

## Well positioned for further growth in 2019

23 January 2019

**Strix's pre-close trading update, which confirmed market expectations for its 2018 earnings, included a number of other positives: robust free cash flow, sustained market leadership, brisk 7% core kettle safety category growth, an on track planned factory relocation and reconfirmation of ongoing vigorous IP protection. In our view, Strix remains well placed for further progress in 2019 whilst valuation remains relatively undemanding.**

Strix's statement confirmed that it expects to report 2018 results, which are due for release 21<sup>st</sup> March 2019, in line with market expectations. As a result, we leave our 2018 estimates unchanged at £28.8m (+1.8%) for adjusted pre-tax profits. Net debt is expected to be £28m at end-year, which implies an £18m improvement on £46m at end-2017. We expect free cash flow to remain positive in 2019. Constant currency revenue growth was high single digits in 2018 as Strix retained market share leadership.

The global market for kettle safety devices is estimated to have grown by 7% in 2018 with Strix maintaining its leading 38% market share. Progress in North America, Russia and South East Asian offset softer European, UK and Turkish performances. Its U9 series of controls supported growth in less regulated markets. Aqua Optima entered into new collaborations that bode well for consumer reach and brand recognition.

Investor confidence in brand and production management should be supported by an ongoing commitment to IP protection. Indeed, we applauded the company's success in actions taken in Guangdong, Germany and for the online business in a 12<sup>th</sup> December 2018 comment. Moreover, plans to relocate Chinese manufacturing operations appear on track to start construction in 2019 H2 and to complete in 2021.

Strix's elegant combination of being **clear market leader in a growth category** should continue to deliver shareholder value growth in our view. In particular, despite being a volume growth driven story, we expect the company to continue to generate positive free cash flow. Its existing high market share and vigorous defence of IP should enable the company to resist intense price competition.

We regard Strix shares as attractively priced, trading at single digit prospective EV/EBITDA (pre any IFRS16 impact) and P/E ratios, both of which seem too low. A 7.0p 2018 intended dividend implies an attractive 4.9% trailing yield.

### Key Financials

	2016A	2017A	2018E	2019E	2020E
Revenue (£'000)	88,653	91,263	96,006	99,428	103,272
Revenue growth (%)	10.9%	2.9%	5.2%	3.6%	3.9%
EBITDA adj ('000)	33,473	35,117	36,717	38,287	39,577
EPS adj dil (p)	12.8	14.2	14.0	15.2	15.6
DPS (p)	n/a	2.9	7.0	7.7	7.9
EV/EBITDA (x)	9.3	8.9	8.5	8.2	7.9
P/E ratio (x)	11.2	10.1	10.2	9.4	9.1
Yield (%)	n/a	2.0%	4.9%	5.4%	5.5%

Source: Company accounts data and Equity Development estimates.

### Company Data

EPIC	KETL
Price (last close)	143p
52 week Hi/Lo	175p
Market cap	£282m

### Share Price, p



Source: ADVFN

### Description

Strix Group Plc (Strix) is a global leader in the design, manufacture and supply of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration.

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