

Update
27 July 2015

Materials

Low & Bonar

70p

Outlook unchanged



Following on from the earlier Capital Markets Day (which we covered in detail in our last note on 25th June), the interim results contained no real surprises. Four of the five segments delivered both constant currency revenue growth and operating margin gains. LWB was also able to capture, to a greater extent than in the past, the benefits of lower polymer prices during the period. Despite the challenges in Civils and the slower than expected progress in the Saudi JV, the strength of the performance elsewhere in the group leaves the overall outlook for the year unchanged. The FY15e PE and dividend yield of 12.5x and 4.0% respectively look well under-pinned by near term prospects.

■ H1 results – no surprises

Headline H1 revenue declined 5.2% but increased by 1% on a constant currency basis (despite a 7% constant currency decline in Civils). Sales volumes were up 3% in H1 for the group (-3% in Civils), underlining the strong performance outside of Civils. Operating margins were up 90 basis points to 6.8% and adjusted PBT/EPS increased 12.8%/9.7% to £9.7m/2.04p. The interim dividend was increased by 3% to 0.98p. Net debt was £102.4m (seasonal high point) with the group trading comfortably within covenants.

■ Capital Markets Day – internal execution, external opportunity

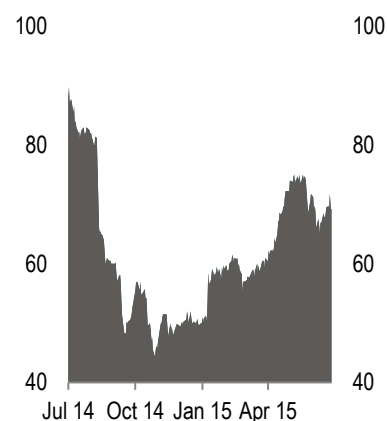
Management are clearly focused on two fronts; internal improvement to secure margin growth not reliant on volume growth, and further, targeted expansion of the global footprint. Combined with a greater emphasis on customer engagement, sales mix and internal efficiency, this suggests an improving quality of earnings over the medium term.

■ Changes to estimates

Net net we are leaving our headline PBT/EPS and dividend estimates unchanged for the full year. Below the surface we have upgraded our margin assumptions within Civils, Interiors & Transportation and Building & Industrial but have brought back our expectations for the Saudi JV and Coated Technical Textiles.

■ Valuation and catalysts

The current FY15e PE / yield of 12.5x / 4.0% look well under-pinned by near term prospects. Although Eurozone newsflow remains challenging, the broad indicators suggest the European market has been steadily improving for much of the year. We also note the re-iteration of the key growth and margin targets. Critically, much of the latent margin upside is within management control and this underpins the medium term earnings growth story. Although we do not factor it in our estimates, any significant volume recovery within Civils could also have a material impact on current estimates.



TIDM	LWB
Market cap (£m)	228.0
Net cash (FY1)	-100.0
Free float (%)	100%
Avg daily volume (3m)	0.3m
Broker	Peel Hunt
Listing	LSE

Iain Daly

research@broker-profile.com

+44 20 3763 3400

Year to Nov	Sales (£m)	Adj PBT (£m)	EPS (p)	DPS (p)	Net Cash (£m)	P/E (x)	Yield (%)
FY14a	410.6	25.2	5.4	2.7	-88.0	13.0	3.9
FY15e	402.2	26.2	5.6	2.8	-100.0	12.5	4.0
FY16e	413.1	29.5	6.3	3.0	-102.3	11.1	4.3

This document provides information on Low & Bonar plc - it is not a solicitation of an offer to buy or sell securities. See the disclaimer on the back page.

