

Treatt

FY19 results

Balanced portfolio shines through

Treatt's FY19 results are testament to the resilience of the business: despite a 10% revenue decline in the citrus segment – caused by a sharp fall in citrus input prices – 16% growth in Treatt's broadened portfolio of non-citrus revenues resulted in overall reported revenue up 0.5% (-2% at constant currency), in line with our estimates. The key non-citrus categories of tea, health & wellness and fruit & vegetables continue to perform exceptionally well and the company has recently entered the coffee space, which is expected to provide further growth opportunities. Management's outlook for FY20 is positive, despite citrus pricing continuing to show weakness. Our fair value remains unchanged at 530p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/18	112.2	13.8	20.3	5.1	21.6	1.2
09/19	112.7	14.0	19.2	5.5	22.8	1.3
09/20e	115.0	14.8	18.9	5.8	23.2	1.3
09/21e	119.6	15.8	20.3	6.2	21.6	1.4

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

Diversified business provides growth opportunities

Treatt's clean-label innovations continue to resonate with consumer demand for better-for-you/natural products, as consumers continue to look for premium beverage propositions with positive health connections. Although Treatt's citrus segment represented 54% of total revenue in FY19, and citrus pricing was down significantly, the company's strategic shift over time to a more diversified range of value-added products that are less correlated to external market movements served as a mitigating factor.

UK relocation remains on schedule

The UK relocation continues, with occupancy scheduled for fiscal Q420. In addition to increased capacity, the UK relocation should also accelerate Treatt's partnership-based model with customers, hence allowing enhanced profitability. FY19 witnessed the completion of the US expansion, which occurred on budget and on schedule. The capacity in non-citrus was doubled, while the size of the technical and innovation centre was quadrupled.

Valuation: Remains attractive

We value Treatt using a DCF model, which indicates a fair value of 530p, unchanged since our [note](#) released with October's trading update. On a calendarised basis Treatt trades at 22.7x FY20e P/E and 14.9x FY20e EV/EBITDA. On both P/E and EV/EBITDA multiples it trades at a c 10% discount to its peer group.

Food & beverages

26 November 2019

Price 438.0p
Market cap £259m

Net cash (£m) at 30 September 2019	16.0
Shares in issue	59.1m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.1	(3.5)	(0.5)
Rel (local)	0.8	(7.9)	(7.1)
52-week high/low	480.00p	388.00p	

Business description

Treatt provides innovative ingredient solutions from its manufacturing bases in Europe, North America and Africa, principally for the flavours and fragrance industries and multinational consumer goods companies, with particular emphasis on the beverage sector.

Next events

H120 trading update	March 2020
H120 results	May 2020

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FY19 results

Treatt's FY19 results were broadly in line with our expectations and with the recent trading update. Revenues were £112.7m and adjusted PBT was £13.3m, exactly in line with our forecasts. Adjusted EPS (as defined by Treatt) were down 1% to 17.8p due to the small increase in the effective tax rate and the full year effect of the 10% equity placing and LTIP (Long Term Investment Plan) in the prior year. We illustrate the very slight changes to our P&L forecasts in Exhibit 1 below.

Exhibit 1: Old vs new key P&L forecasts									
Year end September (£m)	2019			2020e			2021e		
	Forecast	Actual	Diff	Old	New	Diff	Old	New	Diff
Revenue	112,724	112,717	0.0%	114,978	114,971	0.0%	119,577	119,570	0.0%
PBT*	13,250	13,300	0.4%	13,979	14,029	0.4%	14,990	15,042	0.3%
Adjusted EPS (continuing) (p)*	16.7	17.8	6.6%	17.6	17.7	0.2%	18.9	18.9	0.2%

Source: Company data, Edison Investment Research. Note: *As defined by Treatt, excluding exceptional items and discontinued operations.

Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 2 below. Treatt trades at a discount to its peer group on both a P/E and EV/EBITDA basis. We believe some discount is justified to reflect its small size and because some of its products are relatively 'upstream' in the ingredients spectrum, particularly the bulk ingredients that are sold to other ingredients companies.

Exhibit 2: Comparative valuation							
	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2019e	2020e	2019e	2020e	2019e	2020e
Givaudan	CHF 26,796	33.4	30.1	23.3	21.2	2.2	2.3
IFF	\$14,616	22.2	21.0	16.8	15.7	2.1	2.2
Symrise	CHF 14,616	35.4	30.1	18.1	16.0	1.2	1.3
Chr Hansen	DKK 67,497	35.2	32.4	23.5	22.0	2.3	1.9
Kerry	€ 20,354	29.4	26.8	21.1	19.3	0.7	0.7
Ingredion	\$5,585	12.8	12.2	7.8	7.5	2.8	2.9
Peer group average		28.1	25.4	18.4	16.9	1.9	1.9
Treatt	£259.0	22.9	22.7	16.2	14.9	1.3	1.3
Premium/(discount) to peer group (%)		(18.4%)	(10.6%)	(12.3%)	(12.1%)	(31.8%)	(28.5%)

Source: Refinitiv, Edison Investment Research. Note: Prices as of 25 November 2019.
NB Treatt calendarised

Our DCF-derived fair value is unchanged at 530p. Our longer-term sales growth forecast remains at 5.0% pa, falling to 2% growth in perpetuity. Our DCF is calculated based on a WACC of 6.8% (encompassing a beta of 0.8, an equity risk premium of 5.0% and a borrowing spread of 5.0%) and a terminal growth rate of 2%.

