

Temporary relaxation of covenants

30 October 2023

Strix has issued a brief statement that should ease investors' concerns in the short-term. The Group's consortium of lenders has agreed to temporarily ease its key banking covenant (net debt/EBITDA) from 2.25x to 2.5x at the Q3 period end, reverting to 2.25x in December. The Board has also confirmed the timing of the payment of the interim dividend of 0.9p / share on 29 December. Finally, the announcement reported the wish of the CFO, Raudres Wong to retire from the Group, effective immediately. Mark Kirkland, a NED of the Group, will replace Raudres on an interim basis until a permanent replacement is hired.

- The update on its banking terms is reassuring. At the end of H1, net debt stood at £96.8m inflated to reflect the deferred consideration paid for LAICA. This translated to a net debt/EBITDA ratio of 2.66x. Investors' concerns focused on the adjustment from 2.75x to 2.25x by the end of September. The Group's banking syndicate has agreed to relax the covenant requirement to 2.5x at the Q3 period end, before adjusting to 2.25x by the December year end. The covenant will remain at 2.25x for the remainder of the facility's life.
- This suggests to us that either net debt levels have already fallen sufficiently to meet targets, or that trading is currently at levels to reduce immediate concerns on debt. We expect year end net debt to decline enough for a net debt/EBITDA ratio of 2.1x, before falling further to 1.8x by the end of FY24. The medium-term goal is to reduce the net debt/EBITDA ratio to below 1.5x.
- We retain our FY23 dividend estimate of 2.9p / share, which equates to a yield of 5.1%. Over the medium term, all capital allocation decisions will continue to prioritise debt reduction and the generation of free cash flow.
- The search for a successor to Raudres is underway. In the interim, Mark Kirkland, currently a Non-Executive Director of the Group will step into the role. Mark qualified as a Chartered Accountant with PwC, before moving into Corporate Finance at UBS. Since then, Mark has held a variety of Executive roles within the property, logistics and financial sectors.

Valuation

Our financial estimates remain unchanged, but we adjust our fair value / share to 167p (from 180p) to reflect recent share price movements within its peer group. Strix continues to trade at a significant discount relative to its peers whilst possessing an above average yield.

Forecasts				
Yr. to Dec, £m	FY21A	FY22A	FY23F	FY24F
Revenue	119.4	106.9	156.0	170.9
Adj. EBITDA	40.5	32.1	43.6	48.0
Adj. PBT	32.2	22.2	23.8	28.1
Adj. EPS (p)	14.9	10.8	9.5	10.9
DPS (p)	8.4	6.0	2.9	3.3
Net debt	-51.2	-87.4	-91.3	-84.2
EV/EBITDA	4.2	6.6	5.0	4.4
PER	3.9	5.4	6.1	5.3
Yield %	14.5	10.4	5.1	5.7
Net debt/EBITDA	1.3	2.7	2.1	1.8

Source: Company historic, ED estimates

Company Data

EPIC	KETL
Price	58p
52 weeks Hi/Lo	130p/51p
Market cap	£125.8m
ED Fair Value / share	167p
Net debt (Jun '23)	£96.8m

Share Price, p



Source: ADVFN

Description

Strix Group plc ("Strix") is a global leader in the design, manufacture and supply of kettle safety 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 and appliance and water filtration segments, with a focus on safety, design, and sustainability.

The Group has a c.56% global value share within its largest market, kettle controls and leading positions within the faster growing personal, domestic, and corporate water filtration markets.

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Valuation

While we understand recent concerns with regards to the Group's indebtedness, we think the announcement on banking covenants should provide the necessary breathing space for the Group to meet targets, with the year-end target well within reach based on our estimates.

We have used a combination of a discounted cash flow model, combined with peer group comparisons to determine fair value / share. Our DCF uses conservative assumptions including a discount rate of 8.75% and a terminal growth rate of just 2.25%: **it suggests a fair value of 280.5p / share.**

Strix Group DCF calculation										
£m, year to Dec	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Free cash flow	24.6	25.8	50.3	51.5	52.6	53.8	55.0	56.2	57.5	58.8
WACC (%)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Timing factor	0.75	1.75	2.75	3.75	4.75	5.75	6.75	7.75	8.75	9.75
Discount rate	0.94	0.86	0.79	0.73	0.67	0.62	0.57	0.52	0.48	0.44
Present value	23.1	22.3	40.0	37.6	35.3	33.2	31.2	29.4	27.6	26.0
Sum of discounted cash flows	305.5									
Terminal growth rate (%)	2.25									
Terminal value	399.3									
Net debt	-91.3									
Equity value	613.5									
No. of shares (m)	218.7									
Value per share (p)	280.5									

