# Strix Group plc

## Exciting product pipeline

30 March 2022

**The preliminary results for FY21 were encouraging, with results modestly ahead of consensus expectations with record levels at the revenue and PAT level. Although headwinds continue, leading to pressure on gross margins, management actions have ameliorated the impact of rising input costs.**

**However, we think sanctions on the Russian economy are likely to result in up to a c. £3m hit to revenues in both FY22 and FY23, resulting in a 2% reduction in adj. EPS in both periods. We therefore reduce our fair value / share to 293p, still representing a 22% premium to the current share price.**

- Revenues in FY21 improved markedly, rising 25.3% yoy to £119.4m, albeit stronger sterling tempered the increase. Strong performances within the smaller Water and Appliances division, following the acquisition of LAICA in early Q4 2020 drove revenues, although its global market share further increased in Kettle Controls, to 56% (FY20: 55%). New product launches were a positive feature, including Aurora, which is selling well across the UK, Europe, N. America, and APAC.

- The ongoing headwinds include commodity price inflation, rising freight costs, supply chain disruption, increases in marketing, and employee-related costs. A combination of several price increases of legacy products, increased insourcing of components within the new automated manufacturing facility in China, and a forward buying of commodities (resulting in higher working capital), has largely offset the impact of the headwinds. We anticipate further efficiency gains during FY22 and beyond as the new facility in China ramps up production, increases automation and manufactures a higher proportion of components in-house for the two smaller divisions.

- We believe that the target for a doubling of revenues in the five years to FY25 remains on course. The key growth drivers include new product launches (induction kettle, Aurora chiller, baby care), new territories targeted; a cross-fertilisation of customers between the divisions; new retail listings; and rising contract wins at Halo Pure.

- The Group has a history of integrating sustainability goals within the core business strategy. A new strategy was launched during the year https://www.strix.com/sustainability.html and ambitious decarbonisation targets were set (net zero) for FY23 (scope 1 and 2). The Group is aiming for best-in-class across all business areas but led from the new facility in China.

### Forecasts and valuation

Although Strix does not sell directly into Russia, the Chinese OEMs supplied with kettle controls do. With no sanctions between the two nations, the OEMs are free to sell into Russia. Considering sanctions from the West and estimates of the degree to which the Russian economy is likely to shrink, we have conservatively assumed that up to £3m of revenues will disappear, resulting in a £0.6m reduction in earnings. The scale of the resulting downgrade to FY22 and FY23 estimates amounts to just 2%.

**Notwithstanding our reduction in estimates to reflect a more difficult Russian economy, our fair value / share of 293p based on a range of valuation methodologies remains markedly above the current share price.**

**Company Data**

| | |
|---|---|
| EPIC | KETL |
| Price (last close) | 240p |
| 52 weeks Hi/Lo | 385p/218p |
| Market cap | £497.0m |
| ED Fair Value / share | 293p |
| 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.

