

# Carr's Group

## Details of FY22 performance

FY22 results

Basic materials

27 March 2023

**Price** **121.5p**  
**Market cap** **£114m**

Net debt (£m) on 3 September 2022 (excluding finance leases and before receipt of cash from disposal) 14.0

Shares in issue 94.0m

Free float 62.2%

Code CARR

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 0.0 3.4 (18.7)

Rel (local) 5.5 3.2 (17.4)

52-week high/low 153p 92p

### Business description

Carr's Group's Speciality Agriculture division serves farmers in the UK, Ireland, the US, Germany, Canada and New Zealand with feed blocks and feed supplements. The Engineering division offers remote handling equipment and fabrications to the global nuclear and oil and gas industries.

### Next event

H123 results April 2023

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Carr's Group has released its audited results for FY22, having previously issued a detailed trading update in February giving preliminary financial metrics on FY22 performance. The shares were suspended from trading in January because of delays in publishing these results. The company has applied for them to be restored to trading.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/21**	120.3	10.4	10.1	5.00	12.0	4.1
08/22	124.2	11.2	10.0	5.20	12.2	4.3
08/23e	150.0	10.5	8.8	5.40	13.8	4.4
08/24e	158.9	11.7	9.3	5.60	13.1	4.6

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Restated to treat Agricultural Supply as a discontinued business.

## Strong recovery in Engineering in FY22

As discussed in detail in [our note in early March](#), group revenues grew by 3.3% y-o-y to £124.2m in FY22, with higher commodity prices offsetting a small reduction in feed block volumes and lower revenues from the engineering division. Adjusted operating profit increased by 7.5% to £11.9m. A strong recovery in the Engineering division was partly offset by a reduction in profits from the Speciality Agriculture division and higher central costs. The full-year dividend was raised by 4% to 5.2p per share. We have updated our model to show the audited results, which include information on the discontinued Agricultural Supplies business and exceptional items.

## FY23 outlook unchanged

Management has not provided any further information on H123 trading since the February announcement and intends to update investors when the interim results are released, which is likely to be in the last week of April. We therefore leave our FY23 and FY24 estimates broadly unchanged. H123 started well, with strong performances from both divisions. However, the trading environment became more challenging in November and December. Feed block volumes were adversely affected by a continuation of the drought in the US and mild weather in the UK. Engineering performance was held back by very competitive pricing for tenders.

## Valuation: Scope for share price uplift

Now that there is clarity regarding the cash balance following the disposal of the Agricultural Supplies division, we revert to a discounted cash flow (DCF) analysis, which avoids the potential volatility associated with a peer multiples-based approach. Using a 9.5% WACC and a 2.0% terminal growth rate gives an indicative value of 154p/share, which is a 27% premium to the current share price. We see scope for further uplift in our indicative valuation as management invests the proceeds from the disposal in cash-enhancing acquisitions and in-house initiatives.

## Additional information on FY22 performance

Our update earlier in March commented on group performance and the performance of the Speciality Agriculture and Engineering divisions, so we will not repeat that commentary in this note. The detailed FY22 results provided information on the discontinued Agricultural Supply business and on exceptional items, which was not available in the February trading update.

### Agricultural Supplies division

Divisional revenues rose by 21.0% to £343.8m, reflecting significant increases in the cost of raw materials. Although livestock prices also increased, the volume of beef and sheep feed sold over the summer reduced year-on-year as farmers extended grazing to reduce cash expenditure. Stronger performances in the Country Store and farm machinery activities partly offset lower demand for feed and fuel. Adjusted divisional EBIT increased by 6.8% to £6.9m.

### Exceptional items

#### Exhibit 1: Summary of exceptional items

Description (£m)	FY21	FY22
Adjustments to contingent consideration	1.0	1.3
Strategic review costs	0.0	(0.5)
Gain on acquisition of outstanding 50% stake in Afgritech joint venture	0.0	0.7
Goodwill impairment related to Chirton and Walischmiller Engineering businesses	0.0	(4.2)
Impairment related to Afgritech joint venture	(2.1)	0.0
Other	(0.6)	(0.1)
Total exceptional items included in reported EBIT	(1.7)	(2.7)

Source: Carr's Group data

### Estimates

Since management has not provided any further information on H123 trading since the February announcement we leave our FY23 and FY24 estimates broadly unchanged, except for revising amortisation and depreciation in line with FY22 levels. This results in no change to the adjusted EBIT, PBT or EPS estimates. FY23 EBITDA rises from £14.1m to £15.0m and FY24 rises by the same amount to £16.1m.

