

Treatt

Demonstrating its resilience

Treatt has had another successful half year, and the COVID-19 pandemic has, to date, had no adverse effect on the business. As previously stated, the sharp fall in citrus prices during FY19 has continued into H120, hence H1 revenue is down 5.6% at constant currency. There was good growth in the other parts of the business, with tea and health & wellness as the standout performers. Building work on the new UK site has slowed due to the COVID-19 pandemic, and at this stage guidance is for relocation to be in 2021, ie a c three- to six-month delay vs previous guidance of Q420. Our forecasts and fair value remain 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	23.8	1.1
09/19	112.7	14.0	19.2	5.5	25.2	1.2
09/20e	115.0	14.8	18.9	5.8	25.5	1.2
09/21e	119.6	15.8	20.3	6.2	23.8	1.3

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

COVID-19 pandemic has had no adverse effect

The company is following relevant government guidelines and has implemented appropriate health and safety measures. Its order intake has been strong, as its customers have responded to increased demand for cleaning products and beverages consumed at home. The pandemic, therefore, has so far had no adverse effect on the overall business, with the exception of the above-mentioned delay to the relocation of the UK business. This will help to preserve cash, and the company's financial position remains extremely comfortable, with current net cash of £6.5m and total bank facilities of £25m, of which £24.9m remains undrawn.

Demand remains strong

The company continues to successfully embrace the sweet spot in flavour ingredients. Its portfolio is well-suited for the current consumer trends of clean labels and more natural, better-for-you products. The order book and current demand are looking healthy ahead of the peak seasonal period. While citrus prices have continued to be lower than the prior year during H1, they have been recovering and in H2 will start to lap easier comparatives. We therefore continue to expect revenue growth during H2. We note that the non-citrus categories have continued to perform very well, with tea revenues up 47.5%, fruit and vegetables up 9.4% and health and wellness up 19.9% during H1, and we leave our estimates unchanged. This reflects the company's statement that demand so far has been robust and trading remains in line with the board's expectations.

Valuation: Remains attractive

We value Treatt using a DCF model, which indicates a fair value of 530p (unchanged). On a calendarised basis, Treatt trades at 25.1x FY20e P/E and 16.5x FY20e EV/EBITDA. On both P/E and EV/EBITDA multiples, it trades in line with its peer group, as it has demonstrated its resilience and defensive qualities.

H120 trading update

Food & beverages

9 April 2020

Price 483.0p
Market cap £291m

Net cash (£m) at 31 March 2020	6.5
Shares in issue	60.2m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.8	1.7	19.3
Rel (local)	20.2	36.1	54.6
52-week high/low	546.0p	310.0p	

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 results	12 May 2020
Trading update	September 2020
FY20 results	24 November 2020

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Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 1 below. For 2020, Treatt trades in line with its peer group on both a P/E and EV/EBITDA basis. Although it is smaller than its peers, its portfolio of products is increasingly specialised and the company has demonstrated its resilience with a robust performance despite the COVID-19 pandemic.

Exhibit 1: Comparative valuation

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2020e	2021e	2020e	2021e	2020e	2021e
Givaudan	CHF27,856	32.4	32.0	24.7	22.0	5.1	4.8
IFF	\$11,641	17.7	17.7	13.9	13.8	3.0	3.0
Symrise	CHF11,641	40.1	31.6	19.5	17.1	3.9	3.6
Chr Hansen	DKK67,373		35.6		23.7		8.3
Kerry	€16,242	23.3	22.0	16.8	15.9	2.5	2.4
Ingredion	\$5,388	12.1	11.9	7.6	7.4	1.1	1.1
Peer group average		25.1	25.1	16.5	16.6	3.1	3.9
Treatt	£286	25.1	23.5	16.5	14.8	1.2	1.3
Premium/(discount) to peer group (%)		(0.2%)	(6.5%)	0.0%	(13.5%)	(61.3%)	(66.4%)

Source: Refinitiv, Edison Investment Research. Note: Prices as of 7 April 2020.

Our DCF-derived fair value is unchanged at 530p as our forecasts are unchanged. 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 2: Financial summary

	£000s	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 sbp.)		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	60.2	60.2	60.2
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)	0	0	(0)
Closing net debt/(cash)		1,654	10,225	(10,059)	(15,958)	(10,101)	(21,470)	(31,094)

Source: Company data, Edison Investment Research

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