

Reasons to be cheerful

The key message emanating from Strix's AGM trading update is that despite the wider macro challenges, Strix is once again delivering in line with guidance. A variety of management actions have proven effective in offsetting the challenging environment. Commodity price inflation and supply chain issues have been largely neutered by a combination of product price increases, forex and hedging strategies, increased automation, and other efficiency measures. New product launches, coupled with price increases should result in a continued H2 bias to trading.

The Group is also successfully managing operations in China, with any concern that the issues in Shanghai might spill over into the Group's revenues allayed. The Group now hold finished goods across several facilities to ensure continuity of supply to customers.

Our DCF analysis results in a modest reduction in our fair value / share assumption to 284p, still at a hefty premium to the current share price.

Trading Update

The AGM statement recognises the weakening outlook since the end of Q1 on the back of continuing headwinds and the ongoing situation in the Ukraine. That said, they once again manage the challenges and deliver in line with guidance. We think the latter highlights the effectiveness of management's actions to ameliorate the challenging backdrop, plus a natural trading bias for Strix in favour of H2.

Challenges remain broadly unchanged: commodity price inflation, rising freight costs, supply chain disruption, plus increases in marketing and employee costs. The sanctions resulting from the start of hostilities in the Ukraine may well disrupt up to £3m of revenues derived from Russia. However, we had already factored all of these into our financial estimates at the end of March.

Proactive management actions include a **further price increase to the entire kettle controls range and water categories from 1 May**, the adoption of additional automation and efficiency measures at the new manufacturing operations, including the insourcing of components. The use of forex and commodity hedging has further reduced the impact of the ongoing cost inflation.

With a significant portion of its manufacturing operations and OEM customers based in China, one could be forgiven for concerns that the issues affecting Shanghai could well spread elsewhere in the country. Yet not only is the distance between the Group's manufacturing operations (Guangzhou) approximately 900 miles from Shanghai, but management has initiated stock holding across several provinces to minimise the risk of disruption and continue to supply its customer base.

Doubling of revenues between FY20 and FY25 will be driven by new product launches, with FY22 delivering the induction kettle ('*Visione*'), the 'one-cup' kettle ('*Dual Flo*'), in addition to a range of water filters from LAICA. Coupled with the recent price rises it would be reasonable to assume the bias in trading favouring H2 is likely to continue into FY22, further underpinning confidence of the Group achieving estimates.

Fair value / share based on a conservative DCF model

With no change to estimates, we use a discounted cash flow model to ascertain the fair value / share of the Group. We use what we consider to be conservative assumptions of a discount rate of 8.5% and a terminal growth rate of 2.25%.

The outcome suggests a fair value / share of 284p, a 48% premium to the current share price.

Company Data

EPIC	KETL
Price (last close)	192p
52 weeks Hi/Lo	390p/180p
Market cap	£397.0m
ED Fair Value / share	284p
Net debt (Dec '21)	£51.2m

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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Financials

Summary Profit & Loss					
Year to Dec, £m	2019A	2020A	2021A	2022F	2023F
Kettle controls	85.8	79.8	85.1	83.0	85.0
Water products	9.8	11.7	21.4	29.2	35.5
Appliances	1.2	3.7	12.9	17.8	23.4
Revenue	96.88	95.31	119.41	129.92	143.87
CoGS	-57.3	-55.9	-72.0	-82.3	-91.8
Gross profit	39.6	39.4	47.4	47.6	52.0
Gross margin (%)	40.9%	41.4%	39.7%	36.7%	36.2%
Op costs	8.7	8.5	14.3	14.7	16.0
Other Op. income	0.6	1.1	0.6	1.4	1.2
Operating profit	31.5	32.0	33.7	34.3	37.2
Op margin (%)	32.5%	33.6%	28.2%	26.4%	25.9%
Net Interest	-1.3	-1.2	-1.4	-1.4	-2.3
Associates	0.0	0.1	-0.1	0.1	0.1
PBT (Adjusted)	30.2	30.9	32.2	33.0	35.0
Exceptionals	-7.3	-5.5	-10.7	0.0	0.0
PBT (Reported)	22.9	25.5	21.5	33.1	35.1
Tax	-1.3	-1.4	-0.9	-0.6	-1.0
Adj. PAT	28.9	29.5	31.4	32.4	33.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Adj. Earnings	28.9	29.5	31.3	32.3	33.9
Reported PAT	21.5	24.0	20.6	32.3	33.9
Ordinary Dividends	-14.7	-16.0	-17.3	-17.6	-18.1
EPS (Adjusted) (p)	14.2	14.3	14.9	15.4	16.2
DPS (p)	7.7	7.9	8.4	8.5	8.8
Ave no of shares (FD) (m)	202.8	206.4	209.7	209.7	209.7

