

# Treatt

H122 results

## Upgrading revenue forecasts

Treatt has witnessed another good performance: H1 revenue grew by an impressive 9%, with growth across five of Treatt's six categories. Management has upgraded its revenue growth expectations for the year to 15% and sees pre-tax profit being on track to meet current consensus of £21.7m, as the company continues to invest for the future. We upgrade our revenue forecasts in line with guidance, though our profit forecasts remain broadly unchanged. As per previous guidance, H2 is expected to witness both higher revenue growth than H1 and higher margins, thus reverting to a more normal H1/H2 split following two years distorted by the consequences of lockdowns.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/20	109.0	15.8	21.3	6.0	37.6	0.7
09/21	124.3	22.7	30.1	7.5	26.6	0.9
09/22e	143.0	24.0	32.1	8.0	25.0	1.0
09/23e	151.6	25.9	34.2	8.5	23.4	1.1

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

## Strong demand

Strong demand has been driven by Treatt's core citrus category (+15% y-o-y), where more sophisticated, higher-value offerings are continuing to drive growth. Revenue growth was also strong in both synthetic aroma (+20% y-o-y), and herbs, spices & florals (+23% y-o-y), in part driven by higher demand for flavourings in the alternative protein segment. Tea (revenues down 41% vs H121) was adversely affected by the timing of launches in the prior year causing a particularly tough comparative, and a recovery is expected by management in H2. Crucially, H1 has ended strongly and the momentum has continued into H2, with stronger growth expected to come from the higher-margin healthier living categories. We therefore expect margins to be materially stronger in H2.

## H122 results

H122 revenues were up 9.0% to £66.3m, with growth in most categories. Gross margins were down 750bps on the prior year, but up 130bps versus H120, which was mostly unaffected by the pandemic. Adjusted PBT was £6.3m, versus £10.4m in H121 and £6.1m in H120. We raise our sales forecasts by 6% for FY22–24, though our profit forecasts are broadly unchanged.

## Valuation: Trading at a premium to peers

We estimate that the current share price is discounting medium-term sales growth of 5.0%, falling to 1.5% in perpetuity, with a WACC of 5.7% and a terminal EBIT margin of 20.0% (vs 17.2% in FY21). Our earnings estimates remain broadly unchanged following the announcement. Treatt trades at 25.0x FY22e P/E and 16.9x FY22e EV/EBITDA. It trades at a c 10% discount to its peer group on a P/E basis and a 5% discount on EV/EBITDA, although it trades broadly at a c20% discount on both metrics if we exclude those peers that are more exposed to lower-margin, commoditised products.

## Food & beverages

12 May 2022

**Price** 801p  
**Market cap** £480m

Net debt (£m) at 31 March 2022	19.8
Shares in issue	60.1m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(30.7)	(21.5)	(25.1)
Rel (local)	(27.7)	(17.1)	(26.9)
52-week high/low		1,315p	801p

## 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

Capital markets day	27 May 2022
FY22 trading update	early October 2022
FY22 results	29 November 2022

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## Forecasts

In light of the current trading trends discussed above, we raise our revenue forecasts for FY22–24 as detailed in Exhibit 1. We leave our growth assumptions for FY23 and FY24 unchanged, but absolute revenue forecasts increase due to the higher base. As discussed above, we believe margins are likely to be lower than we had previously forecast given the continued investment in the business, and we therefore leave our profit forecasts broadly unchanged.

We have increased our working capital outflow forecast for the year in light of the unusually strong outflows in H122, which reflected inventory builds to meet the strong pipeline of orders and generally higher raw material prices, most particularly for orange oil. We continue to expect that Treatt will experience the usual cash inflow during H2. We now expect net debt of c £8m for FY22, versus a net debt balance of £19.8m at end H122 and £9.1m at end FY21.

