

20 November 2024

Corp

Ticker RNO:AIM
Industrial Engineering
 Shares in issue (m) 201.2
 Next results FY May

Price **54.6p**
 Target price 86.0p
 Upside 58%

Market Cap **£109.9m**
 Net debt/(cash) £42.2m
 Other EV adjustments £72.0m
 Enterprise value £224.1m

What's changed?	From	To
Adjusted EPS	7.5	n/c
Target price	86.0	n/c

Share price performance



%	1M	3M	12M
Actual	6.2	-0.7	68.0

Company description

Chain and transmission equipment

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Interim results: no change to underlying forecasts

The group has posted resilient results in some tough markets, while also posting continuing improvements in operational efficiency and executing on its acquisitive activity through the purchase of MAC Chain in the period. Management reiterates that it is on track to achieve existing underlying forecasts, although news that the Valencia facility has been affected by recent flooding will result in short-term costs to be recognised as exceptional items in FY25, with insurance expected to recover costs in FY26. No change therefore to underlying forecasts and we maintain our TP at 86p, which looks conservatively pitched, with the shares currently looking very attractive and cheaply rated on a FY26 P/E of 6.4x with considerable scope for a well-deserved rerating.

- **Interims.** Revenue declined by 1.5% to £123.4m, with CER growth of 0.6%. Adj EBITDA was up 2.9% to £21.0m, with adj EBIT at £15.2m, up 1.3% giving margins of 12.3%, up 30bps (up 40bps at CER). Adj PBT at £11.3m was unchanged YoY. Adj dil EPS increased 9.6% to 3.6p. Net bank debt increased by £17.3m to £42.2m, primarily due to £22.6m spent on the acquisition of MAC Chain, representing leverage of 1.0x.
- **Divisional performance.** Chain operations saw reported revenues down 1.8% to £97.1m, with CER growth of 0.5%. Operating profit slipped 1.3% to £15.5m (up 0.6% at CER) with margins flat at 16.0%. Torque Transmission saw revenues grow 1.4% in reported terms to £29.2m, with CER growth of 2.8%, while profits recovered 8.5% to £5.1m with margins improving from 16.0% to 17.5%. TT saw strong order intake, up 11.5% with the order book boosted by the £10.6m order from the Canadian Navy.
- **Forecasts.** With the outlook statement pointing at trading being on track for FY expectations, we make no changes to our adj trading forecasts.
- **Valencia flood.** The group's YUK business in Spain, located near Valencia, has suffered from the recent flooding, with the manufacturing operation affected, although the larger distribution business at a separate location was unaffected. In the short term, there is an anticipated impact on profit, as well as also incurred clean up and repair costs, including the replacement of some machinery. The group anticipates an exceptional cost of £4.8m in the current year relating to this issue. The group has good insurance cover and is expected to recoup costs via an exceptional credit in FY26.
- **Valuation.** The shares drifted back following a period of strong outperformance, which had been driven by a series of positive trading updates and accretive acquisitions that have significantly upgraded earnings over recent years. This leaves the shares at a low rating that is clearly underserved given the improvements achieved in recent years. One such improvement can be seen in much stronger cashflow generation, which places the shares on a mid-teens FCF yield. Our 86p target price is undemanding based on a FY26E P/E target of 10x, versus the current rating at 6.4x, giving upside of 58%, offering considerable opportunity for the market to rerate the shares, which we consider more than overdue.

Key estimates		2022A	2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar	Mar
Revenue	£m	195.2	247.1	241.4	252.6	269.7
Adj EBITDA	£m	24.7	36.2	40.9	43.5	47.4
Adj EBIT	£m	15.3	24.2	29.7	31.2	34.3
Adj PBT	£m	11.5	18.6	22.1	23.4	26.0
Adj EPS	p	4.0	5.9	6.9	7.5	8.5
DPS	p	0.0	0.0	0.5	0.5	0.5

Key valuation metrics		2022A	2023A	2024A	2025E	2026E
EV/sales	x	1.1	0.9	0.9	0.9	0.8
EV/EBIT (adj)	x	14.6	9.3	7.5	7.2	6.5
P/E (adj)	x	13.6	9.3	7.9	7.3	6.4
Dividend yield	%	0.0%	0.0%	0.9%	0.9%	0.9%
Free cash yield	%	11.4%	4.8%	16.5%	9.3%	14.2%

