

Treatt

Rebuilding confidence

FY22 results

Treatt's FY22 results were in line with the revised guidance issued in August. Management once again explained the steps that have been taken to improve processes around sales pricing and cost recovery, with new FX management systems already implemented. Coffee was reported as a standalone segment for the first time as revenues broke through £1m. While it is still early, the company expects coffee to provide significant growth in the years ahead. Management remains optimistic despite the dampened macroeconomic environment, as the market for natural and healthy products remains resilient. Our estimates are broadly unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/21	124.3	22.7	30.1	7.5	22.2	1.1
09/22	140.2	16.5	21.9	7.9	30.5	1.2
09/23e	148.6	17.9	23.4	8.5	28.5	1.3
09/24e	157.5	20.3	26.2	9.5	25.5	1.4

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

Profitability returned to more normal levels

FY22 revenue was £140.2m, or growth of 13% (9% at constant currency), with sales growth across all categories, with the exception of hard tea. Gross margins were down 610bp to 27.9% due to a combination of profitability returning to more normal levels following the boost during the COVID-19 pandemic, and the specific factors highlighted in the August trading update. Adjusted PBT was £15.3m, at the top end of the reduced outlook issued in August. Net debt was £22.4m at year end and reflects capital expenditure in the relocation of the UK business and investment in prudent levels of inventory to mitigate supply chain risks, as per previous guidance.

Remaining optimistic about the future

While the macroeconomic environment is undoubtedly challenging, Treatt's management remains optimistic about the business's growth trajectory. Flavours represent a small part of the overall cost of a beverage, but deliver the unique and authentic taste that customers associate with a particular product. Treatt's exposure to natural and healthy products also remains in the sweet spot of what consumers are looking for. The new push into coffee should also provide a tailwind for growth as cold-brew coffee becomes more popular.

Valuation: Trades at a premium to peers

The current share price is discounting medium-term sales growth of 5.0%, falling to 2.0% in perpetuity, with a WACC of 7.7% and a terminal EBIT margin of 21.5% (vs 11.3% in FY22). Our earnings estimates remain broadly unchanged following the announcement. Treatt trades at 28.5x FY23e P/E and 17.7x FY23e EV/EBITDA. On both P/E and EV/EBITDA multiples, it trades at a c 15–25% premium to its peer group, although it trades in line with peers if we exclude those that are more exposed to lower-margin commoditised products.

Food and beverages

1 December 2022

Price 668p
Market cap £400m

Net debt (£m) at 30 September 2022	22.4
Shares in issue	59.9m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	3.1	29.0	(40.1)
Rel (local)	(3.5)	24.8	(41.7)
52-week high/low	1,315p	507p	

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

AGM statement	End January 2023
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Financials

Treatt's FY22 revenues of £140.2m were in line with our expectations and the recent trading update. Company-adjusted PBT was £15.3m, slightly ahead of our £15.1m estimate and at the top end of the revised £15.0–15.3m range announced in mid-August. Adjusted EPS (as defined by Treatt) was down 27% to 19.8p. Cash flow was weaker during FY22 as heavy capital investment continued into the new UK site as planned, and there was a further build-up of inventory at year-end. This resulted in an FY22 year-end net debt position of £22.4m (versus net debt of £9.1m at end FY21).

Treatt performed well across all its categories during FY22, with the exception of tea, and the decline there was driven specifically by hard tea (which was down 78%), as consumers moved away from this subsegment and hence an important new launch by a customer was shelved. The overall Tea segment witnessed revenue decline of 31%, though the iced tea subsegment grew 9%. The Health & Wellness segment grew revenue by 15% and continued to build on prior strength, while the Fruit & Vegetables segment was up 8% in revenue terms despite the comparative being at a record +60%. The Herbs, Spices & Florals business grew by 10.4%, as on-trade consumption rebounded post pandemic. Citrus remains the largest product category and performed well, with revenues up 23%. The Synthetic Aroma business was up 13% and performed particularly well in Europe. Coffee was reported as a separate segment for the first time and revenues were up 83% on the prior year.

