRS 15 'Revenue from Contracts with Customers'; the primary P&L effects were to reclassify some marketing materials/services as net other income and carriage recoveries to revenue and, as they were previously netted out of distribution costs previously, increase this cost line.

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