

Carr's Group

Confirmation of interim dividend

Interim management
statement

Basic materials

15 July 2020

Price 106p
Market cap £98m

Net debt (£m) at end February 2020 excluding leases	25.4
Shares in issue	92.4m
Free float	61.1%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.5	5.4	(28.7)
Rel (local)	(0.6)	(1.3)	(14.6)
52-week high/low		160p	88p

Business description

Carr's Group'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 23 November 2020

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

industrials@edisongroup.com

[Edison profile page](#)

**Carr's Group is a research
client of Edison Investment
Research Limited**

Carr's Group's trading update for the 19 weeks ended 11 July 2020 notes that the company continues to trade in line with management expectations for FY20. The board is combining the two interim dividend payments this year into a single interim payment of 2.25p/share, equivalent to the two interim payments made in FY19. We leave our FY20 estimates unchanged but reduce our FY21 EPS estimate by 12% to reflect lower cattle prices in the US and weaker demand from the oil and gas industry, both related to the coronavirus pandemic.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/18	403.2	17.7	15.2	4.5	7.0	4.2
08/19	403.9	18.9	15.6	4.8	7.0	4.5
08/20e	372.0	15.2	12.0	4.8	8.8	4.5
08/21e	382.5	16.6	13.4	4.9	7.9	4.6

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

US cattle prices affected by meat packer closures

All of the division's UK and overseas manufacturing facilities have remained operational throughout the pandemic, as has the network of UK retail outlets. Over the last 19 weeks trading has been ahead of expectations. After a temporary dip in average farmgate milk prices at the start of the lockdown, the UK livestock industry has operated as usual. The unseasonably dry weather at the start of the period followed by cooler than usual temperatures has inhibited forage growth and resulted in marginally higher demand for feeds, feed supplements and fuels. However, the closure of large meat processing plants in the US because of COVID-19 outbreaks has led to a drop in cattle prices which has adversely affected supplement sales in the region. Management expects that low US cattle prices and weak demand for supplements there will continue into FY21.

Low oil price affecting investment

The main UK engineering sites have remained operational and the US engineers have been able to continue their work from home. However, the lockdown has caused some temporary interruptions to nuclear and defence projects because personnel have not been able to visit customer sites. In addition, the low oil price caused by the pandemic has resulted in a reduction in investment from the oil and gas industry. Management expects that this situation will continue into FY21.

Valuation: Indicative valuation of 170p/share

Our DCF analysis gives an indicative value of 170p/share (previously 172p/share). At the current share price, Carr's is trading below its peers with regards to mean EV/EBITDA (5.7x vs 7.7x) and mean P/E (8.8x vs 11.8x) multiples for the year ending August 2020. Confirmation that Carr's diversified business model can address longer-term issues caused by the COVID-19 pandemic, clarity on post-Brexit UK trading arrangements from 2021 onwards and future UK farming subsidies, should, in our view, help move the share price back towards our indicative valuation.

Revisions to estimates

We have not changed our FY20 estimates because the overperformance in the agriculture division over the last 19 weeks balances the underperformance in the engineering division. Our FY20 estimates were revised down in March because the UK agricultural activities had been adversely affected by the mild winter that has depressed demand for feed and feed supplements and there were delays in receiving orders in the engineering division. We cut our FY20 and FY21 EPS estimates by 26% and 10% respectively at this point.

Exhibit 1: Estimate revisions

Year end 31 August (£m)	2019	2020e			2021e			2022e		
		Unchanged	Old	New	Change	Old	New	Change		
Agriculture revenues	357.4	320.0	355.0	330.0	-7.0%	360.0	360.0	0.0%		
Engineering revenues	46.5	52.0	57.6	52.5	-8.9%	58.8	58.8	0.0%		
Group revenues	403.9	372.0	412.6	382.5	-7.3%	418.8	418.8	0.0%		
Agriculture EBITA including JVs	14.7	11.4	13.8	12.8	-7.3%	14.1	14.1	0.0%		
Engineering EBITA	5.9	5.9	7.0	6.0	-95.0%	7.1	7.1	0.0%		
Group EBITA (after deducting share-based payments)	18.9	15.5	18.8	16.8	-10.4%	19.2	19.2	0.0%		
Normalised PBT	18.9	15.2	18.5	16.6	-10.6%	18.9	18.9	0.0%		
Normalised basic EPS (p)	15.6	12.0	15.2	13.4	-11.8%	15.6	15.6	0.0%		
Dividend per share (p)	4.75	4.75	4.90	4.90	0.0%	5.10	5.10	0.0%		
Net debt/(cash)	23.8	29.3	26.7	23.9	-10.5%	23.3	24.7	5.8%		

Source: Company data, Edison Investment Research

We have changed our FY21 estimates to reflect:

- Lower demand for feed supplements in the US because cattle prices are not expected to recover quickly because there is an oversupply of meat.
- Lower investment from the oil and gas industry related to lower oil prices. This is likely to result in lower orders from this sector of the group's UK manufacturing businesses.

