

FY24 matching up to our expectations

In meeting expectations for FY24, Norcros has demonstrated business resilience in the face of challenges in both of its primary markets. A positive cash flow performance has also left year end pre IFRS16 gearing below 0.9x underlying EBITDA. In our view, neither virtue is reflected in the company's valuation and the 1 May Capital Markets event should help to shed more light on the company's strategy, market positions and medium-term prospects.

Underlying EBIT in line with consensus estimates, cash flow positives

A pre-close update flagged FY24 expected revenue of c.£390m and underlying EBIT in line with market expectations (being a consensus of £42.7m). At the H124 stage, group revenue was -4.1% LFL at constant currency so -6.1% for FY24 overall indicates some business resilience in generally unhelpful markets. **UK margins improve further:** Coming in 4.7% lower than FY23 on a reported basis infers divisional revenue of c.£282m. On a LFL basis (adjusting for the exited Norcros Adhesives activity and an additional two months' contribution from Grant Westfield) the flagged full year -3.3% outturn compared to -0.8% at the interim stage, confirms that market conditions remained tough in H2. No specific operating company performances were referenced but a y-o-y improvement in EBIT margin (from FY23's record 12.6%) is likely to have come from a combination of favourable mix and the elimination of Adhesives' prior year loss, in our opinion.

South Africa load shedding abates, revenues stabilise: Around half of the 24.1% y-o-y reported revenue decline here (inferring divisional revenue of c.£110m) was due to adverse £/ZAR translation effects. In local currency, the LFL reduction of 12.3% was not materially different to H1 (-11.0%). Load shedding was noticeably less intense in H224 though company comments suggest that consumers are unlikely to come back in step with more reliable electricity supply. (NB we believe that there have been no load shedding days yet in FY25.) **Net cash inflows:** Norcros ended FY24 with c.£37m net debt (pre-IFRS16) versus c.£50m a year earlier (and c.£47m at the H124 stage). This £13m y-o-y reduction is also c.£7m better than we had anticipated. We believe that a H2 working capital inflow is likely to have been the primary positive variance versus both H1 and our own expectations.

Valuation: Still in Value territory

After a strong Q4 2023, Norcros shares had performed in line YTD prior to a recent dip. Valuation multiples on our existing estimates remain in Value territory (EV/EBITDA more so using company-flagged rather than our modelled net debt position). **Our fair value of 233p / share** (very close to the H124 NAV / share) is also unchanged and represents c.32% upside in a re-rating scenario.

Company Data

EPIC	NXR
Price (last close)	176.5p
52 weeks Hi/Lo	204p/134p
Market cap	£158m
ED Fair Value / share	233p
Net (debt) FY24E	(£37m)
Avg. daily volume	42.8k

Share Price, p



Source: ADVFN

Description

Norcros is a leading B2B producer of branded bathroom and kitchen products for its UK, South African and selected export markets.

The portfolio of eleven operating companies (7 UK, 4 South Africa) is characterised by strong individual brands, together providing product breadth and channel diversity from a strong supply chain base.

Toby Thorrington (Analyst)

0207 065 2690
toby@equitydevelopment.co.uk

Andy Edmond

0207 065 2691
andy@equitydevelopment.co.uk

Summary financials

Year to March (£m)	2022	2023	2024E	2025E	2026E
Revenue	396.3	441.0	406.4	408.2	418.7
EBITDA - ED*	46.5	51.7	46.5	47.8	49.7
Pre-Tax Profit - company norm	39.3	41.8	36.1	37.1	39.0
EPS FD - company norm (p)	38.2	37.4	30.8	31.6	33.2
DPS (p)	10.0	10.2	10.3	10.4	10.6
Net cash / (debt) pre-IFRS16 basis	8.6	(49.9)	(43.6)	(32.3)	(21.2)
P/E (x)	4.6	4.7	5.7	5.6	5.3
EV/EBITDA* (x)	3.2	4.3	4.7	4.4	3.9
Dividend yield (%)	5.7%	5.8%	5.8%	5.9%	6.0%