**David O'Brien (Analyst)**
0207 065 2690
david@equitydevelopment.co.uk

**Hannah Crowe**
0207 065 2692
hannah@equitydevelopment.co.uk

# Results

| Preliminary results 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **£m** | **H1 20A** | **H2 20A** | **FY20 A** | **H1 21A** | **H2 21A** | **FY21 A** | **Change yoy** |
| Kettle Controls | 29.1 | 50.7 | 79.8 | 39.4 | 45.7 | 85.1 | 6.6% |
| Water category | 5.0 | 6.7 | 11.7 | 10.0 | 11.4 | 21.4 | 82.3% |
| Appliances | 0.5 | 3.2 | 3.7 | 5.3 | 7.6 | 12.9 | 244.2% |
| **Total Revenue** | **34.7** | **60.6** | **95.3** | **54.7** | **64.7** | **119.4** | **25.3%** |
| ***Cost of Sales*** | ***-20.9*** | ***-34.9*** | ***-55.9*** | ***-34.2*** | ***-37.8*** | ***-72.0*** | ***28.8%*** |
| Kettle Controls | 12.6 | 23.2 | 35.8 | 16.8 | 18.9 | 35.7 | -0.4% |
| Water category | 1.0 | 1.4 | 2.4 | 2.4 | 4.5 | 6.9 | 192.9% |
| Appliances | 0.2 | 0.6 | 0.8 | 1.3 | 3.6 | 4.9 | 544.3% |
| **Gross Profit** | **13.8** | **25.1** | **38.9** | **20.5** | **27.0** | **47.4** | **21.9%** |
| Kettle Controls | 43.3% | 45.7% | 44.8% | 42.6% | 41.3% | 41.9% | -6.6% |
| Water category | 19.6% | 20.4% | 20.1% | 24.3% | 39.2% | 32.3% | 60.7% |
| Appliances | 27.9% | 18.8% | 20.1% | 23.8% | 47.3% | 37.7% | 87.2% |
| *Gross Margin, %* | *39.7%* | *41.5%* | *40.8%* | *37.4%* | *41.6%* | *39.7%* | *-2.7%* |
| OpEx | -3.5 | -4.9 | -8.5 | -6.9 | -7.4 | -14.3 | 68.3% |
| Other op. income | 0.4 | 0.7 | 1.1 | 0.4 | 0.2 | 0.6 | -49.0% |
| Associates | | | | | | | |
| EBITDA | 13.6 | 24.5 | 38.1 | 17.4 | 23.1 | 40.5 | 6.5% |
| EBITDA, % | 39.1% | 40.4% | 40.0% | 31.9% | 35.7% | 34.0% | |
| Adj. EBIT | 10.6 | 21.5 | 32.1 | 13.9 | 19.7 | 33.7 | 4.9% |
| EBIT, % | 30.6% | 35.4% | 33.7% | 25.5% | 30.5% | 28.2% | -16.3% |
| Finance costs | -0.6 | -0.6 | -1.2 | -0.7 | -0.8 | -1.5 | 27.0% |
| Adj. PBT | 10.1 | 20.9 | 30.9 | 13.2 | 18.9 | 32.2 | 0.3 |
| Exceptionals | -2.5 | -2.9 | -5.5 | -4.8 | -5.2 | -9.9 | 82.2% |
| Reported PBT | 7.5 | 17.9 | 25.5 | 8.5 | 13.7 | 22.2 | -12.7% |
| Tax | -0.2 | -1.2 | -1.4 | -0.9 | 0.0 | -0.9 | |
| Adj. PAT | 9.8 | 19.7 | 29.5 | 12.3 | 19.1 | 31.4 | 6.4% |
| Minority interests | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | |
| Adj. Earnings | 9.8 | 19.7 | 29.5 | 12.3 | 19.1 | 31.4 | 6.3% |
| Wav. Dil. no. of shares m | 201.8 | 206.4 | 206.4 | 209.5 | 209.7 | 209.7 | 1.6% |
| Adj. EPS (p) | 4.9 | 9.4 | 14.3 | 5.9 | 9.0 | 14.9 | 4.2% |
| Dps (p) | 2.60 | 5.25 | 7.85 | 2.75 | 5.60 | 8.35 | 6.4% |
| Net debt | -36.9 | -37.2 | -37.2 | -46.0 | -51.2 | -51.2 | 37.6% |

*Source: Company/ED*

The results for FY21 were modestly ahead of revised expectations, with records delivered in revenue and PAT. Following the acquisition of LAICA in Q4 2020, Kettle Controls accounted for 71.3% of revenues, down from 83.7% a year earlier.

Revenues increased 25.3% overall (+28.8% on a constant currency basis, with sterling strengthening during the period), organic growth accounting for 9.7% and the acquisition of LAICA, 15.6%.

## Kettle Controls

Kettle Controls delivered an outcome markedly ahead of inflation, with revenues increasing 6.6% yoy, to £85.1m. The Group's share of the global kettle control market rose 1% during the year to 56%, representing a record.

The re-opening of retailers, new retail listings, geographical expansion, improved specifications, and new product developments drove the category's sales. H2 was more problematic, reflecting headwinds and the recovery from the pandemic commencing in H2 20.

Regulated markets performed well, particularly in the UK, Europe, and North America. The Group remains the largest supplier of controls in China and in less-regulated markets, were also ahead yoy.

The new manufacturing facility in Zengcheng district of Guangzhou, China, opened in late August, with 73% of all assembly now automated. In FY20, the level of automation stood at 67% and is set to rise further over the medium term.

## Appliances

The Appliance Category delivered revenues of £12.9m, equating to a yoy increase of 244.2%, primarily due to the impact of the LAICA acquisition a year earlier. Aurora and Dual Flo were the key product launches during the year, with the former marketed under the Aqua Optima brand in June on Amazon before rolling out across several territories before the year-end. Key product launches in H2 included Dual Flo, the Visione induction kettle, and a baby care technology range.

There continues to be a strong roadmap of product launches across the appliance/baby care categories in FY22, including Aurora chilled.

