

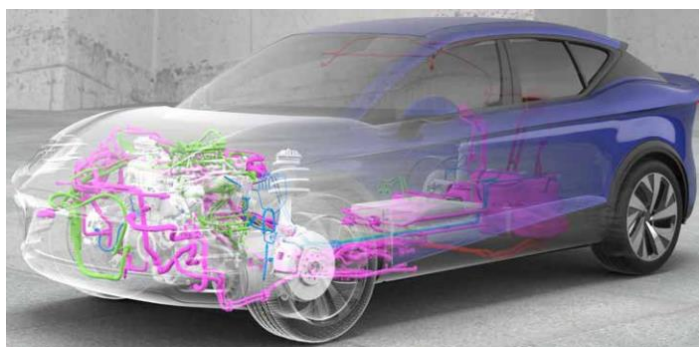
TI Fluid Systems: Return to automobile production growth

Company:	TI Fluid Systems (TIFS LN)	Market Cap:	£630mio
Industry:	Auto fluid systems	Net Debt:	EUR 600mio (excl. leases)
Country:	Worldwide	Revenue:	EUR 3.26bn
Date:	2 nd February 2023	Net Income:	EUR 70mio (2.15%)
Dividend:	EUR 30mio (4.5%)	Free Cash Flow:	EUR 80mio (2.45%)
Entry:	£622mio	Target Market Cap:	£900mio

Introduction

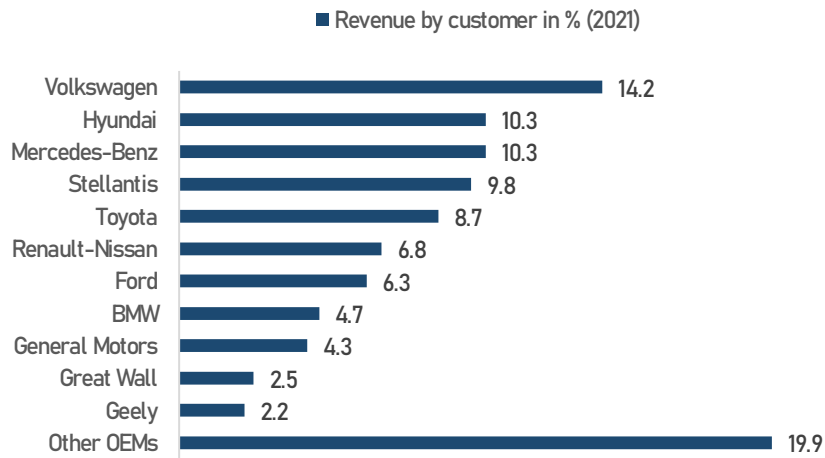
TI Fluid Systems (TIFS) is an automotive components supplier focusing on fluid carrying systems, such as brake and fuel lines as well as cooling systems for hybrid and electric vehicles, and fuel tanks and delivery systems. The company is the number 1 brake and fuel lines producer, supplies 30% of global demand and serves more than half of all global top 20 OEMs (original equipment manufacturers) and over 30% of all BEVs (battery electric vehicles) produced in 2021 have TIFS content. The OEMs generally have 5-10 year production programmes during which they align the contracts with TIFS. To this date, the company has EUR 1.3bn in BEV and EUR 1.3bn in HEV lifetime revenues, which each result in around EUR 400mio annual revenues. The company is private equity backed and Bain Capital has sold down some of their shares since the company was listed in 2017, but still own 36.7% of the company. TIFS splits its revenue into two divisions: Fluid Tank and Delivery Systems (FTDS), which covers mostly ICE (internal combustion engine) and HEV (hybrid electric vehicles), and Fluid Carrying Systems (FCS), which covers all vehicles, including BEVs is located around the world with over 104 manufacturing locations.

