Strix Group

30 January 2025

A positive end to the year bodes well

In the latest trading update from Strix Group, management has reported that it remains comfortably within the previous guidance for FY24 of £18m-£19m at constant exchange rates (CER) and ahead of consensus estimates. December proved better than initially anticipated, which followed a challenging period from the start of Q3, particularly in its higher margin regulated kettle control markets in the UK and Germany. Q4 benefitted from a combination of product launches / new contracts within all three divisions, with demand from OEMs higher during December.

We have accordingly increased revenue and adj. PBT expectations for FY24 by 1% and 4.5% respectively, with estimates for FY25 raised by 1.5% at the adj. PBT level. We have consequently increased our fair value / share to 105p (previously 102p).

The outturn for FY24 was modestly ahead of previous expectations, and ahead of consensus expectations. The guidance range for adj. PBT, at CER, is unchanged at £18m-£19m. We have increased our adj. PBT estimate to £18.4m (from £17.6m) at actual exchange rates (AER), or to £18.6m at CER. The Group benefitted from product launches during Q4 along with higher demand for kettle controls ahead of manufacturing closures ahead of Chinese New Year. OEMs also took advantage of promotional activity.

FY25 should benefit from a combination of a full year of the Q4 '24 product launches as well as additional introductions, the most significant of which is the next generation kettle control. This, reflecting its smaller size and improved efficiency, may be utilised in a wider range of products thereby potentially resulting in higher volumes, which should begin to ramp up from H2 onwards.

With the decision to delay the publication of the preliminary results by a month to 30 April, due to the Spring Canton Fair two weeks earlier, visibility on the outlook for Q2 and into Q3 should be much clearer with forward orders received from its OEM partners.

Strix has also delivered a greater than anticipated reduction in debt levels. This should help in two ways; with the net debt/EBITDA ratio at less than 2x the ratchet on interest charge payable reduces; and it is timely ahead of the refinancing of the Group banking facilities in FY25.

Upgrade to estimates results in an increase in the fair value / share

We highlight the scope of the upgrade to financial estimates on page 3, which in turn underpins the increase in our fair value calculation to 105p / share.

Forecasts

Year to Dec, £m	FY22A	FY23A	FY24F	FY25F
Revenue	108.6	144.6	142.4	151.5
Adj. PBT	22.2	21.9	18.4	18.6
Adj. EPS (p)	10.8	9.1	6.5	6.9
DPS (p)	6.0	0.9	1.3	2.1
Net debt	-87.4	-85.7	-69.4	-67.3
EV/EBITDA	5.9	4.7	4.9	4.9
PER	4.3	5.1	7.3	6.8
Yield %	13.0	2.0	2.8	4.4
Net debt/EBITDA	2.7	2.1	2.0	1.9

Source: Company historics, ED estimates

Company Data

EPIC	KETL.L
Price (last close)	46p
52 weeks Hi/Lo	90p/44p
Market cap	£107.6m
ED Fair Value/share	105p
Net debt (est. Dec '24)	£69.4m

Share Price, p

Source: investing.com

Description

Strix Group ("Strix") is a global leader in the design, manufacture and supply of kettle controls, heating and temperature controls, steam management and water filtration technologies.

The Group is backed by extensive and patented IP. It continues to innovate within the small domestic appliance and water filtration segments, with a focus on safety, design and sustainability.

It has a majority share of its largest market, kettle controls and leading positions within the faster growing personal, domestic and corporate water filtration markets.

Next event

Preliminary results 30th April 2025

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Financials

Modest upgrades to estimates

From Q3 onwards the higher margin areas within the regulated kettle control markets underperformed, reflecting a combination of macroeconomic uncertainty in the UK, Germany and the US, which impacted overall discretionary spend. However, during Q4 ’24 we witnessed several positives, including:

- The launch of the new low-cost kettle control, enabling the Group to re-enter previously uneconomic markets and make progress with customers
- The return to double-digit growth at Billi as new product launches in Australia and New Zealand boosted revenues, and
- The Consumer Goods division beginning to contract manufacture a branded infant formula appliance in China as well as adding several incremental retail contracts.

