

Rotork

Industrial engineering
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Preparing for acceleration

Rotork is ensuring the pillars are in place to deliver growth. The H118 report demonstrated end-market support, with order book growth across all divisions and solid operating performance. Management now has both the framework and the personnel in place to drive the initiatives on route to market, new product development and lean manufacturing.

H118 report: Growth across all divisions

Rotork noted a positive market outlook and 13.3% y-o-y order growth on an organic constant currency basis. H118 reported revenue of £331.0m (H117 £299.7m) was up 14.8% on an organic constant currency with all divisions delivering growth and bringing book to bill to 1.1x. H118 adjusted operating profit also benefited from growth in all four divisions, at £65.4m (H117 £54.4m) up 25.1%. H117 adjusted EPS of 5.6p (H117 4.4p) was up 32.3% and the interim dividend of 2.20p (H117 2.05p) was up 7.3%. Full-year guidance has been maintained, with high single-digit revenue growth on a reported basis with c 300bp of headwind from currency. Adjusted operating margins are expected to be slightly ahead of FY17 (20.3%).

Sand, pebbles, boulders: Strategic initiatives

CEO Kevin Hostetler provided a strategy update and outlined key initiatives to be taken. These are classified by complexity and time to implement, from quicker and easier 'sand' initiatives to larger and more complex 'boulders'. The group needs to build on its brand strength and technology recognition and be able to deliver improvements in turnaround times, on-time delivery and client communications. Altering the current sales force structure from the divisional structure aligned to products to one aligned with end markets will improve the ability of the sales teams and offer a broader range of products to the customers they visit. Meanwhile, the company continues to focus on the aftermarket opportunity, taking a more proactive rather than reactive role through the use of usage data. For new product development, the company is aiming to work smarter with the current budgeted spend within a framework that analyses ongoing and new opportunities.

Valuation: A valuable proposition

Rotork's goal is to deliver the investment in the business through the savings generated over a two-year period. The balance sheet is strong, with net debt/EBITDA under 0.1x at the H118 report, and future M&A remains a possibility. However, the company should leverage end-market growth trends, while the shorter-term growth initiatives start to bear fruit.

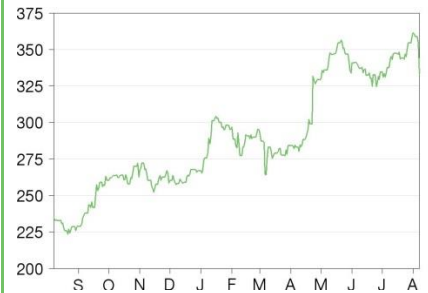
Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	590.1	117.9	10.0	5.10	35.3	1.5
12/17	642.2	124.8	10.6	5.40	31.4	1.6
12/18e	685.9	141.4	12.2	5.92	27.3	1.8
12/19e	730.0	158.8	13.7	6.37	24.3	1.9

Source: Bloomberg

Price **333.2p**
Market cap **£2.9bn**
 \$1.30/£1

Share price graph



Share details

Code ROR
 Listing LSE
 Shares in issue 870.5m

Business description

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

Bull

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

Bear

- End-markets improving but mainly smaller projects.
- Limited short-term opportunity for bolt-on growth.
- Investment in growth may overstep expectations.

Analysts

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

industrials@edisongroup.com

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