Exhibit 3: Financial summary

	£000's	2016	2017	2018	2019	2020e	2021e	2022e
Year end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		88,040	101,250	112,163	112,717	114,971	119,570	124,353
Cost of Sales		(67,639)	(75,985)	(84,407)	(84,060)	(85,281)	(88,453)	(91,743)
Gross Profit		20,401	25,265	27,756	28,657	29,690	31,117	32,610
EBITDA		11,604	15,049	16,627	15,785	16,896	19,116	20,076
Operating Profit (before amort., except and share-based payments)		10,257	13,650	15,108	14,226	14,980	15,742	16,622
Intangible Amortisation		(142)	(137)	(124)	(90)	(77)	(65)	(55)
Share based payments		(566)	(966)	(1,040)	(637)	(674)	(723)	(766)
Other		0	0	0	0	0	0	0
Operating Profit		9,549	12,547	13,944	13,499	14,229	14,953	15,800
Net Interest		(703)	(851)	(1,302)	(199)	(200)	88	144
Exceptionals		(553)	0	(1,105)	(755)	0	0	0
Profit Before Tax (norm)		9,554	12,799	13,806	14,027	14,780	15,830	16,766
Profit Before Tax (FRS 3)		8,293	11,696	11,537	12,545	14,029	15,042	15,945
Profit Before Tax (company)		8,846	11,696	12,642	13,300	14,029	15,042	15,945
Tax		(2,144)	(3,129)	(2,284)	(2,673)	(3,577)	(3,836)	(4,066)
Profit After Tax (norm)		7,410	9,670	11,522	11,354	11,202	11,994	12,701
Profit After Tax (FRS 3)		6,149	8,567	9,253	9,872	10,452	11,206	11,879
Discontinued operations		0	978	2,976	(1,084)	0	0	0
Average Number of Shares Outstanding (m)		51.9	52.2	56.8	59.1	59.1	59.1	59.1
EPS - normalised (p)		14.3	18.5	20.3	19.2	18.9	20.3	21.5
EPS - normalised & fully diluted (p)		14.1	17.9	19.8	18.9	18.7	20.0	21.2
EPS - (IFRS) (p)		11.8	16.4	18.0	17.8	17.7	18.9	20.1
Dividend per share (p)		4.4	4.8	5.1	5.5	5.8	6.2	6.6
Gross Margin (%)		23.2	25.0	24.7	25.4	25.8	26.0	26.2
EBITDA Margin (%)		13.2	14.9	14.8	14.0	14.7	16.0	16.1
Operating Margin (before GW and except.) (%)		11.7	13.5	13.5	12.6	13.0	13.2	13.4
BALANCE SHEET								
Fixed Assets		16,161	19,532	21,863	31,730	44,462	39,316	36,171
Intangible Assets		3,364	3,331	752	845	769	703	648
Tangible Assets		11,361	14,821	20,038	29,485	42,293	37,212	34,123
Investments		1,436	1,380	1,073	1,400	1,400	1,400	1,400
Current Assets		54,435	68,230	102,401	98,158	97,628	99,567	101,689
Stocks		29,990	42,878	39,642	36,799	37,190	38,439	39,727
Debtors		17,853	19,973	28,828	23,020	23,250	23,941	24,775
Cash		6,588	4,748	32,304	37,187	37,187	37,187	37,187
Other		4	631	1,627	1,152	0	0	0
Current Liabilities		(16,388)	(27,003)	(35,781)	(28,905)	(29,212)	(21,481)	(14,883)
Creditors		(15,834)	(19,266)	(16,479)	(11,784)	(11,155)	(11,003)	(10,822)
Short term borrowings		(487)	(7,680)	(19,244)	(16,860)	(18,057)	(10,478)	(4,062)
Provisions		(67)	(57)	(58)	(261)	0	0	0
Long Term Liabilities		(17,021)	(14,281)	(6,858)	(13,876)	(19,336)	(15,346)	(11,938)
Long term borrowings		(7,755)	(7,293)	(3,001)	(4,369)	(9,029)	(5,239)	(2,031)
Other long term liabilities		(9,266)	(6,988)	(3,857)	(9,507)	(10,307)	(10,107)	(9,907)
Net Assets		37,187	46,478	81,625	87,107	93,542	102,056	111,039
CASH FLOW								
Operating Cash Flow		10,804	4,683	3,580	20,544	15,898	16,825	17,573
Net Interest		(703)	(913)	(609)	(199)	(200)	88	144
Tax		(2,022)	(2,822)	(2,978)	(2,208)	(3,577)	(3,836)	(4,066)
Capex		(679)	(5,111)	(6,190)	(10,392)	(14,725)	1,706	(365)
Acquisitions/disposals		(861)	(1,667)	8,357	855	0	0	0
Financing		280	270	21,090	622	0	0	0
Dividends		(2,095)	(3,025)	(2,876)	(3,080)	(3,253)	(3,415)	(3,662)
Net Cash Flow		4,724	(8,585)	20,374	6,142	(5,856)	11,369	9,624
Opening net debt/(cash)		6,155	1,654	10,225	(10,059)	(15,958)	(10,101)	(21,470)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(223)	14	(90)	(243)	(1)	0	(0)
Closing net debt/(cash)		1,654	10,225	(10,059)	(15,958)	(10,101)	(21,470)	(31,094)

Source: Company data, Edison Research

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