Crucially, December delivered some improvements in trading, resulting in revenues approximately 1% ahead of previous estimates. The scale of forward ordering ahead of the closure of manufacturing at its OEM customers for Chinese New Year fluctuates year on year and in December it was **ahead of previous expectations, predominantly in kettle controls (for regulated markets and therefore at higher margins)**. Also, the level of promotional activity (normal for December) was ahead of expectations, again largely benefitting the higher margin, regulated kettle control products.

As such, we have increased our gross margin expectation for FY24 which, coupled with a modestly lower interest charge on the reduction in indebtedness during Q4, feeds through to a 4.5% increase in adj. PBT over previous estimates and a 4.1% uplift to adj. EPS.

The addition of a new Head of Treasury in September has helped a successful focus on cash collection / generation / conservation, resulting in a near 6% improvement in debt levels by the year end to £69.4m.

Looking forward, the first appliances to be launched utilising the next generation kettle control will be released in H2 ’25. Several OEMs are keen on the new technology, which should cement the Group’s position as market leader for the medium term at least. The smaller, lighter, cheaper and more efficient control has a wider variety of applications than in the previous model. Several new products are set to be launched by its OEM customer in H2 ’25 and beyond, including:

- Milk frothers
- Personal flasks
- Small blenders

Personal flasks are popular in China enabling a drink’s temperature to be retained at a preferred setting. Significantly, the new products are expected to generate higher margins, while widening the market segments addressed. However, volumes are unlikely to become meaningful until Q3 ‘25 onwards.

Elsewhere within Kettle Controls we expect the lower cost control sold into less regulated markets to benefit from a ramp up in volumes as the year progresses.

Billi should enjoy a full year of the new products launched in Australia and New Zealand and a build-up of orders as they are introduced into the UK and Europe. The broadening of the distribution agreements across Europe, with service capabilities, offers scope for optimism at Billi for FY25.

The Consumer Goods division should benefit from additional contract manufacturing agreements (mainly within the infant formula appliance segment) and a full year of the new retail contracts.

We expect the blended gross margin to benefit from the increased proportion of revenues derived from regulated kettle control markets and from Billi. Interest payable in FY25 should also be modestly lower than previously estimated, reflecting the lower debt levels.

Forecast changes

Y/e Dec, £m	Old FY24F	New FY24F	Chg. %	Old FY25F	New FY25F	Chg. %
Revenue	140.9	142.4	1.0%	151.5	151.5	0.0%
Adj. PBT	17.6	18.4	4.5%	18.3	18.6	1.5%
Adj. EPS (p)	6.2	6.5	4.1%	6.8	6.9	1.0%
Net debt	-73.7	-69.4	-5.9%	-68.1	-67.3	-1.2%
Net debt/EBITDA	2.1	2.0	-7.1%	1.9	1.9	-0.3%

