

Treatt

H123 results

A strong start to the year

Treatt's H123 results demonstrate that the business is back to greater stability and resilience. The growth was particularly impressive in Citrus, Coffee and China, and management is quietly confident about the rest of the year. We continue to believe that risk lies to the upside in terms of market expectations. Growth in H1 was driven by price increases, which offset inflationary pressures and supported margins. Cost control and efficiency measures are ongoing, and cash flow was strong, as highlighted in the recent trading update, with improved net debt despite the traditional build of working capital at H1.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/21	124.3	22.7	30.1	7.5	21.6	1.2
09/22	140.2	16.5	21.9	7.9	29.7	1.2
09/23e	154.2	18.0	23.6	8.5	27.5	1.3
09/24e	163.5	20.4	26.4	9.6	24.6	1.5

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

Strong sales growth and cash management

H123 sales of £76.0m were 14.6% ahead of the prior year, or +8.5% at constant currency. Gross margin was up 70bps on H122 though, as highlighted at the trading update, higher administrative expenses (increased depreciation and inflationary pressures) led to operating margins 20bps ahead of the comparative period, and adjusted EPS was up 10% to 9.04p. Dividend per share was 2.55p, up 2% as management moves towards a longer-term target of three times dividend cover. Net debt was £17.7m, an improvement versus £22.4m at end FY22.

Value-added products drive growth

Management remains focused on its higher margin, value-added categories and sees particular opportunities in the Coffee segment and in its business in China. The Chinese beverage market is disproportionately citrus-focused, which naturally plays to Treatt's strengths. Coffee remains an exciting new category for Treatt, with the business well-positioned to capitalise on current consumer interest in the cold-brew category in the US and the UK.

Valuation: Forecasts unchanged

The current share price is discounting medium-term sales growth of 4.8%, falling to 2.0% in perpetuity, with a WACC of 7.7% and a terminal EBIT margin of 21.5% (vs 11.3% in FY22). Our forecasts remain unchanged. We note that H2 is the bigger half year for Treatt as it is a more summer-weighted business, owing to its exposure to beverages in the northern hemisphere. Treatt trades at 28.2x FY23e P/E and 17.4x FY23e EV/EBITDA. On both P/E and EV/EBITDA multiples, it trades at a c 5-10% premium to its peer group. On both metrics it trades at a c 5-10% discount to peers if we exclude those that are more exposed to lower-margin commoditised products.

Food and beverages

10 May 2023

Price 650p
Market cap £396m

Net debt (£m) at 31 March 2023	17.7
Shares in issue	60.9m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	10.2	2.4	(35.3)
Rel (local)	9.5	4.9	(39.0)
52-week high/low		904p	507p

Business description

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

Next events

Trading update	October 2023
FY23 results	28 November 2023

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Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 1 below. Treatt trades at a c 5-10% premium to its peer group on both a P/E basis and an EV/EBITDA basis, though we note Kerry and Ingredion have a larger proportion of lower-margin products in their portfolios. If we exclude Kerry and Ingredion, Treatt is trading at a c 5-10% discount to the remaining peers on both P/E and EV/EBITDA multiples. Although it is smaller than its peers, its portfolio of products is increasingly specialised.

Exhibit 1: Comparative valuation

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2023e	2024e	2023e	2024e	2023e	2024e
Givaudan	CHF 29,101	31.6	28.1	22.0	20.2	2.2	2.3
IFF	\$24,777	20.0	17.1	15.1	13.5	3.1	3.2
Symrise	CHF 15,344	32.9	28.6	17.9	16.3	1.1	1.1
Chr Hansen	DKK 68,699	36.4	32.4	21.7	19.8	1.8	2.0
Kerry	€17,037	21.6	19.3	15.8	14.4	1.2	1.3
Ingredion	\$7,151	11.9	11.3	8.0	7.7	2.7	2.8
Peer group average		25.7	22.8	16.7	15.3	2.0	2.1
Treatt	£400	28.2	25.2	17.4	16.3	1.3	1.4
Premium/(discount) to peer group (%)		9.5%	10.4%	4.0%	6.4%	(35.7%)	(32.6%)

Source: Refinitiv, Edison Investment Research. Note: Prices as of 8 May 2023.

