Trifast

H1 results

Strong progress as investment continues

Industrial support services

A strong set of interim results has led us to upgrade our EPS forecasts for FY18 by 5.0% and FY19 by 2.5%. Other than a weather-related hiccup in the smaller US activity, there was good like-for-like progress in Europe, Asia and the UK. Input cost pressures at the gross profit level were mitigated by strong overhead control. Investment for growth continues across all regions and the strong balance sheet should facilitate M&A as appropriate opportunities arise with management taking a more proactive approach in target identification. Trifast's shares have been very strong in the run-up to the results and are rated more appropriately, in our view, with the P/E discount to peers substantially diminished.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	161.4	16.0	9.99	2.80	24.1	1.2
03/17	186.5	20.5	12.82	3.50	18.8	1.5
03/18e	199.1	21.3	13.19	3.65	18.2	1.5
03/19e	205.1	21.9	13.51	3.80	17.8	1.6

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

Good progress in the first half

H118 sales up 9% at £97.8m and a near 10% advance in underlying profit before tax represent very good progress as the company invests in future growth opportunities as well as operational performance. The growth was boosted by positive FX effects, with some of the anticipated input cost headwinds mitigated in the UK by improved export profitability. Nevertheless, the 4.8% growth in the top line at constant exchange rates (CER) and 4.5% CER growth at the underlying pre-tax level both reflect a sound trading environment as we enter the second half. As a result, while we still err on the side of caution with respect to both market growth and likely FX headwinds, we have increased our FY18 EPS forecast by 5%.

Strong balance sheet maintained

The company continues to invest both through operating and capital cost to build the business and increase operational efficiency. Net debt finished the half year at £7.9m, which represented an increase of just £1.5m in FY17. Given several adverse influences during the period including FX, stock build to more normal levels and share option programme-related outflows, the H118 report does reflect an encouraging performance and maintains a strong balance sheet position. The 10% net dividend increase to 1.1p per share in our view reflects both confidence in the current trading environment and an element of rebalancing the interim and final payments back towards a 1:2 payment ratio.

Valuation: Rated for success

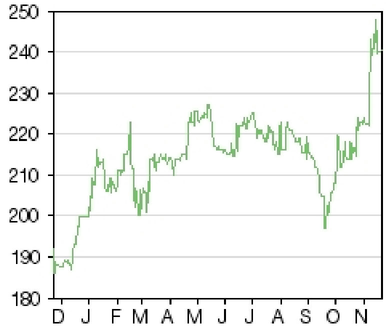
The shares have advanced strongly since the preliminary results in June and especially in the last month or so. It would appear that the historic discount to Trifast's peers has thus been largely eliminated, which we feel is reasonable.

21 November 2017

Price	**240.5p**
Market cap	**£291m**

Net debt (£m) at 30 Sept 2017	7.9
Shares in issue	120.3m
Free float	91%
Code	TRI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	11.0	10.3	30.7
Rel (local)	12.9	9.3	18.9
52-week high/low		248.0p	182.0p

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

Trading update	February 2018

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Edison profile page

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H118 results

Group revenues increased 4.8% at constant exchange rates (CER) in H118, with all four regions of operation seeing improvements (UK: 35% of H118 group sales, Europe: 36%, Asia: 26% and the US: 3%). Gross profit margins fell 140bp, largely due to input cost inflation in Europe resulting from continued weakness of the euro against the US dollar, but remained slightly above the 30% target. However, good overhead control allowed operating margins to be held close to the previous year level at 11.3%.

Exhibit 1: Trifast half-yearly income statement and estimates summary

£000s	2017			2018e			% change		
	H1	H2	FY	H1	H2e	FYe	H1	H2e	FYe
Revenues	**89,747**	**96,765**	**186,512**	**97,813**	**101,248**	**199,061**	**9.0%**	**4.6%**	**6.7%**
Cost of sales	-61,347	-67,148	-128,495	-68,311	-70,435	-138,746	11.4%	4.9%	8.0%
Gross profit	**28400**	**29,617**	**58,017**	**29,502**	**30,814**	**60,316**	**3.9%**	**4.0%**	**4.0%**
Gross Margin	*31.6%*	*30.6%*	*31.1%*	*30.2%*	*30.4%*	*30.3%*			
EBITDA	**11,238**	**11,630**	**22,868**	**12,066**	**11,390**	**23,456**	**7.4%**	**-2.1%**	**2.6%**
OPBIT (underlying)	10,262	10,756	21,018	11,131	10,513	21,644	8.5%	-2.3%	3.0%
Exceptional items	-1484	-1,673	-3,157	-1,791	-1,532	-3,323	20.7%	-38.3%	-10.6%
Financial Items	-313	-208	-521	-222	-145	-367	-29.1%	-30.2%	-29.5%
Pre-tax profit (underlying)	**9,949**	**10,548**	**20,497**	**10,909**	**10,368**	**21,277**	**9.6%**	**-1.7%**	**3.8%**
Taxation	-2336	-2,499	-4,835	-2,541	-2,459	-5,000	8.8%	-1.6%	3.4%
Tax rate	*-23.5%*	*-23.7%*	*-23.6%*	*-23.3%*	*-23.7%*	*-23.5%*			
Net income (ongoing underlying)	7,613	8,049	15,662	8,368	7,909	16,277	9.9%	-1.7%	3.9%
EPS (p) - ongoing underlying diluted	**6.27**		**12.82**	**6.78**		**13.19**	**8.1%**		**2.8%**
DPS (p)	1.00	2.5	3.50	1.10	1.10	3.65	10.0%		4.3%