### Valuation

#### SOTP analysis

We base our sum-of-the-parts (SOTP) analysis (Exhibit 2) on the EBIT attributable to each remaining division, including the contribution from joint ventures (JVs) where appropriate, applying multiples derived from the peer comparison in Exhibit 3. The peer group for the Speciality Agriculture division is relatively small and diverse, so does not provide a definitive valuation. Anpario provides biological feed additives, Benchmark offers aquaculture biotechnology and Genus supplies pig, dairy and beef farmers with animals, semen or embryos carrying desirable characteristics for producing higher-quality meat and milk more efficiently. The engineering division may struggle to command multiples similar to the peers listed above until investors can see that the current margin pressures on some fabrication projects have eased. Subject to these limitations, our calculation gives an indicative valuation of 235.6p/share. If we were to cut the Speciality Agriculture

sample back to just Anpario, which is the closest peer with regards to products, this would apply a multiple of 13.5x to the Speciality Agriculture EBIT and give an indicative valuation of 183.4p.

**Exhibit 2: SOTP analysis**

	FY23 EBIT (£m)	Multiple (x)	Value (£m)
Speciality Agriculture	8.4	19.4	161.8
Engineering	5.2	13.6	70.6
Central costs	(2.6)	8.0	(20.9)
EV	10.9		211.5
Net debt at end FY22			(14.0)
Net initial proceeds from disposal			24.0
Equity value			221.5
Number of shares (m)			94.0
Indicative value per share (p)			235.6

Source: Refinitiv, Edison Investment Research

**Exhibit 3: Peer multiples**

Name	Market cap (£m)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
<b>Speciality agriculture</b>					
Anpario	74.3	13.5	12.9	19.9	18.9
Benchmark Holdings	266.7	83.9	22.5	(56.3)	401.7
Genus	1,916.9	25.3	22.1	31.6	27.0
<b>Mean</b>		19.4	17.5	25.8	22.9
<b>Engineering</b>					
Avingtrans	144.8	14.7	13.8	20.1	18.8
IMI	3,894.1	12.4	11.5	13.7	12.7
James Fisher and Sons	149.4	13.3	11.2	11.3	8.1
Weir Group	4,685.9	13.9	12.9	16.8	15.5
<b>Mean</b>		13.6	12.3	15.5	13.8

Source: Refinitiv. Note: Prices at 22 March 2023. Grey shading indicates exclusion from mean.

## DCF methodology

The sample of Speciality Agriculture peers is small and the three companies in the sample have very divergent multiples. Moreover, the resultant indicative valuation is inflated by the inclusion of Genus, which offers very different products to the group's Speciality Agriculture division. (Benchmark Holdings' multiples are excluded from the calculation anyway.) We therefore prefer a discounted cash flow (DCF) analysis. This has become viable again now that there is clarity regarding the cash balance following the disposal of the Agricultural Supplies division. Using a 9.5% WACC and a 2.0% terminal growth rate gives an indicative value of 154p/share, which is a 27% premium to the current share price. We see scope for further uplift in indicative valuation as management invests the proceeds from the disposal in cash-enhancing acquisitions and in-house initiatives.

**Exhibit 4: DCF valuation (p/share) – sensitivities to WACC and terminal growth assumptions**

		Discount rate (post-tax, nominal)				
		8.0%	9.0%	9.5%	10.0%	11.0%
Terminal growth	0.0%	155	138	131	125	115
	1.0%	170	150	142	134	122
	1.5%	180	157	148	139	126
	2.0%	191	165	154	145	130
	3.0%	220	185	171	160	141