Interim results: no change to underlying forecasts

Income statement		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Sales	£m	247.1	241.4	252.6	269.7
Gross profit	£m	111.7	123.3	129.6	138.0
EBITDA (adjusted)	£m	36.2	40.9	43.5	47.4
EBIT (adjusted)	£m	24.2	29.7	31.2	34.3
Associates/other	£m	-0.2	-0.1	0.0	0.0
Net interest	£m	-5.4	-7.5	-7.8	-8.3
PBT (adjusted)	£m	18.6	22.1	23.4	26.0
Total adjustments	£m	-1.2	0.8	-7.4	7.7
PBT (stated)	£m	17.4	22.9	16.0	33.7
Tax charge	£m	-5.5	-6.0	-6.8	-7.3
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	11.9	16.9	9.2	26.4
Adjusted earnings	£m	13.1	16.1	16.6	18.7
Shares in issue (year end)	m	207.2	206.9	201.2	206.1
EPS (stated)	p	6.5	7.8	8.3	9.1
EPS (adjusted, fully diluted)	p	5.9	6.9	7.5	8.5
DPS	p	0.0	0.5	0.5	0.5

Cash flow		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
EBITDA	£m	36.2	40.9	43.5	47.4
Net change in working capital	£m	-11.5	0.2	-2.6	-2.4
Other operating items	£m	-5.3	-5.1	-7.3	1.0
Cash flow from op. activities	£m	19.4	36.0	33.6	46.0
Cash interest	£m	-3.0	-4.5	-5.1	-5.7
Cash tax	£m	-2.7	-3.8	-6.0	-7.2
Capex	£m	-8.4	-9.6	-12.3	-17.5
Other items	£m				
Free cash flow	£m	5.3	18.1	10.2	15.6
Acquisitions / disposals	£m	-14.5	-5.2	-24.4	-1.2
Dividends	£m	0.0	0.0	-1.0	-1.0
Shares issued	£m	0.0	-4.5	0.0	0.0
Other	£m	-6.8	-3.5	-5.3	-2.9
Net change in cash flow	£m	-16.0	4.9	-20.5	10.5
Opening net cash (debt)	£m	-13.8	-29.8	-24.9	-45.4
Closing net cash (debt)	£m	-29.8	-24.9	-45.4	-34.9

Balance sheet		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Tangible fixed assets	£m	56.8	56.1	81.8	95.5
Goodwill & other intangibles	£m	39.1	40.8	38.7	36.5
Other non current assets	£m	24.9	22.8	20.1	17.4
Net working capital	£m	48.1	46.7	39.3	41.7
Other assets	£m	0.6	0.1	0.1	0.1
Other liabilities	£m	-39.2	-34.8	-30.4	-27.6
Gross cash & cash equivs	£m	19.6	17.8	7.4	17.9
Capital employed	£m	149.9	149.5	157.0	181.6
Gross debt	£m	48.6	42.2	42.3	42.3
Net pension liability	£m	62.2	57.1	53.3	49.5
Shareholders equity	£m	39.1	50.2	61.4	89.8
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	149.9	149.5	157.0	181.6

Growth analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Sales growth	%	26.6%	-2.3%	4.6%	6.8%
EBITDA growth	%	46.6%	13.0%	6.4%	9.0%
EBIT growth	%	58.2%	22.7%	5.1%	9.9%
PBT growth	%	61.7%	18.8%	5.9%	11.1%
EPS growth	%	47.0%	16.4%	9.0%	13.6%
DPS growth	%	n/m	n/m	0.0%	0.0%

Profitability analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Gross margin	%	45.2%	51.1%	51.3%	51.2%
EBITDA margin	%	14.6%	16.9%	17.2%	17.6%
EBIT margin	%	9.8%	12.3%	12.4%	12.7%
PBT margin	%	7.5%	9.2%	9.3%	9.6%
Net margin	%	5.3%	6.7%	6.6%	6.9%

Valuation analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
EV/EBITDA	x	6.2	5.5	5.2	4.7
EV/EBIT	x	9.3	7.5	7.2	6.5
P/E	x	9.3	7.9	7.3	6.4

Cash flow analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Cash conv'n (op cash / EBITDA)	%	53.6%	88.0%	77.3%	97.1%
Cash conv'n (FCF / EBITDA)	%	14.6%	44.3%	23.5%	33.0%
U/lying FCF (capex = deprn)	£m	1.7	16.5	10.2	20.0
Cash quality (u/l FCF / adj earn)	%	13.0%	102.5%	61.5%	107.1%
Investment rate (capex / deprn)	x	0.8	1.0	1.2	1.6
Interest cash cover	x	6.5	8.0	6.6	8.1
Dividend cash cover	x	n/m	n/m	10.1	15.2

Working capital analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Net working capital / sales	%	19.5%	19.3%	15.6%	15.5%
Net working capital / sales	days	71	71	57	56
Inventory (days)	days	91	92	90	89
Receivables (days)	days	64	60	61	61
Payables (days)	days	84	81	94	94

Leverage analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Net debt / equity	%	74.2%	48.6%	56.8%	27.2%
Net debt / EBITDA	x	0.8	0.6	0.8	0.5
Liabilities / capital employed	%	73.9%	66.4%	60.9%	50.6%