Source: Equity Development

We have also utilised a comparative peer group valuation model using FY1 PER, EV/EBITDA, EV/Sales and yields, as highlighted in the charts below. Strix is consistently valued at a sizeable discount to its wider peer group average, mainly reflecting the concerns on indebtedness. Conversely, Strix is expected to deliver the highest dividend yield of its peers. The fair values implied by each metric are shown below.

There is a 15% size related discount relative to its peers and highlight the average of the valuation models in the table below, which forms the basis for our fair value calculation.

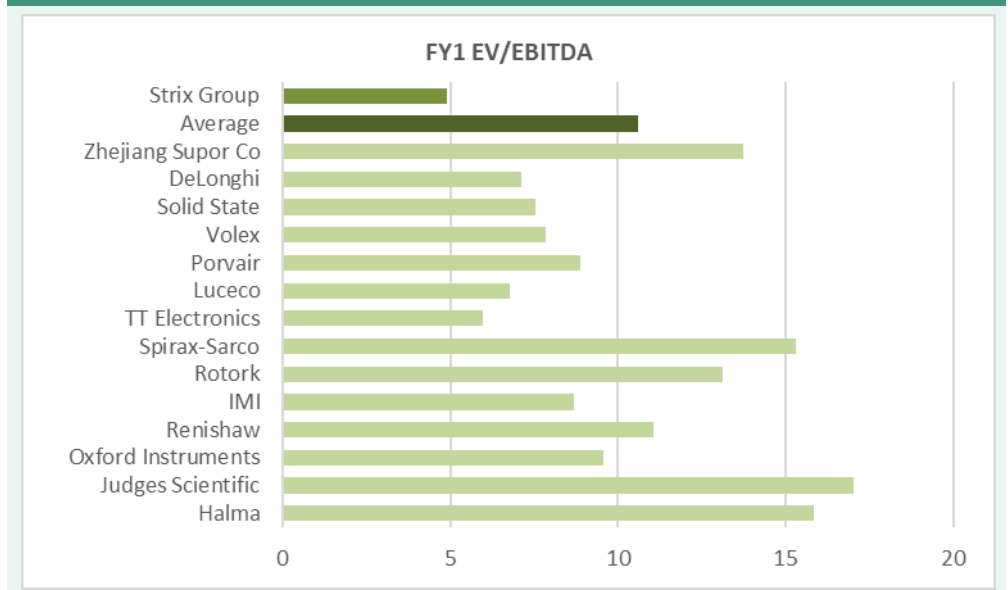
Fair value per share	
£m	FV pence/share
DCF	281
PER	150
EV/EBITDA	146
EV/Sales	93
Average	167p

Source: ED

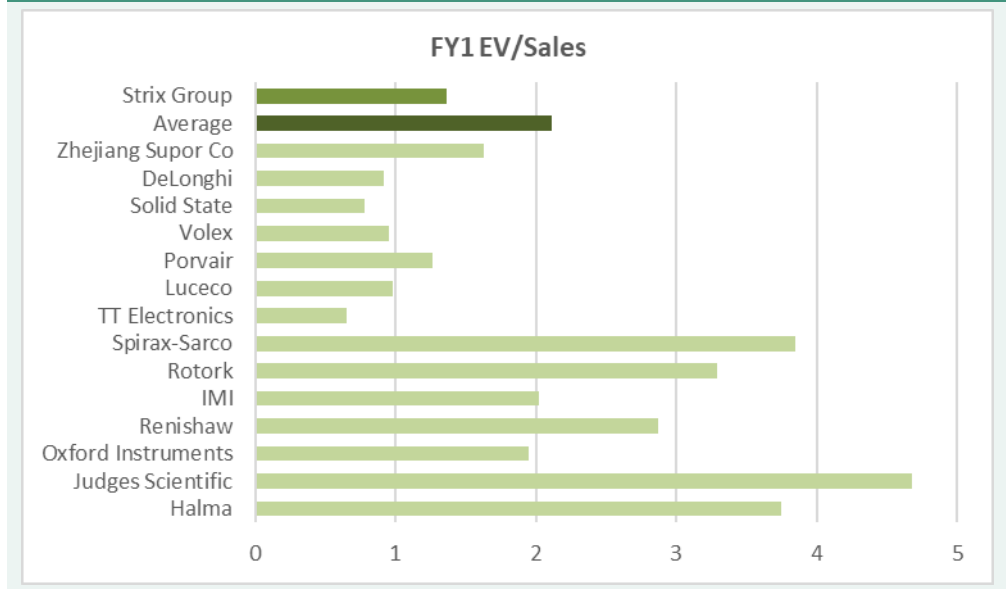
The average fair value/share of 167p represents a considerable premium to the current price.