Source: Company Annual Reports, Equity Development. *after pensions cash

Financial Summary

Norcross: Income Statement										
Year end March, £m	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
				IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Revenue	271.2	300.1	331.0	342.0	324.2	396.3	441.0	406.4	408.2	418.7
Gross Profit	99.5	109.7	124.2	124.5	118.4	140.8	169.3	156.0	156.7	160.7
EBITDA - pre IFRS16 & SBP	31.6	34.7	42.5	39.0	40.1	48.1	53.5	48.4	49.7	51.6
EBITDA - company	30.2	33.8	41.3	38.6	37.9	45.4	50.5	45.3	46.6	48.5
EBIT - company norm	23.8	27.4	34.4	32.3	33.7	41.8	47.3	42.9	43.9	45.6
Net Bank Interest	(0.9)	(1.1)	(1.8)	(1.6)	(1.5)	(0.8)	(3.7)	(5.0)	(5.0)	(4.8)
IFRS16 Interest	0.0	0.0	0.0	(1.9)	(1.7)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)
Other financial	(2.2)	(1.9)	(1.7)	(1.7)	(1.6)	(1.9)	(2.5)	(1.9)	(1.9)	(1.9)
Profit Before Tax (ED norm)*	20.7	24.4	30.9	27.1	29.0	37.4	39.3	34.2	35.2	37.1
Profit Before Tax (company norm)	22.9	26.3	32.6	28.8	30.6	39.3	41.8	36.1	37.1	39.0
Intangible Amortisation	(1.2)	(2.2)	(3.5)	(3.7)	(3.7)	(3.7)	(6.2)	(6.6)	(6.6)	(6.6)
Other Non-Underlying Items	(3.8)	(4.2)	(4.3)	(9.3)	(3.8)	(0.2)	(12.0)	(4.3)	(2.9)	(1.9)
Profit Before Tax (reported)	11.5	13.5	25.4	15.0	18.5	33.0	21.7	25.2	27.6	30.5
Tax	(3.0)	(3.6)	(6.0)	(4.1)	(3.5)	(7.3)	(4.9)	(8.2)	(8.5)	(8.9)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (reported)	8.5	9.9	19.4	10.9	15.0	25.7	16.8	17.0	19.2	21.6
EPS FD - ED norm (p)	24.4	26.8	29.6	26.1	29.6	35.9	34.6	28.7	29.5	31.1
EPS FD - company norm (p)	27.8	29.5	31.7	28.2	31.1	38.2	37.4	30.8	31.6	33.2
EPS FD - reported (p)	13.4	14.1	23.9	13.5	18.6	31.2	18.8	18.7	21.1	23.9
Dividend per share (p)	7.2	7.8	8.4	3.1	8.2	10.0	10.2	10.3	10.4	10.6
Shares - Avge (m)	61.1	68.0	80.2	80.3	80.6	80.9	88.1	89.3	89.3	89.3
Shares - Period End (m)	61.7	80.2	80.9	80.6	80.8	81.0	89.3	89.3	89.3	89.3
Margins (%)										
Gross Profit	36.7	36.5	37.5	36.4	36.5	35.5	38.4	38.4	38.4	38.4
EBITDA - pre IFRS16 & SBP	11.7	11.6	12.8	11.4	12.4	12.1	12.1	11.9	12.2	12.3
EBITDA - company	11.1	11.3	12.5	11.3	11.7	11.5	11.5	11.1	11.4	11.6
EBIT company norm	8.8	9.1	10.4	9.4	10.4	10.6	10.7	10.6	10.8	10.9

Source: Company, Equity Development (ED). ED norm includes IAS19R administration & other finance costs