TI Fluid Systems' products



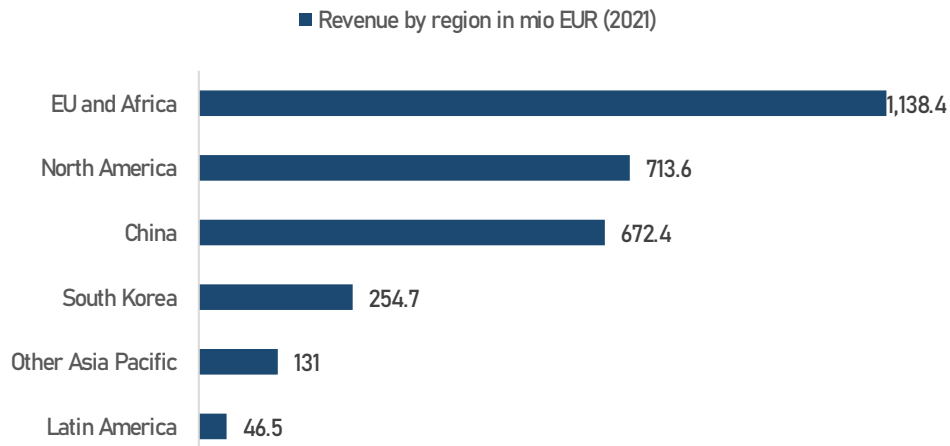
Source: TI Fluid Systems

TI Fluid Systems' largest customers



Source: TI Fluid Systems

TI Fluid Systems' sales by region



Source: TI Fluid Systems

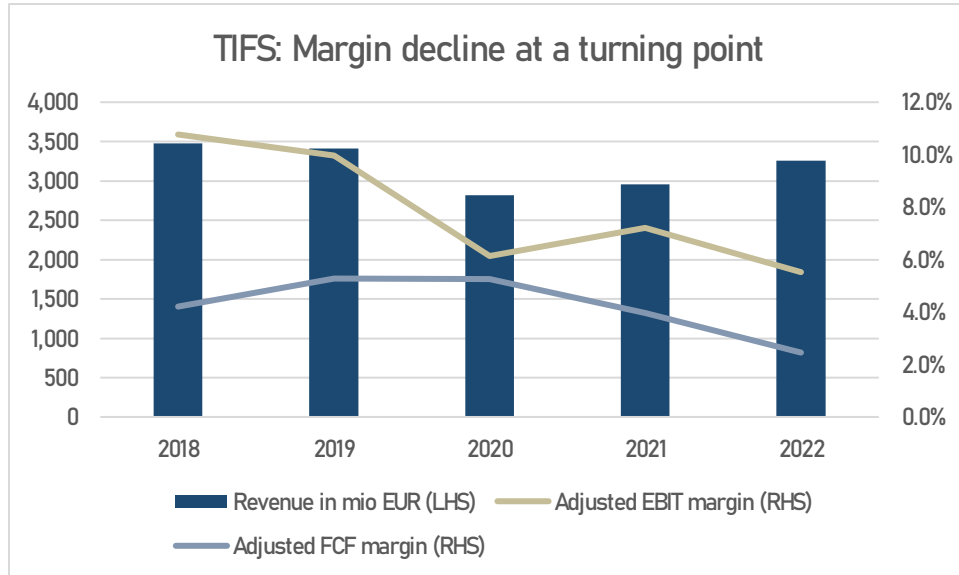
Company valuation at all-time-low

TIFS strives itself by its outperformance in volume growth compared to global light vehicles production. When the pandemic related lockdowns caused a chip shortage and resulted in lower global light vehicles production, TIFS revenues declined as well. At the same time, operating profit margins reduced from 10% in 2019 to around 5% in 2022 amidst rising input inflation, which was difficult to pass on. Last but not least, and this is what caused the latest share price decline, China's light vehicle production outpaced TIFS's China revenue growth, which was explained due to China's rapid shift towards BEVs from ICE vehicles. As Tesla and BYD sells most BEVs in China, especially in light of state subsidies running out in December, TIFS had a lower revenue share, because Tesla and BYD are not their main customers (although they are working on it, BYD requests payment terms of as much as 9 months, which makes it difficult to work with). On top of that, up to 77% of TIFS China staff were sick due to COVID at some point in December, which had an impact of EUR 45mio in sales and EUR 15mio in EBIT. Furthermore, the group's earnings have bottomed in H1 22 and have since recovered from EUR 84mio to EUR 96mio adjusted EBIT and EUR -1.6mio to EUR 81mio adjusted free cash flow in H2 22. Inflation related cost increases have also been passed on by 70% with further cost recoveries due in 2023 and recent price declines in steel and resins contributing positively. At the same time, global light vehicle production is recovering and expected to grow by 5.6% to 83.6mio¹. While this remains below the 2019 level of 89mio and the peak of 95.1mio in 2017, it indicates that the turnaround in sales from its pandemic lows will continue.

In summary, light vehicle production is recovering, inflation is subsiding, China Covid related sickness, although still elevated in January, is set to decline and the company is working actively on increasing their revenues and improving their profits in BEVs in China.