Peer group comparison: FY1 PER

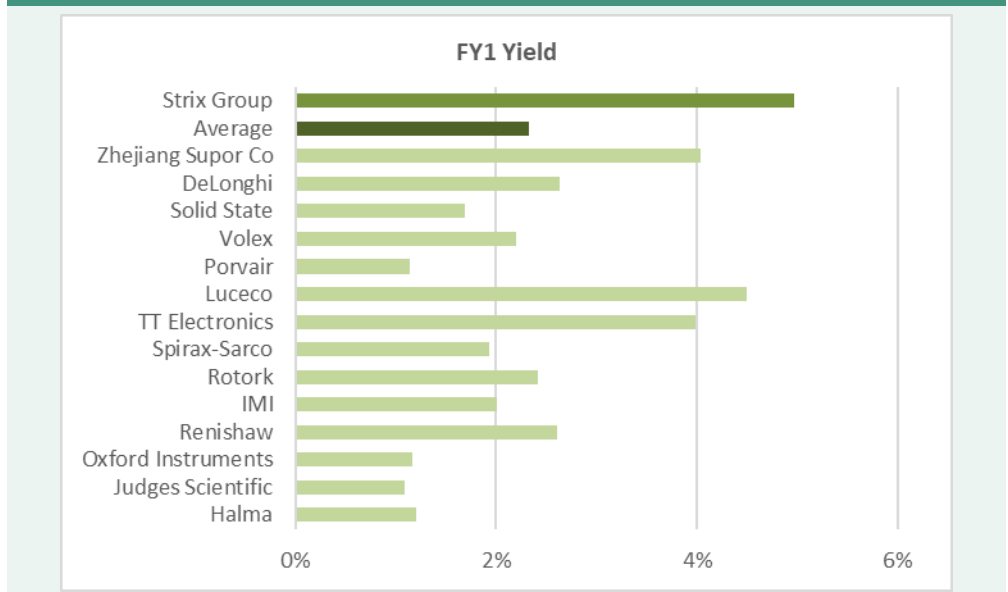

Source: MarketScreener

Peer group comparison: FY1 EV/EBITDA


Source: MarketScreener

Peer group comparison: FY1 EV/Sales


Source: MarketScreener

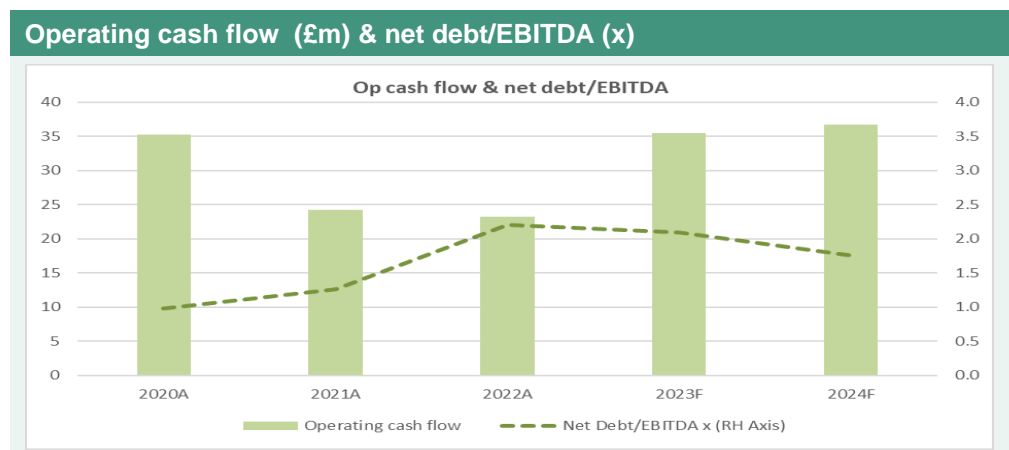
Peer group comparison: FY1 Yield


Source: MarketScreener

Financials

Summary Profit & Loss					
Year to Dec, £m	2020A	2021A	2022A	2023F	2024F
Kettle controls	79.8	85.1	68.2	75.0	79.1
Prem. Filtratn. Systems			1.0	43.0	47.5
Consumer Goods	15.5	34.3	37.7	38.0	44.2
Revenue	95.31	119.41	106.92	156.00	170.86
CoGS	-55.9	-72.0	-65.4	-96.0	-104.8
Gross profit	39.4	47.4	41.5	60.0	66.1
Gross margin (%)	41.4%	39.7%	38.8%	38.5%	38.7%
Op costs	8.5	14.3	-16.4	-26.6	-29.1
Other Op. income	1.1	0.6	0.8	0.7	0.7
Operating profit	32.0	33.7	25.9	34.1	37.6
Op margin (%)	33.6%	28.2%	24.2%	21.8%	22.0%
Net Interest	-1.2	-1.4	-3.7	-10.3	-9.5
Associates	0.1	-0.1	0.0	0.0	0.0
PBT (Adjusted)	30.9	32.2	22.2	23.8	28.1
Exceptionals	-5.5	-10.7	-5.9	-2.2	0.0
PBT (Reported)	25.5	21.5	16.2	21.6	28.1
Tax	-1.4	-0.9	0.8	-2.7	-3.9
Adj. PAT	29.5	31.4	23.0	21.1	24.2
Minority interests	0.0	0.0	-0.1	0.0	0.0
Adj. Earnings	29.5	31.3	22.9	21.1	24.2
Reported PAT	24.0	20.6	17.0	18.9	24.2
Ordinary Dividends	-16.0	-17.3	-13.1	-6.3	-7.2
EPS (Adjusted) (p)	14.3	14.9	10.8	9.5	10.9
DPS (p)	7.9	8.4	6.0	2.9	3.3
Ave no of shares (FD) (m)	206.4	209.7	212.5	221.3	221.3

Source: Company histories, Equity Development estimates