## Water category

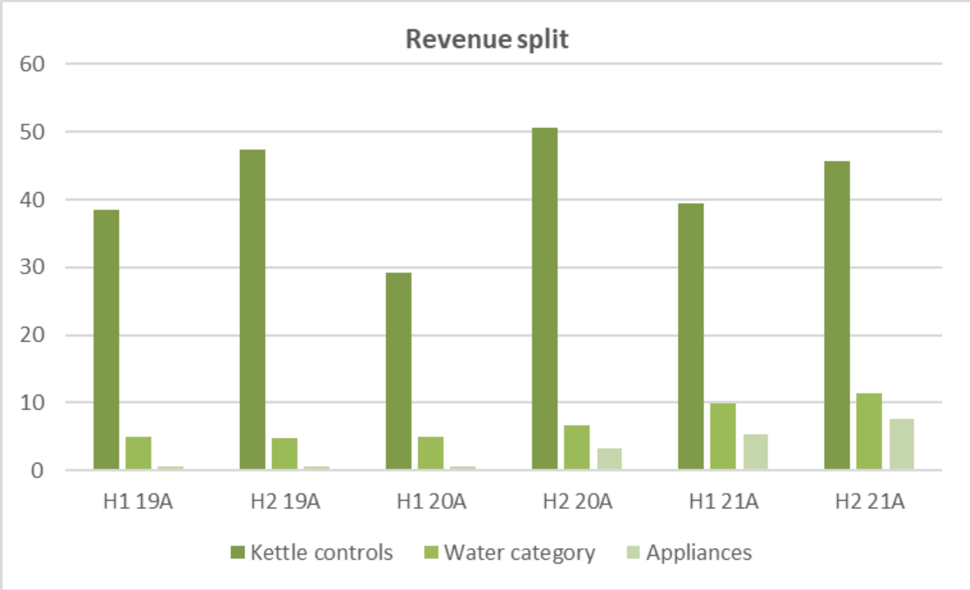
Revenues within the Water category rose 82.3% yoy in FY21, again predominantly reflecting the acquisition of LAICA. Organic growth also remained a decisive factor, reflecting the successful integration of the business, a cross-fertilisation of the two customer bases, and product launches in late 2020. The pipeline of new products remains encouraging.

Progress in FY22 is expected to be underpinned by new distribution and private label contracts in APAC, Europe, and N. America. Additional retail listings in the UK and Ireland augur well, adding more than 200 chain and independent outlets to the customer base.

Price increases on legacy products and efficiency improvements due to the automated new facility in China offset much of the rising commodity and transport costs.

Halo Pure increased the number of contracts to 14 by the year-end, ahead of expectations, reflecting relationships at regional government-owned livestock farms. Development of a new product to target smaller farms, should result in the overall market rising commensurably.

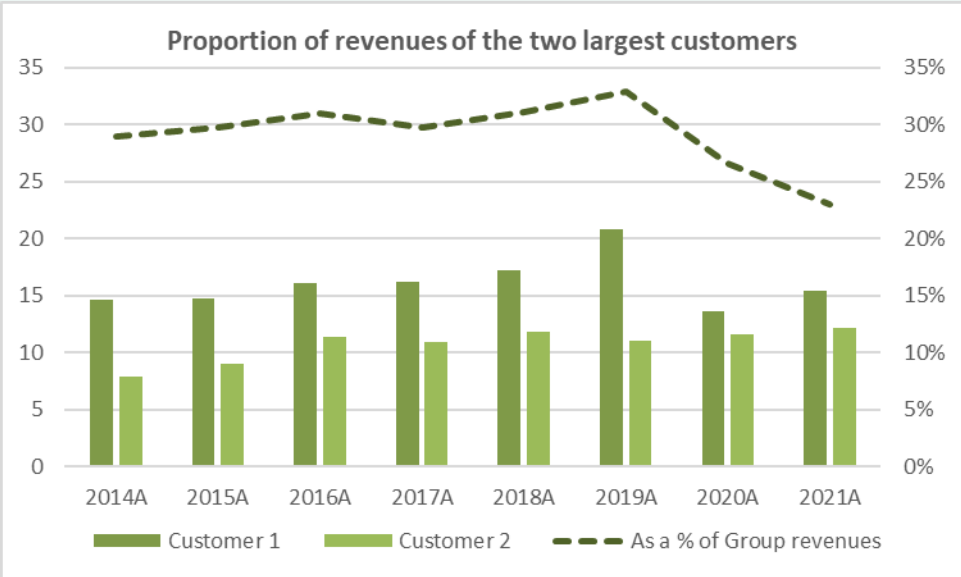
## Divisional revenue progression




*Source: Company*

The rapid progression of the two smaller categories, Appliances and Water, resulted in a marked decline in the reliance of the Group's two largest OEM customers, falling to 23.0% of revenues, compared to 32.9% in 2019, the last full year before the acquisition of LAICA.

