

Norcros

Robust performance, improving outlook

FY24 preliminary results

Construction and materials

14 June 2024

Price 207p

Market cap £186m

Net debt (£m) at 31 March 2024 37.3

Shares in issue 89.6m

Free float 98%

Code NXR

Primary exchange LSE

Secondary exchange N/A

Norcros's FY24 results highlight its resilience in the face of tough markets, but we continue to believe that the outlook is improving in both of its core markets, the UK and South Africa. Despite the improving outlook we have maintained our revenue and profit forecasts and 251p/share valuation post the results, with the company trading on an undemanding P/E rating of 6.6x. However, it is worth highlighting the scale of the opportunity on offer to Norcros, which was illustrated at the recent capital markets day.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/23	441.0	41.8	37.4	10.2	5.8	4.7
03/24	392.1	36.4	32.1	10.2	6.8	4.7
03/25e	364.7	37.9	33.1	10.4	6.6	4.8
03/26e	369.4	39.1	34.1	10.5	6.4	4.8

Note: *PBT and EPS are on an underlying reported basis, excluding exceptional items. EPS is diluted.

Solid results in tough markets

Although FY24 revenue was down 11.1% to £392.1m at the headline level, after adjusting for the acquisition of Grant Westfield and the closure of Norcros Adhesives, like-for-like revenue on a constant currency basis was down only 6%. Underlying operating profit was down 8.7% at £43.2m, with underlying PBT at £36.4m. Diluted underlying EPS was down 14.2% to 32.1p. Despite the decline, the board is recommending an unchanged total dividend of 10.2p, which implies dividend cover in excess of three times. Net debt (excluding leases) declined from £49.9m to £37.3m due to the net operating cash flow of £42.5m, including a small positive inflow from working capital management and a lack of M&A activity in the period.

Record UK profits; South Africa suffers power issues

In the UK, despite a 4.7% decline in revenue on a reported basis to £281.9m, the business reported a record level of operating profit of £38.4m, which implies a margin of 13.6%, up from 12.6%. Excluding Johnson Tiles, which was sold in May, Norcros achieved a margin of c 15%, in line with the group target. In South Africa, activity was negatively affected by the power outages that hit the whole economy. On a constant currency like-for-like basis, revenue fell 12.3% to £110.2m, and operating profit fell from £10.1m to £4.8m, which implies a margin of 4.4%, down from 7.0% in FY23. The energy market has since stabilised and recent elections appear to have gone smoothly, implying a more optimistic outlook.

Valuation: Unchanged at 251p, implies c 20% upside

Following the results, we have maintained our revenue and profit estimates. Our P/E based valuation implies a value of 243p/share, based on our diluted underlying FY25 EPS estimate of 33.1p, while our dividend discount model (DDM) implies a value of 260p/share. If we take the average of the two, we arrive at 251p, implying c 20% upside. Norcros is trading on a forward P/E of 6.6x in FY25e, still below the historical average. As the strategy gains momentum, a higher multiple could potentially be justified.

Share price performance



%	1m	3m	12m
Abs	(3.7)	8.4	21.2
Rel (local)	(1.0)	3.4	13.1
52-week high/low		231p	136p

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.

Next events

AGM	July 2024
Interims	November 2024

Analyst

Andy Murphy +44 (0)20 3077 5700

industrials@edisongroup.com

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Exhibit 1: Financial summary

