

Consensus met, record revenue and profits

27 January 2022

The trading update for FY21 was encouraging, with results in-line with consensus expectations and record levels achieved at the revenue and PAT level. Headwinds continue, placing pressure on gross margins, although management actions and a price rise have eased their impact. Our previous estimates were at the top-end of the consensus range, and we have subsequently fine-tuned them to bring them back in-line. We continue to anticipate satisfactory progress, with the goal of doubling of revenues to FY25 unchanged. Encouragingly, the Group remains on track to achieve sustainability goals.

Revenues increased by approximately 30% on a constant currency basis, suggesting a low double-digit y-o-y improvement during H2 to record levels (ED est.: £121.4m). The FY benefitted from above inflation growth within Kettle Controls, strong momentum in the two smaller divisions (Water and Appliances), new product launches and a pandemic related weak H1 comparative.

Kettle Controls benefitted from a lifting of restrictions on retail outlets, a further gain in global market share and new products (new induction kettle launched in December). The new factory in Guangzhou Province, successfully built and completed during the pandemic, has been fully operational since July, with almost three quarters of all production automated. We anticipate greater productivity and economies of scale to emerge during FY22. The £20m investment in the factory will lead to a £3m VAT refund on domestic sales in China, benefitting FY22 and FY23.

In the **Water** category, LAICA, acquired in October 2020, has integrated well, with a cross-fertilisation of customers underway and delivered top-line growth ahead of initial expectations. New product launches accelerated in H2, including new territories targeted. In view of the price competitive nature of consumer markets, Strix has also ensured that a rising number of components are now manufactured in-house, offsetting supply chain pressures. The number of contracts secured by HaloPure at 14 is ahead of expectations, compared to a budget of ten.

Strix launched several new products, including Aurora (gaining good traction across the UK, Europe, N. America, and Asia), which occurred within the **Appliances** division. The new CTO is driving product launches, with a strong roadmap anticipated for FY22, including the baby care range.

We anticipate ongoing pressure on gross margins (which declined at the H1 level to 37.4%, as compared to 39.7% a year earlier), reflecting the LAICA acquisition and headwinds such as commodity price inflation, rising freight costs, supply chain disruption, increases to marketing and employee costs, alongside adverse currency movements.

Rising input costs were in part offset by price rises to legacy products, yet this challenge is expected to continue into FY22. To mitigate these increases, management has increased levels of insourcing within the new manufacturing facility, helping to ease some of the supply chain pressures. Strix has also entered into hedging agreements on currency and is forward-buying commodities (copper, silver, and certain plastics). Further price rises on legacy products is also a potential option.

Net debt increased ahead of expectations to £51m (ED est.: £42m), which primarily reflected higher working capital to ease the supply chain issues. Despite higher debt levels, we still anticipate that the progressive dividend policy will continue, building on the 5.8% rise as witnessed at the interims.

Valuation

Strix remains confident of its strong positioning, but we prudently shave our FY21 adj. EPS estimate by 3% to reflect the headwinds discussed. Our fair value / share adjusts to 350p, still more than a third above current levels.

Company Data

EPIC	KETL
Price (last close)	260p
52 weeks Hi/Lo	390p/223p
Market cap	£535m
ED Fair Value / share	350p
Net debt (Dec '21)	£51.0m

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

Change in estimates

	Old FY21	New FY21	Change, %	Old FY22	New FY22	Change, %	Old FY23	New FY23	Change, %
Revenue	121.4	121.4	0.0%	132.9	132.9	0.0%	146.9	146.9	0.0%
Adj PBT	33.9	31.9	-5.8%	35.5	33.7	-5.1%	37.3	35.8	-4.2%
Adj EPS (p)	15.3	14.8	-3.3%	15.9	15.7	-0.9%	16.7	16.5	-0.7%
DPS (p)	8.00	8.00	0.0%	8.25	8.25	0.0%	8.50	8.50	0.0%

