

# Treatt

## Another strong update

H1 trading update

Food &amp; beverages

12 April 2021

**Price** **958.00p**
**Market cap** **£573m**

Net debt (£m) at 31 March 2021 5.1

Shares in issue 60.3m

Free float 100%

Code TET

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 0.8 22.8 93.2

Rel (local) (2.2) 20.7 58.1

52-week high/low 1050.00p 469.50p

### Business description

Treatt provides innovative ingredient solutions from its manufacturing bases in Europe and North America, principally for the flavours and fragrance industries and multinational consumer goods companies, with particular emphasis on the beverage sector.

### Next events

H1 results 11 May 2021

FY trading update September/October 2021

FY results 30 November 2021

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Treatt has again delivered a strong performance across all its categories, with revenue expected to grow 16% at constant currency for H1. As flagged in the January trading update, the business is performing extremely well: its categories are meeting consumer demands for more natural, clean-label products and Treatt has won significant new business across a range of applications. Gross margin has expanded due to higher growth in the higher-margin categories of tea, health & wellness, and fruit & vegetables, and Treatt's transition to more sophisticated citrus products. Citrus revenue returned to modest growth after a decline in FY20. The new UK facility is opening in April 2021 with commissioning of the machinery later in the calendar year, as planned. We leave our estimates unchanged at this stage, but believe the risk is firmly to the upside, given the positive momentum in the business.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/19	112.7	14.0	19.0	5.5	50.3	0.6%
09/20	109.0	15.8	21.3	6.0	44.9	0.6%
09/21e	123.2	19.4	26.4	7.5	36.4	0.8%
09/22e	130.6	21.5	29.3	8.3	32.7	0.9%

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

## Growth continues apace

Treatt has transformed itself from a commodity-based ingredients trading house into a supplier of value-added ingredients and ingredient solutions. Treatt's technical expertise is being applied across a growing range of applications and is enabling it to move up the value chain, most recently in the citrus category. In turn, this has led to both revenue growth and margin expansion and we expect this to continue over the next few years.

## Demand remains strong

Demand for flavour ingredients is strong as consumers increasingly demand authentic flavours and clean labels. While the pandemic has resulted in beverage companies witnessing a reduction in volumes coupled with a margin-eroding switch from the on- to the off-trade channel, the more important metric for the flavour industry is overall volume. Treatt is taking a cautious approach, but its order book may improve further in H2 as the hospitality industry recovers.

## Valuation: At a premium to its peers

We value Treatt using a DCF model, which indicates a fair value of 870p. In January we raised our operating forecasts materially. We leave our forecasts unchanged but believe the risk remains firmly to the upside given the momentum in the business and the potential for further volume gains once the hospitality business recovers. Treatt trades at 32.7x FY22e P/E and 20.4x FY22e EV/EBITDA. This represents a c 10% premium in both cases.

## Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 1 below. For 2022, Treatt trades at a c 10% premium to its peer group on both P/E and EV/EBITDA (the valuation premiums are larger for FY21 in light of the expected strong growth). Historically, Treatt has traded at a discount to its peers, but the discount has narrowed and changed to a premium as the company has moved up the value chain. Although it is smaller than many of its competitors, its portfolio of products is increasingly specialised and Treatt has demonstrated its resilience with a robust performance despite the COVID-19 pandemic. Our DCF model indicates a fair value of 870p, although we believe the latest trading statement suggests the risk to forecasts lies firmly on the upside.

**Exhibit 1: Comparative valuation**

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2021e	2022e	2021e	2022e	2021e	2022e
Givaudan	CHF 35,115	39.5	36.2	26.4	25.0	1.8	1.8
IFF	\$34,908	23.8	21.3	15.2	13.3	2.2	2.4
Symrise	CHF 14,633	40.5	36.7	20.1	18.8	1.0	1.1
Chr Hansen	DKK 80,377	50.5	43.5	31.5	28.4	1.4	1.4
Kerry	€ 19,888	29.1	26.4	20.1	18.8	0.8	0.9
Ingredion	\$6,077	13.7	12.7	8.3	7.9	2.9	2.9
<b>Peer group average</b>		<b>35.1</b>	<b>32.8</b>	<b>25.2</b>	<b>20.2</b>	<b>1.3</b>	<b>1.7</b>
Treatt	£573.3	36.4	32.7	24.6	20.4	0.8	0.9
<b>Premium/(discount) to peer group (%)</b>		<b>10.8%</b>	<b>11.2%</b>	<b>21.4%</b>	<b>9.2%</b>	<b>(53.6%)</b>	<b>(50.3%)</b>

Source: Refinitiv, Edison Investment Research. Note: Priced at 9 April 2021.