¹ <https://www.spglobal.com/mobility/en/research-analysis/fuel-for-thought-sp-global-mobility-forecasts-836m-units.html>

TIFS profitability between 2018 and 2022



Source: TI Fluid Systems

Relative value

TIFS's competitors all had a strong share price performance year-to-date, which stands in contrast to TI Fluid Systems. Yet, the competitors face the same input inflation as TIFS. This begs the question, why is TIFS underperforming so badly? As mentioned above, the China performance is likely what worries markets, because China is the leader in BEVs, and when TIFS makes less revenues with BEVs than ICE or HEVs, this should be priced into the valuation. However, TIFS is working with Tesla and BYD on new solutions that could help them adapt more technologies from TIFS. In addition, the underperformance vs. GLVP (global light vehicle production) actually improved in Q4 22 from -320bps in Q1 22, +330bps in Q2 22, -760bps in Q3 22 to +340bps Q4 22. TIFS will also work on acquisitions of parts they source elsewhere. OEMs are increasingly interested in buying fewer components and more systems – exactly what TIFS is offering. Some of the parts of the system are sourced from other companies and these companies are likely takeover targets, which could then boost margins due to more in-house production. The Inflation Reduction Act and the European equivalent form of subsidies should help BEV sales, which in turn will make it easier for TIFS to pass on the remaining input cost inflation to the OEMs.

TI Fluid Systems year-to-date share price performance compared to competitors

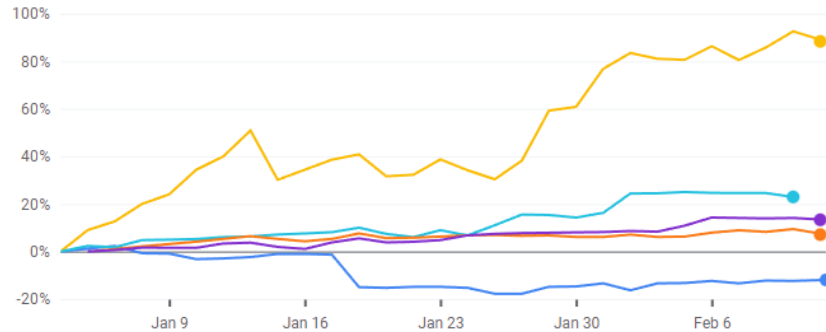
TI Fluid Systems PLC

GBX 121.00 ↓ 11.94% -16.40 YTD

Feb 10, 2:37:27 PM UTC · GBX · LON · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX

Key events



TI Fluid Systems PLC	GBX 121.00	-GBX 16.40	↓ 11.94%	
Cooper-Standard ...	\$17.80	+\$8.35	↑ 88.36%	×
Martinrea Internati...	\$13.61	+\$2.54	↑ 22.94%	×
Sanoh Industrial C...	¥648.00	+¥43.00	↑ 7.11%	×
Denso Corp	¥7,304.00	+¥859.00	↑ 13.33%	×

Source: Google Finance



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