

Trifast

Continuing improvement

Pre-close update

Industrial support services

20 April 2017

Price **214p**
Market cap **£257m**

Net debt (£m) at 31 September 2016 14.2
 Shares in issue 120.3m
 Free float 91%
 Code TRI
 Primary exchange LSE
 Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.5	3.4	53.4
Rel (local)	3.7	3.3	37.3
52-week high/low	223.0p		125.0p

Business description

Trifast is a leading global designer, manufacturer and distributor of high-quality industrial fasteners. Principal operations are in the UK, South-East Asia and continental Europe, while there is a modest, but growing, presence in North America.

Next events

FY17 results 13 June 2017

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Trifast has released a pre-close update that has indicated the favourable trading conditions persisted through the final quarter, boosted by FX tailwinds. As a result profits have exceeded management expectations, accompanied by a strong cash performance. We have increased our earnings estimates for both 2017 and 2018 once again. When combined with the stronger than expected net debt position this has led us to also increase our dividend expectations.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	154.7	14.3	8.68	2.10	24.7	1.0
03/16	161.4	16.0	9.99	2.80	21.4	1.3
03/17e	186.2	20.1	12.70	3.25	16.9	1.5
03/18e	190.3	20.5	12.90	3.50	16.6	1.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Strong trading performance continues

Trading performances across Trifast's main regions have continued to outpace management expectations through the final quarter of the year. Organic growth in every region has been sustained at high levels, with the benefits of the investment programme introducing new revenue streams that added to strong demand from telecom, white goods, automotive and electronics customers. In addition, the weakness of sterling has added an additional £1.4m of FX benefit in the second half of the year, ahead of our previous expectation of a £1m benefit. As a result, we have increased our revenue expectations by £4m for both FY17 and FY18, and we now expect FY17 underlying pre tax profit of £20m, increasing our normalised EPS estimate by 2.4% to 12.70p (from 12.40p previously). Despite possible margin pressures, our FY18 EPS estimate is 1.7% higher at 12.90p (from 12.68p previously). We now expect net debt to end the year close to £8m, some £4m better than our prior expectation with tight working capital control adding to the improved profitability. In line with the stated policy and given the strong balance sheet and increased EPS expectations, we now expect the dividend to total 3.25p for FY17.

Strong opening position for FY18

The trading conditions seem likely to persist in to FY18, although growth may be tempered by pressure on margins from input cost inflation in the UK arising from the sterling weakness. The stronger than expected balance sheet provides a base for further strategic development. The macro uncertainty apparent at the start of the year continues to wane as positive market developments encourage greater confidence. The UK election may also galvanise economic expectations.

Valuation: Discount to peers remains

Trifast's shares have performed well year to date, which seems warranted given the continued increase in both trading performance and expectations. A FY18 P/E of 16.6x represents a 12% discount to peers.

Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017e	2018e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		121,544	129,775	154,741	161,370	186,168	190,311
Cost of Sales		(89,969)	(93,809)	(109,866)	(113,366)	(130,787)	(133,698)
Gross Profit		31,575	35,966	44,875	48,004	55,381	56,613
EBITDA		9,226	10,798	16,491	18,150	22,762	23,046
Operating Profit (before amort. and except.)		7,971	9,696	15,274	16,793	20,900	21,143
Intangible Amortisation		(331)	(221)	(551)	(974)	0	0
Exceptionals		(389)	0	(1,167)	(264)	(1,400)	(1,200)
Other		(91)	(67)	(741)	(1,687)	(1,200)	(1,200)
Operating Profit		7,160	9,408	12,815	13,868	18,300	18,743
Net Interest		(718)	(534)	(966)	(791)	(826)	(588)
Profit Before Tax (norm)		7,253	9,162	14,308	16,002	20,074	20,555
Profit Before Tax (FRS 3)		6,442	8,874	11,849	13,077	17,474	18,155
Tax		(1,929)	(2,342)	(3,996)	(3,984)	(4,517)	(4,522)
Profit After Tax (norm)		5,324	6,820	10,312	12,018	15,558	16,033
Profit After Tax (FRS 3)		4,513	6,532	7,853	10,225	13,543	14,161
Average Number of Shares Outstanding (m)		107.3	108.5	113.5	116.4	118.0	119.8
EPS - normalised (p)		4.96	6.28	9.08	10.33	13.18	13.38
EPS - normalised and fully diluted (p)		4.73	5.96	8.68	9.99	12.70	12.90
EPS - (IFRS) (p)		4.21	6.02	6.92	8.79	11.48	11.82
Dividend per share (p)		0.80	1.40	2.10	2.80	3.25	3.50
Gross Margin (%)		26.0	27.7	29.0	29.7	29.7	29.7
EBITDA Margin (%)		7.6	8.3	10.7	11.2	12.2	12.1
Operating Margin (before GW and except.) (%)		6.6	7.5	9.9	10.4	11.2	11.1
BALANCE SHEET							
Fixed Assets		31,726	28,787	47,785	55,430	61,547	61,489
Intangible Assets		18,366	16,959	32,162	38,259	38,859	37,659
Tangible Assets		13,360	11,828	15,623	17,171	22,688	23,830
Investments		0	0	0	0	0	0
Current Assets		69,403	75,031	94,007	102,603	110,070	112,987
Stocks		30,439	30,574	37,418	39,438	43,749	44,678
Debtors		27,248	27,665	39,864	43,386	46,542	48,529
Cash		10,750	15,535	15,453	17,614	17,614	17,614
Other		966	1,257	1,272	2,165	2,165	2,165
Current Liabilities		(34,578)	(37,903)	(49,052)	(52,813)	(53,462)	(48,168)
Creditors		(23,049)	(26,922)	(36,707)	(35,879)	(41,528)	(41,234)
Short term borrowings		(11,529)	(10,981)	(12,345)	(16,934)	(11,934)	(6,934)
Long Term Liabilities		(6,129)	(4,248)	(21,060)	(21,470)	(18,762)	(15,769)
Long term borrowings		(4,418)	(2,524)	(16,523)	(16,675)	(13,772)	(10,801)
Other long term liabilities		(1,711)	(1,724)	(4,537)	(4,795)	(4,990)	(4,968)
Net Assets		60,422	61,667	71,680	83,750	99,393	110,539
CASH FLOW							
Operating Cash Flow		7,872	11,825	6,767	15,873	21,110	20,037
Net Interest		(718)	(534)	(966)	(804)	(826)	(588)
Tax		(1,427)	(1,809)	(4,639)	(3,080)	(4,517)	(4,522)
Capex		(851)	(826)	(1,389)	(2,323)	(2,979)	(3,045)
Acquisitions/disposals		(1,389)	0	(16,240)	(7,684)	(1,400)	0
Financing		260	(562)	2,591	(2,122)	0	0
Dividends		(534)	(867)	(1,569)	(2,440)	(3,485)	(3,911)
Net Cash Flow		3,213	7,227	(15,445)	(2,580)	7,903	7,971
Opening net debt/(cash)		8,410	5,197	(2,030)	13,415	15,995	8,092
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	0	0
Closing net debt/(cash)		5,197	(2,030)	13,415	15,995	8,092	121

Source: Company reports, Edison Investment Research estimates

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