

Norcros

Sure-footed progress

In a pre-close statement, Norcros flagged a positive H122 trading period. Outperformance of strong renovation markets in both the UK and South Africa is being attributed to relative supply chain, channel breadth and balance sheet strengths that are supporting share gains. Revised management expectations are 'significantly' higher and we have increased our previous PBT forecasts by 10–11%.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/20	342.0	27.1	26.1	3.1	12.7	0.9
03/21	324.2	29.0	29.1	8.2	11.4	2.5
03/22e	380.1	34.6	33.4	9.0	9.9	2.7
03/23e	392.0	36.0	34.7	9.8	9.6	3.0

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptionals, pension net finance costs and change in fair value of derivatives.

Double-digit revenue growth and good H1 margin

Expected H122 group revenue of c £200m is 15% higher (+18% in local FX) than the pre-COVID H120. Based on an indicated £21m EBIT – which we believe is a record first half for the group – a 10.4% margin compares favourably to historical H1 levels. In the UK, I-f-I revenues were 18% ahead of H120 (+40% y-o-y), with Triton (showers) and Merlyn (shower enclosures) continuing to perform very well and taking market share. South African operations also saw I-f-I revenue progress of 20% in local currency terms (+11% in sterling) versus H120 with retail-oriented Tile Africa again leading the way. Norcros successfully de-gearred during the COVID-affected FY21 and, despite prudently rebuilding inventory levels and paying the FY21 final dividend, it was still modestly cash positive at the end of H122.

Management guidance and estimates raised

Notwithstanding some well-rehearsed and widely heard market challenges (such as supply chain strains, cost inflation and normalising demand), Norcros management is flagging strong revenue momentum and has raised guidance to 'significantly ahead' of its previous expectations. Our FY22 EPS estimate has increased by c 12% (with a revenue adjustment slightly above this and modestly lower margins). This largely flows through into FY23 also (c 10% EPS uplift); on this basis, growth rates beyond the current year are c 4% now. We will revisit this with the H122 results announcement, but some caution – after a strong trading period with a few market uncertainties – seems appropriate at this stage.

Valuation: FY22e P/E still below 10x

Norcros's share price responded favourably to the H122 update and is now up c 65% ytd. Our estimates have also risen strongly over this period, although there has been a partial re-rating to an FY22e P/E of 9.6x and EV/EBITDA (adjusted for pensions cash) of 6.3x. That said, the performance of the business in difficult markets over the past two years, its leading and enhanced market positions and ongoing opportunities to develop both organically and via acquisition suggest a proactive management approach committed to growth and market outperformance.

H122 pre-close update

Construction & materials

18 October 2021

Price **332p**

Market cap **£268m**

ZAR20.0/£

Net debt (£m) at end September 1.0

Shares in issue 80.8m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 8.1 7.4 90.8

Rel (local) 5.9 4.4 52.1

52-week high/low 336p 170p

Business description

Norcros is a leading supplier of showers, enclosures and trays, tiles, taps and related fittings and accessories for bathrooms, kitchens, washrooms and other commercial environments. It has operations in the UK and South Africa, with some export activity from both countries.