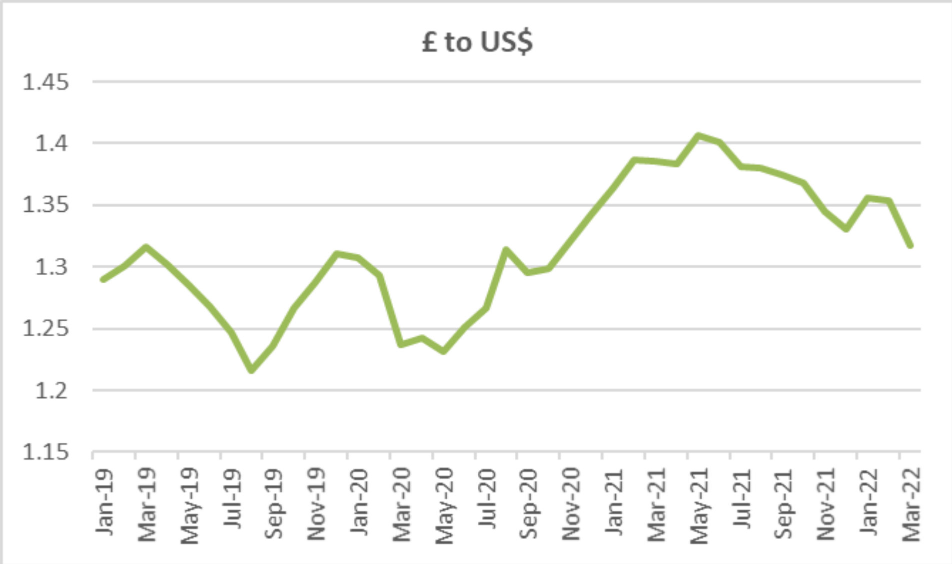
## The proportion of revenues generated by the two largest customers




*Source: Company*

The next chart below highlights the strengthening of sterling from October 2020.

**Sterling strength during FY21**

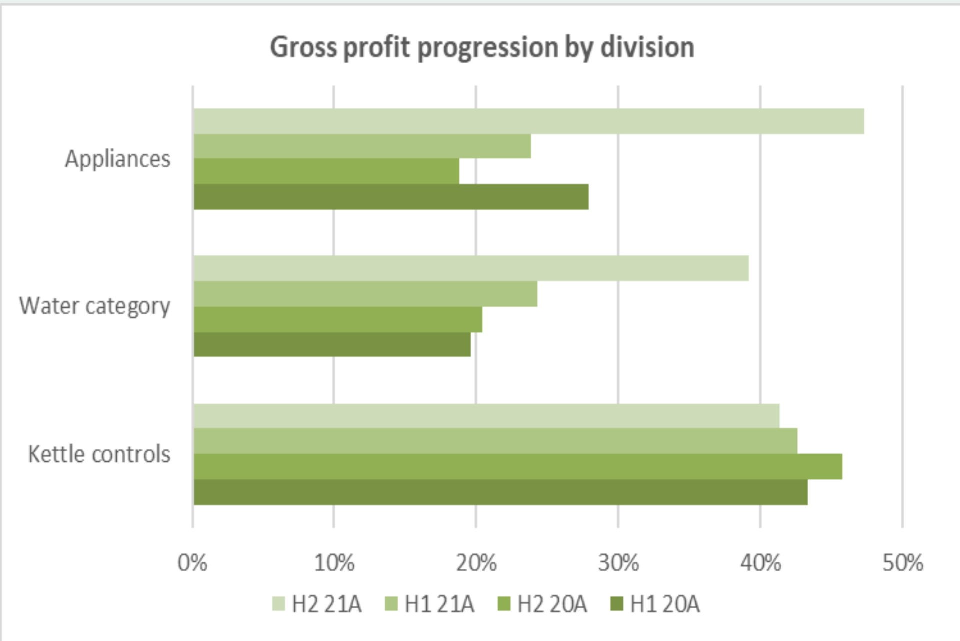



*Source: OFX*

Investors have been concerned with the impact on gross margins of the acquisition of LAICA. Although gross margins declined to 39.7% overall (FY20: 40.8%), overall gross profits increased 21.9% yoy to £47.4m. Gross margins in Kettle Controls fell 290 bp's to 41.9% in FY21 but rose markedly in Water (up 1220 bp's) and by a staggering 1760 bps within Appliances. Both the Water and appliance categories delivered gross margins ahead of 30% in FY21, compared to 20% in FY20.