We have not changed our FY22 estimates, though are mindful of the potential impact of sustained oil price weakness, depressed US cattle prices and a no-deal Brexit may have on the speed at which the group's profits recover from FY20 levels.

Exhibit 2: Alternative presentation of adjusted PBT and EPS

Year end 31 August (£m)	FY20e	FY21e	FY22e
Edison normalised PBT	15.2	16.6	18.9
Share-based payments	(0.9)	(0.9)	(0.9)
PBT after deducting share-based payments	14.3	15.7	18.0
Tax (£m)	(2.5)	(2.6)	(3.0)
Minority interest	(1.6)	(1.6)	(1.6)
Net income after deducting share-based payments	10.2	11.5	13.5
Number of shares (m)	92.4	92.4	92.4
EPS after deducting share-based payments (p)	11.0	12.4	14.6
Edison normalised EPS (p)	12.0	13.4	15.6

Source: Edison Investment Research

Valuation

DCF methodology

Our valuation methodology is based on a DCF analysis, supplemented with a comparison of peer group multiples. We continue to use a conservative 10.0% WACC and a 1.0% terminal growth rate for our DCF calculation. This gives a fair value of 170p/share (previously 172p/share). We prefer this metric because it looks beyond the short-term issues of unseasonal weather and delays to

engineering orders that are specific to the group. The valuation gap should begin to close as investors gain confidence in the likelihood of a recovery in the agricultural division, which will be supported by better visibility on the length of the downturn in US cattle prices, post-Brexit trading arrangements in the UK from CY21 onwards and future UK farming subsidies. Positive news regarding contracts to replenish the order book for the German robotics business will also help push the share price upwards.

Exhibit 3: DCF valuation

		Discount rate (post-tax, nominal)				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth (%)	0.0%	177	166	156	147	138
	1.0%	196	182	170	160	150
	1.5%	208	192	179	167	157
	2.0%	221	204	189	176	164
	3.0%	253	231	212	196	182

Source: Edison Investment Research

Peer-based multiples

Exhibit 4: Calendarised peer-based multiples

Name	ytd performance	Market cap	EV/EBITDA (x)		P/E (x)		Year 1 dividend
	(%)	(£m)	2020e	2021e	2020e	2021e	yield (%)
ForFarmers	(1.5)	532.2	6.3	9.0	11.8	11.8	4.8
NWF Group	9.4	96.1	6.9	7.9	10.8	11.3	3.5
Origin Enterprises	(17.8)	344.4	12.1	9.0	11.7	7.4	1.1
Ridley Corporation	(26.7)	135.4	7.5	7.7	13.7	13.1	4.7
Wynnstay Group	0.8	61.1	5.6	5.0	10.8	9.3	4.7
Mean			7.7	7.7	11.8	10.6	3.8
Carr's Group @ current share price of 106p/share	(31.1)	98.0	5.7	5.4	8.8	7.9	4.5
Carr's Group @ Edison DCF of 170p/share	(31.1)	157.1	8.5	8.0	14.2	12.7	2.8

Source: Refinitiv, Edison Investment Research. Note: Prices at 9 July 2020

In Exhibit 4 we compare Carr's EV/EBITDA and P/E multiples for the years ended August 2020 and August 2021 with calendarised multiples for listed peers in the agricultural sector. At the current share price (106p), Carr's is trading close to or below the bottom of the range for its peers on all metrics. In our opinion this is undeserved because Carr's feed block activity in North America, mainland Europe and New Zealand reduces the exposure of its agricultural businesses to challenges caused by the UK climate and government policy. This sets Carr's apart from both NWF and Wynnstay, whose agricultural activities are confined to the UK.

At the indicative value of 170p/share derived from our DCF calculation, Carr's is trading at a substantial premium to its peers on all metrics. This is not surprising given that a DCF valuation looks at the long-term cash-generation profile rather than short-term profits.

At current levels, Carr's Group offers a high dividend yield (4.5%), although this is in line with most of its peers. The fact that management has combined the deferred initial interim payment with the second interim dividend payment (typically the group pays two interim dividends) to give a single payment equal to the two interim dividends paid out in FY19 suggests that the total FY20 dividend will be maintained at FY19 levels. We note that current cash levels are ahead of the board's expectations. Given that our estimates show an improvement in profitability in FY21, an increase in the dividend next year seems justified. FY21 dividend cover is 2.7x.