Capital efficiency & intrinsic value		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Adjusted return on equity	%	33.5%	32.1%	27.0%	20.8%
RoCE (EBIT basis, pre-tax)	%	16.1%	19.9%	19.9%	18.9%
RoCE (u/lying FCF basis)	%	1.1%	11.0%	6.5%	11.0%
NAV per share	p	18.9	24.3	30.5	43.6
NTA per share	p	0.0	4.5	11.3	25.8

Summary of forecast changes

Figure 1: Summary of forecast changes

FY March estimates		2025E			2026E		
		Previous	New	Delta	Previous	New	Delta
Revenue	£m	252.6	252.6	0.0%	269.7	269.7	0.0%
EBITDA (adjusted)	£m	43.7	43.5	-0.5%	47.1	47.4	0.6%
PBT (adjusted)	£m	23.4	23.4	0.0%	26.0	26.0	0.0%
EPS (adjusted)	p	7.5	7.5	0.0%	8.5	8.5	0.0%
Dividend	p	0.5	0.5	0.0%	0.5	0.5	0.0%
Net Cash (Debt)	£m	-42.8	-45.4	-2.6	-33.9	-34.9	-1.0

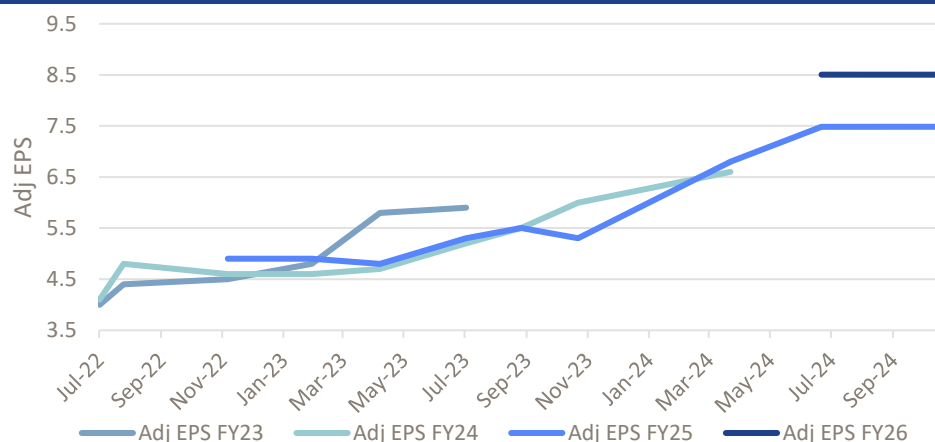
Source: Cavendish estimates

- We make no change to our underlying trading forecasts for either FY25 or FY26, with underlying trading on track to achieve existing expectations.

Below the line financial effects of the Valencia flood of YUK

- While there is no change to our underlying trading expectations, the Valencia flood is expected to result in an exceptional charge of £4.8m; this should be offset by insurance, which is likely to be received in FY26.
- In the near term, the flood damage will result in some profit disruption, need capex to repair and replace certain equipment and machinery and will increase net debt in FY25 by £2.6m.

Figure 2: Forecast upgrade momentum



Source: Cavendish estimates

Interim results

The interim results show the group trading resiliently in some tough markets, with its diversity of end market and geographic spread providing strength, while ongoing STEP 2 actions continue to drive operating efficiencies and margins.

The group is trading on track to achieve our FY25 forecasts, with some H2 gains expected from the recent acquisition of MAC Chain, while the currency headwind of H1 currently looks (at this early stage) to be moving to a currency tailwind for H2. The order book at £80.8m remains at historically high levels. Order intake was up 11.5%, including the Canadian Navy contract win of £10.6m.

The group has seen a range of macro-economic conditions across the globe. North America saw slower order intake in the run up to the presidential election but anticipates a stronger H2. China has remained difficult but is a small operation in the group context. The EU saw the progressive end to earlier destocking with markets stabilising and some starting to see a return of activity. India, which experienced a very slow time last year, is now picking up.

The TT division has performed well, with good growth coming through the Cardiff factory as the volumes for the military contracts run at high levels. It is also expecting to see a stronger H2 based on its predictable order book.

Highlights

Six months to 30 September (£m)

- Revenue decreased 1.5% to £123.4m, due to currency headwinds and continuing tough market conditions, with CER growth of 0.6%.
- Adj EBITDA was £21.0m, an increase of 2.9%.
- Adj EBIT on a reported basis increased 1.3% to £15.2m, with CER profit up 4.0%. Operating margins strengthened 30bps to 12.3%.
- Adj PBT of £11.3m was flat on the previous half year.
- Adj EPS rose 10.5% to 4.2p.
- Adjustments totalled £1.8m. This is made up of an amortisation charge of £0.6m and acquisition-related costs of £1.2m.
- Reported PBT increased from £9.1m to £9.5m.
- Basic EPS was 3.3p down from 4.4p.
- Net bank debt increased by £17.3m to £42.2m after the initial payment of £22.6m on the acquisition of MAC Chain and the £1.7m deferred consideration for YUK.
- Debt leverage remained comfortable at 1.0x on a 12 months rolling EBITDA basis.
- The IAS 19 Pension deficit reduced 8.6% to £52.2m.