Source: Company reports, Edison Investment Research estimates

First half performance in the UK saw sales rise by 4.1% to £35.4m, driven by strong distributor sales to mainland Europe as well as extended contract values at key OEMs. Underlying operating margins improved 190bp as the anticipated higher input costs arising from a weaker sterling were offset by FX gains on euro-based distributor sales. The UK business also benefited from continued overhead reduction.

In Europe, growth was steady at 2.4% CER, with reported sales rising 9.8% to £36.1m. In the demand segments, automotive growth is noted as being particularly strong, aided by share gains from recent investments. The overall growth was achieved despite some ongoing reduction in demand at a large domestic appliance customer following a previous product recall that had inflated volumes. The underlying operating margin performance was less favourable in the region with a 540bp fall to 10.9%. The fall arose from a combination of expected higher US$-based input costs, which depressed gross margin, especially in Italy, compounded by increased fixed production costs following the debottlenecking investment programme, as well as an increase in overheads. The overhead increase was largely due to expected start-up costs at the greenfield site in Spain.

Asia continued to grow strongly, with sales up 10.7% at CER, and reported sales rising 16.8% to £29.6m. Strong demand was seen by the domestic appliances business in Singapore as well as new business wins in the automotive sector for the operations in China, Malaysia and Taiwan. Underlying operating margins rose by 170bp to 14.7% largely due to operational leverage.

In the small US activity, the anticipated double-digit like-for-like sales growth in the period was adversely affected by disruption to electronics manufacturer sales caused by Hurricane Harvey. Sales rose by 3.7% to £3.1m or 10% on a reported basis to £3.3m, with a 190bp decline in underlying operating margin to 3.7% also reflecting continued investment to support future growth.

Net debt finished the half year at £7.9m, which represented an outflow of just £0.3m allowing for the £1.2m outflow of cash held over the year end to settle National Insurance and income tax liabilities that related to the chairman's option exercise in February 2017.

At the end of the first half, Trifast had headroom of £16.2m in its banking facility, as well as access to a £20m accordion facility, which combine to provide significant funding resource for acquisitions and organic investment. Organic investment programmes in the current year include expansion of the Singapore facility as well as the operations in Shanghai, China. The recent investments in Spain and Italy are already starting to bear fruit. In addition to the ongoing expansion of the warehousing facility in Northern Ireland, new warehousing in Holland and a TR Innovation & Technical Centre in Sweden are also planned. The company continues to invest in its US team to support future growth in this still relatively nascent territory for Trifast.

We believe Trifast continues to seek M&A opportunities at appropriate returns and management has become increasingly proactive in identifying potential targets.

Outlook

We have again increased our expectations for FY18, reflecting the strength of the H1 improvement. We are now looking for 6% top-line growth at actual exchange rates compared to 3% previously, but continue to anticipate a squeeze on gross margins in H218 as UK input cost increases are absorbed, and the offset from FX gains on distributor sales from the UK that helped in the first half diminishes.

We now forecast 4% improvement in profit before tax for FY18 compared to the marginal increase previously, with further modest progress anticipated in FY19. We continue to believe that a cautious stance is warranted by the uncertainties that Brexit negotiations, global trade policies, FX rates and geopolitics continue to cause. We have reduced our underlying tax rate expectation to 23.5% from 25.0% previously, reflecting H1 performance, which results in a 5% upgrade in FY18e fully diluted EPS expectations to 13.19p.

We estimate year-end net debt at just over £5m which, together with the existing financing facilities, provides a sound financial platform for any appropriate deals that may appear. We expect the investment strategy to continue to deliver consistent earnings growth in the absence of any adverse macro developments.