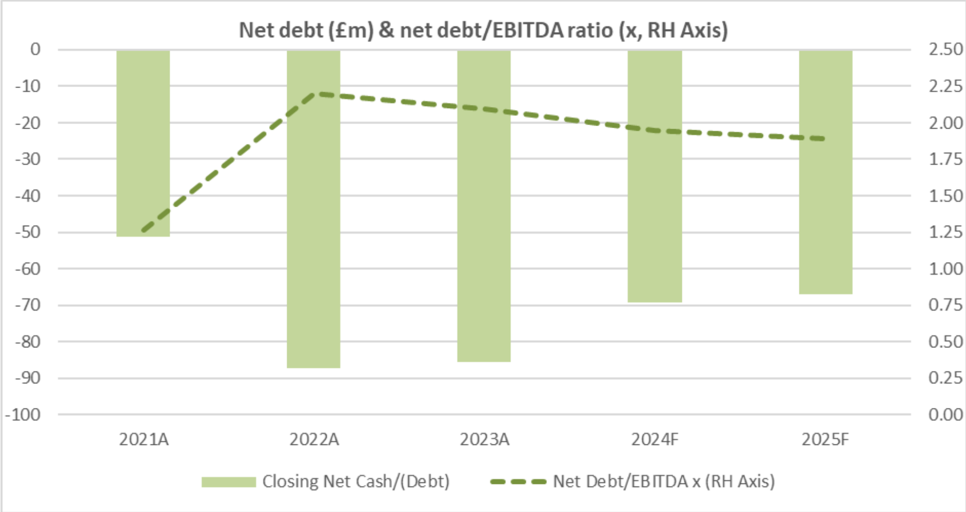
Source: ED estimates

Summary Profit & Loss

Y/e Dec, £m	2021A	2022A	2023A	2024F	2025F
Kettle controls	85.1	68.2	70.1	68.7	71.9
Prem. Filtratn. Systems		3.2	42.1	42.9	47.2
Consumer Goods	34.3	37.1	32.4	30.7	32.3
Revenue	119.4	108.6	144.6	142.4	151.5
CoGS	-72.0	-67.1	-87.4	-89.7	-96.9
Gross profit	47.4	41.5	57.2	52.7	54.6
Gross margin (%)	*39.7%*	*38.2%*	*39.6%*	*37.0%*	*36.0%*
Op costs	-14.3	-16.4	-25.6	-26.3	-28.9
Other Op. income	0.6	0.8	0.4	0.4	0.4
Operating profit	33.7	25.9	32.1	26.8	26.1
Op margin (%)	*28.2%*	*23.8%*	*22.2%*	*18.8%*	*17.2%*
Net Interest	-1.4	-3.7	-10.2	-8.4	-7.5
Associates	-0.1	0.0	0.1	0.0	0.0
PBT (Adjusted)	32.2	22.2	21.9	18.4	18.6
Exceptionals	-10.7	-5.9	-4.2	-11.7	0.0
PBT (Reported)	21.5	16.2	17.8	6.7	18.8
Tax	-0.9	0.8	-1.5	-3.1	-2.4
Adj. PAT	31.4	23.0	20.4	15.3	16.2
Minority interests	0.0	-0.1	0.0	0.0	0.0
Adj. Earnings	31.3	22.9	20.1	15.3	16.2
Reported PAT	20.6	17.0	16.2	3.6	16.2
Ordinary Dividends	-17.3	-13.1	-2.0	-3.0	-4.8
EPS (Adjusted) (p)	14.9	10.8	9.1	6.5	6.9
DPS (p)	8.4	6.0	0.9	1.3	2.1
Ave no of shares (FD) (m)	209.7	212.5	221.3	230.2	235.2

Source: Company historics, Equity Development estimates

Progression of net debt & net debt/EBITDA (x)



Source: Company historics, ED estimates

One should not forget that the Group is seeking to re-finance its borrowing facilities during FY25. The meaningful reduction in indebtedness during FY24, declining by £16.3m to c. £69.4m, to a net debt/EBITDA ratio of 1.95x will clearly help. In the shorter term that the ratio is now below 2x, the ratchet will benefit the level of interest paid.

Summary Cash Flow

Year to Dec, £m	2021A	2022A	2023A	2024F	2025F
Operating profit	33.7	25.9	32.1	26.8	26.1
Depn. & Amortn.	6.9	6.3	8.7	8.9	9.4
Working capital movement	-11.4	-2.6	2.3	1.8	-2.3
Other	-4.9	-6.3	-0.1	-4.0	-1.2
Operating cash flow	24.2	23.2	43.1	33.4	32.0
Net Interest	-2.7	-3.2	-8.9	-8.4	-7.5
Taxation	-1.9	-1.2	-1.3	-2.3	-2.8
Net capex	-15.4	-8.6	-8.0	-12.0	-15.0
Operating FCF	4.2	10.3	24.9	10.7	6.7
Net (Acquisitions)/Disposals	-1.6	-39.3	-6.5	0.0	0.0
Dividends	-16.5	-17.3	-9.1	0.0	-4.6
Share Issues	0.0	10.7	-0.2	8.1	0.0
Minority payment	-0.3	0.0	0.0	0.0	0.0
Other financial	0.2	-0.6	-7.5	-2.5	0.0
Increase Cash/(Debt)	-14.0	-36.2	1.7	16.3	2.1
Opening Net Cash/(Debt)	-37.2	-51.2	-87.4	-85.7	-69.4
Closing Net Cash/(Debt)	-51.2	-87.4	-85.7	-69.4	-67.3

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet					
Year to Dec, £m	2021A	2022A	2023A	2024F	2025F
Intangible Assets	30.5	73.4	73.4	75.2	71.7
Tangible Assets	39.5	43.7	46.2	52.6	61.7
Investments/other	3.3	3.7	1.0	1.0	1.0
Net Working Capital	11.2	19.0	22.9	21.2	23.5
Capital Employed	84.4	139.8	143.5	150.0	157.9
Other	-2.6	-2.8	-3.6	-3.6	-3.6
Net Cash/(Debt)	-51.2	-87.4	-85.7	-69.4	-67.3
Provisions Liabilities/Charges	-4.7	-12.3	-11.2	-11.2	-11.2
Net Assets	26.0	37.2	43.0	65.8	75.8

Source: Company historics, Equity Development estimates

Valuation

A modest increase in the fair value / share

DCF

We continue to utilise a combination of a discounted cash flow analysis and peer group comparison models to determine a fair value / share.