Figure 3: Results in context

		Six-month results				FY results		Momentum		
		1H 24	2H24	1H25	2H25	FY24	FY25	1H 25	2H25	FY25
Revenue	£m	125.3	116.1	123.4	129.2	241.4	252.6	-2%	11%	5%
adj opex	£m	-104.9	-95.6	-102.4	-106.5	-200.5	-208.9	-2%	11%	4%
Adj EBITDA	£m	20.4	20.5	21.0	22.7	40.9	43.7	3%	11%	7%
EBITDA margin	%	16.3%	17.7%	17.0%	17.6%	16.9%	17.3%			
Adj EBIT	£m	15.0	14.7	15.2	16.0	29.7	31.2	1%	9%	5%
EBIT margin	%	12.0%	12.7%	12.3%	12.4%	12.3%	12.4%			
Adj PBT	£m	11.3	10.8	11.3	11.3	22.1	22.6	0%	5%	2%
Adj dil EPS	p	3.3	3.5	3.6	3.8	6.9	7.5	10%	8%	9%
Dividend	p	0.0	0.5	0.0	0.5	0.5	0.5		0%	0%
Free cashflow	£m	8.6	19.1	11.2	12.3	27.7	23.5	30%	-36%	-15%
Net cash/(debt)	£m	-28.3	-24.9	-42.2	-42.7	-24.9	-42.7	49%	72%	72%

Source: Company data

YUK flood damage

Unfortunately, the group's YUK business in Valencia has been affected by the recent floods, with operational damage and disruption, but without loss of life. The CVC manufacturing unit that accounts for about 1/3 of activity was significantly affected, while its distribution and offices in a different location, accounting for 2/3 of activity have been unaffected. In the short-term, manufacturing has been affected and mitigating actions are underway. The group has already started placing orders for replacement machinery and equipment where needed. The flood will result in an exceptional charge to the current year that management fully expects to be met by insurance coverage, likely to be received in FY26.

Divisional analysis

Figure 4: Divisional performance (at reported rates)

	Revenue			Adj EBIT			RoS	
	H1 25	H1 24	% change	H1 25	H1 24	% change	H1 25	H1 24
Chain	97.1	98.9	-1.8%	15.5	15.8	-1.9%	16.0%	16.0%
TT	29.2	28.8	1.4%	5.1	4.6	10.9%	17.5%	16.0%
Adjustments				-5.4	-5.4	0%		
	126.3	127.7	-1.1%	15.2	15.0	1.3%	12.0%	11.7%

Source: Cavendish estimates

Chain (77% of revenues)

At reported rates, revenues decreased by 1.8% to £97.1m, due to some currency headwinds, with CER revenue growth of 0.5%. MAC Chain gave a maiden contribution of £1.2m in the period, in the three weeks before the period end. Divisional profit at reported rates reduced by 1.9% to £15.5m, although in CER terms profit increased by 0.6%. RoS remained flat at 16.0%. No profit contribution from MAC was recognised at the half year given the proximity of the acquisition to the period end and the need to ensure necessary valuations were completed.

In Europe, reported revenue increased 4.1% (down 1.8% at CER) This was due in part to the continuing softness of the German market, while Switzerland was also quiet. UK sales increased by 4.6%, while sales in France were up a surprising 17.7%. The integration of YUK continued as planned, with CVC and TRC chain increasing 18.1%, while YUK manufactured product then distributed throughout Europe also increased.

The Americas saw reported revenue drop 2.5%, although at CER it saw growth of 0.9%. It saw good growth in Engineering chain with leaf chain for forklift trucks also remained strong. There are good opportunities in the distributors, particularly in the warehouse and logistics markets.

Australasia revenues increased 18.8% at reported rates and 20.4% at CER, benefitting from the company's targeting of SE Asia, with strong growth seen in its Malaysian, Indonesian and Thai markets.

India saw a strong recovery following a weak prior period, with revenues up 17% on CER basis. This was partly attributed to an easing of competition from China and a recovery in Indian agricultural markets. The group continues to invest in improving capabilities and quality of product to western standards, while market coverage was also improved by expanding the number of local warehouses.

The Chinese market remains weak, with revenues down 6.7% at CER, reflecting a weaker domestic Chinese market. Partly offsetting this, intra-group volume to Europe recovered. The transfer of YUKs externally purchased product to Jintan continued. A similar move from external product to internal product is expected to occur at MAC Chain and will benefit H2.