	£'m	2022	2023	2024	2025e	2026e
		IFRS	IFRS	IFRS	IFRS	IFRS
31-March						
INCOME STATEMENT						
Revenue		396.3	441.0	392.1	364.7	369.4
Cost of Sales		(396.3)	(441.0)	(392.1)	(364.7)	(369.4)
Gross Profit		0.0	0.0	0.0	0.0	0.0
EBITDA		47.0	52.3	47.5	49.8	50.4
Normalised operating profit		41.8	47.3	43.2	43.7	44.2
Share-based payments		0.0	0.0	0.0	0.0	0.0
Operating profit - Underlying		41.8	47.3	43.2	43.7	44.2
IAS 19R Pension scheme expenses		(1.7)	(1.6)	(1.3)	(1.7)	(1.7)
Exceptionals		0.0	0.0	0.0	0.0	0.0
Impairment and acquisition related costs		(4.8)	(8.4)	(4.3)	(8.2)	(8.2)
Other		0.9	(9.8)	2.3	0.0	0.0
Reported operating profit		36.2	27.5	39.9	33.8	34.3
Net Interest		(3.2)	(5.8)	(7.3)	(7.2)	(6.5)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		38.6	41.5	35.9	36.5	37.7
PBT - 'Underlying'		39.3	41.8	36.4	37.9	39.1
Profit Before Tax (reported)		33.0	21.7	32.6	26.6	27.8
Reported tax		(7.3)	(4.9)	(5.8)	(8.2)	(8.6)
Profit After Tax (norm)		31.3	36.6	30.1	28.2	29.1
Profit After Tax (Underlying)		31.5	36.9	30.6	29.6	30.5
Profit After Tax (reported)		25.2	16.8	26.8	18.3	19.2
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		31.3	36.6	30.1	28.2	29.1
Net income (Underlying)		31.5	36.9	30.6	29.6	30.5
Net income (reported)		25.2	16.8	26.8	18.3	19.2
Basic average number of shares outstanding (m)		81	88	89	89	89
EPS - basic normalised (p)		38.70	41.53	33.82	31.82	32.79
EPS - diluted normalised (p)		37.99	40.89	33.51	31.53	32.49
EPS - Diluted, 'underlying'		38.23	37.43	32.07	33.09	34.06
EPS - basic reported (p)		31.15	19.06	30.11	20.65	21.63
Dividend (p)		10.00	10.20	10.20	10.40	10.50
Revenue growth (%)		22.2	11.3	(-11.1)	(-7.0)	1.3
Gross Margin (%)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		11.9	11.9	12.1	13.7	13.6
Normalised Operating Margin		10.5	10.7	11.0	12.0	12.0
BALANCE SHEET						
Fixed Assets		158.8	226.8	224.5	213.9	202.2
Intangible Assets		90.3	167.1	161.2	153.6	146.0
Tangible Assets		29.0	24.8	28.1	31.4	33.6
Investments & other		39.5	34.9	35.2	28.9	22.6
Current Assets		200.7	216.2	200.8	198.6	204.4
Stocks		100.6	103.9	97.4	98.5	103.4
Debtors		71.1	83.3	72.6	69.3	70.2
Cash & cash equivalents		27.4	29.0	30.8	30.8	30.8
Other		1.6	0.0	0.0	0.0	0.0
Current Liabilities		(110.8)	(112.7)	(99.2)	(92.2)	(93.2)
Creditors		(102.4)	(99.2)	(89.1)	(82.1)	(83.1)
Tax and social security		(2.7)	(0.9)	(2.5)	(2.5)	(2.5)
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Other		(5.7)	(12.6)	(7.6)	(7.6)	(7.6)
Long Term Liabilities		(48.4)	(119.9)	(103.7)	(85.1)	(64.8)
Long term borrowings		(18.8)	(78.9)	(68.1)	(58.1)	(46.4)
Other long term liabilities		(29.6)	(41.0)	(35.6)	(27.0)	(18.4)
Net Assets		200.3	210.4	222.4	235.1	248.6
Shareholders' equity		200.3	210.4	222.4	235.1	248.6
CASH FLOW						
Op Cash Flow before WC and tax		47.0	52.3	47.5	49.8	50.4
Working capital		(23.6)	(13.3)	3.3	(4.8)	(4.8)
Exceptional & other		0.0	0.0	0.0	0.0	0.0
Tax		(6.5)	(7.7)	(5.6)	(8.2)	(8.6)
Other		(0.9)	(2.5)	(2.7)	(0.9)	(0.9)
Net operating cash flow		16.0	28.8	42.5	35.9	36.0
Capex		(5.4)	(6.0)	(7.3)	(9.0)	(8.0)
Acquisitions/disposals		0.0	(78.3)	0.0	0.0	0.0
Net interest		(2.5)	(5.5)	(6.8)	(4.1)	(3.4)
Equity financing		0.0	0.0	(0.8)	0.0	0.0
Dividends		(9.1)	(9.2)	(9.1)	(9.1)	(9.2)
Other		(2.5)	14.6	(4.4)	(3.7)	(3.7)
Net Cash Flow		(3.5)	(55.6)	14.1	10.0	11.7
Opening net debt/(cash)		(10.5)	(8.6)	49.9	37.3	27.3
FX		1.6	(2.9)	(1.5)	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(8.6)	49.9	37.3	27.3	15.6

Source: Company data and Edison Investment Research

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