

Solid FY19 update, still attractively valued

23 January 2020

Strix FY 19 trading update: ahead of FY 19 results due on 18th March, Strix has issued a very reassuring year-end update. *'Strix has delivered a solid performance during 2019 despite continuing global volatility driven by Brexit and USA China trade tensions...and expect to report profit after tax in line with market expectations.'*

Accordingly, we leave our FY 19/20 P&L forecasts unchanged. Encouragingly, Strix also reconfirms at this stage its intention to pay **total dividends of 7.7p** per share for FY 19, +10% YoY. This should underline the income attractions of this stock to investors.

Strix is the leading player in the global kettle controls market. This is a market that grew at c. 4% in 2019 in spite of well-flagged macro headwinds. The company highlights stable market share in 2019 across territories, with some market share gain in China. Elsewhere, Strix expects to report 2019 growth of 6% y-o-y for its Water category of products, now inclusive of HaloSource. It also confirms plans for a launch programme of twelve new products across the appliance/water categories in 2020.

Net debt is expected to be £26.3m, which is lower than current expectations and benefits from strong cash generation, together with some phasing around capex associated with Strix's factory relocation in China. Strix confirms that the new, enlarged manufacturing facility is well on track, where completion is expected in Q1 2021.

An attractive investment case. The share price has rallied by c 15% in recent months. However, in our view, this is still an attractively rated entry point to the shares.

Valuation multiples are undemanding at 13x PER, 9.7x EV/EBITDA. The dividend yield at the current price is a compelling 4%. We estimate that fair value for the shares lies in the 220p-240p share price range.

Strix is a unique strategic asset on the UK market, with industry leading margins and many growth initiatives underway. It screens well for investors with a 'sustainability' mandate, given its alignment to health products and improved filtration.

Key Financials

ye Dec 31	2017	2018	2019E	2020E
Revenue (£000's)	91,263	93,769	100,757	107,231
EBITDA (£000's)	35,117	36,351	35,857	38,486
EBIT. (£000's)	29,062	30,861	30,784	33,314
Adj. PBT (£000's)	28,304	29,206	29,657	32,121
Adj PAT (£000's)	27,517	28,259	28,345	30,836
EPS (p) ful dil. Adj	14.21	14.19	14.27	15.45
DPS (p)	2.9	7.0	7.7	8.1
Div yield	1.81%	4.38%	4.14%	4.35%
Div cover	0.00	2.03	1.85	1.91
Net debt/cash	45,889	27,479	26,303	35,000
P/E	13.0	13.0	13.0	12.0
EV/EBITDA	9.9	9.5	9.7	10.4

ED forecasts/Company Data

Company Data

EPIC	KETL
Price (last close)	185p
52 week Hi/Lo	200p /135p
Market cap	£357m

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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FY'19 pre-close trading update published

Strix has this morning published its FY 19 trading update, for the period ending Dec 2019. Prelims will be announced on 18th March.

'Strix has delivered a solid performance during 2019 despite continuing global volatility driven by Brexit and USA China trade tensions...and expect to report profit after tax in line with market expectations'.

Accordingly, we leave our FY 19/20 P&L forecasts unchanged. These are outlined on page 1. Reassuringly, Strix also reconfirms at this stage its intention to pay **total dividends of 7.7p** per share for FY 19, +10% YoY. This should underline the income attractions of this stock.

Key highlights

At this stage, we have made no material changes to our FY 20-21 P&L forecasts, on the back of this pre-close update. In terms of year on year movements (FY 2019, vs FY 2018), we would pick out our own expectations:

- Modest % growth in adjusted PAT
- net debt is likely to be c£26.3m, which is better than we expected, due to strong cash generation and some capex phasing
- conservative year-end leverage at <1x ND/EBITDA
- confirmation of 7.7p dividend for FY 19 (total dividend), + 10% YoY.

The global market for kettle safety devices is estimated to have grown by 4% in 2019, following mid-single digits % growth in 2018. There are regional variances, eg Western Europe strong, UK and South Africa softer. Strix maintains a leading and stable overall market share. In China, which is the largest single country kettle market of just under 50 million, market growth yoy was sluggish. Strix however has taken increased share at the higher end of the market, in new healthy eating appliances. [Please see our previous Strix reports for more details of the market dynamics by sector.](#)

The core kettle control market therefore exhibits fairly solid growth credentials, in spite of the geo-political events which have overshadowed global trade, including trade tensions between the US and China, and the so-called impact of Brexit. **With some signs of easing trade tensions and Brexit now behind us, we consider this overhang is less of a drag.**

The water category was strengthened by the acquisition of HaloSource last year, and we now expect to report growth here of c 6% yoy in 2019. The group also expects twelve new product launches across water and appliance categories in 2020. This, together with the factory relocation in China, is why we are slightly increasing our capex spend forecasts for 2020.

Taken together, these 'growth initiatives' highlight the scope for future value creation at Strix and the forward planning of management.