Norcros: Cash Flow Statement

Year end March, £m	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
				IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
EBITDA pre IFRS16 & SBP	31.6	34.7	42.5	39.0	40.1	48.1	53.5	48.4	49.7	51.6
Change in working capital	(1.8)	(2.8)	(2.1)	(4.8)	21.8	(23.6)	(13.3)	(0.2)	(0.6)	(3.3)
Other	(4.3)	(8.4)	(5.1)	0.6	(1.9)	(1.2)	(2.5)	(2.9)	(0.7)	0.1
Operating Cash Flow	25.5	23.5	35.3	34.8	60.0	23.3	37.7	45.4	48.4	48.4
Tax paid	(1.9)	(4.9)	(4.6)	(5.3)	(3.5)	(6.5)	(7.7)	(7.0)	(7.6)	(8.0)
Investing Activities	(10.7)	(66.8)	(7.6)	(14.0)	(2.8)	(5.4)	(84.3)	(9.8)	(8.0)	(8.0)
Income from associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible Fixed Assets purchased	(8.0)	(7.7)	(5.6)	(4.8)	(2.8)	(5.4)	(6.0)	(9.8)	(8.0)	(8.0)
Tangible Fixed Assets disposed	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition consideration	(2.7)	(59.1)	(2.1)	(9.2)	0.0	0.0	(78.3)	0.0	0.0	0.0
Disposal proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other business investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Activities	(5.1)	23.4	(9.3)	(15.1)	(7.2)	(16.2)	(1.2)	(21.3)	(21.4)	(21.3)
Net finance income (cost)	(0.9)	(1.1)	(1.8)	(1.7)	(1.4)	(0.8)	(3.7)	(5.0)	(5.0)	(4.8)
IFRS16 interest	0.0	0.0	0.0	(1.8)	(1.8)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)
IFRS16 lease capital repayments	0.0	0.0	0.0	(3.8)	(4.3)	(4.7)	(4.6)	(4.6)	(4.6)	(4.6)
Equity Issued	0.0	30.1	(0.9)	(0.8)	0.3	0.1	18.1	(0.8)	(0.8)	(0.8)
Dividends paid	(4.2)	(5.0)	(6.4)	(7.0)	0.0	(9.1)	(9.2)	(9.1)	(9.2)	(9.3)
Other	0.0	(0.6)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	7.9	(24.8)	13.8	0.4	46.5	(4.8)	(55.5)	7.3	11.4	11.1
Opening cash/(net debt) pre IFRS16	(32.5)	(23.2)	(47.1)	(35.0)	(36.4)	10.5	8.6	(49.9)	(43.6)	(32.3)
Change in Net Cash	7.9	(24.8)	13.8	0.4	46.5	(4.8)	(55.5)	7.3	11.4	11.1
Other	1.4	0.9	(1.7)	(1.8)	0.4	2.9	(3.0)	(1.0)	0.0	0.0
Closing cash/(net debt) pre IFRS16	(23.2)	(47.1)	(35.0)	(36.4)	10.5	8.6	(49.9)	(43.6)	(32.3)	(21.2)
IFRS16 lease liabilities				(25.1)	(24.2)	(24.0)	(24.7)	(22.3)	(22.3)	(22.3)

Source: Company, Equity Development

Norcross: Balance Sheet											
Year end March	£m	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
					IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Non-Current Assets		98.8	147.9	138.0	150.8	141.2	158.8	226.8	224.1	225.0	225.9
Intangible Assets		44.8	98.9	94.9	96.5	93.6	90.3	167.1	160.8	154.2	147.6
Tangible Assets - Owned		43.0	45.0	42.3	29.0	28.0	29.0	24.8	27.7	31.3	34.6
Tangible Assets - RoU		0.0	0.0	0.0	20.6	19.6	19.9	20.0	17.9	17.9	17.9
Other Fixed Assets		11.0	4.0	0.8	4.7	0.0	19.6	14.9	17.7	21.7	25.9
Current Assets		165.3	165.1	169.5	188.7	171.0	200.7	216.2	214.3	226.5	242.0
Inventory		70.3	74.9	79.5	78.9	78.1	100.6	103.9	97.2	97.7	100.2
Trade Receivables		53.5	58.5	57.8	56.1	60.4	66.9	78.7	75.5	75.9	77.8
Other Debtors		74.3	5.9	5.0	6.4	4.2	5.8	4.6	6.0	6.0	6.0
Cash		37.5	25.8	27.2	47.3	28.3	27.4	29.0	35.6	46.9	58.0
Current Liabilities		(105.7)	(89.8)	(85.1)	(79.2)	(104.1)	(110.8)	(112.7)	(97.9)	(102.7)	(108.5)
Trade Payables		(42.6)	(41.1)	(44.6)	(41.2)	(49.5)	(56.6)	(50.8)	(43.8)	(44.0)	(45.1)
Other Creditors		(32.2)	(40.2)	(36.7)	(32.7)	(49.2)	(48.5)	(55.8)	(47.8)	(52.4)	(57.1)
IFRS16 Lease Liabilities					(5.2)	(5.4)	(5.7)	(6.1)	(6.3)	(6.3)	(6.3)
Short-term Debt		(30.9)	(8.5)	(3.8)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities		(101.8)	(118.6)	(96.7)	(155.9)	(59.7)	(48.4)	(119.9)	(118.5)	(117.6)	(116.8)
Long-term Debt		(29.8)	(64.4)	(58.4)	(83.6)	(17.8)	(18.8)	(78.9)	(79.2)	(79.2)	(79.2)
IFRS16 Lease Liabilities					(19.9)	(18.8)	(18.3)	(18.6)	(16.0)	(16.0)	(16.0)
Other Long-term Liabilities		(72.0)	(54.2)	(38.3)	(52.4)	(23.1)	(11.3)	(22.4)	(23.3)	(22.4)	(21.6)
Net Assets		56.6	104.6	125.7	104.4	148.4	200.3	210.4	222.0	231.2	242.7

Source: Company Equity Development



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair, and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors, or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690