TT (23% of revenues)

At reported rates, revenue growth was 1.4%, with CER growth at 2.8%. Regionally, the division saw growth in US, French and Chinese markets, with the Spanish and gears operations a bit softer. The volume on the long-term military contracts continued to support strong throughput at the Cardiff couplings operation.

Capacity investments were made to improve automation. With the roll-out of the M3 ERP system providing operational efficiencies, profits benefitted from higher volume, increased prices and normalisation of production mix, which together resulted in profits up 10.9% and margins improving from 16.0% to 17.5%.

The order book continues to look robust, particularly for Cardiff, with a significant £10.6m order for the Royal Canadian Navy. Excluding this order, the CER order intake increased 3.6%, resulting in a period end order book of £43.0m, providing good momentum in H2. We note some delay to MOD contract awards recently but point out that the current shipbuilding projects both in process and in the order book are all committed and underway, with future contracts expected to be from NATO and western allies.

Cashflow and finances

Adj EBITDA increased by £0.6m to £21.0m, with depreciation of £3.0m, depreciation of right of use assets of £1.4m and amortisation of £1.2m.

Working capital decreased by a net £1.3m, with a £1.4m increase in inventories and £1.9m increase in trade receivables offset by a £4.6m release from trade payables. The cash contribution to the pension scheme was £3.1m, returning to more normal levels from £6.0m in the prior period, while there was a £0.3m outflow on provisions. After £0.8m on share-based payments and £2.0m of adjustments, cash generated from operations was £17.7m, up from £13.0m in the prior period.

Cash tax payable increased from £1.3m previously to £2.9m, following the full utilisation of its US tax losses. Interest paid totalled £3.6m, up from £3.1m in the prior period, resulting in net cash from operating activities of £11.2m, a considerable improvement on the £8.6m generated last half year.

Investing activities totalled £28.0m, considerably higher than £6.8m previously. This was made up of £22.9m of acquisition costs versus £4.7m. This was principally the £22.2m cash on completion paid for MAC Chain plus the final deferred consideration of £1.7m for YUK. Capex increased from £1.2m to £4.2m, with intangibles of £0.8m. Investment has been made at the group's Indian, US and TT facilities, including expanded press capabilities, improved heat treatment and continuing roll out of the group's ERP system.

The group paid £1.0m in dividends, with £1.3m in finance lease payments. The net increase in debt balances was £22.5m, resulting in a £3.4m increase in cash and cash equivalents. After £1.1m of non-cashflow items and an increase of £0.7m from currency, there was a net change in debt of £17.3m in the period.

Period end net bank debt therefore increased from £24.9m to £42.2m, made up of cash balance of £20.7m, bank debt of £62.4m and preference shares of £0.5m. The IFRS 16 lease liability increased from £15.6m to £19.8m, taking total debt to £42.2m, up from £28.3m.

Debt levels remain comfortable at 1.0x leverage on a rolling 12-month EBITDA basis. Facilities consist of a £85m revolving facility and a £20m accordion option. The main covenant remains at 3.0x.

Retirement benefits

As noted above, cash contributions to the closed UK scheme returned to more normal levels, except two further deferred payments of £0.6m ending in FY27. The annual cash contribution for the current year is expected to be £5.7m, of which £3.0m has been paid in H1. The cash cost of the German fund is expected to be £1.2m in FY25.

The group's IAS19 deficit reduced from £54.1m at the end of March 2024 to £52.2m in September 2024. The discount rate used increased from 5.0% to 5.25%, resulting in a £4.6m reduction in UK pension liabilities, while the long-term CPI reduced slightly from 3.25% to 3.15%.

Interim results: no change to underlying forecasts

Valuation

Figure 5: Peer group valuations (calendarised)

