

TALES OF THE TAPE: TriMas Looks To Deliver After IPO
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DETROIT (Dow Jones)--TriMas Corp. (TRS), which went public in May, gives investors a new equity to check out in the diversified industrial sector, an area that has seen some of the bigger players deliver solid returns.

While TriMas is unproven and carries sizable debt, some analysts say it deserves a look because it is undervalued and likely to deliver earnings growth.

Based in Bloomfield Hills, Mich., TriMas makes a variety of industrial products that range from the heavy, such as engines and parts used in oil and gas extraction, to the small, such as condiment dispensers used in food service. Main end markets include trailer and recreational accessories, industrial specialties, energy, and packaging.

Its market cap is small - about \$420 million - but TriMas intends to follow the model of much larger players such as Illinois Tool Works Inc. (ITW) and Danaher Corp. (DHR).

That is, TriMas sees itself as a big player in several niche business, with a decentralized structure. Growth comes from product innovation and finding new markets - either organically or through acquiring smaller companies.

TriMas went public in May at \$11 a share. The stock recently traded at \$12.58 and has reached as high as \$14.42.

David Sowerby, portfolio manager for Loomis Sayles & Co. in Bloomfield Hills, Mich., said that performance in a down market shows some investors are confident in future cash flow, which will be a key driver of TriMas shares.

Sowerby said ITW and Danaher have been good "wealth creators" for investors over time, outperforming the S&P 500, and are good models to follow. Sowerby owns Danaher in his mutual fund.

Though TriMas remains a "show me" stock, he said it's "on the radar." It's attracted some attention from Wall Street, but not enough to make Sowerby think it's too late to buy in.

Despite the 14% increase in the stock price since the IPO, TriMas trades at about 10.5 times projected 2008 earnings. Analysts polled by Thomson Financial expect 2008 earnings per share of \$1.20.

KeyBanc analyst Steve Barger finds the valuation "compelling." Because TriMas is new and has a high debt level - about 4.3 times earnings before interest, taxes, depreciation and amortization - it should trade at a discount to peers, but it's still undervalued, Barger argued in an Aug. 3 note to investors.

In early August, Barger upgraded TriMas to buy from hold and set a \$16 stock price target. KeyBanc sees operating margin growth, debt reduction and "solid" earnings growth even if revenue growth is low.

Jefferies & Co. analyst Robert Schenosky also rates TriMas a buy, saying the second quarter was strong and the outlook for the second half is consistent. Jefferies has a target price of \$14.

TriMas reported a second-quarter net loss of \$3.2 million, or 12 cents a share. Excluding IPO costs, income from continuing operations would have been \$ 10.5 million, or 40 cents a share, compared with \$6.5 million, or 31 cents a share, in last year's second quarter. Revenue was up 4% to \$290.8 million.

Chief Executive Grant Beard said in an interview that TriMas' model of dominating several niche businesses should deliver high margins and good free cash flow and requires relatively low capital spending.

"The downside is that it kind of mitigates (revenue) growth," he said. "So we always look for that next niche, the next add-on." The idea is to "sell the same bag of tricks into new markets."

He said acquisitions would be funded with cash and available liquidity.

The other use of free cash will be debt reduction. Beard said he wants to get the 4.3 times EBITDA ratio down to the "high threes" in the next 12 months and eventually the low threes to high twos.

TriMas has had an interesting journey leading to its IPO in May. The company was carved out of home products giant Masco Corp. (MAS) in the late 1980s and became publicly traded before it was acquired by MascoTech, which was primarily an auto supplier, in 1998.

Private-equity fund Heartland Industrial Partners LP bought MascoTech in 2000, eventually combining it with two other companies to form Metaldyne Corp.

TriMas was spun out of Metaldyne in June 2002. Between then and the May IPO, the company increased revenue, but also cut costs and restructured operations. Beard said the company shut down plants and built some new ones. The company moved low-skill jobs to countries with lower labor costs and added high-skill jobs in North America.

"We wanted to do that as a private company," he said. "It's just kind of easier to do that kind of cycle as a private company. Now the focus is back on growth. It was important to get the foundation done."

Heartland still owns about a 45% stake in TriMas.

Though Beard is bullish on TriMas' future, he said the housing slowdown is " the biggest economic factor" affecting the company.

"It's affecting a lot of our end markets, from paint containers for paint companies to trailers to construction," he said. "It also affects (recreational vehicles) and marine."

Still, the company has exposure to growing industries such as aerospace, energy and the military, which is one of the benefits of its business model.

Though the Michigan economy has been hit hard by the slumping auto industry, Beard said TriMas has no intention of following bank Comerica Inc. (CMA) and the U.S. operations of Volkswagen AG (VLKAY) in moving its headquarters out of the area.

"The board is committed to being headquartered here," he said. "There's a great skill set and talent pool here in southeast Michigan - technical engineers, accountants, lawyers. We've had great success finding that in this city."