Source: Edison Investment Research

**Exhibit 5: Financial summary**

	£m	2021	2022	2023e	2024e
Year end 31 August		IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>		restated			
Revenue		120.3	124.2	150.0	158.9
EBITDA (including share of post-tax results of associate and JVs)		14.9	16.0	15.0	16.1
Operating profit (before amort. and excepts.)		11.1	11.9	10.9	12.1
Amortisation of acquired intangibles		(1.2)	(0.9)	(0.9)	(0.9)
Exceptionals		(1.7)	(2.7)	0.0	0.0
Reported operating profit		8.2	8.2	10.0	11.1
Net Interest		(0.7)	(0.7)	(0.4)	(0.4)
Exceptionals		0.0	0.0	0.0	0.0
Profit Before Tax (norm)		10.4	11.2	10.5	11.7
Profit Before Tax (reported)		7.5	7.6	9.6	10.7
Reported tax		(1.8)	(1.5)	(2.3)	(2.9)
Profit After Tax (norm) - continuing businesses		9.4	9.4	8.3	8.7
Profit After Tax (reported) - continuing businesses		5.7	6.0	7.3	7.8
Profit after tax of discontinued operations		3.8	4.0	0.0	0.0
Loss on disposal of discontinued operations		0.0	(6.2)	0.0	0.0
Reported profit for the year including discontinued operations		9.6	3.8	7.3	7.8
Average Number of Shares Outstanding (m)		93.1	93.9	94.0	94.0
EPS - normalised (p)		10.1	10.0	8.8	9.3
EPS - normalised fully diluted (p)		9.9	9.9	8.7	9.2
EPS - basic reported (p)		6.2	6.4	7.8	8.3
Dividend (p)		5.00	5.20	5.40	5.60
EBITDA Margin (%)		12.4	12.9	10.0	10.1
Normalised Operating Margin (%)		9.2	9.6	7.3	7.6
<b>BALANCE SHEET</b>					
Fixed Assets		123.5	83.2	82.6	81.9
Intangible Assets		36.7	28.2	27.6	27.0
Tangible Assets		53.0	41.4	41.4	41.3
Investments & other		33.9	13.6	13.6	13.6
Current Assets		139.1	228.5	106.7	111.8
Stocks		43.2	27.0	27.1	27.9
Debtors		68.9	26.6	27.4	27.4
Cash & cash equivalents		24.3	22.5	45.7	50.0
Other (including assets in disposal group classified as held for sale)		2.7	152.4	6.5	6.5
Current Liabilities		(87.0)	(139.9)	(35.3)	(33.0)
Creditors		(72.8)	(23.4)	(23.4)	(23.5)
Tax and social security		(0.0)	(0.7)	(0.7)	(0.7)
Short term borrowings including finance leases		(14.1)	(14.2)	(11.2)	(8.8)
Other (including liabilities in disposal group classified as held for sale)		0.0	(101.6)	(0.1)	(0.1)
Long Term Liabilities		(41.2)	(35.3)	(35.3)	(35.3)
Long term borrowings including finance leases		(35.6)	(29.9)	(29.9)	(29.9)
Other long term liabilities		(5.6)	(5.4)	(5.4)	(5.4)
Net Assets		134.6	136.5	118.6*	125.3
<b>CASH FLOW</b>					
Operating Cash Flow		14.9	16.0	15.0	16.1
Working capital		5.3	(8.7)	(0.9)	(0.7)
Exceptional & other		(2.1)	(2.8)	0.0	0.0
Tax		(1.3)	(0.8)	(2.3)	(2.9)
Net Operating Cash Flow		16.9	3.7	11.8	12.5
Investment activities		(3.0)	(4.0)	(4.3)	(4.3)
Acquisitions/disposals		(1.1)	(0.4)	24.0	4.0
Net interest		(0.8)	(0.8)	(0.4)	(0.4)
Equity financing		0.9	0.4	0.0	0.0
Dividends		(5.5)	(4.7)	(4.9)	(5.1)
Other (including cash generated from discontinued operations)		3.4	13.1	0.0	0.0
Net Cash Flow		10.8	7.2	26.2	6.7
Opening net debt/(cash) including finance leases		(32.8)	25.4	21.6	(4.6)
FX and other non-cash movements		(69.0)	(3.3)	0.0	0.0
Closing net debt/(cash) including finance leases		25.4	21.6	(4.6)	(11.3)
Finance leases		15.4	7.5	7.5	7.5
Closing net debt/(cash) excluding finance leases		10.0	14.0	(12.2)	(18.8)

Source: Company data, Edison Investment Research. Note: \*There was no pro forma information on shareholder equity, so this is subject to change as information becomes available.

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