By geography, the UK business grew revenues by 2.9%, with citrus and coffee performing well. Sales to mainland Europe were up 25%, with strong performance in both citrus and synthetic aroma. Revenue in the United States was broadly stable (+0.7%) as strong growth in citrus offset the significant decline in hard tea. Reported revenue in China was up 6.2% notwithstanding the extended COVID-19-related restrictions in the country. The Rest of the World (excluding China) witnessed revenue growth of 26.8%, as a number of markets recovered from the pandemic.

Exhibit 1: Actual versus forecast key P&L metrics

	FY22		
	Estimate	Actual	Difference
Revenue (£000s)	138,623	140,185	1%
Operating profit (£000s)*	15,483	15,773	2%
PBT (pre-exceptional) Treatt (£000s)*	15,068	15,256	1%
PBT (pre-exceptional) Edison (£000s)	16,331	16,510	1%
Basic EPS (pre-exceptional) Treatt (p)*	19.7	19.8	0%
Basic EPS (pre-exceptional) Edison (p)	21.8	21.9	0%

Source: Edison Investment Research. Note: *Stated on company normalised basis, which is pre-exceptional but after amortisation of acquired intangibles and share-based payments.

We have updated our forecasts in light of the FY22 results and illustrate the key changes in Exhibit 2 below.

Exhibit 2: Old versus new key P&L forecasts

	FY23e			FY24e		
	Old	New	Diff	Old	New	Diff
Revenue (£000s)	146,941	148,596	1%	155,757	157,512	1%
Operating profit (£000s)*	17,441	17,760	2%	19,110	19,455	2%
PBT (pre-exceptional) Treatt (£000s)*	16,437	16,722	2%	18,434	19,009	3%
PBT (pre-exceptional) Edison (£000s)	17,962	17,916	(0%)	20,104	20,299	1%
Basic EPS (pre-exceptional) Treatt (p)*	21.2	21.5	1%	23.5	24.1	3%
Basic EPS (pre-exceptional) Edison (p)	23.7	23.4	(1%)	26.2	26.2	(0%)

Source: Edison Investment Research. Note: *Stated on company normalised basis, which is pre-exceptional but after amortisation of acquired intangibles and share-based payments.

Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 3. For 2023, Treatt trades at a c 25% premium to its peer group on a P/E basis and a c 15% premium 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 significantly smaller premium to the remaining peers on both P/E and EV/EBITDA. Although it is smaller than its peers, Treatt's portfolio of products is increasingly specialised and the company has demonstrated its resilience with a robust performance despite the COVID-19 pandemic.

Exhibit 3: Comparative valuation

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2022e	2023e	2022e	2023e	2022e	2023e
Givaudan	CHF 28,985	33.2	29.8	22.4	21.5	2.1	2.3
IFF	\$26,980	19.0	18.2	14.8	14.3	3.0	3.0
Symrise	CHF 15,114	33.3	30.4	18.1	17.1	1.1	1.2
Chr Hansen	DKK 57,567	33.4	29.0	20.0	17.8	1.9	2.3
Kerry	€ 15,903	20.6	18.7	15.0	13.8	1.1	1.3
Ingredion	\$6,422	13.6	12.3	8.6	8.0	3.1	2.8
Peer group average		25.5	23.1	16.5	15.4	2.1	2.1
Treatt	£402	30.5	28.5	21.7	17.7	1.2	1.3
Premium/(discount) to peer group (%)		19.7%	23.7%	31.9%	14.6%	(42.8%)	(40.3%)

Source: Refinitiv, Edison Investment Research. Note: Prices as at 30 November 2022.

