

Norcros

FY24 trading in line with expectations

FY24 trading update

Construction and materials

12 April 2024

Price **176.5p**
Market cap **£158m**

Net debt (£m) at 31 March 2024 c 37
 Shares in issue 89.3m
 Free float 98%
 Code NXR
 Primary exchange LSE
 Secondary exchange N/A

Share price performance



Business description

Norcros is a leading supplier of showers, enclosures, 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.

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FY24 trading underpins Norcros's compelling investment case, where its new product development initiatives, market positioning and self-help initiatives allow it to take market share in both the UK and South Africa. We believe that Norcros's key strengths are underappreciated and that legacy issues have been resolved. Its rating is low at 5.6x FY24e P/E, which is attractive, especially when compared to its yield of 5.7% on its well-covered dividend. We retain our estimates and value the shares at 246p, implying c 40% upside.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/22	396.3	39.3	38.2	10.0	4.6	5.7
03/23	441.0	41.8	37.4	10.2	4.7	5.7
03/24e	411.7	36.7	31.5	10.2	5.6	5.7
03/25e	412.0	37.9	32.5	10.2	5.4	5.7

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

The markets addressed by Norcros were challenging throughout FY24, and as a result group revenue is expected to be down 11.1% on a reported basis to c £390m, and down 6.1% on a constant currency, like-for-like basis.

Norcros performed 'robustly' in the UK and saw revenue down 4.7% on a reported basis and 3.3% on a like-for-like basis. Despite the weaker revenue performance, the operating margins improved due to ongoing portfolio management, Norcros's continued focus on new product development and its positioning at the more robust mid-premium segment of the repair, maintenance and improvement (RMI) market.

In South Africa, a challenging market was not helped by unpredictable power interruptions in H1. On a reported basis, revenue fell 24.1%, but was down only 12.3% on a constant currency, like-for-like basis. Local management has implemented pro-active self-help initiatives and power availability has improved. On this basis, some recovery in demand is anticipated.

Cash generation has been strong and FY24 net debt (pre-IFRS 16) is expected to be c £37m, c £3m better than we expected. This implies a net debt to EBITDA ratio of less than 0.9x with headroom for strategic priorities, including M&A.

Norcros also made progress on near-term and net zero emission targets, which have been validated and approved by the Science Based Targets initiative.

Finally, Norcros announced that it will host a capital markets event on 1 May, ahead on its FY24 results, scheduled for 13 June.

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