

Carr's Group

Acquisition broadens animal nutrition offer

On 21 September, Carr's Group announced that it had completed the acquisition of Animax, a producer of animal health products, for a total cash consideration of up to £8.5m. The transaction will broaden the group's existing range of animal health products and supplements. We raise our estimates and reiterate our indicative valuation of 178p/share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
8/16	314.9	14.2	10.8	3.8**	14.2	2.5
8/17	346.2	11.9	9.4	4.0	16.3	2.6
8/18e	377.4	16.6	13.1	4.3	11.7	2.8
8/19e	390.3	17.2	13.6	4.5	11.3	2.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Excluding 17.54p special dividend.

Boluses complement existing feed block format

Animax has a patented technology for encapsulating the trace elements copper, cobalt, iodine and selenium in boluses that are administered to sheep, cattle and their young. The boluses lodge in the animal's digestive system, releasing a controlled dosage of the supplement over a six-month period. This is highly complementary to Carr's feed block format in which trace elements and other supplements are administered via a lick. Post-acquisition, Carr's will sell Animax's products through its sales channels across the USA, New Zealand, Europe, the UK and Ireland.

Transaction immediately earnings enhancing

Animax is based in Suffolk. Together with sister company Clinimax, a manufacturer of patented specialist disinfectant products for the medical industry, it generated £0.6m EBITDA for the year ended November 2017. The initial cash consideration payable for the two companies is £6m (excluding £1.2m cash acquired with Animax), with an additional £2.5m cash consideration based on performance payable over the period to November 2020. This is payable from the group's existing facilities. We revise our estimates (FY19 EPS up 1.9%, FY20 up 3.6%) to reflect management expectations that the transaction will be earnings enhancing in FY19. The initial consideration payable, net of cash acquired, is 8.0x historic EBITDA, slightly less than the historic EV/EBITDA multiple for Carr's of 9.0x.

Valuation: Trading at a discount to peers

Despite the estimates upgrade, our updated DCF analysis gives an indicative value that remains at 178p because of the cash cost associated with the transaction. At the current share price, Carr's is trading below its peers with regards to mean P/E (11.7x vs 14.0x) for the year ending August 2018. As discussed in our [April note](#), continued recovery in the US feed block market and further confirmation of the Engineering upturn should help close the valuation gap.

Acquisition of Animax

Basic materials

1 October 2018

Price 153.5p
Market cap £140m

Net debt (£m) at 3 March 2018	16.1
Shares in issue	91.4m
Free float	84.5%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.6	3.0	6.2
Rel (local)	6.3	4.5	3.5
52-week high/low	165.0p	120.0p	

Business description

Carr's Agriculture division serves farmers in the North of England, South Wales, the Borders and Scotland, the US, Germany and New Zealand. The Engineering division offers remote handling equipment and fabrications to the global nuclear and oil and gas industries.

Next events

Prelims	12 November 2018
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Revisions to estimates

As the acquisition has taken place after the end of FY18, we revise our estimates to reflect the impact of the acquisition from FY19 onwards.

Exhibit 1: Changes to forecast

	FY17	FY18e	FY19e			FY20e		
	Actual	Unchanged	Old	New	% change	Old	New	% change
Agriculture revenues (£m)	315.9	331.7	338.1	344.1	1.8%	343.2	349.3	1.8%
Agriculture EBITA (£m)	11.4	12.7	12.6	13.2	4.8%	12.9	13.5	4.7%
Engineering revenues (£m)	30.4	45.7	46.2	46.2	0.0%	47.3	47.3	0.0%
Engineering EBITA (£m)	0.7	4.4	4.8	4.8	0.0%	5.2	5.2	0.0%
Group revenues (£m)	346.2	377.4	384.3	390.3	1.6%	390.5	396.6	1.6%
Adjusted PBT (£m)	11.9	16.6	16.9	17.2	1.8%	17.6	18.2	3.4%
EPS (p)	9.4	13.1	13.4	13.6	1.9%	14.0	14.5	3.6%
DPS(p)	4.0	4.3	4.5	4.5	0.0%	4.7	4.7	0.0%
Net (cash)/debt (£m)	14.1	14.4	10.0	15.1	50.7%	4.7	9.3	98.9%

