

Dowlais Group

Positive start to the year

Q1 trading update

Automotive components

Management set out its strategy when the company listed in April. The trading update confirms that it is on track. Volume and top-line growth, as reported, are expected to provide leverage over the restructured cost base and drive margin expansion (target 11%+ pre central costs), to generate strong earnings growth and demonstrate the quality of the operations.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/22	5,246	212	N/A	N/A	N/A	N/A
12/23e	5,487	259	13.3	4.0	10.8	2.8
12/24e	5,799	337	17.4	5.2	8.2	3.7
12/25e	5,939	427	22.4	6.7	6.4	4.7

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

In the four months to end April, Dowlais delivered £1.9bn in revenue, including the Chinese JVs, reflecting 9% growth at constant currency. Adjusted operating margins were similar to FY22 and 200bp up on the softer H122 (H122 operating margins: 5.3%, H222: 7.8%), supporting expectations for margin expansion for the full year. Reflecting this encouraging start to the year, but mindful of the economic uncertainty being seen globally, management expectations for the year are unchanged.

The Automotive division has had a positive start, with 11% growth at constant currency led by Europe and the US (the Chinese market was weak in Q1 before rebounding in April against a 2022 affected by COVID shutdowns). This includes some pricing benefits as inflation pass-throughs were only achieved in H222, but also suggests tracking at least in line with the automotive market. Management reports 'significant operating margin expansion' for Automotive, albeit against a weak prior period affected by cost increases which took time to pass on, and slightly above FY22, suggesting positive trajectory on the targeted medium-term 10%+ operating margin. Bookings were positive, as was the mix with the 'majority' for BEV platforms.

Revenue for the Powder Metallurgy division was flat in constant currency, with margins at the lower H222 levels (H122: 10.5%, H222: 8.3%). However, management comments on 'positive momentum', suggesting that the operational issues which accounted for the softer H222 are being addressed. The division continues to make progress on its battery manufacturing journey.

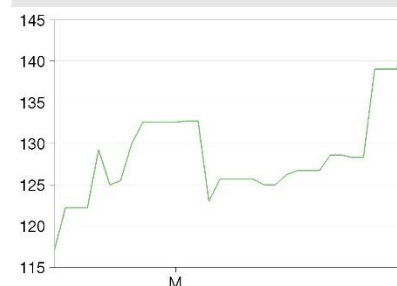
Our forecasts remain unchanged. Interim results are on 12 September.

23 May 2023

Price 144p
Market cap £2bn

Net debt (£m) at 31 December 2022	834
Shares in issue	1,393m
Free float	97%
Code	DWL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



Business description

Dowlais is an automotive components group with two core divisions: GKN Automotive is the market leader in drive systems for both ICEs and EVs, and GKN Powder Metallurgy is the leader in sintered component manufacture and number two in metal powders.

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