Company	Price	MC EV/Sales (x) (£m)	EV/EBITA (x)		EV/EBITDA (x)			P/E (x)		Dividend Yield (%)		Share Price	
			FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY2
Renold	55	124	0.7	0.7	5.6	5.2	4.1	3.8	7.2	6.4	0.9	0.9	56.9
Avingtrans	407	134	0.9	0.8	16.5	12.7	9.3	7.6	25.0	19.1	1.2	1.2	3.8
Bodycote	575	1110	1.6	1.5	10.1	8.8	5.9	5.4	12.6	11.3	3.8	4.0	2.1
Carclo	34	24											254.8
Castings	270	121	0.5	0.5	8.6	9.3	4.7	4.8	12.3	13.8	7.3	6.8	-23.8
Hill & Smith	2110	1667	2.0	1.9	12.8	11.6	10.4	9.5	17.5	16.3	2.3	2.4	8.8
Melrose	527	6520	2.2	2.1	15.2	12.1	11.7	9.7	19.0	14.5	1.3	1.7	-10.8
Renishaw	3175	2286	2.9	2.7	17.3	14.6	13.5	11.6	21.5	18.5	2.5	2.7	-12.2
Rolls Royce	539	44991	2.6	2.4	20.7	17.6	14.8	13.0	30.2	25.2	0.7	1.1	76.5
Rotork	318	2680	3.4	3.1	14.5	13.0	13.1	11.9	20.1	18.6	2.4	2.6	-2.3
RHI Magnesita	3090	1439	0.8	0.8	7.8	7.3	5.4	5.3	7.5	6.9	5.0	5.3	-11.8
Senior	148	614	0.8	0.8	18.3	12.7	8.6	6.9	24.4	15.6	1.7	2.1	-17.5
Severfield	88	251	0.6	0.5	7.2	6.8	6.2	6.0	9.3	8.5	4.7	5.1	31.4
Spirax Sarco	6550	4806	3.3	3.2	16.8	15.7	13.7	12.9	22.8	20.7	2.6	2.7	-37.7
Trifast	78	110	0.6	0.5	9.6	7.2	6.2	4.9	17.0	10.9	2.4	2.9	-7.5
Weir	2166	5489	2.3	2.2	12.8	11.3	10.9	9.8	18.0	16.2	1.9	2.0	12.8
Mean			1.8	1.6	13.4	11.5	9.6	8.5	18.4	15.4	2.8	3.1	17.8
Median			1.8	1.7	13.6	11.8	9.9	8.5	18.5	15.9	2.4	2.6	
Tsubaki	987	198508			8.3	8.0			9.8	9.2			42.9
Regal Rexnord	13647	11424	2.7	2.6	21.3	18.1	12.4	11.1	18.6	16.4	0.8	0.9	16.5
Mean			2.7	2.6	14.8	13.1	12.4	11.1	14.2	12.8	0.8	0.9	
Median			2.7	2.6	14.8	13.1	12.4	11.1	14.2	12.8	0.8	0.9	

Source: FactSet consensus estimates

The shares currently stand on a significant discount to its peer group, while also demonstrating higher growth and improving margins. The FY2 P/E median discount currently stands at 60%, against UK SMID industrial peers, which appears illogical. Furthermore, even versus its closest international chain peers (Regal Rexnord and Tsubaki) the discount is 49%.

Figure 6: Valuation using rolling EV at current and target prices

		Current price		Target price	
		FY25E	FY26E	FY25E	FY26E
Share price		54.8	54.8	86.0	86.0
Issued share	m	221.8	226.7	221.8	226.7
Mkt cap (full)	£m	122	124	191	195
Net	£m	-45.4	-34.9	-45.4	-34.9
Pension & Rolling EV	£m	-63.2	-56.5	-63.2	-56.5
EV/Sales	x	0.9	0.8	1.1	1.0
EV/EBITDA	x	5.3	4.5	6.9	6.0
EV/EBIT	x	7.4	6.3	9.6	8.3
P/E	x	7.3	6.4	11.5	10.1
Div Yield	%	0.9%	0.9%	0.6%	0.6%
FCF Yield	%	9.3%	13.8%	5.9%	8.8%

Source: Cavendish estimates

The shares are also deeply undervalued on a cashflow basis, offering a current FCF yield of 13.8%. Renold has greatly improved the cashflow fundamentals of the business and has managed working capital levels well despite recent challenges such as COVID and the resulting supply chain dislocation. Its capex needs are modest, and the pension fund cash contribution is very manageable, and the overall deficit is in decline.

Our price target remains 86p, which offers a significant opportunity as the group continues to demonstrate momentum and improving internal returns. Our target price is based around a very undemanding FY25E P/E of just 10.1x, or an EV/EBITDA of 6.0x.

The shares look even more attractive on a SOTP basis, with a justifiable EV of £249m, equating to 124p/share, even after taking into consideration the pension fund deficit. This SOTP is based around the lower valued international chain peer Tsubaki on an EV/EBITA of 8.0x, and TT on a 11.8x multiple.

Figure 7: Company at a glance**Company activities & operations**

Renold is an international group delivering high precision engineered chain and power transmission products to customer worldwide. It has manufacturing and sales offices worldwide. Chain and transmission products have diverse applications and are essential to any environment where something needs to be moved lifted rotated or conveyed. Sales are to both the OE, maintenance and refurbishment markets, serving a wide and long standing installed base of products. The group's end markets give a considerable level of geographic and end market diversity, providing defensive characteristics.