Source: Edison Investment Research

Exhibit 2: Financial summary

	£m	2016	2017	2018e	2019e	2020e
Year-end Aug						
PROFIT & LOSS						
Revenue		314.9	346.2	377.4	390.3	396.6
EBITDA		16.5	13.9	19.4	20.4	21.2
Operating Profit (before amort. and except.)		12.9	9.8	14.8	15.7	16.4
Amortisation of acquired intangibles		(0.2)	(0.1)	(0.5)	(0.5)	(0.5)
Share-based payments		0.1	(0.5)	(0.5)	(0.5)	(0.5)
Exceptionals		0.0	(1.3)	0.0	0.0	0.0
Operating Profit		12.8	7.9	13.8	14.7	15.4
Net Interest		(0.8)	(0.7)	(1.0)	(1.3)	(1.0)
Share of post-tax profits in JVs and associates		2.1	2.8	2.8	2.8	2.8
Profit Before Tax (norm)		14.2	11.9	16.6	17.2	18.2
Profit Before Tax (FRS 3)		14.1	10.0	15.6	16.2	17.2
Tax		(2.9)	(1.7)	(3.3)	(3.5)	(3.7)
Profit After Tax (norm)		11.2	9.9	13.3	13.7	14.5
Profit After Tax (FRS 3)		11.2	8.3	12.3	12.7	13.5
Post tax profit (loss) relating to discontinued operations		2.8	0.0	0.0	0.0	0.0
Minority interest		(1.5)	(1.3)	(1.3)	(1.3)	(1.3)
Net income (norm)		9.7	8.6	12.0	12.5	13.2
Net income (FRS 3)		12.5	7.0	11.0	11.5	12.2
Average Number of Shares Outstanding (m)		90.1	91.4	91.4	91.4	91.4
EPS - normalised (p)		10.8	9.4	13.1	13.6	14.5
EPS		10.4	9.4	13.0	13.5	14.4
EPS - FRS 3 (p)		13.8	7.7	12.0	12.5	13.4
Dividend per share (p)		3.8*	4.0	4.3	4.5	4.7
EBITDA Margin (%)		5.2	4.0	5.1	5.2	5.3
Operating Margin (before GW and except.) (%)		4.1	2.8	3.9	4.0	4.1
BALANCE SHEET						
Fixed Assets		63.1	87.9	86.6	90.0	88.4
Intangible Assets		11.7	26.5	26.4	26.6	26.5
Tangible Assets, Deferred tax assets and Pension surplus		51.4	61.4	60.2	63.3	61.9
Current Assets		139.1	121.1	122.7	120.5	124.2
Stocks		33.4	37.0	38.5	39.0	39.5
Debtors		57.2	60.2	63.5	64.5	65.0
Cash		48.4	23.9	20.7	17.0	19.7
Current Liabilities		(69.0)	(73.7)	(71.7)	(69.2)	(66.7)
Creditors including tax, social security and provisions		(47.3)	(56.7)	(57.7)	(58.2)	(58.7)
Short term borrowings		(21.6)	(17.1)	(14.1)	(11.1)	(8.1)
Long Term Liabilities		(23.1)	(29.4)	(29.4)	(29.4)	(29.4)
Long term borrowings		(18.6)	(21.0)	(21.0)	(21.0)	(21.0)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(4.5)	(8.4)	(8.4)	(8.4)	(8.4)
Net Assets		110.1	105.9	108.1	111.8	116.6
Minority interest		(13.4)	(14.4)	(15.4)	(16.4)	(17.4)
Shareholders equity		96.7	91.5	92.7	95.4	99.1
CASH FLOW						
Operating Cash Flow		11.7	15.1	15.6	19.4	20.7
Net Interest		(0.5)	(0.7)	(1.0)	(1.3)	(1.0)
Tax		(1.1)	(1.2)	(3.3)	(3.5)	(3.7)
Investment activities		(2.9)	(1.1)	(3.8)	(3.8)	(3.8)
Acquisitions/disposals		22.7	(13.2)	(4.1)	(8.8)	(2.3)
Equity financing and other financing activities		1.0	0.1	0.0	0.0	0.0
Dividends		(3.3)	(19.5)	(3.7)	(3.9)	(4.1)
Net Cash Flow		27.5	(20.4)	(0.2)	(1.9)	5.8
Opening net debt/(cash)		24.4	(8.1)	14.1	14.4	15.1
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(5.1)	1.9	0.0	(1.2)	0.0
Closing net debt/(cash)		(8.1)	14.1	14.4	15.1	9.3

Source: Company accounts, Edison Investment Research. Note: *Excluding 17.54p special dividend.

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