Increased commodity prices and freight costs were the key drivers of the reduction in the gross margin yoy, albeit salary inflation and adverse foreign currency also nibbled away at the GP%. The price increase on legacy products, coupled with increased automation offset much of the rises elsewhere.

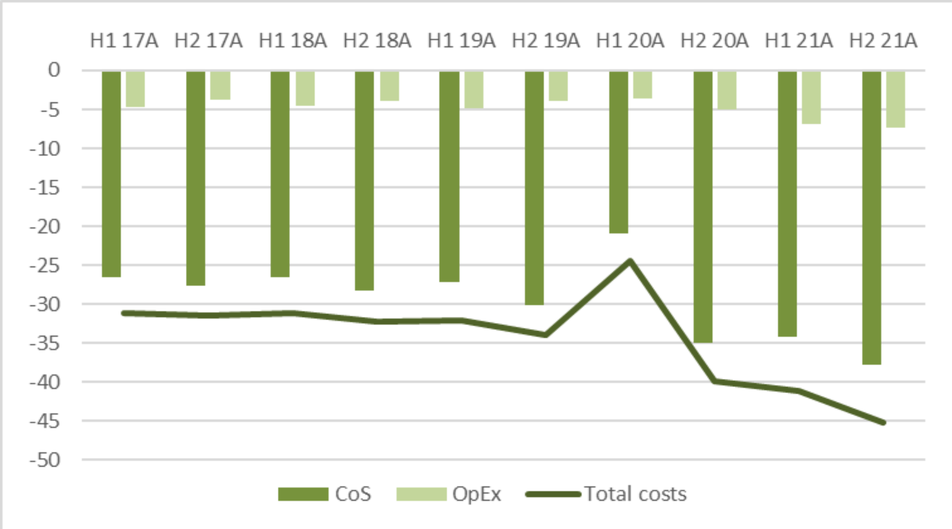
**Gross margin progression by division**




*Source: Company*

Overall costs rose 34% yoy, resulting in EBITDA margins declining to 34.0% (FY20: 40.0%), albeit much of this reflected the acquisition of LAICA in Q4 2020. OpEx rose markedly faster than Cost of Sales, reflecting a combination of the expansion of the workforce (not least in the new facility in China), the higher outgoing freight costs and aligned with new product launches within the water and appliance categories, increased marketing, and promotional expenses. EBITDA improved 6.5% to £40.5m during FY21.

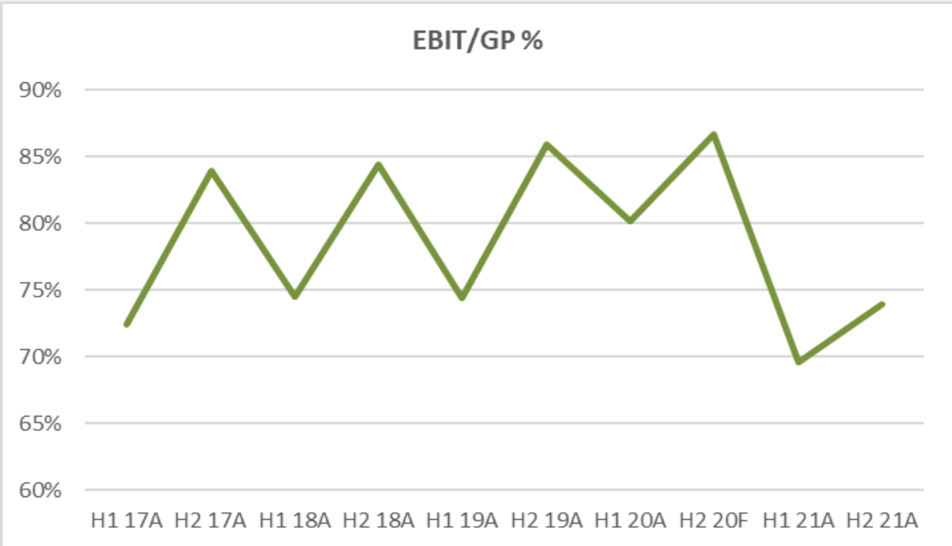
**Overall costs (CoS + OpEx)**




*Source: Company*

Although the recent acquisitions have resulted in a shift in the proportion of EBIT that feeds through from gross profit, it remains at high levels (H2 21: 73.9%).