Exhibit 5: Financial summary

	£m	2018	2019	2020e	2021e	2022e
Year end 31 August		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		403.2	403.9	372.0	382.5	418.8
EBITDA		23.1	24.7	21.3	22.7	25.0
Operating Profit (before amor. and except.)		18.6	19.8	16.3	17.7	20.1
Amortisation of acquired intangibles		(0.3)	(0.8)	(0.8)	(0.8)	(0.8)
Exceptionals		(0.8)	(0.9)	0.0	0.0	0.0
Share-based payments		(1.1)	(0.9)	(0.9)	(0.9)	(0.9)
Share of post-tax profits in JVs and associates		3.2	2.7	2.2	2.2	2.6
Reported operating profit		16.4	17.2	14.6	16.0	18.4
Net Interest		(0.9)	(0.9)	(1.2)	(1.2)	(1.2)
Profit Before Tax (norm)		17.7	18.9	15.2	16.6	18.9
Profit Before Tax (reported)		15.5	16.3	13.5	14.9	17.2
Reported tax		(1.9)	(2.7)	(2.5)	(2.6)	(3.0)
Profit After Tax (norm)		15.6	15.9	12.7	13.9	15.9
Profit After Tax (reported)		13.6	13.6	11.0	12.2	14.3
Minority interests		(1.8)	(1.6)	(1.6)	(1.6)	(1.6)
Net income (normalised)		13.9	14.3	11.1	12.4	14.4
Net income (reported)		11.9	12.0	9.4	10.7	12.7
Basic average number of shares outstanding (m)		91.4	91.8	92.4	92.4	92.4
EPS - normalised (p)		15.2	15.6	12.0	13.4	15.6
EPS - normalised fully diluted (p)		14.8	15.2	11.7	13.0	15.1
EPS - basic reported (p)		13.0	13.1	10.2	11.5	13.7
Dividend (p)		4.50	4.75	4.75	4.90	5.10
EBITDA Margin (%)		5.7	6.1	5.7	5.9	6.0
Normalised Operating Margin		4.6	4.9	4.4	4.6	4.8
BALANCE SHEET						
Fixed Assets		96.5	115.6	115.7	115.7	115.8
Intangible Assets		26.5	42.2	42.6	42.9	43.3
Tangible Assets		38.7	41.9	41.6	41.3	41.0
Investments & other		31.4	31.5	31.5	31.5	31.5
Current Assets		134.7	140.7	135.8	137.9	144.5
Stocks		42.4	46.3	51.5	49.3	53.4
Debtors		67.5	65.8	64.2	66.1	72.4
Cash & cash equivalents		24.6	28.6	20.1	22.5	18.8
Other		0.1	0.0	0.0	0.0	0.0
Current Liabilities		(99.5)	(88.8)	(82.2)	(81.3)	(83.6)
Creditors		(64.3)	(63.9)	(60.3)	(62.5)	(67.7)
Tax and social security		(0.2)	(1.0)	(1.0)	(1.0)	(1.0)
Short term borrowings		(35.0)	(23.9)	(20.9)	(17.9)	(14.9)
Other		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(10.8)	(36.6)	(36.6)	(36.6)	(36.6)
Long term borrowings		(5.0)	(28.6)	(28.6)	(28.6)	(28.6)
Other long term liabilities		(5.8)	(8.0)	(8.0)	(8.0)	(8.0)
Net Assets		121.0	131.0	132.7	135.7	140.2
Minority interests		(15.7)	(16.7)	(18.3)	(19.9)	(21.5)
Shareholders' equity		105.3	114.3	114.4	115.8	118.7
CASH FLOW						
Op Cash Flow before WC and tax		23.1	24.7	21.3	22.7	25.0
Working capital		(4.7)	(5.0)	(7.2)	2.5	(5.2)
Exceptional & other		(3.4)	(3.7)	(2.2)	(2.2)	(2.6)
Tax		(2.5)	(2.3)	(2.5)	(2.6)	(3.0)
Net operating cash flow		12.5	13.7	9.4	20.3	14.3
Investment activities		(2.8)	(4.2)	(5.8)	(5.8)	(5.8)
Acquisitions/disposals		(4.2)	(10.2)	(3.5)	(3.5)	(3.5)
Net interest		(1.0)	(1.1)	(1.2)	(1.2)	(1.2)
Equity financing		0.0	0.0	0.0	0.0	0.0
Dividends		(3.8)	(4.2)	(4.4)	(4.4)	(4.5)
Other		(0.6)	(0.6)	0.0	0.0	0.0
Net Cash Flow		0.1	(6.6)	(5.5)	5.4	(0.8)
Opening net debt/(cash)		14.1	15.4	23.8	29.3	23.9
FX		(0.3)	0.0	0.0	0.0	0.0
Other non-cash movements		(1.0)	(1.9)	0.0	0.0	0.0
Closing net debt/(cash)		15.4	23.8	29.3	23.9	24.7

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Carr's Group and prepared and issued by Edison, in consideration of a fee payable by Carr's Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia