

Chance to clean up for investors as bathroom group Norcros taps into property lift-off

Author: Joanne Hart - Financial Mail on Sunday

Date: 1st September 2013

Recovery in the housing market is good news for Norcros, which supplies tiles, showers and other bathroom fittings to builders' merchants and major store groups such as Homebase.

The company has performed valiantly during the downturn, but it should make significant progress as the economy strengthens and the shares, at 16.75p, should gain ground.

Norcros owns three brands: Triton showers, Johnson Tiles and Vado bathroom accessories. Its customers range from luxury hotel groups to B&Q, Homebase and Wickes, as well as Plumb Center and even Amazon.



Quality: Norcros acquired Vado, a firm specialising in showers and other products used at the Savoy

Most people change their bathrooms or install new tiles shortly after moving home, so Norcros tends to perform at its best when the housing market is booming and plenty of people are moving. This has not been the case for years.

In fact, UK sales of showers and tiles have fallen between 25 and 30 per cent since their peak in 2006. The slump hit Norcros initially but the company took decisive action and sales and profits have grown annually for the past four years.

A major competitor in the tiles market went out of business, boosting Johnson's market share, and Triton has also benefited because it is the market leader in electric showers, which are cheaper than those fed by a boiler and tend to be replaced more often.

Norcros has also been conservatively managed, not least because its chief executive, Nick Kelsall, used to be the finance director, so he is keenly aware of the need to run a tight ship when times are tough.

Last year, however, Kelsall boldly set out a strategy for growth, telling investors that he intended to double sales by 2018 and increase overseas revenues to 50 per cent of group turnover.

Earlier this year, as part of the expansion plan, Norcros acquired Vado, a company specialising in taps, high-quality showers and other bathroom fittings.

The deal increases the Norcros product range, gives it more exposure to the building trade and broadens its geographic coverage, as Vado exports more than 40 per cent of its wares.



Strategy: Norcros chief executive Nick Kelsall

Its products have been used in hotels ranging from London's Savoy to the Raffles Dubai. The business is strong across the Middle East, which complements Norcros, as it sells Johnson tiles in the region, too.

Even through the downturn, Norcros invested in its operations, making its production line more efficient and developing new products, such as tiles that look like natural stone and slate but cost a fraction of the price.

The investment paid off and Norcros has two of the best-selling tile ranges at B&Q and Wickes. In South Africa, the group went through a sticky patch, but it has now returned to profit and is expected to grow considerably there over the next few years.

Group profits are forecast to increase from £11.5million to £14.5million in the year to March 31, 2014 as sales rise from £210million to £240million.

The dividend rose 9.6 per cent to 0.46p in the year to March 2013 and should rise to at least 0.51p next year, quite possibly more.

Midas verdict: Norcros is financially strong, highly efficient and cleverly managed. It coped well with the downturn and is now poised for growth. Buy at 16.75p and watch the shares respond to the economic recovery.

Link: www.thisismoney.co.uk/money/investing/article-2407895/MIDAS-SHARE-TIPS-Bathroom-group-Norcros-taps-property-lift-off.html