**EBIT as a % of Gross Profit**




*Source: Company*

Adj. EBIT increased 4.9% yoy, resulting in operating margins of 28.2%. Much of the £1.6m yoy increase reflected the LAICA acquisition. Finance costs rose 27% to £1.5m resulting in adj. PBT rising 4.2% to £32.2m. With tax of just £0.9m (rate of 2.7%), reflecting a combination of good tax planning and the move to the new facility in China, adj. PAT rose 6.4% to £31.4m.

Adj. EPS rose 4.2% yoy to 14.9p, with dividend cover declining to 1.78x, as the dividend increased by 6.4% to 8.35p. The dividend increase reflects management's confidence in the outlook.

## Financial forecasts

We have modestly reduced estimates by c.2.1% in FY22 and c.2.2% in FY23. The downgrades reflect concerns over the effect of Western sanctions on the Russian economy. Reports suggest strong GDP declines to date, which is likely to worsen by a prolonged war in Ukraine. In FY21, Russia accounted for c.£3m of revenue within the Kettle Controls category, supplied indirectly via Chinese OEMs (who has not imposed sanctions against its larger neighbour).

Notwithstanding the modest hit to our EPS estimates, we have increased our dividend forecasts. The latter reflects the higher than anticipated payout in FY21.

**Adjusted estimates**

| £m | Old FY22E | New FY22E | Change | Old FY23E | New FY23E | Change |
|---|---|---|---|---|---|---|
| Revenue | 132.9 | 129.9 | -2.3% | 146.9 | 143.9 | -2.1% |
| Adj. PBT | 33.7 | 33.0 | -2.1% | 35.8 | 35.0 | -2.2% |
| Adj. EPS (p) | 15.7 | 15.4 | -2.1% | 16.5 | 16.2 | -2.2% |
| DPS (p) | 8.25 | 8.50 | 3.0% | 8.50 | 8.75 | 2.9% |
| Net debt | 48.9 | 56.5 | 15.4% | 40.4 | 49.4 | 22.0% |

*Source: Equity Development*

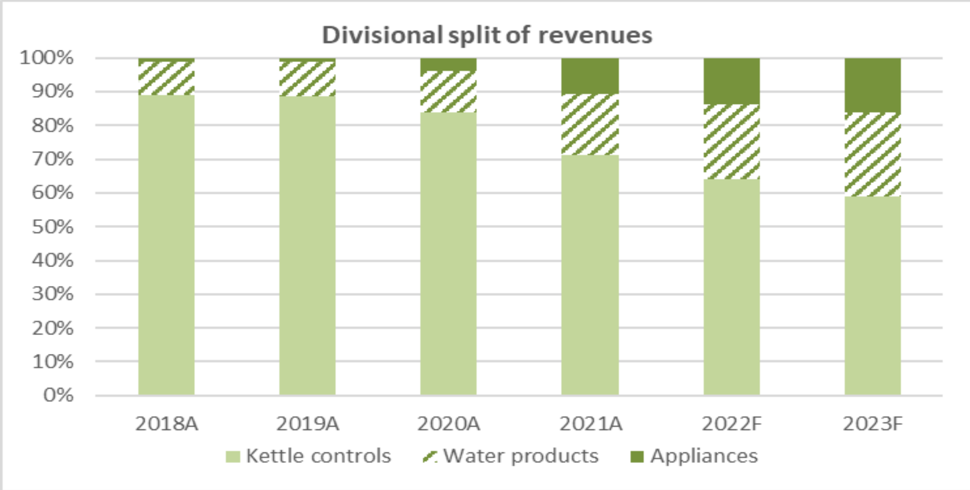
We continue to be excited about the outlook for Strix Group, notwithstanding the potential issues in Russia. Drivers of growth include:

- New product launches - a new Chief Technology Officer joined the Group during Q4 2021, tasked primarily with new product development initiatives.
- A cross-fertilisation of selling across the three division's customer base
- Geographical/regional expansion
- Price increases on legacy products – both within the kettle controls and water categories
- Wider ranging price increases on products from 1 May 2022
- Efficiency gains, driven by further improvements in automation and a rise in the proportion of components manufactured internally

We highlight below the rising proportion of overall revenues we expect from the two smaller categories, Water and Appliances. Our view is that by the end of FY23, Kettle Controls should account for less than 60% of revenues.

