

Carr's Group

Acquisition

Entry into nuclear defence segment

Basic materials

4 July 2019

Carr's Group has announced the acquisition of Cumbria-based NW Total Engineered Solutions for a total cash consideration of up to £9.6m. The acquisition fulfils management's ambition of taking the Engineering division into the nuclear defence segment. We expect it will be earnings enhancing from FY20 onwards and raise our indicative valuation from 182p/share to 184p/share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/17	346.2	11.9	9.4	4.0	16.7	2.5
08/18	403.2	17.7	15.2	4.5	10.3	2.9
08/19e	418.8	18.1	15.2	4.7	10.3	3.0
08/20e	434.6	19.4	16.4	4.9	9.6	3.1

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

Complementary to existing engineering activity

NW Total designs and manufactures bespoke process equipment packages and provides onsite technical support, installation and condition monitoring services to the nuclear defence, nuclear power generation and decommissioning markets. The acquisition enhances the Engineering division's offer for the nuclear industry, adding specialist services such as condition monitoring and staff authorised to work on highly regulated sites such as Sellafield. The deal extends the customer base in the UK and provides opportunities for cross-selling, with NW Total designing complex fabrications such as pressure vessels and heat exchangers and the existing UK businesses manufacturing them. The former owners will remain with the business post-acquisition. As with previous acquisitions, Carr's intends to invest in the newly acquired business, recruiting staff to support business development and drive operating efficiency improvements.

Earnings enhancing

The initial consideration payable is £6.0m, with a performance-related deferred consideration of up to £3.6m payable over the next three years. The initial consideration will be funded by an additional term loan facility of £6.0m, with the deferred element self-financed. For the year ended March 2019, NW Total reported £9.1m revenues and £1.5m profit before tax. Despite the costs associated with the additional staff, management expects the acquisition to be earnings enhancing in its first full year of ownership.

Valuation: Indicative valuation of 184p/share

Our DCF analysis gives an indicative value of 184p/share (previously 182p/share). At the current share price, Carr's is trading below its peers with regards to mean EV/EBITDA (6.3x vs 8.2x) and mean P/E (9.6x vs 13.3x) for the year ending August 2020. Clarity on trading arrangements post-Brexit (although Carr's Group's geographic reach and diversity reduces exposure to restrictions on lamb exports) and news of further contracts to replenish Wälischmiller's order book should, in our view, help close the valuation gap compared with the mean.

Price 157p
Market cap £144m

Net debt (£m) at 2 March 2019	23.3
Shares in issue	91.9m
Free float	84.5%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.3	10.3	5.1
Rel (local)	(3.1)	7.8	5.8
52-week high/low		173p	130p

Business description

Carr's Agriculture division serves farmers in the North of England, South Wales, the Welsh 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

IMS 17 July 2019

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Changes to estimates

We update our estimates to reflect the following:

- An additional £9.1m revenues attributable to NW Total in FY20 and FY21
- An additional £0.7m EBITA attributable to NW Total in FY20 and FY21. This is less than the £1.5m profit before tax for the year ended March 2019 because of the additional staff Carr's plans to add and because the former owners, which are staying with the business, were previously paid through a dividend arrangement.
- Initial consideration for NW Total of £6.0m payable in FY19 and payments of deferred consideration of £1.2m in both FY20 and FY21.
- Additional £6.0m term loan to fund acquisition.
- £0.2m reduction in FY20 Agriculture EBITDA to reflect uncertainty regarding the impact of Brexit on UK farm incomes.