We believe the assumptions used in constructing the DCF (below) are conservative. These include a discount rate of 8.75% (which equates to the Group's long-term WACC) and a terminal growth rate of 2.25% (which broadly equates to the CPI).

The resulting DCF value amounts to 84.7p, modestly higher than previously and reflecting the increased estimates for FY24 and FY25. Our DCF valuation represents an 81% premium to the current share price.

Strix Group DCF calculation

Year to Dec, £m	*2024F*	*2025F*	*2026F*	*2027F*	*2028F*	*2029F*	*2030F*	*2031F*	*2032F*	*2033F*
Free cash flow	19.1	14.2	16.7	17.1	17.5	17.9	18.3	18.7	19.1	19.6
WACC (%)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Timing factor	0.08	1.08	2.08	3.08	4.08	5.08	6.08	7.08	8.08	9.08
Discount rate	0.99	0.91	0.84	0.77	0.71	0.65	0.60	0.55	0.51	0.47
Present value	19.0	13.0	14.1	13.2	12.4	11.7	11.0	10.3	9.7	9.1
Sum of discounted cash flows	123.5									
Terminal growth rate (%)	2.25									
Terminal value	140.5									
Net debt	-69.4									
Equity value	194.7									
No. of shares (m)	229.9									
Value per share (p)	84.7									

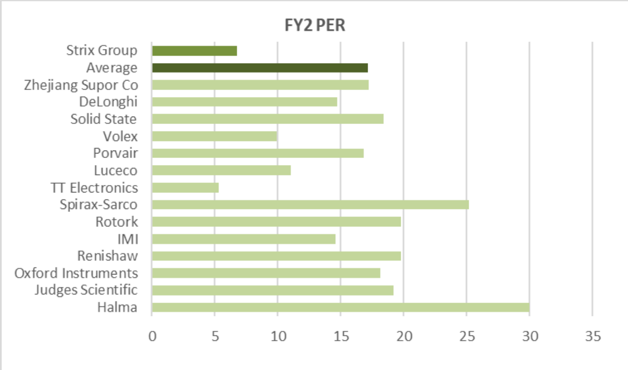
Source: Equity Development

Peer group comparison models

We have focused on FY25 estimates within our peer group comparison models. PER and EV/EBITDA are used as those ratios are the most pertinent in our opinion.

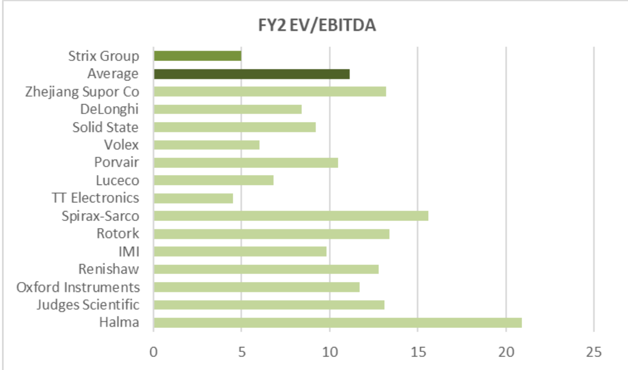
Both valuation models suggest that Strix is trading at a significant discount to its peers.:

Peer group comparison: FY25 PER



Source: Koyfin

Peer group comparison: FY25 EV/EBITDA



Source: Koyfin

Fair value

We summarise our workings below in arriving at our fair value assumption of 105p.

The modest uplift reflects a combination of the impact of the higher estimates on the DCF and the improved valuation of its peers over the past two months. We have applied a 10% size related discount to the fair value outcome relative to its peers.

Our suggested valuation stands at a premium of 124% to the current share price of the Group.

Fair value per share, p

	FY24 fair value	FY25 Fair value
DCF	85	85
PER (x)	114	106
EV/EBITDA (x)	145	124
Average	*114.7*	*104.9*

Source: ED

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