FINANCIAL SUMMARY - year ended 30 November

INCOME STATEMENT, £m	FY12A	FY13A	FY14A	FY15E	FY16E
Civil Engineering			94.6	84.0	84.0
Interiors & Transportation			88.9	93.0	96.7
Building & Industrial			62.7	65.0	66.9
Coated Technical Textiles			128.2	121.8	125.4
Sports & Leisure			36.2	38.5	40.0
Revenue	380.5	403.1	410.6	402.2	413.1
Civil Engineering			4.1	2.8	3.1
Interiors & Transportation			10.1	11.5	11.9
Building & Industrial			8.0	8.8	9.3
Coated Technical Textiles			13.7	13.8	14.3
Sports & Leisure			0.9	1.4	2.2
Central costs (inc. Share based payments)	(3.4)	(4.8)	(5.1)	(5.4)	(5.6)
Group EBIT	30.5	31.4	31.7	32.8	35.2
Exceptional items	(12.6)	(2.4)	(3.3)	(0.8)	0.0
Goodwill amortisation	(5.8)	(5.6)	(5.2)	(5.2)	(5.2)
JV's + associates	0.0	(0.6)	(1.1)	(1.5)	(1.0)
Net interest	(6.0)	(6.1)	(5.4)	(5.1)	(4.7)
Reported PBT	6.1	16.7	16.7	20.2	24.3
Adjusted PBT	24.5	25.3	25.2	26.2	29.5
Tax	(4.7)	(4.9)	(4.9)	(6.8)	(7.9)
Average no shares - diluted (m)	297.7	308.3	332.6	331.4	332.9
EPS - Reported, basic (p)	0.5	3.8	3.8	3.9	4.8
EPS - Adjusted, diluted (p)	6.1	5.9	5.4	5.6	6.3
DPS	2.4	2.6	2.7	2.8	3.0
CASH FLOW, £m	FY12A	FY13A	FY14A	FY15E	FY16E
EBITDA	43.2	44.3	41.5	45.1	51.1
Working capital	(4.3)	(4.8)	(7.0)	(5.0)	(5.0)
Other	(2.5)	(12.7)	4.0	0.0	0.0
Operating cash flow	36.4	26.8	38.5	40.1	46.1
Net interest paid	(4.8)	(4.8)	(4.5)	(5.1)	(4.7)
Net tax	(3.9)	(6.8)	(7.7)	(6.8)	(7.9)
Net capital expenditure	(14.2)	(13.4)	(20.2)	(35.2)	(26.2)
Net acquisitions / disposals	(5.0)	(15.9)	0.0	0.0	0.0
Other	(3.8)	0.9	(0.5)	0.0	0.0
Pre financing cash flow	4.7	(13.2)	5.6	(7.0)	7.2
Dividends	(6.3)	(7.2)	(8.8)	(9.0)	(9.5)
Net equity issued	0.2	19.9	0.1	0.0	0.0
Net movement in debt	7.4	(8.5)	12.6	0.0	0.0
Net change in cash	6.0	(9.0)	9.5	(16.0)	(2.3)
BALANCE SHEET, £m	FY12A	FY13A	FY14A	FY15E	FY16E
Goodwill	74.2	81.2	78.0	72.8	67.6
Intangible assets	36.7	34.0	27.8	28.2	28.7
P,P & E	108.8	114.2	119.3	140.0	149.5
Other	5.7	5.1	4.1	2.6	1.6
Fixed assets	225.4	234.5	229.2	243.7	247.4
Net working capital	15.1	45.4	49.3	55.8	61.8
Total capital employed	240.5	279.9	278.5	299.5	309.2
Net cash / (debt)	(82.6)	(86.8)	(88.0)	(100.0)	(102.3)
Net Assets	157.9	193.1	190.5	199.5	206.9

Source: Capital Access Group, Low & Bonar

This document is a marketing communication which is designed to educate and inform professional investors about the subject company. The subject company pays Capital Access Group a fixed annual fee to cover the costs of research production and distribution, and the research has not been prepared in accordance with regulatory requirements designed to promote the independence of investment research. Capital Access Group does not make recommendations. Any comments in this report regarding the valuation of a financial security are based on comparisons with similar securities; they are not forecasts of a likely share price. This document is not an offer to buy or sell, or a solicitation of an offer to buy or sell, the securities mentioned.

Capital Access Group does not buy or sell shares, nor does it conduct corporate finance transactions, nor does it undertake investment business either in the UK or elsewhere. Capital Access Group is not regulated by the Financial Conduct Authority (FCA). Neither Capital Access Group nor the analyst responsible for this research owns shares or other securities issued by the company analysed in this research note, nor do they have a position in any derivative contract based on those securities.

This research is provided for the use of the professional investment community, market counterparties and sophisticated and high net worth investors as defined in the rules of the regulatory bodies. It is not intended for retail investors. Any such individual who comes into possession of this research should consult an authorised professional adviser.

The information contained in this document has been compiled from sources believed to be reliable, but no guarantee whatsoever is given that the information is complete or accurate, or that it is fit for a particular purpose. This document was issued by Capital Access Group without legal responsibility, and is subject to change or withdrawal without notice. By reading this document, you confirm that you have read and understand the above, and that you shall not hold Capital Access Group or any of its members and connected companies liable for any loss that you may sustain should you decide to buy or sell any of the mentioned securities."