Water Category market opportunities

Water Category

The Global Water Filtration Category is valued at retail at over £8 Billion. With historic focus limited to the UK market, Strix plans to leverage existing technologies and new acquisitions to drive aggressive growth in focus geographies. By the end of 2021 our aim is to launch 16 new products including filters, jugs, bottles and appliances.



> £3 billion opportunity in key target markets.

2019 Highlights

- Acquisition of Halosource (astrea & Halopure brands).
- Launched water chiller appliance (LUMI).
- Secured global co-brand partnership with signature brand (Philips).
- Development of Next Gen Halopure Technology.

Source: Company

In terms of China itself, **the company has highlighted the security advantage of moving to a 50 year, rather than 20 year, tenure for its new factory location (ZengCheng)**, which underlines the support they receive from the regional Chinese government. Strix confirms that the new, enlarged manufacturing facility is well on track, where the completion date is unchanged and expected in Q1 2021.

New China Factory



Source: Company

Investment case – recap

Strix is an unusual strategic asset in our view, with well-assembled competitive advantage. This is reflected in its market share (in excess of 60% in regulated markets) and high 30% group EBITDA margins. From these high margins, there is significant free cashflow that in turn funds, inter alia, an attractive dividend and growth capex where necessary. With its Isle of Man domicile, Strix also operates a very tax efficient model.

It is a global service provider (across the value chain), operating in the IoM and China, providing components and value-added services to OEMs, brands and retailers. These components are used to produce water heating appliances (e.g kettles) and filtration technologies for consumers across the world. The engineering capability is backed up by a rigorous approach to IP protection and safety actions.

Specifically in kettle controls, the market dynamics remain attractive notwithstanding the turbulent geopolitical backdrop, which is of course beyond the company's control. Kettles are replaced by households on average every 3 ½ years, and remain a 'small ticket' in terms of consumer spending habits. However, **with c. 196m appliances globally, penetration is c 35%, implying there is continued long-term growth potential.**

With the HaloSource deal, there is also now clearly room for a new "high ground" to be established over time in purified water, and **Strix has a clear strong track record of achieving global leadership** based on what it has achieved in kettle safety devices.

The group remains well on-track near-term, and is continuing to execute on initiatives which should build further value in the long term. **With FY 19 now well underpinned, we expect investors to focus once again on the strategic merits of Strix, the upside potential from long-term growth initiatives and the lowly trading multiples.**

Share price in context

The Strix IPO price was 100p (market cap at IPO, £190m, Aug '17). The share price has rallied somewhat in H2 19 up to current levels of 185p, but in our view remains undervalued.

Valuation

There is no well-defined industry peer group for Strix, and hence traditional multiples-based analysis has clear limitations. At the same time, this underlines the company's scarcity value.

At Equity Development, we have nonetheless established a specialist engineering cohort for relative valuation (see below). **Our overall conclusion is that Strix appears very inexpensive by the standards of this cohort / peer group, whilst we also flag that many of these names are mid/large caps which would ordinarily trade at a premium.**

For Strix, both EV/EBITDA and P/E multiples are comfortably beneath the average while EV/sales reflects the high margins generated. Dividend cover on our FY 19/20 forecasts is a shade under 2x, and appears very secure. It is encouraging to see Strix now reconfirm its FY '19 commitment to 7.7p total dividend per share.

Relative Valuation															
Company	Share price	Market cap	Net debt	EV	Sales '18	Sales '19	EV/sales	EBITDA '18	EBITDA '19	EV/EBITDA	EPS '18	EPS '19	P/E	Div '19	Yield
	(p)	(£m)	(£m)	(£m)	(£m)	(£m)	(x)	(£m)	(£m)	(x)	(p)	(p)	(x)	(p)	(%)
Discover IE	580	426	30	456	338	439	1.0	29	37	15.6	21.9	25.8	22.5	10.0	1.7%
Halma	2118	8041	196	8237	1076	1210	6.8	252	287	28.7	42.3	46.7	45.4	16.0	0.8%
IMI	1166	3176	265	3441	1877	1908	1.8	315	329	10.5	69.1	78.7	14.8	41.0	3.5%
Judges Scientific	5527	344	8	351	75	82	4.3	12	18	19.5	32.8	137.0	40.3	28.5	0.5%
Oxford Instruments	1599	915	109	1024	297	333	3.1	56	61	16.8	59.0	58.0	27.6	14.0	0.9%
Renishaw	3574	2599	-52	2547	612	574	4.4	186	133	19.1	168.0	183.0	19.5	60.0	1.7%
Rotork	321	2791	13	2804	693	685	4.1	162	169	16.6	11.9	13.5	23.8	6.0	1.9%
Spirax-Sarco	9170	6752	373	7125	1138	1233	5.8	299	323	22.1	246.0	258.0	35.5	108.0	1.2%
Strix	185	370	26	396	94	110	3.6	36	36	9.7	14.2	14.3	13.0	7.7	4.1%
TT Electronics	258	421	71	492	378	481	1.0	45	56	8.8	13.2	15.7	16.4	7.0	2.7%
Average							3.6			16.9			25.9		1.9%

** Forecasts derived from Capital IQ and other sources



Investor Access

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