Significant growth of the Water and Appliance segments of the Group provide the impetus for the doubling of revenues in the five years to FY25.

## Divisional revenues




*Source: Company historics, ED estimates*

## 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*

## Cash Flow and Balance Sheet

The key determinants of the cash outflow during FY21 were:

- Working capital increased £11.4m yoy, reflecting a combination of supply chain disruption and the acquisition of LAICA.
- Net capex of £15.4m, of which the main component was the completion of the new manufacturing facility in China in late July.
- Outflows relating to dividends amounted to £16.5m during the year (FY20: £15.3m).
- Deferred consideration of £1.6m for LAICA.

Net debt increased to £51.2m, representing gearing of 168%, with interest cover of a very comfortable 15.2x. Notably, the level of borrowings (excluding IFRS16) amounted to a relatively comfortable net debt/EBITDA ratio of 1.3x, well below its banking covenant of 2.0x.

**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*

## Valuation

In reaching our fair value assessment of Strix, we have taken the average of the DCF, peer group analysis using its peer group's average PER and EV/EBITDA ratios. The discounted cash flow uses conservative assumptions (terminal growth rate of 2.25% and a discount rate of 8.25%) and results in a fair value / share of **275p**.

**Strix Group DCF calculation**

| £m | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|---|
| Free cash flow | 17.0 | 30.5 | 35.0 | 40.1 | 41.0 | 41.9 | 42.8 | 43.8 | 44.8 | 45.8 |
| 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 | 16.7 | 27.6 | 29.3 | 31.0 | 29.3 | 27.6 | 26.1 | 24.7 | 23.3 | 22.0 |
| Sum of discounted cash flows | 257.5 | | | | | | | | | |
| Terminal growth rate (%) | 2.25 | | | | | | | | | |
| Terminal value | 366.6 | | | | | | | | | |
| Net debt | -56.5 | | | | | | | | | |
| Equity value | 567.6 | | | | | | | | | |
| No. of shares (m) | 206.7 | | | | | | | | | |
| **Value per share** | **274.7** | | | | | | | | | |

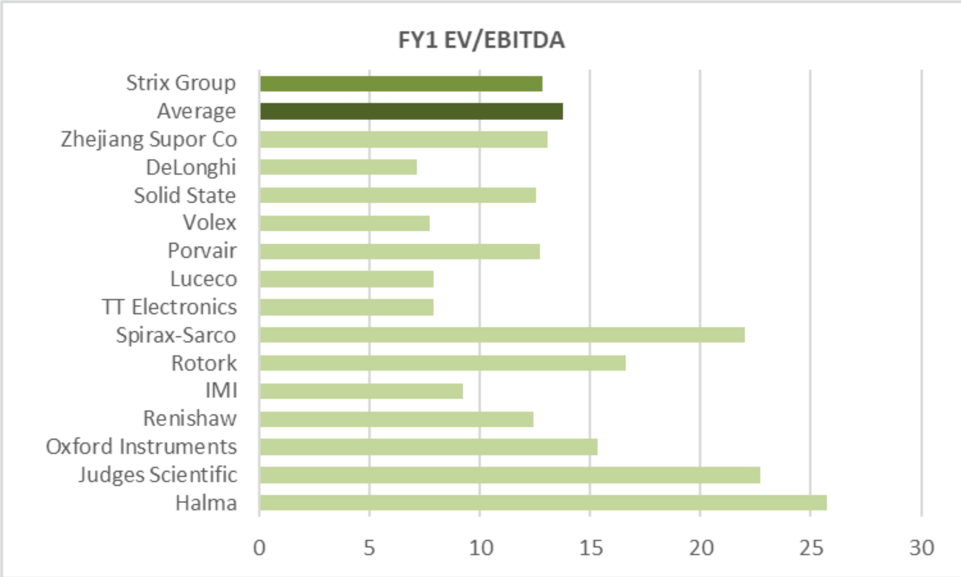
*Source: Equity Development*

Our peer group comparison analysis suggests that in the case of year one EV/EBITDA and PER estimates, Strix is trading at a discount to the group average. The discount is more significant in the case of the PER valuation and suggests a fair value / share of 339p. The FY1 EV/EBITDA average multiple offers a fair value / share of **265p**.

