OmegaFlex (OFLX)

Updated January 3rd, 2025 by Samuel Smith

Key Metrics

Current Price:	$41.3	**5 Year CAGR Estimate:**	2.9%	**Market Cap:**	$414M
Fair Value Price:	$27	**5 Year Growth Estimate:**	8.3%	**Ex-Dividend Date:**	04/09/25
% Fair Value:	152%	**5 Year Valuation Multiple Estimate:**	-8.0%	**Dividend Payment Date:**	04/24/25
Dividend Yield:	3.3%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	7
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Omega Flex, Inc. (OFLX) is based in Exton, Pennsylvania and manufactures and sells flexible metal hoses and accessories for residential, commercial, and industrial applications across North America and internationally. Its products include flexible gas piping, medical tubing, and containment piping, marketed under brands like TracPipe, CounterStrike, and MediTrac. Serving industries such as construction, manufacturing, and healthcare, the company distributes its products through representatives, distributors, wholesalers, and direct sales. Founded in 1975 as Tofle America, Inc., it adopted its current name in 1996.

Omega Flex, Inc. reported a decline in financial performance for the first nine months and third quarter of 2024. Net sales for the nine months ended September 30, 2024, were $74.7 million, a 10.3% decrease compared to $83.3 million in the same period of 2023. For the third quarter, net sales declined 9.5% year-over-year to $24.9 million, primarily attributed to lower sales volumes driven by a downturn in housing starts and a suppressed overall market.

Net income for the nine-month period was $13.3 million, down 16.0% from $15.9 million in the prior year. For the third quarter, net income fell 17.2% year-over-year to $4.6 million. This reduction was mainly due to decreased net sales and lower production levels, which led to reduced absorption of factory labor and overhead costs. The impact was further exacerbated by increased overhead expenses from newly leased facilities. However, the decrease in raw material costs helped mitigate some of these pressures.

Earnings per share (EPS) for the nine months decreased to $1.32, compared to $1.57 in 2023. For the third quarter, EPS was $0.46, down from $0.55 in the prior year. Weighted average shares outstanding remained unchanged at approximately 10.1 million for both periods. CEO Dean W. Rivest emphasized that the challenging market environment, particularly in the housing sector, contributed to the financial results. Despite the headwinds, the company continues to manage costs and navigate the suppressed market conditions while leveraging lower raw material expenses to partially offset the impact of declining sales.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.26	$1.44	$1.32	$1.49	$1.64	$1.40	$1.64	$2.17	$1.92	$1.71	***$1.51***	***$2.25***
DPS	-	-	-	$0.66	$0.94	$1.08	$1.12	$1.18	$1.26	$1.31	***$1.36***	***$1.50***
Shares	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	***10.1***	***10.1***

We expect OmegaFlex to grow its earnings per share at an 8.3% CAGR over the next half-decade. The main drivers will be continued product innovation and diversification as it develops new products to replace traditional rigid piping systems, cutting costs and improving operating efficiencies, and increasing its total addressable market. That said, the company faces risks to its growth initiatives as it is susceptible to supply chain disruptions, significant market competition, and broader macroeconomic conditions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.2	13.7	14.8	9.9	10.8	10.9	12.6	11.6	15.9	13.0	***27.4***	***18.0***
Avg. Yld.	-	-	-	4.5%	5.3%	7.1%	5.4%	4.7%	4.1%	5.9%	***3.3%***	***3.7%***

OmegaFlex currently trades at an elevated price-to-earnings ratio of 27.4x. This is largely due to a dip in its expected earnings this year that the market expects to be short-lived. As a result, it will grow back into its valuation in the coming years and – in our view – warrants an 18x price-to-earnings multiple thanks to its strong growth potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