Exhibit 1: Revisions to estimates

	FY19e			FY20e			FY21e		
	Old	New	Change	Old	New	Change	Old	New	Change
Agriculture revenues (£m)	372.6	372.6	0.0%	378.2	378.2	0.0%	382.0	382.0	0.0%
Agriculture EBITA (£m)	13.4	13.4	0.0%	13.7	13.5	-1.5%	14.0	14.0	0.0%
Engineering revenues (£m)	46.2	46.2	0.0%	47.3	56.4	19.2%	48.5	57.6	18.8%
Engineering EBITA (£m)	4.6	4.6	0.0%	5.0	5.9	18.0%	5.3	6.1	14.2%
Group revenues (£m)	418.8	418.8	0.0%	425.5	434.6	2.1%	430.5	439.6	2.1%
Adjusted PBT (£m)	18.1	18.1	0.0%	18.9	19.4	2.6%	19.3	20.0	3.6%
EPS (p)	15.3	15.2	-0.1%	16.0	16.4	2.8%	16.4	16.9	3.0%
DPS (p)	4.7	4.7	0.0%	4.9	4.9	0.0%	5.1	5.1	0.0%
Net (cash)/debt (£m)	21.5	27.5	28.1%	20.7	28.7	38.9%	14.8	23.5	58.8%

Source: Edison Investment Research

Valuation

Our valuation methodology is based on a DCF analysis, supplemented with a comparison of peer group multiples. We continue to use a conservative 10.0% WACC and a 1.0% terminal growth rate for our DCF calculation. This gives a fair value of 184p/share (previously 182p/share). The valuation gap should close once there is clarity on trading arrangements post-Brexit and news of further contracts to replenish Wälischmiller's order book.

Exhibit 2: DCF analysis

		Discount rate (post-tax, nominal)				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth	0.0%	191	180	169	160	151
	1.0%	211	197	184	173	163
	1.5%	223	207	193	181	170
	2.0%	236	219	203	190	178
	2.5%	249	231	215	201	186
	3.0%	270	247	228	211	196

Source: Edison Investment Research

In Exhibit 3, we compare Carr's EV/EBITDA and P/E multiples for the years ended August 2019 and August 2020 with calendarised multiples for listed peers in the agricultural sector. At the current share price (157p), on our estimates Carr's is trading below its peers with regards to the mean EV/EBITDA (6.3x vs 8.2x) and P/E (9.6x vs 13.3x) multiples for the year ending August 2020. At the indicative value of 184p/share derived from our DCF calculation, Carr's implied EV/EBITDA multiple

for the year ending August 2020 remains below the peer group mean (7.3x vs 8.2x), as does the P/E multiple (11.2x vs 13.3x).

Exhibit 3: Peer-based multiples

Name	Market cap (£m)	EV/EBITDA (x) August 2019	EV/EBITDA (x) August 2020	P/E (x) August 2019	P/E (x) August 2020
Anpario	77	11.7	10.6	19.0	17.9
BayWa	778	14.6	13.2	21.0	16.1
NWF Group	83	7.0	7.0	11.6	11.5
Origin Enterprises	558	9.7	9.4	9.7	9.3
Ridley Corporation	196	8.5	7.4	16.1	15.7
Wynnstay Group	63	6.9	6.4	10.2	9.4
Mean		8.7	8.2	14.6	13.3
Carr's Group at 157p/share	144	6.7	6.3	10.3	9.6
Carr's Group at 184p/share	169	7.7	7.3	12.1	11.2

Source: Refinitiv, Edison Investment Research. Note: Prices at 1 July 2019. Grey shading indicates exclusion from mean.