Source: Equity Development Ltd

Summary Profit & Loss

Year to Dec, £m	2019A	2020A	2021F	2022F	2023F
Kettle controls	85.8	79.8	80.8	83.7	86.6
Water products	9.8	11.7	27.2	33.1	40.7
Appliances	1.2	3.7	13.4	16.1	19.6
Revenue	96.88	95.31	121.37	132.92	146.89
CoGS	-57.3	-55.9	-76.5	-85.0	-95.1
Gross profit	39.6	39.4	44.9	47.9	51.8
Gross margin (%)	40.9%	41.4%	37.0%	36.0%	35.3%
Op costs	8.7	8.5	12.9	14.0	15.7
Other Op. income	0.6	1.1	1.2	1.3	1.4
Operating profit	31.5	32.0	33.1	35.2	37.5
Op margin (%)	32.5%	33.6%	27.3%	26.4%	25.5%
Net Interest	-1.3	-1.2	-1.3	-1.6	-1.8
Associates	0.0	0.1	0.1	0.1	0.1
PBT (Adjusted)	30.2	30.9	31.9	33.7	35.8
Exceptionals	-7.3	-5.5	-4.8	0.0	0.0
PBT (Reported)	22.9	25.5	27.3	33.8	35.9
Tax	-1.3	-1.4	-0.5	-0.6	-1.1
Adj. PAT	28.9	29.5	31.4	33.0	34.7
Minority interests	0.0	0.0	0.0	0.0	0.0
Adj. Earnings	28.9	29.5	31.4	33.0	34.7
Ordinary Dividends	-14.7	-16.0	-16.5	-17.2	-17.5
Retained Profit	14.2	13.5	14.9	15.8	17.2
EPS (Adjusted) (p)	14.2	14.3	14.8	15.7	16.5
DPS (p)	7.7	7.9	8.0	8.3	8.5
Ave no of shares (FD) (m)	202.8	206.4	211.5	209.7	209.7

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2019A	2020A	2021F	2022F	2023F
Operating profit	31.5	32.1	33.2	35.3	37.6
Depn. & Amortn.	5.5	6.0	7.5	8.4	8.9
Working capital movement	-0.4	-1.6	-12.1	-2.0	1.6
Other	-3.1	-2.8	-3.7	-3.5	-3.3
Operating cash flow	33.6	33.7	25.0	38.1	44.9
Net Interest	-1.3	-1.9	-1.3	-1.6	-1.8
Taxation	-1.0	-0.9	-3.0	-3.0	-3.0
Net capex	-14.9	-17.4	-14.8	-9.3	-8.8
Operating FCF	16.4	13.4	5.9	24.3	31.3
Net (Acquisitions)/Disposals	-1.5	-10.4	-2.1	-5.5	-5.5
Dividends	-13.9	-15.3	-16.5	-16.7	-17.3
Share Issues	0.0	3.1	0.0	0.0	0.0
Minority payment	0.0	-0.1	0.0	0.0	0.0
Other financial	0.1	-1.6	-1.1	0.0	0.0
Increase Cash/(Debt)	1.1	-10.9	-13.8	2.1	8.5
Opening Net Cash/(Debt)	-27.5	-26.3	-37.2	-51.0	-48.9
Closing Net Cash/(Debt)	-26.3	-37.2	-51.0	-48.9	-40.4

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2019A	2020A	2021F	2022F	2023F
Intangible Assets	7.1	29.6	27.8	25.8	23.6
Tangible Assets	25.5	37.2	46.3	48.6	50.2
Investments/other	0.0	0.1	0.1	0.1	0.1
Net Working Capital	-2.4	4.4	16.5	18.5	16.9
Capital Employed	30.2	71.4	90.8	93.0	90.9
Other	-3.0	-2.8	-2.1	-2.0	-1.9
Net Cash/(Debt)	-26.3	-37.2	-51.0	-48.9	-40.4
Provisions Liabilities/Charges	0.0	-9.3	-9.3	-8.5	-8.0
Net Assets	0.9	22.0	28.4	33.6	40.5

Source: Company historics, Equity Development estimates



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