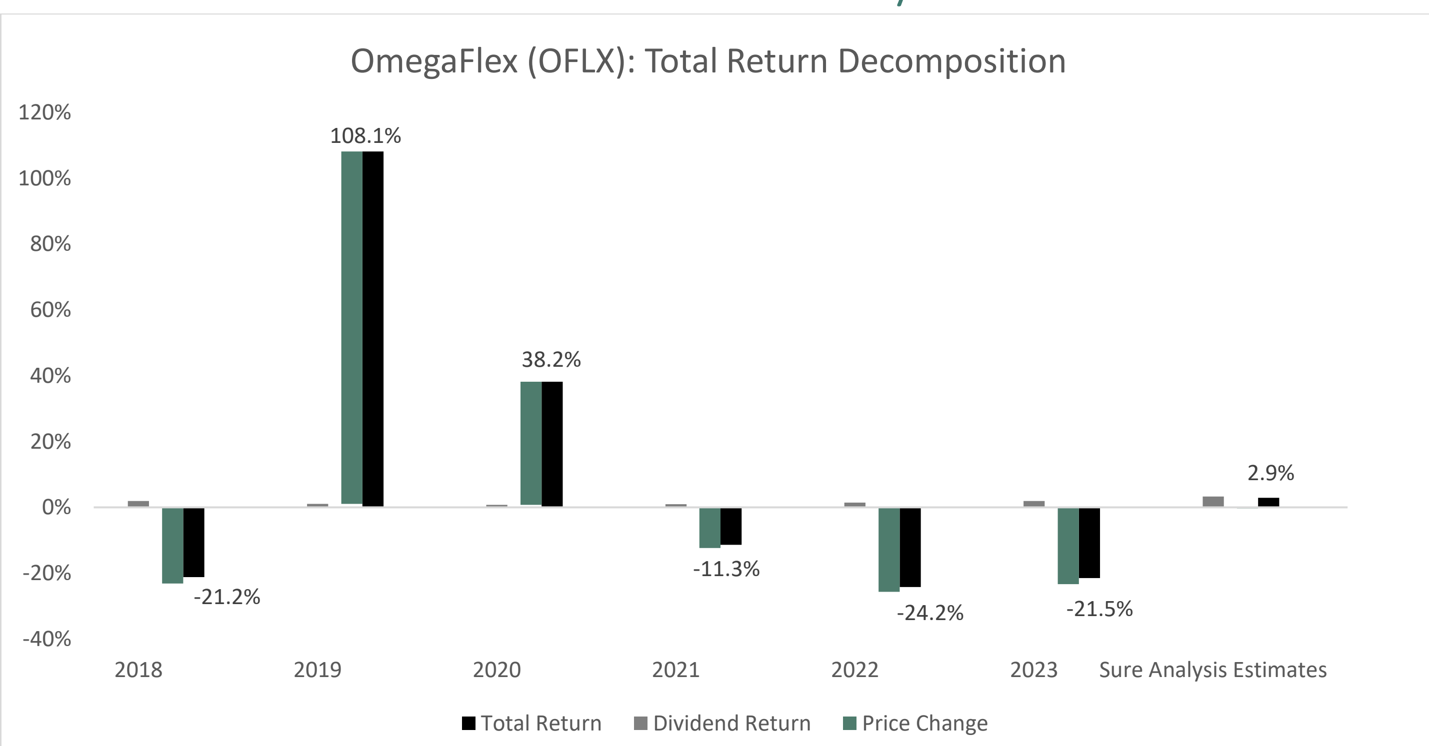
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-	-	-	44%	57%	77%	68%	54%	66%	77%	***90%***	***67%***

OmegaFlex's competitive advantage lies in its specialized product offerings and strong market presence. The company focuses on manufacturing high-quality flexible metal hose and braid products, which are essential components in various applications across multiple industries. This specialization allows OmegaFlex to maintain a strong market position and cater to specific customer needs. That said, it is economically sensitive, as reduced economic activity will weigh on the demand for its construction-related products. On the other hand, it does provide some essential products and it has a pretty diversified customer base that should enable it to navigate recessions without suffering too deeply.

Final Thoughts & Recommendation

The company's dividend yield and expected growth rate are both pretty solid. That said, the valuation multiple is on the high side and the payout ratio has surged to 90%. As a result, dividend growth will likely be pretty slow moving forward and the valuation multiple will likely compress a good bit. As a result, we expect the company to deliver lackluster 2.9% annualized total returns over the next half decade, making it a Sell in our view.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	85	93	94	102	108	111	106	130	125	111
Gross Profit	50	57	58	62	66	70	67	82	78	68
Gross Margin	58.7%	61.3%	61.5%	60.7%	61.0%	63.3%	62.9%	62.7%	62.4%	61.3%
SG&A Exp.	26	31	33	34	35	44	36	42	43	39
D&A Exp.	0	0	0	1	1	1	1	1	1	1
Operating Profit	21	24	22	24	26	22	27	35	31	26
Operating Margin	24.2%	25.2%	23.3%	23.8%	24.3%	19.7%	25.2%	27.0%	24.7%	23.1%
Net Profit	13	16	14	16	20	17	20	26	24	21
Net Margin	15.8%	16.9%	15.3%	15.4%	18.6%	15.5%	18.8%	20.1%	18.8%	18.6%
Free Cash Flow	15	13	15	15	19	15	19	24	14	22
Income Tax	7	8	7	8	6	5	7	9	7	7

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	55	66	71	77	87	61	72	89	98	100
Cash & Equivalents	23	30	35	38	32	16	24	33	38	46
Accounts Receivable	14	17	15	16	16	17	20	21	18	15
Inventories	7	8	7	8	8	11	12	16	18	16
Goodwill & Int. Ass.	4	4	4	4	4	4	4	4	4	4
Total Liabilities	21	25	25	21	21	23	25	28	27	21
Accounts Payable	2	2	2	3	3	2	2	3	2	2
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	34	41	46	55	66	37	46	60	71	79
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	28.3%	26.0%	21.0%	21.2%	24.6%	23.4%	30.0%	32.6%	25.3%	21.0%
Return on Equity	45.2%	42.0%	33.0%	30.7%	32.9%	33.3%	47.4%	49.0%	35.9%	27.7%
ROIC	45.2%	42.0%	33.0%	30.7%	32.9%	33.3%	47.4%	49.0%	35.9%	27.7%
Shares Out.	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
Revenue/Share	8.44	9.24	9.32	10.09	10.73	11.03	10.48	12.88	12.43	11.04
FCF/Share	1.45	1.25	1.44	1.48	1.90	1.47	1.86	2.40	1.42	2.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.