Divisions	% of sales
Chain	78%
Torque Transmission	22%

Name	Description
David Landless	Non-executive Chairman
Robert Purcell	Chief Executive Officer
Jim Haughey	Finance Director
Tim Cooper	Senior Non-Executive Director
Andrew Magson	Non-Executive Director
Vicki Potter	Non Executive Director

Major shareholders

Renold EBT	12.1%
Hargreaves Lansdown AM	9.7%
Jupiter AM	9.0%
Interactive investor	8.6%
Janus Henderson	8.5%
Canaccord Genuity Wealth	5.5%
Premier Miton	4.5%
River Global	3.6%

Other information

Company HQ	Wythenshawe, Manchester, UK
Company website	www.renold.com

Revenue growth rate**Significant acquisitions**

MAC Chain	Acquired Sept 2024 for \$29.9m speciality CVC manufacturer
Industrias YUK S.A.	Acquired August 2022, Spanish based conveyor chain manufacturer
Davidson Chain PTY	Acquired Sept 2023, Australian CVC manufacturer

Source: Company data

Interim results: no change to underlying forecasts

Income statement		2022A	2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar	Mar
Sales	£m	195.2	247.1	241.4	252.6	269.7
Cost of sales	£m	-98.1	-135.4	-118.1	-123.0	-131.7
Gross profit	£m	97.1	111.7	123.3	129.6	138.0
Operating expenses	£m	-72.4	-75.5	-82.4	-86.1	-90.6
EBITDA (adjusted)	£m	24.7	36.2	40.9	43.5	47.4
Depreciation	£m	-7.9	-10.2	-10.1	-10.2	-10.9
Amortisation	£m	-1.5	-1.8	-1.1	-2.1	-2.2
EBIT (adjusted)	£m	15.3	24.2	29.7	31.2	34.3
Associates/other	£m	-0.1	-0.2	-0.1	0.0	0.0
Net interest	£m	-3.7	-5.4	-7.5	-7.8	-8.3
PBT (adjusted)	£m	11.5	18.6	22.1	23.4	26.0
<i>restructuring costs</i>	£m	<i>0.0</i>	<i>-0.6</i>	<i>0.0</i>	<i>-1.0</i>	<i>0.0</i>
<i>share based payments</i>	£m	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>other adjustments</i>	£m	<i>0.9</i>	<i>-0.6</i>	<i>0.8</i>	<i>-6.4</i>	<i>7.7</i>
Total adjustments	£m	0.9	-1.2	0.8	-7.4	7.7
PBT (stated)	£m	12.4	17.4	22.9	16.0	33.7
Tax charge	£m	-2.2	-5.5	-6.0	-6.8	-7.3
<i>tax rate</i>	%	<i>17.7</i>	<i>31.6</i>	<i>26.2</i>	<i>42.5</i>	<i>21.7</i>
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	£m	10.2	11.9	16.9	9.2	26.4
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	£m	9.3	13.1	16.1	16.6	18.7
<i>shares in issue (year end)</i>	m	<i>214.8</i>	<i>207.2</i>	<i>206.9</i>	<i>201.2</i>	<i>206.1</i>
<i>shares in issue (weighted average)</i>	m	<i>214.8</i>	<i>207.2</i>	<i>206.9</i>	<i>201.2</i>	<i>206.1</i>
<i>shares in issue (fully diluted)</i>	m	<i>231.7</i>	<i>230.2</i>	<i>234.4</i>	<i>221.8</i>	<i>219.9</i>
EPS (adjusted, fully diluted)	p	4.0	5.9	6.9	7.5	8.5
EPS (stated)	p	4.7	6.5	7.8	8.3	9.1
DPS	p	0.0	0.0	0.5	0.5	0.5

Growth analysis (adjusted basis where applicable)						
Sales growth	%	18.1%	26.6%	-2.3%	4.6%	6.8%
EBITDA growth	%	10.8%	46.6%	13.0%	6.4%	9.0%
EBIT growth	%	34.2%	58.2%	22.7%	5.1%	9.9%
PBT growth	%	69.1%	61.7%	18.8%	5.9%	11.1%
EPS growth	%	76.6%	47.0%	16.4%	9.0%	13.6%
DPS growth	%	n/m	n/m	n/m	0.0%	0.0%

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	49.7%	45.2%	51.1%	51.3%	51.2%
EBITDA margin	%	12.7%	14.6%	16.9%	17.2%	17.6%
EBIT margin	%	7.8%	9.8%	12.3%	12.4%	12.7%
PBT margin	%	5.9%	7.5%	9.2%	9.3%	9.6%
Net margin	%	4.8%	5.3%	6.7%	6.6%	6.9%