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2019A	2020A	2021A	2022F	2023F
Operating profit	31.5	32.1	33.7	34.4	37.3
Depn. & Amortn.	5.5	6.0	6.9	8.2	8.7
Working capital movement	-0.4	-1.6	-11.4	-7.8	1.7
Other	-3.1	-1.2	-4.9	-3.5	-3.3
Operating cash flow	33.6	35.2	24.2	31.3	44.5
Net Interest	-1.3	-3.4	-2.7	-1.4	-2.3
Taxation	-1.0	-0.9	-1.9	-3.0	-3.0
Net capex	-14.9	-17.4	-15.4	-9.3	-8.8
Operating FCF	16.4	13.5	4.2	17.6	30.4
Net (Acquisitions)/Disposals	-1.5	-6.7	-1.6	-5.5	-5.5
Dividends	-13.9	-15.3	-16.5	-17.4	-17.7
Share Issues	0.0	3.8	0.0	0.0	0.0
Minority payment	0.0	-0.1	-0.3	0.0	0.0
Other financial	0.1	-6.0	0.2	0.0	0.0
Increase Cash/(Debt)	1.1	-10.9	-14.0	-5.3	7.1
Opening Net Cash/(Debt)	-27.5	-26.3	-37.2	-51.2	-56.5
Closing Net Cash/(Debt)	-26.3	-37.2	-51.2	-56.5	-49.4

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2019A	2020A	2021A	2022F	2023F
Intangible Assets	7.1	29.6	27.3	25.4	23.2
Tangible Assets	25.5	37.2	49.8	52.2	54.0
Investments/other	0.0	0.1	0.1	0.1	0.1
Net Working Capital	-2.4	4.4	15.9	23.7	21.9
Capital Employed	30.2	71.4	93.1	101.3	99.3
Other	-3.0	-2.8	-2.1	-2.0	-1.9
Net Cash/(Debt)	-26.3	-37.2	-51.2	-56.5	-49.4
Provisions Liabilities/Charges	0.0	-9.3	-9.3	-8.5	-8.0
Net Assets	0.9	22.0	30.5	34.3	40.0

Source: Company historics, Equity Development estimates

DCF model

We have constructed a discounted cash flow model for Strix, using a discount rate of 8.25%, a terminal growth rate of 2.25% and capex equating to depreciation throughout.

The model suggests a value per share of 284p, which represents a 48.2% premium to the closing price on the 25 May.

Strix Group DCF calculation										
£m	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Free cash flow	20.1	32.7	36.7	41.0	42.0	42.9	43.9	44.9	45.9	46.9
WACC (%)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Timing factor	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Discount rate	0.98	0.91	0.84	0.77	0.71	0.66	0.61	0.56	0.52	0.48
Present value	19.7	29.6	30.7	31.7	30.0	28.3	26.7	25.2	23.8	22.5
Sum of discounted cash flows	268.3									
Terminal growth rate (%)	2.25									
Terminal value	375.5									
Net debt	-56.5									
Equity value	587.3									
No. of shares (m)	206.7									
Value per share, p	284.2									

Source: Equity Development



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