

Carr's Group

Strength through diversification

Trading update

Basic materials

Diversification both inside and outside the agriculture sector means that Carr's Group continues to trade in line with management expectations for FY19 despite the unusually mild UK winter and spring. We leave our estimates and indicative valuation of 184p per share unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/17	346.2	11.9	9.4	4.0	16.1	2.6
08/18	403.2	17.7	15.2	4.5	10.0	3.0
08/19e	418.8	18.1	15.2	4.7	10.0	3.1
08/20e	434.6	19.4	16.4	4.9	9.3	3.2

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

Diversification mitigates impact of mild weather

As flagged at the AGM and interims, mild weather in the UK throughout the winter and spring resulted in lower demand for feed blocks, feed, fuel and animal health products. However, the mild spring promoted grass growth, driving demand for silage wrap, fertiliser and tractor fuel, which partly offsets the negative trends. Management is mitigating any adverse impact on profitability through improved efficiencies and better procurement. US feed block volumes continue to rise as penetration of the eastern states of the US increases following the commissioning of the low-moisture feed block plant in Tennessee in January 2018. Looking forward, management typically invests in acquisitions post-completion. In the case of Animax, acquired in September 2018, it is investing in automation to add capacity and extending the product range to include boluses for larger livestock.

Strong Engineering order book

The UK Manufacturing business continued to perform well as it worked on a strong order book backed by long-term contracts from the nuclear industry and a buoyant oil and gas market. While the remote handling business was relatively quiet, with most of the revenues from the \$8.5m US contract not being realised until FY20, this was offset by higher than anticipated activity in the US as NuVision worked on two significant Mechanical Stress Improvement Process contracts extending to FY21. Work has started on the project for the US Department of Energy to develop a small-scale working prototype of NuVision's passive cooling technology, which is intended to prevent a repeat of the Fukushima tragedy. The recent acquisition of NW Total Engineered Solutions takes the group into the nuclear defence segment.

Valuation: Indicative valuation of 184p per share

Our DCF analysis gives an indicative value of 184p per share (unchanged). At the current share price, Carr's is trading below its peers on mean EV/EBITDA (6.1x vs 8.1x) and mean P/E (9.3x vs 13.1x) 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.

17 July 2019

Price **151.5p**
Market cap **£139m**

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	0.7	(1.0)	0.0
Rel (local)	(2.2)	(1.9)	1.3
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

Prelims	11 November 2019
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Exhibit 1: 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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