Exhibit 2: Trifast earnings revisions

£m	2018e			2019e		
	Prior	New	*% change*	Prior	New	*% change*
UK	68.0	69.2	*1.8%*	69.3	70.5	*1.8%*
Europe	68.7	71.3	*3.7%*	70.1	72.7	*3.7%*
USA	6.5	6.5	*0.0%*	7.1	7.1	*0.0%*
Asia	48.9	52.1	*6.7%*	51.3	54.7	*6.7%*
Total group sales	**192.0**	**199.1**	***3.7%***	**197.9**	**205.1**	***3.7%***
EBITDA	**22.9**	**23.5**	***2.2%***	**24.0**	**24.1**	***0.3%***
UK	6.1	8.1	*32.9%*	6.4	7.8	*21.7%*
Europe	9.6	7.8	*-19.2%*	9.8	8.0	*-18.5%*
USA	0.5	0.3	*-28.6%*	0.6	0.6	*0.0%*
Asia	8.6	9.1	*6.7%*	9.0	9.6	*6.7%*
HQ Other and intersegment	-3.7	-3.7	*0.0%*	-3.7	-3.7	*0.0%*
EBIT (Pre PPA amortisation)	**21.0**	**21.6**	***2.8%***	**22.0**	**22.2**	***0.8%***
Underlying PBT	**20.7**	**21.3**	***2.9%***	**21.7**	**21.9**	***0.7%***
EPS - underlying continuing fully diluted (p)	**12.56**	**13.19**	***4.9%***	**13.15**	**13.51**	***2.8%***
DPS (p)	3.65	3.65	*0.0%*	3.80	3.80	*0.0%*
Net cash/(debt)	(4.9)	(5.1)	*4.1%*	1.0	0.1	*n.m.*

Source: Edison Investment Research estimates

Exhibit 3: Financial summary

£000s	2016	2017	2018e	2019e
Year end 31 March	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	161,370	186,512	199,061	205,126
Cost of Sales	(113,366)	(128,495)	(138,746)	(142,973)
Gross Profit	48,004	58,017	60,316	62,153
EBITDA	18,150	22,868	23,456	24,075
Operating Profit (before amort. and except.)	16,793	21,018	21,644	22,208
Intangible Amortisation	(974)	0	0	0
Exceptionals	(264)	(1,645)	(1,123)	(1.123)
Other	(1,687)	(1,512)	(2,200)	(2,200)
Operating Profit	13,868	17,861	18,321	20,229
Net Interest	(791)	(521)	(367)	(318)
Profit Before Tax (norm)	16,002	20,497	21,277	21,891
Profit Before Tax (FRS 3)	13,077	17,340	17,954	18,568
Tax	(3,984)	(4,835)	(5,000)	(5,144)
Profit After Tax (norm)	12,018	15,662	16,277	16,746
Profit After Tax (FRS 3)	10,225	12,698	13,735	14,204
Average Number of Shares Outstanding (m)	116.4	118.5	119.8	120.3
EPS - (p)	10.33	13.22	13.59	13.92
EPS - normalised (p)	9.99	12.82	13.19	13.51
EPS - (IFRS) (p)	8.79	10.72	11.47	11.81
Dividend per share (p)	2.80	3.50	3.65	3.80
Gross Margin (%)	29.7	31.1	30.3	30.3
EBITDA Margin (%)	11.2	12.3	11.8	11.7
Operating Margin (before GW and except.) (%)	10.4	11.3	10.9	10.8
BALANCE SHEET				
Fixed Assets	55,430	58,940	59,589	60,291
Intangible Assets	38,259	39,682	38,559	37,436
Tangible Assets	17,171	19,258	21,030	22,855
Investments	0	0	0	0
Current Assets	102,603	118,290	124,585	129,393
Stocks	39,438	41,926	45,227	46,605
Debtors	43,386	49,360	52,154	55,384
Cash	17,614	24,645	24,645	24,645
Other	2,165	2,359	2,559	2,759
Current Liabilities	(52,813)	(54,564)	(51,765)	(44,724)
Creditors	(35,879)	(39,692)	(39,893)	(38,852)
Short term borrowings	(16,934)	(14,872)	(11,872)	(5,872)
Long Term Liabilities	(21,470)	(20,968)	(22,748)	(23,468)
Long term borrowings	(16,675)	(16,221)	(17,922)	(18,643)
Other long term liabilities	(4,795)	(4,747)	(4,825)	(4,825)
Net Assets	83,750	101,698	109,661	121,491
CASH FLOW				
Operating Cash Flow	15,873	22,887	17,894	18,847
Net Interest	(804)	(521)	(367)	(318)
Tax	(3,080)	(5,136)	(5,000)	(5,144)
Capex	(2,323)	(2,948)	(3,583)	(3,692)
Acquisitions/disposals	(7,684)	(1,471)	0	0
Financing	(2,122)	46	(3,500)	0
Dividends	(2,440)	(3,310)	(4,145)	(4,413)
Net Cash Flow	(2,580)	9,547	1,299	5,279
Opening net debt/(cash)	13,415	15,995	6,448	5,149
HP finance leases initiated	0	0	0	0
Other	0	0	0	0
Closing net debt/(cash)	15,995	6,448	5,149	(130)

Source: Company reports, Edison Investment Research estimates

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