

This report is prepared solely for the use of Henry Carver

## Morning Note

11 November 2014

**Trifast<sup>#</sup>**  
(TRI)

**Buy**

### Data

Price	100p
Target price	140p
Market cap	£113m
EV	£131m
Net debt	£18m
Index	FTSE SmallCap
Sector	Industrial Engineering

### Stats (prior to changes)

Source: Company accounts, Peel Hunt estimates

Y/E Mar	2014A	2015E	2016E	2017E
Sales (£m)	129.8	152.0	157.8	164.4
EBITDA (£m)	10.7	14.9	16.1	16.9
Op Margin (%)	7.5	9.1	9.5	9.6
Adj PBT (£m)	9.2	12.7	13.9	14.7
Adj EPS (p)	6.0	7.7	8.4	8.8
EPS growth (%)	26.0	29.1	9.0	5.0
PER (x)	16.7	12.9	11.9	11.3
DPS (p)	1.4	1.7	2.0	2.2
Div yield (%)	1.4	1.7	2.0	2.2
FCF yield (%)	6.5	8.9	6.5	6.9
EV/EBITDA (x)	9.9	8.8	7.8	7.1

### Changes to forecasts

Source: Company accounts, Peel Hunt estimates

Y/E Mar	2015E Old	2015E New
Adj PBT (£m)	12.7	13.2
Adj EPS (p)	7.7	8.0
DPS (p)	1.7	1.8

### Performance

Source: Bloomberg



### Analyst

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# Corporate client of Peel Hunt

## Interims ahead

The Trifast interims read well, with PBT ahead of our expectations and the pipeline of orders looking the best it ever has. To us, this is a clear vindication of the strategy, as the sales growth seen in (for example) Europe is the fruit of labour that began 18 months ago or more with multi-national OEMs. We're upgrading FY2015E PBT by 4%, but leave our FY2016E unchanged, given the current nervous economic climate. That said, we see a good chance of further upgrades in the coming quarters. Buy.

- **Interims ahead.** H1 revenues were +7.2% organic at CER (18.7% including VIC, 1.9% actual, after FX headwind) to £74m (PHe £73.6m); EBITA was +45.4% to £7.1m, vs PHe £6.6m (53% at CER, 18.9% organic at CER) equating to 9.6% operating margin; net debt ended the half at £17.5m, in line with our expectations.
- **Current trading strong.** Trading is benefiting from the strategic long-term focus on multinational OEMs. Europe revenues were +21.5% organic at CER, driven by strong order intake in Automotive in the Netherlands and Electronics in Hungary, as work that started 18 months ago starts to come to fruition; UK revenues were +2% and profits +13%, thanks to better sourcing and efficiency improvements; Asia was +4.2% organic at CER and profit +3% (14% margin); and USA was +39.5% organic at CER from a low base.
- **Forecasts.** We're upgrading our FY2015E (March year-end) PBT 4% to £13.2m, as a result of tighter cost controls and continuous efficiency improvement; FY2016E numbers remain unchanged at this stage. We're expecting H2 sales of £78m, assuming growth similar to H1 in the UK, Europe, and the US; Asia will see a slightly softer top-line performance as work with Proton (a key client of PSEP) reduces under new ownership, and sales in Malaysia to audio markets dwindles (as it has been for some time). However, work coming in from Honda will mitigate most of the slowdown from Proton.
- **Solid financial position.** Net debt was £17.5m after the VIC acquisition and our full-year expectation is unchanged at £17.8m. This is just over 1x EBITDA and gives plenty of optionality. **M&A is an ongoing aspiration for management**, and it has said that it would rather do a larger deal if possible. Without raising funds, management would be prepared to take net debt to 2.5x EBITDA, under covenants of 2.75x, and this would equate to c£20m of firepower
- **Positive outlook.** The outlook is confident, with the order pipeline as strong as it has ever been, but the timing of orders coming in is difficult to predict and we

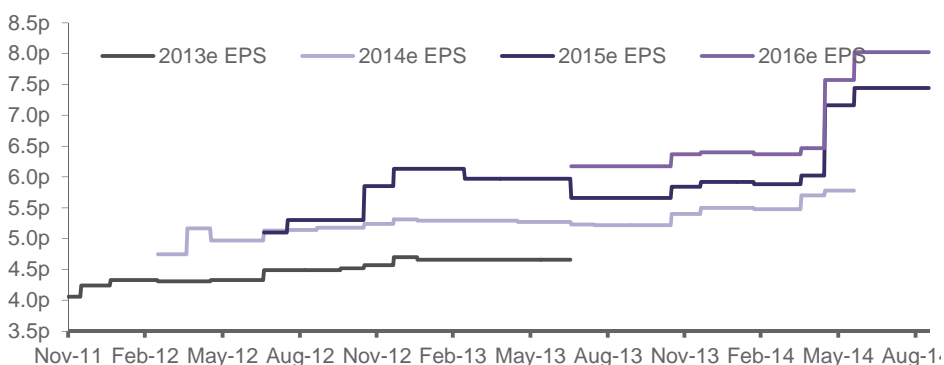
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would rather err on the side of caution in the current economic climate; that said, we believe there is a good chance of upgrades later in the year.

- **Reiterate Buy.** We believe these results should illustrate the strength of Trifast's position as preferred supplier. 90% of the products it sells are specific designs to specific platforms, and the growth we are seeing at the moment is the result of the successful strategy, started four years ago, of focusing on multinational OEMs that are consolidating supply chains and which need the global delivery and support that TR can offer. With Trifast trading on 12x FY2016E we reiterate our 140p price target and Buy recommendation.
- The chart below underpins our confidence, showing how management has consistently delivered upside to medium-term earnings forecasts.

#### Historical EPS upgrade pattern

Source: Company accounts, Peel Hunt estimates



- If 10% earnings growth is achieved for the next two years, then our 140p price target would equate to around 15x calendarised 2016E. If management delivers 20% earnings growth, as it has for the last three years, then 140p would equate to 12.5x calendarised 2016E.

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Recommendation structure and distribution as at 11 November 2014	Corporate No	Corporate %	Total No	Total %
Buy > +10% expected absolute price performance over 12 months	78	92%	185	64%
Hold +/-10% range expected absolute price performance over 12 months	7	8%	96	33%
Sell > -10% expected absolute price performance over 12 months	0	0%	9	3%

NB The recommendation is the primary driver for analyst views. The target price may vary from the structure due to market conditions, risk profile of the company and capital returns

### Peel Hunt...

Company	Analyst	Shareholding (%) held by			during the last 12 months		
		Company in PH (>3%)	PH in Company (>3%)	makes a market in this company	is broker to this company	has received compensation from this company for the provision of investment banking services	has acted as a sponsor/broker/NOMAD/ financial advisor for an offer of securities from this company
Trifast				X	X		

### Recommendation history

Company	Date	Rec	Date	Rec	Date	Rec	Date	Rec
Trifast	30 Sep 14	Buy						

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