Interim results: no change to underlying forecasts

Cash flow		2022A	2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar	Mar
EBITDA	£m	24.7	36.2	40.9	43.5	47.4
Net change in working capital	£m	-0.3	-11.5	0.2	-2.6	-2.4
Share based payments	£m	0.0	1.3	1.4	1.5	1.5
Profit/(loss) on sale of assets	£m	-0.9	0.3	-2.4	0.0	0.0
Net pensions charge	£m	-4.7	-5.7	-6.0	-6.4	-6.4
Change in provision	£m	0.1	1.0	-0.4	0.0	0.0
Other items	£m	2.1	-2.2	2.3	-2.4	5.9
Cash flow from operating activities	£m	21.0	19.4	36.0	33.6	46.0
Cash interest	£m	-1.5	-3.0	-4.5	-5.1	-5.7
Tax paid	£m	-1.7	-2.7	-3.8	-6.0	-7.2
Capex	£m	-5.3	-8.4	-9.6	-12.3	-17.5
Other items	£m					
Free cash flow	£m	12.5	5.3	18.1	10.2	15.6
Disposals	£m	0.2	0.0	-0.5	0.0	0.0
Acquisitions	£m	-0.5	-14.5	-4.7	-24.4	-1.2
Dividends on ord shares	£m	0.0	0.0	0.0	-1.0	-1.0
Other cashflow items	£m	-2.7	-6.8	-3.5	-5.3	-2.9
Issue of share capital	£m	-4.9	0.0	-4.5	0.0	0.0
Net change in cash flow	£m	4.6	-16.0	4.9	-20.5	10.5
Opening net cash (debt)	£m	-18.4	-13.8	-29.8	-24.9	-45.4
Closing net cash (debt)	£m	-13.8	-29.8	-24.9	-45.4	-34.9

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	85.0%	53.6%	88.0%	77.3%	97.1%
Cash conversion (free cash flow / EBITDA)	%	50.6%	14.6%	44.3%	23.5%	33.0%
Underlying free cash flow (capex = depreciation)	£m	8.4	1.7	16.5	10.2	20.0
Cash quality (underlying FCF / adjusted earnings)	%	90.3%	13.0%	102.5%	61.5%	107.1%
Investment rate (capex / depn)	x	0.7	0.8	1.0	1.2	1.6
Interest cash cover	x	14.0	6.5	8.0	6.6	8.1
Dividend cash cover	x	n/m	n/m	n/m	10.1	15.2

Interim results: no change to underlying forecasts

Balance sheet		2022A	2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar	Mar
Tangible fixed assets	£m	49.3	56.8	56.1	81.8	95.5
Goodwill	£m	22.7	28.2	29.3	27.2	25.0
Other intangibles	£m	5.1	10.9	11.5	11.5	11.5
Other non current assets	£m	24.7	24.9	22.8	20.1	17.4
<i>inventories</i>	<i>£m</i>	<i>48.4</i>	<i>61.8</i>	<i>60.6</i>	<i>62.3</i>	<i>65.8</i>
<i>trade receivables</i>	<i>£m</i>	<i>35.7</i>	<i>43.5</i>	<i>39.8</i>	<i>42.4</i>	<i>45.1</i>
<i>trade payables</i>	<i>£m</i>	<i>-48.5</i>	<i>-57.2</i>	<i>-53.7</i>	<i>-65.4</i>	<i>-69.1</i>
Net working capital	£m	35.6	48.1	46.7	39.3	41.7
Other assets	£m	0.0	0.6	0.1	0.1	0.1
Other liabilities	£m	-31.2	-39.2	-34.8	-30.4	-27.6
Gross cash & cash equivalents	£m	10.5	19.6	17.8	7.4	17.9
Capital employed	£m	116.7	149.9	149.5	157.0	181.6
Gross debt	£m	23.8	48.6	42.2	42.3	42.3
Net pension liability	£m	87.1	62.2	57.1	53.3	49.5
Shareholders equity	£m	5.8	39.1	50.2	61.4	89.8
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	116.7	149.9	149.5	157.0	181.6
Leverage analysis						
Net debt / equity	%	229.3%	74.2%	48.6%	56.8%	27.2%
Net debt / EBITDA	x	0.5	0.8	0.6	0.8	0.5
Liabilities / capital employed	%	95.0%	73.9%	66.4%	60.9%	50.6%
Working capital analysis						
Net working capital / sales	%	18.2%	19.5%	19.3%	15.6%	15.5%
Net working capital / sales	days	67	71	71	57	56
Inventory (days)	days	91	91	92	90	89
Receivables (days)	days	67	64	60	61	61
Payables (days)	days	91	84	81	94	94
Capital efficiency & intrinsic value						
Adjusted return on equity	%	160.3%	33.5%	32.1%	27.0%	20.8%
RoCE (EBIT basis, pre-tax)	%	13.1%	16.1%	19.9%	19.9%	18.9%
RoCE (underlying free cash flow basis)	%	7.2%	1.1%	11.0%	6.5%	11.0%
NAV per share	p	2.7	18.9	24.3	30.5	43.6
NTA per share	p	-10.2	0.0	4.5	11.3	25.8

Interim results: no change to underlying forecasts

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Definition of research recommendations

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SELL is an expected return less than -10%

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	Corporate client no.	Corporate client %	Total no.	Total %
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Corp	134	96.4%	145	90.6%

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Recommendation history

Company	Disclosures	Date	Rec	Price	Target price
Renold	2,6,8,9,10	10 November 21	Corp	34.0p	46.0p

Source: Cavendish

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Interim results: no change to underlying forecasts

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