We have increased our dividend expectation for the current year to 8.5p. The updated dividend suggests a yield of 3.5% at the current share price and compares to an average yield of 1.9% or a premium of 86%.

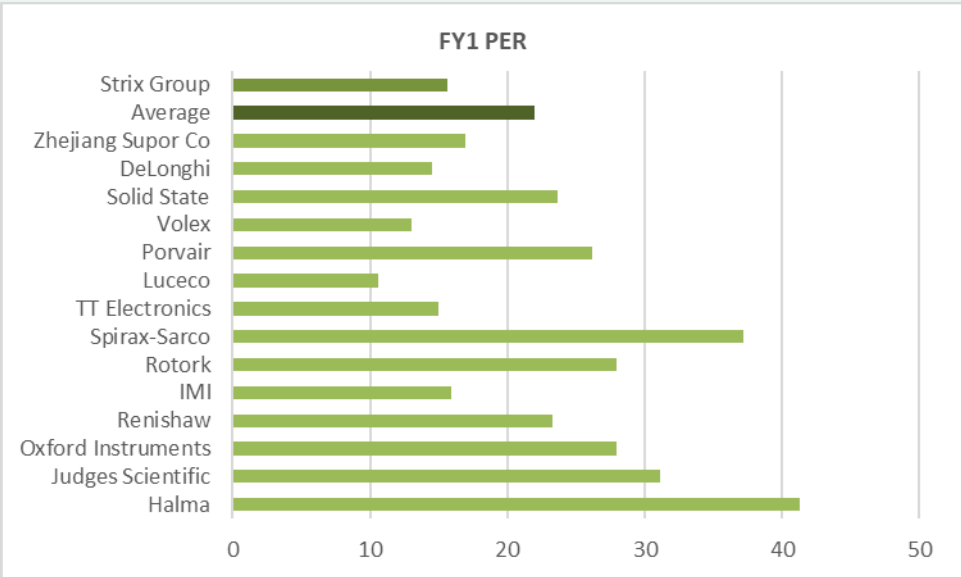
**The average of the three methodologies suggests the fair value / share of 293p for Strix**.

## Peer group FY1 EV/EBITDA comparison



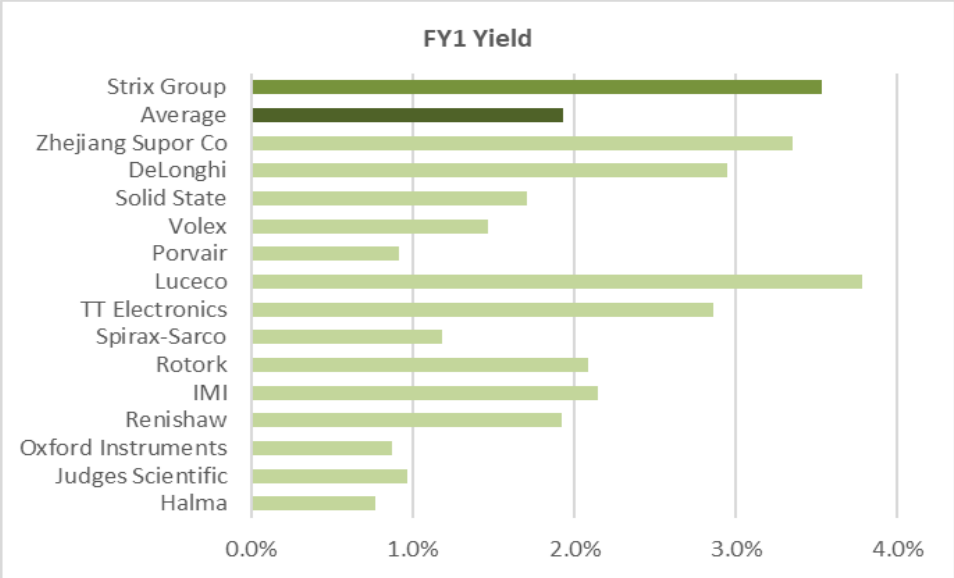

*Source; Market Screener*

## Peer group FY1 PER comparison




*Source: Market Screener*

**Peer group FY1 Yield comparison**




*Source: Market Screener*

## Contacts

**Andy Edmond**
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

**Hannah Crowe**
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

**Equity Development Limited is regulated by the Financial Conduct Authority**

## Disclaimer



More information is available on our website www.equitydevelopment.co.uk

Equity Development, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690