Next event

H122 results 11 November 2021

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS		Cont.	Cont.	Cont.	Cont.	Cont.	Cont.	Cont.	Cont.	Cont.	Cont.
Revenue		222.1	235.9	271.2	300.1	331.0	342.0	324.2	380.1	392.0	404.0
Cost of Sales		N/A	N/A	(171.7)	(190.4)	(206.8)	(217.5)	N/A	N/A	N/A	N/A
Gross Profit		N/A	N/A	99.5	109.7	124.2	124.5	N/A	N/A	N/A	N/A
EBITDA IFRS16		24.3	28.0	31.6	34.7	42.2	38.8	39.9	45.0	46.6	48.3
Op Profit (before SBP)		18.3	22.5	25.2	28.3	35.6	32.2	34.7	39.5	40.9	42.3
Net Interest		(1.2)	(0.9)	(0.9)	(1.1)	(1.8)	(1.6)	(1.5)	(0.6)	(0.6)	(0.5)
Other financial - norm		(3.1)	(3.1)	(3.6)	(2.8)	(2.9)	(3.5)	(4.3)	(4.3)	(4.3)	(4.3)
Other financial		2.1	(0.2)	(4.2)	(4.5)	2.3	0.9	(3.0)	(1.0)	(1.0)	(1.0)
Intangible Amortisation		(0.3)	(0.9)	(1.2)	(2.2)	(3.5)	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)
Exceptionals		(4.8)	(2.0)	(3.8)	(4.2)	(4.3)	(9.3)	(3.8)	0.0	0.0	0.0
Profit Before Tax (norm)		14.0	18.5	20.7	24.4	30.9	27.1	29.0	34.6	36.0	37.5
Profit Before Tax (company norm)		15.8	20.4	22.9	26.3	32.6	28.8	30.6	36.2	37.6	39.1
Profit Before Tax (statutory)		11.0	15.4	11.5	13.5	25.4	15.0	18.5	29.9	31.3	32.8
Tax		(3.0)	(2.4)	(3.0)	(3.6)	(6.0)	(4.1)	(3.5)	(6.9)	(7.2)	(7.5)
Other		0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)		11.1	16.1	17.7	20.8	24.9	23.0	25.5	27.7	28.8	30.0
Profit After Tax (statutory)		8.1	13.0	8.5	9.9	19.4	10.9	15.0	23.0	24.1	25.3
Avg Number of Shares Outstanding (m)		59.2	60.6	61.1	68.0	80.2	80.3	80.6	80.8	80.8	80.8
Avg Number of Shares Outstanding FD (m)		61.5	62.2	63.1	69.8	81.1	81.0	80.8	81.0	81.0	81.0
EPS FD - norm (p)		18.0	24.7	24.4	26.8	29.6	26.1	29.1	33.4	34.7	36.1
EPS FD - co norm (p)		21.1	27.7	27.8	29.5	31.7	28.2	31.1	35.3	36.6	38.1
EPS - statutory (p)		13.2	20.8	13.4	14.1	23.9	13.5	18.6	28.4	29.7	31.2
Dividend per share (p)		5.6	6.6	7.2	7.8	8.4	3.1	8.2	9.0	9.8	10.3
Gross Margin (%)		N/A	N/A	36.7	36.5	37.5	36.4	N/A	N/A	N/A	N/A
EBITDA Margin (%)		10.9	11.9	11.7	11.6	12.8	11.3	12.3	11.8	11.9	11.9
Op Margin (before GW and except.) (%)		8.2	9.5	9.3	9.4	10.8	9.4	10.7	10.4	10.4	10.5
BALANCE SHEET											
Fixed Assets		78.3	93.4	98.8	147.9	138.0	150.8	141.2	141.1	140.7	140.0
Intangible Assets		26.9	44.7	44.8	98.9	94.9	96.5	93.6	89.9	86.2	82.5
Tangible Assets		37.6	38.2	43.0	45.0	42.3	49.6	47.6	51.2	54.5	57.5
Other Fixed Assets		13.8	10.5	11.0	4.0	0.8	4.7	0.0	0.0	0.0	0.0
Current Assets		100.4	119.4	165.3	165.1	169.5	188.7	171.0	182.8	199.8	217.8
Stocks		52.2	60.1	70.3	74.9	79.5	78.9	78.1	87.6	90.3	95.1
Debtors		42.6	53.4	57.5	64.4	62.8	62.5	64.6	69.3	72.6	76.0
Cash		5.6	5.9	37.5	25.8	27.2	47.3	28.3	25.9	36.9	46.7
Current Liabilities		(60.0)	(67.6)	(105.7)	(89.8)	(85.1)	(79.2)	(104.1)	(104.1)	(106.6)	(109.2)
Creditors		(58.6)	(64.8)	(74.8)	(81.3)	(81.3)	(79.1)	(104.1)	(104.1)	(106.6)	(109.2)
Short term borrowings		(1.4)	(2.8)	(30.9)	(8.5)	(3.8)	(0.1)	0.0	0.0	0.0	0.0
Long Term Liabilities		(67.4)	(97.6)	(101.8)	(118.6)	(96.7)	(155.9)	(59.7)	(57.3)	(54.9)	(52.4)
Long term borrowings		(18.4)	(35.6)	(29.8)	(64.4)	(58.4)	(83.6)	(17.8)	(17.8)	(17.8)	(17.8)
Other long-term liabilities		(49.0)	(62.0)	(72.0)	(54.2)	(38.3)	(72.3)	(41.9)	(39.5)	(37.1)	(34.6)
Net Assets		51.3	47.6	56.6	104.6	125.7	104.4	148.4	162.4	179.0	196.2
CASH FLOW											
Operating Cash Flow		16.2	18.5	25.5	23.5	35.3	34.8	60.0	29.8	42.5	42.0
Net Interest		(1.3)	(0.9)	(0.9)	(1.1)	(1.8)	(3.5)	(3.2)	(2.4)	(2.4)	(2.3)
Tax		(0.5)	(1.0)	(1.9)	(4.9)	(4.6)	(5.3)	(3.5)	(7.0)	(7.8)	(8.1)
Capex		(1.4)	(6.6)	(8.0)	(7.7)	(5.5)	(4.8)	(2.8)	(9.0)	(9.0)	(9.0)
Acquisitions/disposals		3.3	(23.6)	(2.7)	(59.1)	(2.1)	(9.2)	0.0	0.0	0.0	0.0
Financing		0.2	0.1	0.0	30.1	(0.9)	(0.8)	0.3	(0.8)	(0.8)	(0.8)
Dividends		(3.1)	(3.6)	(4.2)	(5.0)	(6.4)	(7.0)	0.0	(9.0)	(7.5)	(8.0)
Net Cash Flow		13.4	(17.1)	7.9	(24.2)	14.0	4.2	50.8	1.6	15.0	13.8
Opening net debt/(cash)		27.4	14.2	32.5	23.2	47.1	35.0	36.4	(10.5)	(8.1)	(19.1)
IFRS16 Finance leases		0.0	0.0	0.0	0.0	0.0	(3.8)	(4.3)	(4.0)	(4.0)	(4.0)
Other		(0.2)	(1.2)	1.4	0.3	(1.9)	(1.8)	0.4	0.0	0.0	0.0
Closing net debt/(cash)		14.2	32.5	23.2	47.1	35.0	36.4	(10.5)	(8.1)	(19.1)	(28.9)
IFRS16 lease liabilities							(25.1)	(24.2)	(24.2)	(24.2)	(24.2)

Source: Company accounts, Edison Investment Research

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