**Exhibit 1: Old vs new key forecasts**

	2022			2023			2024		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Revenue (£000)	134,894	142,975	6.0%	142,987	151,553	6.0%	151,567	160,647	6.0%
Operating profit (£000)	22,014	21,974	-0.2%	23,764	23,747	-0.1%	25,644	25,654	0.0%
PBT* (£000)	21,993	21,927	-0.3%	23,796	23,725	-0.3%	25,728	25,685	21,993
PBT (pre-exceptional) Edison (£000)	24,050	23,978	-0.3%	25,974	25,896	-0.3%	28,037	27,990	24,050
Basic EPS* (p)	28.8	28.7	-0.3%	30.7	30.6	-0.3%	32.7	32.7	28.8
Basic EPS (pre-exceptional) Edison (p)	32.2	32.1	-0.3%	34.3	34.2	-0.3%	36.6	36.5	32.2
Net debt/(cash) (£000)	(2,641)	7,989	N/A	(12,499)	(1,170)	N/A	(23,067)	(13,023)	N/A

Source: Edison Investment Research. Note: \*Stated on an IFRS/reported basis.

## Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 2 below. For 2022, based on Edison estimates, Treatt trades at a c 10% discount to its peer group on a P/E basis and a 5% discount on an EV/EBITDA basis, though we note Kerry and Ingredion have a larger proportion of lower-margin products in their portfolios. If we exclude Kerry and Ingredion, Treatt is trading at a c20% discount to its remaining peers on both P/E and EV/EBITDA. Although it is smaller than its peers, its portfolio of products is increasingly specialised and the company has demonstrated its resilience with a robust performance despite the pandemic.

**Exhibit 2: Comparative valuation**

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2022e	2023e	2022e	2023e	2022e	2023e
Givaudan	CHF 32,502	35.3	31.5	24.1	22.3	1.9	2.0
IFF	\$32,619	22.1	19.5	17.1	15.4	2.4	2.5
Symrise	CHF 14,138	32.9	29.1	17.6	16.2	1.1	1.2
Chr Hansen	DKK 69,238	39.5	35.0	23.8	21.7	1.6	1.8
Kerry	€ 17,390	23.3	21.0	16.6	15.2	1.0	1.2
Ingredion	\$5,749	12.2	11.2	7.8	7.5	3.0	3.1
<b>Peer group average</b>		<b>27.6</b>	<b>24.5</b>	<b>17.8</b>	<b>16.4</b>	<b>1.9</b>	<b>2.0</b>
Treatt	£482	25.0	23.4	16.9	15.8	1.0	1.1
<b>Premium/(discount) to peer group (%)</b>		<b>(9.4%)</b>	<b>(4.5%)</b>	<b>(5.0%)</b>	<b>(3.2%)</b>	<b>(46.8%)</b>	<b>(46.4%)</b>

Source: Refinitiv, Edison Investment Research. Note: Prices as of 11 May 2022.

