

# Avon Rubber

## Maintaining full-year consensus expectations

H121 trading update

Aerospace &amp; defence

9 April 2021

**Price** **3,432p**
**Market cap** **£1,064m**

US\$1.37/£1

Net debt excluding lease liabilities (\$m) at 31 March 2021 13

Shares in issue 31.0m

Free float 98.8%

Code AVON

Primary exchange LSE

Secondary exchange N/A

This morning Avon released its post-close trading statement for H121, which shows strong top-line growth and order intake. Trading continued to show progress, in line with management expectations for Q221, continuing the Q121 performance noted at the AGM. Management expects to meet FY21 consensus expectations, with growing momentum during H221 as new contract volumes build. We trim our above-consensus FY21 EPS estimate by 4% and maintain FY22, which are reported in US\$ from the current year. Avon's shares trade at a healthy premium to UK defence peers, warranted by top-line growth, high returns and strong cash flows.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
09/19	162.0	28.3	84.9	26.6	55.4	0.6
09/20	213.6	36.0	96.2	34.5	48.9	0.7
09/21e	284.9	48.1	125.6	44.9	37.4	1.0
09/22e	362.0	69.4	181.1	53.9	26.0	1.2

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## H121 expected to deliver strong growth

H121 revenue is expected to be \$122m (H120: \$87m). Team Wendy made an initial contribution of \$20m and Ceradyne Helmets and Armor assets delivered a full contribution (consolidated from 2 January 2020), with good progress in respiratory products. Overall Military revenues were up 16% while First Responder revenues increased 19%. The H121 order book for the group was \$155m compared to an opening order book of \$102m, including Team Wendy, and reflected strong order intake across the portfolio of critical personal protection systems for the Military and First Responders. Period-end net debt (excluding leases) was \$13m as the weighting of revenues to H221 and increased inventories to manage longer material lead times reduced H121 cash conversion. Management still expects FY21 cash conversion to be in line with guidance for over 90%.

## Stronger second-half momentum into FY22

Military orders received were up a strong 30% on H120 and included \$38m from NATO, \$17m under the M69 contract and \$19m under the extended sole source low-rate initial production for the first-generation Integrated Head Protection System helmet. First Responders' order intake also grew strongly at 29%. Management remains positive about the order pipeline and market conditions as well as wider market opportunities. All this helps underpin H221 revenue expectations. The group also continues to progress the deferred body armour contract and appears confident that shipments should commence in H122.

## Valuation: High returns and growth warrant premium

Following the derating after the December trading update, Avon trades on a healthy P/E premium to its UK defence peers warranted by strong sales with improving returns delivering strong cash flow growth. As management restores organic growth the rating may expand, especially if the enhancing acquisitions deliver to plan.

### Share price performance



%	1m	3m	12m
Abs	23.5	(2.2)	25.3
Rel (local)	19.1	(4.2)	(0.7)

52-week high/low 4,625p 2,465p

### Business description

Avon Rubber designs, develops and manufactures personal protection products for Military and First Responder markets including respiratory mask systems, helmets and body armour. Its main customers are national security agencies such as the US Department of Defense and c 90% of sales are from the US.

### Next events

H121 results 25 May 2021

### Analyst

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**Exhibit 1: Financial summary**

	\$m	2019	2020	2021e	2022e
Year end 30 September		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		162.0	213.6	284.9	362.0
Cost of Sales		(100.3)	(127.8)	(174.4)	(221.6)
Gross Profit		61.7	85.8	110.5	140.4
EBITDA		36.2	49.0	66.3	88.2
Operating Profit (before amort. and except.)		33.0	42.5	58.4	79.2
Intangible Amortisation		(4.2)	(4.0)	(7.5)	(5.6)
Operating profit (company definition)		28.8	38.5	51.0	73.6
Exceptionals		(17.2)	(35.3)	(16.6)	(8.9)
Other		(0.6)	(0.1)	(2.2)	(2.2)
Operating Profit		11.0	3.1	32.1	62.5
Net Interest		0.1	(2.4)	(0.6)	(2.0)
Profit Before Tax (norm)		28.3	36.0	48.1	69.4
Profit Before Tax (FRS 3)		11.1	0.6	31.6	60.5
Tax		1.9	1.4	(6.0)	(11.5)
Profit After Tax (norm)		26.1	29.9	39.0	56.2
Profit After Tax (FRS 3)		13.0	2.0	20.1	38.4
Average Number of Shares Outstanding (m)		30.5	30.6	30.6	30.6
EPS - normalised (US cents)		85.6	97.6	127.4	183.6
EPS - normalised & fully diluted (US cents)		84.9	96.2	125.6	181.1
EPS - (IFRS) (US cents)		42.7	6.7	83.5	160.0
Dividend per share (US cents)		26.6	34.5	44.9	53.9
Gross Margin (%)		38.1	40.2	38.8	38.8
EBITDA Margin (%)		22.4	22.9	23.3	24.4
Operating Margin (before GW and except.) (%)		20.4	19.9	20.5	21.9
<b>BALANCE SHEET</b>					
Fixed Assets		81.2	155.3	277.8	280.8
Intangible Assets		43.5	89.4	139.3	142.3
Tangible Assets		28.2	40.1	70.6	72.4
Right of Use Asset		9.5	25.8	29.6	27.0
Investments		0.0	0.0	0.0	0.0
Current Assets		147.1	299.3	237.5	235.3
Stocks		25.5	36.3	51.3	56.5
Debtors		43.6	46.0	62.7	74.5
Cash		59.6	187.3	59.3	85.0
Other		18.4	29.7	29.7	29.7
Current Liabilities		(43.6)	(98.2)	(153.5)	(126.0)
Creditors		(43.5)	(58.7)	(71.2)	(89.9)
Short term borrowings		(0.1)	(39.5)	0.0	0.0
Long Term Liabilities		(92.0)	(126.9)	(130.5)	(127.6)
Long term borrowings		0.0	0.0	0.0	0.0
Lease Liabilities		(15.9)	(29.0)	(32.9)	(30.3)
Other long term liabilities		(76.1)	(97.8)	(97.6)	(97.3)
Net Assets		92.6	229.5	231.3	262.5
<b>CASH FLOW</b>					
Operating Cash Flow		8.8	(3.4)	36.1	83.0
Net Interest		0.0	(2.4)	(0.6)	(2.0)
Tax		1.9	1.4	(6.0)	(11.5)
Capex		(7.3)	(19.9)	(18.6)	(17.4)
Acquisitions/disposals		0.0	118.8	(134.4)	(9.2)
Financing		(1.7)	0.0	(1.3)	(1.3)
Dividends		(6.9)	(8.9)	(11.6)	(14.7)
Other		7.4	0.8	0.0	0.0
Net Cash Flow		2.3	86.3	(136.4)	27.1
Opening net debt/(cash)		(57.3)	(61.5)	(147.8)	(11.4)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		1.9	0.0	0.0	0.0
Closing net debt/(cash)		(61.5)	(147.8)	(11.4)	(38.5)
Total net financial liabilities /(assets)		(45.6)	(118.7)	21.5	(8.1)

Source: Company reports, Edison Investment Research

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