

Rotork

Investment driving growth

Rotork delivered broadly in line with FY17 expectations. Order book growth was encouraging while FY17 adjusted operating margin moved up from H117 to close to FY16 levels. Kevin Hostetler will take over as CEO from 12 March, completing the management transition in a timely manner. Determination to bring the company back to former growth and margin prospects is evident. The route map for the next three to five years is underpinned by investment in R&D and front-end services ensuring Rotork delivers a valuable proposition to its customers as end-markets improve.

FY17 results delivered to expectations

Rotork reported FY17 revenue growth in all divisions and in all end-markets. FY17 revenues of £642.2m (FY16: £590.1m) represented 2.3% organic growth and were ahead of consensus expectations of £637.9m. Controls (51% of group sales) grew orders and revenue by 6.9% and 3.3% organically respectively, with momentum visible in North America and EMEA. At the group adjusted pre-tax level, £124.8m (FY16: £117.9m) fell slightly short of consensus expectations of £124.9m, however FY17 adjusted EPS of 10.6p (FY16: 10.0p) was in line with consensus. FY17 dividend of 5.4p (FY16: 5.1p) represented a 5.9% increase and cover of 1.2x.

Outlook supported by end-markets and investment

FY17 order growth was 8.2% at constant currency, demonstrating the momentum in the business while building visibility. Rotork sees improving end-markets and expects mid- to high-digit revenue growth at constant currency in 2018 with similar margins to 2017. At current exchange rates, however, the company sees a 4-5% headwind y-o-y. Oil and gas markets are improving, especially in small to mid-size projects. It is important to recognise the investment Rotork is making to address its core markets, with 20% uplift in R&D and 15% increase in IT expected in FY18. This supports product innovation and improving front-end services. In addition, the company continues to focus on the aftermarket opportunity. Over one million Rotork actuators in operation globally have been generating usage data for the last decade. While in 2017 the number of actuators under maintenance agreements grew by 8%, there is clear opportunity to drive further aftermarket growth.

Valuation: Investing for growth

We believe that innovation is central to earnings growth. The company is focused on a smooth medium-term delivery with transparency on costs and underlying performance. End-market analysis is shaping the strategic review, while any future M&A would support the diversification of the portfolio.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	590.1	117.9	10.0	5.10	26.4	1.9
12/17	642.2	124.8	10.6	5.40	24.9	2.0
12/18e	659.5	137.5	11.7	5.90	22.6	2.2
12/19e	693.1	152.5	13.2	6.40	20.0	2.4

Source: Bloomberg. Note: PBT and EPS adjusted for amortisation of intangible assets and other adjustments.

Industrial engineering

8 March 2018

Price 264.3p
Market cap £2.30bn

Share price graph



Share details

Code	ROR
Listing	LSE
Shares in issue	870.4m

Business description

Rotork is a world-leading manufacturer of actuators and flow control systems. The group addresses the oil & gas, water, power and industrial markets globally.

Bull

- Order book strength adds visibility.
- Focus on product innovation and operations.
- Opportunity to build aftermarket.

Bear

- End-markets improving but still challenging.
- Limited short-term opportunity for bolt-on growth.
- Changing competitor landscape.

Analysts

Annabel Hewson	+44 (0)20 3077 5700
Andy Chambers	+44 (0)20 3681 2525

industrials@edisongroup.com

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