Exhibit 4: Financial summary

	£m	2017	2018	2019e	2020e	2021e
Year-end Aug		Restated				
PROFIT & LOSS						
Revenue		346.2	403.2	418.8	434.6	439.6
EBITDA		13.9	19.9	20.9	22.2	22.9
Operating Profit (before amort. and except.)		9.8	15.4	16.3	17.5	18.2
Amortisation of acquired intangibles		(0.1)	(0.3)	(0.2)	(0.2)	(0.2)
Share-based payments		(0.5)	(1.1)	(1.1)	(1.1)	(1.1)
Exceptionals		(1.3)	(0.8)	(0.2)	0.0	0.0
Operating Profit		7.9	13.2	14.8	16.2	16.9
Net Interest		(0.7)	(0.9)	(1.3)	(1.2)	(1.2)
Share of post-tax profits in JVs and associates		2.8	3.2	3.0	3.0	3.0
Profit Before Tax (norm)		11.9	17.7	18.1	19.4	20.0
Profit Before Tax (FRS 3)		10.0	15.5	16.6	18.1	18.7
Tax		(1.7)	(1.9)	(2.6)	(2.9)	(3.0)
Profit After Tax (norm)		9.9	15.6	15.5	16.5	17.1
Profit After Tax (FRS 3)		8.3	13.6	13.9	15.2	15.7
Post tax profit (loss) relating to discontinued operations		0.0	0.0	0.0	0.0	0.0
Minority interest		(1.3)	(1.8)	(1.5)	(1.5)	(1.5)
Net income (norm)		8.6	13.9	14.0	15.0	15.6
Net income (FRS 3)		7.0	11.9	12.4	13.7	14.2
Average Number of Shares Outstanding (m)		91.4	91.4	91.8	91.9	91.9
EPS - normalised (p)		9.4	15.2	15.2	16.4	16.9
EPS		9.4	14.8	14.9	16.0	16.6
EPS - FRS 3 (p)		7.7	13.0	13.5	14.9	15.5
Dividend per share (p)		4.0	4.5	4.7	4.9	5.1
EBITDA Margin (%)		4.0	4.9	5.0	5.1	5.2
Operating Margin (before GW and except.) (%)		2.8	3.8	3.9	4.0	4.1
BALANCE SHEET						
Fixed Assets		87.6	96.5	107.9	107.8	107.7
Intangible Assets		26.6	26.5	26.4	26.5	26.7
Tangible Assets, Deferred tax assets and Pension surplus		61.1	70.0	81.5	81.3	81.0
Current Assets		120.9	134.7	133.8	138.8	142.5
Stocks		37.0	42.4	47.0	52.4	53.0
Debtors		60.0	67.7	71.3	75.2	76.0
Cash		23.9	24.6	15.5	11.3	13.5
Current Liabilities		(73.9)	(99.5)	(83.7)	(83.2)	(81.0)
Creditors including tax, social security and provisions		(56.9)	(64.5)	(66.7)	(69.2)	(70.0)
Short term borrowings		(17.1)	(35.0)	(17.0)	(14.0)	(11.0)
Long Term Liabilities		(28.7)	(10.8)	(31.8)	(31.8)	(31.8)
Long term borrowings		(21.0)	(5.0)	(26.0)	(26.0)	(26.0)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long-term liabilities		(7.8)	(5.8)	(5.8)	(5.8)	(5.8)
Net Assets		105.9	121.0	126.2	131.7	137.4
Minority interest		(14.4)	(15.7)	(16.7)	(17.7)	(18.7)
Shareholders' equity		91.5	105.3	109.5	114.0	118.8
CASH FLOW						
Operating Cash Flow		15.1	15.0	14.9	15.5	22.3
Net Interest		(0.7)	(1.0)	(1.3)	(1.2)	(1.2)
Tax		(1.2)	(2.5)	(2.6)	(2.9)	(3.0)
Investment activities		(1.1)	(2.8)	(5.3)	(4.8)	(4.8)
Acquisitions/disposals		(13.2)	(4.2)	(14.8)	(3.5)	(3.5)
Equity financing and other financing activities		0.1	(0.1)	0.0	0.0	0.0
Dividends		(19.5)	(3.8)	(4.1)	(4.3)	(4.5)
Net Cash Flow		(20.4)	0.5	(13.3)	(1.2)	5.2
Opening net debt/(cash)		(8.1)	14.1	15.4	27.5	28.7
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		1.9	1.7	(1.2)	0.0	0.0
Closing net debt/(cash)		14.1	15.4	27.5	28.7	23.5

Source: Company data, Edison Investment Research

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