**Exhibit 2: Financial summary**

	£000's	2017	2018	2019	2020	2021e	2022e	2023e
Year-end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		101,250	112,163	112,717	109,016	123,188	130,579	138,414
Cost of Sales		(75,985)	(84,407)	(84,060)	(77,140)	(86,552)	(91,092)	(95,866)
Gross Profit		25,265	27,756	28,657	31,876	36,636	39,487	42,548
EBITDA		15,049	16,627	15,785	17,862	23,322	28,048	30,495
Operating Profit (before amort., except and sbp.)		13,650	15,108	14,226	16,053	19,413	21,539	23,855
Intangible Amortisation		(137)	(124)	(90)	(75)	(64)	(54)	(46)
Share based payments		(966)	(1,040)	(637)	(886)	(1,186)	(1,318)	(1,464)
Other		0	0	0	0	0	0	0
Operating Profit		12,547	13,944	13,499	15,092	18,163	20,166	22,345
Net Interest		(851)	(1,302)	(199)	(291)	(14)	2	53
Exceptionals		0	(1,105)	(755)	(1,060)	0	0	0
Profit Before Tax (norm)		12,799	13,806	14,027	15,762	19,399	21,540	23,908
Profit Before Tax (FRS 3)		11,696	11,537	12,545	13,741	18,149	20,168	22,398
Profit Before Tax (company)		11,696	12,642	13,300	14,801	18,149	20,168	22,398
Tax		(3,129)	(2,284)	(2,673)	(2,896)	(3,630)	(4,034)	(4,480)
Profit After Tax (norm)		9,670	11,392	11,263	12,762	15,769	17,507	19,428
Profit After Tax (FRS 3)		8,567	9,253	9,872	10,845	14,519	16,135	17,918
Discontinued operations		978	2,976	(1,084)	0	0	0	0
Average Number of Shares Outstanding (m)		52.2	56.8	59.1	59.8	59.8	59.8	59.8
EPS - normalised (p)		18.5	20.1	19.0	21.3	26.4	29.3	32.5
EPS - adjusted (p)		18.3	18.0	17.8	19.7	24.3	27.0	29.9
EPS - (IFRS) (p)		16.4	16.3	16.7	18.1	24.3	27.0	29.9
Dividend per share (p)		4.8	5.1	5.5	6.0	7.5	8.3	9.3
Gross Margin (%)		25.0	24.7	25.4	29.2	29.7	30.2	30.7
EBITDA Margin (%)		14.9	14.8	14.0	16.4	18.9	21.5	22.0
Operating Margin (before GW and except.) (%)		13.5	13.5	12.6	14.7	15.8	16.5	17.2
<b>BALANCE SHEET</b>								
Fixed Assets		19,532	21,863	31,730	54,048	62,250	61,146	61,536
Intangible Assets		3,331	752	845	1,358	1,294	1,240	1,194
Tangible Assets		14,821	20,038	29,485	50,159	59,598	58,548	58,984
Investments		1,380	1,073	1,400	2,531	1,358	1,358	1,358
Current Assets		68,230	102,401	98,158	69,472	75,291	78,953	91,617
Stocks		42,878	39,642	36,799	36,050	40,490	42,658	44,941
Debtors		19,973	28,828	23,020	24,167	27,062	28,555	30,130
Cash		4,748	32,304	37,187	7,739	7,739	7,739	16,545
Other		631	1,627	1,152	1,516	0	0	0
Current Liabilities		(27,003)	(35,781)	(28,905)	(15,989)	(20,693)	(13,930)	(13,201)
Creditors		(19,266)	(16,479)	(11,784)	(12,640)	(12,981)	(13,107)	(13,201)
Short term borrowings		(7,680)	(19,244)	(16,860)	(3,203)	(7,712)	(823)	0
Provisions		(57)	(58)	(261)	(146)	0	0	0
Long Term Liabilities		(14,281)	(6,858)	(13,876)	(16,411)	(17,617)	(13,973)	(13,361)
Long term borrowings		(7,293)	(3,001)	(4,369)	(3,450)	(3,856)	(412)	0
Other long term liabilities		(6,988)	(3,857)	(9,507)	(12,961)	(13,761)	(13,561)	(13,361)
Net Assets		46,478	81,625	87,107	91,120	99,232	112,196	126,591
<b>CASH FLOW</b>								
Operating Cash Flow		4,683	3,580	20,544	15,677	16,326	24,312	26,532
Net Interest		(913)	(609)	(199)	(191)	(14)	2	53
Tax		(2,822)	(2,978)	(2,208)	(2,191)	(3,630)	(4,034)	(4,480)
Capex		(5,111)	(6,190)	(10,392)	(23,909)	(13,348)	(5,459)	(7,076)
Acquisitions/disposals		(1,667)	8,357	855	(1,041)	0	0	0
Financing		270	21,090	622	(69)	0	0	0
Dividends		(3,025)	(2,876)	(3,080)	(3,378)	(3,590)	(4,488)	(4,987)
Net Cash Flow		(8,585)	20,374	6,142	(15,102)	(4,256)	10,334	10,041
Opening net debt/(cash)		1,654	10,225	(10,059)	(15,958)	(427)	3,829	(6,504)
HP finance leases initiated		0	0	0	0	0	0	0
Other		14	(90)	(243)	(429)	(0)	0	(0)
Closing net debt/(cash)		10,225	(10,059)	(15,958)	(427)	3,829	(6,504)	(16,545)

Source: Edison Investment Research, Company data

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