

Low & Bonar

58p

Year of progress; promising outlook

Appearances, and headlines, to the contrary, FY14 was another year of progress. The Q3 hit to Civil Engineering notwithstanding, Low & Bonar exited FY14 having generated 7% constant currency revenue and profit growth. FX headwinds and delays to the Saudi JV meant that, at the reported level, FY14 was broadly flat on FY13. Given the challenging conditions LWB faced in continental Europe, this has to be seen as a pretty solid result. Where does that leave LWB heading into FY15E? The core European markets look to have stabilised; the non European markets are performing well; the group is ramping up investment in China and the Saudi JV should deliver a positive contribution in FY16E. Coupled with a solid looking balance sheet, post the successful facility refinancing, the outlook for FY15E looks promising. The shares have rebounded healthily from their November lows and offer an FY15E PE of 10.3x and a yield of 4.8%.

■ Good progress despite Q3 challenges in Europe

The impact of the Q3 slowdown in Civil Engineering was well communicated at the time and resulted in expectations for FY14 being reduced. However, despite these issues, LWB was still able to generate healthy underlying growth (constant currency revenue / profit growth of 12% pre the share of JV losses). Euro weakness played a material part, leaving reported PBT flat y/y at £25.2m and the dilutive impact of the September 2013 £20.4m placing, resulted in headline, adjusted EPS down 9% at 5.4p. The final dividend has been held flat y/y, resulting in a total dividend of 2.7p, +4% y/y.

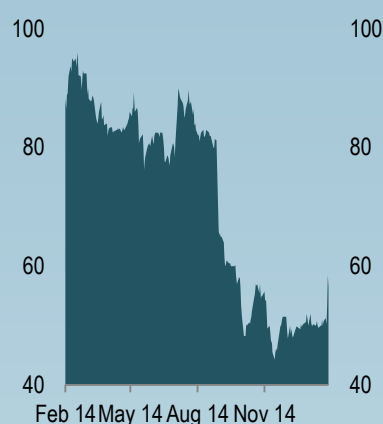
■ New CEO – evolution, not revolution

LWB will be hosting a Capital Markets Day (20th May), which will focus on the medium to long term growth strategy for each of the divisions. The new CEO, Brett Simpson, has already made it clear that he sees his focus very much on commercial execution, extending LWB's reach outside Europe, leveraging technology and further strategic fine tuning.

■ Valuation and catalysts

Given the stable outlook commentary accompanying the FY14 results, we are not making any material revisions to our estimates at this stage. However, there are a number of potential catalysts for LWB in FY15E. The Civil Engineering outlook in Europe will be critical, with any return to growth in Civil Engineering likely to have a material effect on estimates. Texiplast, in particular, has been affected by a number of factors (not least the Ukrainian situation) and any improvements should be a net positive, although H2 weighted. The Saudi JV should also see losses decline as product approvals come on line and cost savings within Yarns should also deliver incremental profitability. FX volatility (and in particular the future direction of the Euro) is out of the company's control.

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	10.8	4.7
FY15e	424.5	26.5	5.6	2.8	-99.8	10.3	4.8
FY16e	437.6	30.1	6.5	3.0	-101.3	8.9	5.2



TIDM	LWB
Market cap (£m)	189.0
Net cash (FY1)	-99.8
Free float (%)	100%
Avg daily volume (3m)	0.3m
Broker	Peel Hunt
Listing	LSE

Iain Daly
 research@broker-profile.com
 +44 20 7448 3244

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FINANCIAL SUMMARY - year ended 30 November

INCOME STATEMENT, £m	FY12A	FY13A	FY14A	FY15E	FY16E
Bonar	238.7	245.6	246.2	254.4	262.1
Technical Coated Fabrics	115.3	124.7	128.2	131.6	135.5
Yarns	26.5	32.8	36.2	38.5	40.0
Revenue	380.5	403.1	410.6	424.5	437.6
Bonar	25.0	23.0	21.0	21.8	22.8
Technical Coated Fabrics	10.7	12.1	14.2	14.3	14.8
Yarns	(1.8)	0.5	0.8	1.2	2.0
EBIT pre central costs	33.9	36.2	36.6	37.3	39.6
Central costs (inc. Share based payments)	(3.4)	(4.8)	(4.9)	(5.0)	(5.4)
Group EBIT	30.5	31.4	31.7	32.3	34.2
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)	(0.7)	0.6
Net interest	(6.0)	(6.1)	(5.4)	(5.1)	(4.7)
Reported PBT	6.1	16.7	16.7	20.5	24.9
Adjusted PBT	24.5	25.3	25.2	26.5	30.1
Tax	(4.7)	(4.9)	(4.9)	(6.9)	(7.7)
Average no shares - diluted (m)	297.7	308.3	332.6	334.1	335.6
EPS - Reported, basic (p)	0.5	3.8	3.8	4.0	5.1
EPS - Adjusted, diluted (p)	6.1	5.9	5.4	5.6	6.5
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	45.4	51.7
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	40.4	46.7
Net interest paid	(4.8)	(4.8)	(4.5)	(5.1)	(4.7)
Net tax	(3.9)	(6.8)	(7.7)	(6.9)	(7.7)
Net capital expenditure	(14.2)	(13.4)	(20.2)	(35.2)	(26.3)
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	(6.8)	8.0
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	(15.8)	(1.5)
Net cash / (debt)	(82.6)	(86.8)	(88.0)	(99.8)	(101.3)

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	28.3	28.8
P,P & E	108.8	114.2	119.3	140.0	149.5
Other	5.7	5.1	4.1	3.4	4.0
Fixed assets	225.4	234.5	229.2	244.5	249.9
Net working capital	15.1	45.4	49.3	55.0	59.4
Total capital employed	240.5	279.9	278.5	299.5	309.3
Net cash / (debt)	(82.6)	(86.8)	(88.0)	(99.8)	(101.3)
Net Assets	157.9	193.1	190.5	199.7	208.0

Source: Broker Profile, Low & Bonar

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Broker Profile Research
Augustine House
6A Austin Friars
London EC2N 2HA
www.brokerprofileresearch.com



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