Source: Company histories, ED estimates

Summary Cash Flow

Year to Dec, £m	2020A	2021A	2022A	2023F	2024F
Operating profit	32.1	33.7	25.9	34.0	37.6
Depn. & Amortn.	6.0	6.9	6.3	9.6	10.4
Working capital movement	-1.6	-11.4	-2.6	-8.1	-11.2
Other	-1.2	-4.9	-6.3	0.0	0.0
Operating cash flow	35.2	24.2	23.2	35.5	36.8
Net Interest	-3.4	-2.7	-3.2	-10.3	-9.5
Taxation	-0.9	-1.9	-1.2	-0.9	-3.3
Net capex	-17.4	-15.4	-8.6	-10.0	-10.3
Operating FCF	13.5	4.2	10.3	14.3	13.7
Net (Acquisitions)/Disposals	-6.7	-1.6	-39.3	-7.4	0.0
Dividends	-15.3	-16.5	-17.3	-10.8	-6.6
Share Issues	3.8	0.0	10.7	0.0	0.0
Minority payment	-0.1	-0.3	0.0	0.0	0.0
Other financial	-6.0	0.2	-0.6	0.0	0.0
Increase Cash/(Debt)	-10.9	-14.0	-36.2	-3.9	7.1
Opening Net Cash/(Debt)	-26.3	-37.2	-51.2	-87.4	-91.3
Closing Net Cash/(Debt)	-37.2	-51.2	-87.4	-91.3	-84.2

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2020A	2021A	2022A	2023F	2024F
Intangible Assets	29.6	30.5	73.4	71.0	68.3
Tangible Assets	37.2	39.5	43.7	46.6	49.1
Investments/other	0.1	3.3	3.7	3.7	3.7
Net Working Capital	4.4	15.9	18.5	26.5	37.8
Capital Employed	71.4	89.1	139.2	147.7	158.8
Other	-2.8	-2.6	-2.8	-2.8	-2.8
Net Cash/(Debt)	-37.2	-51.2	-87.4	-91.3	-84.2
Provisions Liabilities/Charges	-9.3	-4.7	-12.3	-12.3	-12.3
Net Assets	22.0	30.7	36.7	41.3	59.6

Source: Company historics, Equity Development estimates



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