**Exhibit 3: Financial summary**

	£000s	2018	2019	2020	2021	2022e	2023e	2024e
Year-end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		112,163	112,717	109,016	124,326	142,975	151,553	160,647
Cost of Sales		(84,407)	(84,060)	(77,140)	(82,103)	(94,847)	(100,084)	(105,607)
Gross Profit		27,756	28,657	31,876	42,223	48,128	51,470	55,040
EBITDA		16,627	15,785	17,862	24,877	28,976	30,960	33,036
Operating Profit (before amort., except and sbp)		15,108	14,226	16,053	23,172	24,026	25,918	27,959
Intangible Amortisation		(124)	(90)	(75)	(93)	(79)	(67)	(57)
Share based payments		(1,040)	(637)	(886)	(1,733)	(1,973)	(2,104)	(2,248)
Other		0	0	0	0	0	0	0
Operating Profit		13,944	13,499	15,092	21,346	21,974	23,747	25,654
Net Interest		(1,302)	(199)	(291)	(427)	(48)	(22)	30
Exceptionals		(1,105)	(755)	(1,060)	(1,302)	0	0	0
Profit Before Tax (norm)		13,806	14,027	15,762	22,745	23,978	25,896	27,990
Profit Before Tax (FRS 3)		11,537	12,545	13,741	19,617	21,927	23,725	25,685
Profit Before Tax (company)		12,642	13,300	14,801	20,919	21,927	23,725	25,685
Tax		(2,284)	(2,673)	(2,896)	(4,469)	(4,684)	(5,338)	(6,036)
Profit After Tax (norm)		11,392	11,263	12,762	18,090	19,294	20,558	21,954
Profit After Tax (FRS 3)		9,253	9,872	10,845	15,148	17,242	18,387	19,649
Discontinued operations		2,976	(1,084)	0	0	0	0	0
Average Number of Shares Outstanding (m)		56.8	59.1	59.8	60.1	60.1	60.1	60.1
EPS - normalised (p)		20.1	19.0	21.3	30.1	32.1	34.2	36.5
EPS - adjusted (p)		18.0	17.8	19.7	27.1	28.7	30.6	32.7
EPS - (IFRS) (p)		16.3	16.7	18.1	25.2	28.7	30.6	32.7
Dividend per share (p)		5.1	5.5	6.0	7.5	8.0	8.5	9.1
Gross Margin (%)		24.7	25.4	29.2	34.0	33.7	34.0	34.3
EBITDA Margin (%)		14.8	14.0	16.4	20.0	20.3	20.4	20.6
Operating Margin (before GW and except.) (%)		13.5	12.6	14.7	18.6	16.8	17.1	17.4
Operating Margin (%)		12.4	12.0	13.8	17.2	15.4	15.7	16.0
<b>BALANCE SHEET</b>								
Fixed Assets		21,863	31,730	54,048	65,811	66,370	68,534	68,810
Intangible Assets		752	845	1,358	2,424	2,345	2,278	2,221
Tangible Assets		20,038	29,485	50,159	61,039	63,233	65,464	65,798
Investments		1,073	1,400	2,531	2,348	792	792	792
Current Assets		102,401	98,158	69,472	83,606	95,349	94,089	111,036
Stocks		39,642	36,799	36,050	47,263	57,905	61,076	64,419
Debtors		28,828	23,020	24,167	26,371	30,184	31,843	33,593
Cash		32,304	37,187	7,739	7,260	7,260	7,260	13,023
Other		1,627	1,152	1,516	2,712	0	0	0
Current Liabilities		(35,781)	(28,905)	(15,989)	(30,460)	(30,918)	(21,196)	(21,620)
Creditors		(16,479)	(11,784)	(12,640)	(17,620)	(20,609)	(21,053)	(21,477)
Short term borrowings		(19,244)	(16,860)	(3,203)	(12,697)	(10,166)	(4,060)	0
Provisions		(58)	(261)	(146)	(143)	(143)	(143)	(143)
Long Term Liabilities		(6,858)	(13,876)	(16,411)	(11,605)	(15,064)	(12,011)	(9,981)
Long term borrowings		(3,001)	(4,369)	(3,450)	(2,624)	(5,083)	(2,030)	0
Other long-term liabilities		(3,857)	(9,507)	(12,961)	(8,981)	(9,981)	(9,981)	(9,981)
Net Assets		81,625	87,107	91,120	107,352	115,736	131,446	148,245
<b>CASH FLOW</b>								
Operating Cash Flow		3,580	20,544	15,677	13,892	17,511	26,573	28,367
Net Interest		(609)	(199)	(191)	(270)	(48)	(22)	30
Tax		(2,978)	(2,208)	(2,191)	(4,874)	(4,684)	(5,338)	(6,036)
Capex		(6,190)	(10,392)	(23,909)	(13,195)	(7,145)	(7,273)	(5,410)
Acquisitions/disposals		8,357	855	(1,041)	(1,178)	0	0	0
Financing		21,090	622	(69)	(212)	0	0	0
Dividends		(2,876)	(3,080)	(3,378)	(3,704)	(4,509)	(4,781)	(5,098)
Net Cash Flow		20,374	6,142	(15,102)	(9,541)	1,125	9,159	11,854
Opening net debt/(cash)		10,225	(10,059)	(15,958)	(427)	9,114	7,989	(1,170)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(90)	(243)	(429)	(0)	0	0	(0)
Closing net debt/(cash)		(10,059)	(15,958)	(427)	9,114	7,989	(1,170)	(13,023)

Source: Edison Investment Research, company data

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