Exhibit 2: Financial summary

	£000's	2020	2021	2022	2023e	2024e	2025e
Year end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		109,016	124,326	140,185	154,204	163,456	171,628
Cost of Sales		(77,140)	(82,103)	(101,101)	(110,286)	(115,759)	(120,345)
Gross Profit		31,876	42,223	39,084	43,918	47,697	51,283
EBITDA		17,862	24,877	19,503	24,255	25,917	27,553
Operating profit (before amort. and excepts.)		16,053	23,172	17,027	19,010	20,830	22,221
Intangible Amortisation		(75)	(93)	(215)	(183)	(155)	(132)
Share based payments		(886)	(1,733)	(1,039)	(1,014)	(1,140)	(1,233)
Other		0	0	0	0	0	0
Operating Profit		15,092	21,346	15,773	17,813	19,536	20,856
Net Interest		(291)	(427)	(517)	(1,038)	(446)	(199)
Exceptionals		(1,060)	(1,302)	923	0	0	0
Profit Before Tax (norm)		15,762	22,745	16,510	17,972	20,384	22,022
Profit Before Tax (FRS 3)		13,741	19,617	16,179	16,775	19,089	20,657
Profit Before Tax (company)		14,801	20,919	15,256	16,775	19,089	20,657
Tax		(2,896)	(4,469)	(2,864)	(3,774)	(4,486)	(4,854)
Profit After Tax (norm)		12,762	18,090	13,215	14,198	15,898	17,168
Profit After Tax (FRS 3)		10,845	15,148	13,315	13,001	14,603	15,802
Discontinued operations		0	0	0	0	0	0
Average Number of Shares Outstanding (m)		59.8	60.1	60.3	60.3	60.3	60.3
EPS - normalised (p)		21.3	30.1	21.9	23.6	26.4	28.5
EPS - adjusted (p)		19.7	27.1	25.4	21.6	24.2	26.2
EPS - (IFRS) (p)		18.1	25.2	22.1	21.6	24.2	26.2
Dividend per share (p)		6.0	7.5	7.9	8.5	9.6	10.4
Gross Margin (%)		29.2	34.0	27.9	28.5	29.2	29.9
EBITDA Margin (%)		16.4	20.0	13.9	15.7	15.9	16.1
Operating Margin (before GW and except.) (%)		14.7	18.6	12.1	12.3	12.7	12.9
Operating Margin (%)		13.8	17.2	11.3	11.6	12.0	12.2
BALANCE SHEET							
Fixed Assets		54,048	65,811	79,644	81,143	82,353	83,822
Intangible Assets		1,358	2,424	3,206	3,023	2,868	2,736
Tangible Assets		50,159	61,039	74,281	78,120	79,485	81,086
Investments		2,531	2,348	2,157	0	0	0
Current Assets		69,472	83,606	108,537	99,965	104,841	109,107
Stocks		36,050	47,263	68,351	63,686	67,017	70,024
Debtors		24,167	26,371	37,113	33,925	35,470	36,728
Cash		7,739	7,260	2,354	2,354	2,354	2,354
Other		1,516	2,712	719	0	0	0
Current Liabilities		(15,989)	(30,460)	(46,224)	(30,508)	(27,775)	(24,313)
Creditors		(12,640)	(17,620)	(23,792)	(20,164)	(20,994)	(21,656)
Short term borrowings		(3,203)	(12,697)	(22,035)	(9,947)	(6,384)	(2,260)
Provisions		(146)	(143)	(397)	(397)	(397)	(397)
Long Term Liabilities		(16,411)	(11,605)	(7,711)	(11,342)	(9,561)	(7,499)
Long term borrowings		(3,450)	(2,624)	(2,342)	(4,973)	(3,192)	(1,130)
Other long-term liabilities		(12,961)	(8,981)	(5,369)	(6,369)	(6,369)	(6,369)
Net Assets		91,120	107,352	134,246	139,258	149,858	161,117
CASH FLOW							
Operating Cash Flow		15,677	13,442	(1,830)	28,481	21,871	23,948
Net Interest		(191)	(270)	(382)	(1,038)	(446)	(199)
Tax		(2,191)	(4,874)	443	(3,774)	(4,486)	(4,854)
Capex		(23,909)	(13,195)	(11,849)	(9,084)	(6,452)	(6,933)
Acquisitions/disposals		(1,041)	(1,178)	4,672	0	0	0
Financing		(69)	238	475	0	0	0
Dividends		(3,378)	(3,704)	(4,834)	(4,731)	(5,143)	(5,777)
Net Cash Flow		(15,102)	(9,541)	(13,305)	9,853	5,344	6,186
Opening net debt/(cash)		(15,958)	(427)	9,114	22,419	12,566	7,222
HP finance leases initiated		0	0	0	0	0	0
Other		(429)	(0)	0	0	0	0
Closing net debt/(cash)		(427)	9,114	22,419	12,566	7,222	1,036

Source: Edison Investment Research, company data

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