Exhibit 4: Financial summary

	£000's	2020	2021	2022	2023e	2024e	2025e
Year end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		109,016	124,326	140,185	148,596	157,512	165,387
Cost of Sales		(77,140)	(82,103)	(101,101)	(106,127)	(111,392)	(115,804)
Gross Profit		31,876	42,223	39,084	42,469	46,120	49,584
EBITDA		17,862	24,877	19,503	23,985	25,810	27,419
Operating profit (before amort. and excepts.)		16,053	23,172	17,027	18,954	20,745	22,118
Intangible Amortisation		(75)	(93)	(215)	(183)	(155)	(132)
Share based payments		(886)	(1,733)	(1,039)	(1,011)	(1,135)	(1,227)
Other		0	0	0	0	0	0
Operating Profit		15,092	21,346	15,773	17,760	19,455	20,759
Net Interest		(291)	(427)	(517)	(1,038)	(446)	(199)
Exceptionals		(1,060)	(1,302)	923	0	0	0
Profit Before Tax (norm)		15,762	22,745	16,510	17,916	20,299	21,919
Profit Before Tax (FRS 3)		13,741	19,617	16,179	16,722	19,009	20,560
Profit Before Tax (company adjusted)		14,801	20,919	15,256	16,722	19,009	20,560
Tax		(2,896)	(4,469)	(2,864)	(3,762)	(4,467)	(4,832)
Profit After Tax (norm)		12,762	18,090	13,215	14,153	15,832	17,088
Profit After Tax (FRS 3)		10,845	15,148	13,315	12,959	14,542	15,728
Discontinued operations		0	0	0	0	0	0
Average Number of Shares Outstanding (m)		59.8	60.1	60.4	60.4	60.4	60.4
EPS - normalised (p)		21.3	30.1	21.9	23.4	26.2	28.3
EPS - adjusted (p)		19.7	27.1	25.3	21.5	24.1	26.0
EPS - (IFRS) (p)		18.1	25.2	22.0	21.5	24.1	26.0
Dividend per share (p)		6.0	7.5	7.9	8.5	9.5	10.3
Gross Margin (%)		29.2	34.0	27.9	28.6	29.3	30.0
EBITDA Margin (%)		16.4	20.0	13.9	16.1	16.4	16.6
Operating Margin (before GW and except.) (%)		14.7	18.6	12.1	12.8	13.2	13.4
Operating Margin (%)		13.8	17.2	11.3	12.0	12.4	12.6
BALANCE SHEET							
Fixed Assets		54,048	65,811	79,644	80,502	81,645	83,020
Intangible Assets		1,358	2,424	3,206	3,023	2,868	2,736
Tangible Assets		50,159	61,039	74,281	77,479	78,777	80,284
Investments		2,531	2,348	2,157	0	0	0
Current Assets		69,472	83,606	108,537	97,456	102,689	107,210
Stocks		36,050	47,263	68,351	62,410	65,840	68,801
Debtors		24,167	26,371	37,113	32,691	34,495	36,054
Cash		7,739	7,260	2,354	2,354	2,354	2,354
Other		1,516	2,712	719	0	0	0
Current Liabilities		(15,989)	(30,460)	(46,224)	(28,211)	(25,544)	(22,053)
Creditors		(12,640)	(17,620)	(23,792)	(19,464)	(19,790)	(19,909)
Short term borrowings		(3,203)	(12,697)	(22,035)	(8,350)	(5,357)	(1,748)
Provisions		(146)	(143)	(397)	(397)	(397)	(397)
Long Term Liabilities		(16,411)	(11,605)	(7,711)	(10,544)	(9,047)	(7,243)
Long term borrowings		(3,450)	(2,624)	(2,342)	(4,175)	(2,678)	(874)
Other long term liabilities		(12,961)	(8,981)	(5,369)	(6,369)	(6,369)	(6,369)
Net Assets		91,120	107,352	134,246	139,203	149,742	160,934
CASH FLOW							
Operating Cash Flow		15,677	13,442	(1,830)	30,019	20,903	23,016
Net Interest		(191)	(270)	(382)	(1,038)	(446)	(199)
Tax		(2,191)	(4,874)	443	(3,762)	(4,467)	(4,832)
Capex		(23,909)	(13,195)	(11,849)	(8,229)	(6,363)	(6,808)
Acquisitions/disposals		(1,041)	(1,178)	4,672	0	0	0
Financing		(69)	238	475	0	0	0
Dividends		(3,378)	(3,704)	(4,834)	(4,741)	(5,137)	(5,764)
Net Cash Flow		(15,102)	(9,541)	(13,305)	12,248	4,490	5,414
Opening net debt/(cash)		(15,958)	(427)	9,114	22,419	10,171	5,681
HP finance leases initiated		0	0	0	0	0	0
Other		(429)	(0)	0	0	0	0
Closing net debt/(cash)		(427)	9,114	22,419	10,171	5,681	267

Source: Edison Investment Research, Company data

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