

Treatt

FY21 results

Looking ahead to a new level

Treatt has once again posted a strong performance in FY21, delivering its ninth consecutive year of increased adjusted PBT. Healthier living remains an important driver of revenue and margin expansion, with group gross margins up an impressive 480bp during the year. Investment in the business continues, with the installation and commissioning of machinery at the new UK site expected by mid-2022, and the transfer of manufacturing equipment from the old facility to be completed by mid-2023. The total dividend per share was up 25% year-on-year to 7.5p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/20	109.0	15.8	21.3	6.0	53.9	0.5
09/21	124.3	22.7	30.1	7.5	38.2	0.7
09/22e	131.8	24.1	32.2	8.0	35.7	0.7
09/23e	139.7	26.0	34.3	8.5	33.5	0.7

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

In the sweet spot

Treatt remains in the sweet spot as its portfolio is well-suited for the consumer trends of clean labels and more natural, better-for-you products. The return of the on-trade following the lifting of COVID-19 restrictions, coupled with an increase in new launches that were postponed from the height of the pandemic, has resulted in further growth, particularly in the tea category, which was up 113% in revenue terms. Its synthetic aroma business also grew as demand for sustainable synthetic products is increasing. FY21 revenues were £124.3m, 14% ahead of the prior year, and adjusted PBT was £20.9m on a company-normalised basis, up 41% on FY20.

Looking ahead with confidence

Treatt's focus on value-added products continues to be a driver of margin expansion as the group moves away from commodity products. In terms of costs, increases in freight and logistics costs have not materially affected the group as it tends to transport concentrated product, hence logistics costs are less significant. Nevertheless, management has prudently built inventory to prevent any potential stresses in the supply chain. The significant increase in inventory, coupled with planned capital investment behind the new UK site, has resulted in a net cash outflow and the company moving to a net debt position of £9.1m at year end. We expect the business to be back in net cash by end FY22.

Valuation: Trading at a premium to peers

We note that the current share price is discounting medium-term sales growth of 4.5%, falling to 2.5% in perpetuity, with a WACC of 5.7% and a terminal EBIT margin of 20.0% (vs 17.2% in FY21). Our earnings estimates remain broadly unchanged following the announcement. Treatt trades at 35.7x FY22e P/E and 23.8x FY22e EV/EBITDA. On both P/E and EV/EBITDA multiples, it trades at a c 15–20% premium to its peer group, though it trades in line with peers if we exclude those that are more exposed to lower-margin commoditised products.

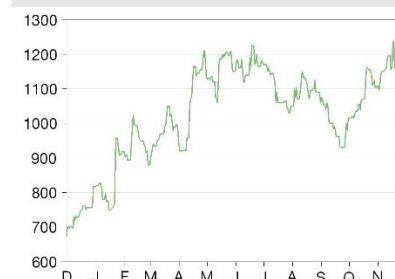
Food & beverages

30 November 2021

Price 1,150p
Market cap £691m

Net debt (£m) at 30 September	9.1
Shares in issue	60.1m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.4	1.4	64.7
Rel (local)	3.1	2.9	45.9
52-week high/low	1,240p	674p	

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

AGM January 2022

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FY21 results

Treatt's FY21 revenues of £124.3m were in line with our expectations and the recent trading update. Company-adjusted PBT was £20.9m, ahead of our £20.4m estimate. Adjusted EPS (as defined by Treatt) were up 37% to 27.1p, a touch below our 27.3p forecast. Cash flow was weaker during FY21 as heavy capital investment continued into the new UK site as planned, and there was an £11.2m build-up of inventory. This was driven by three factors: growth of the business and strength of the order book; higher prices of orange oil; and proactive purchasing by the Treatt procurement team to protect customers and the business from the well-documented global supply chain issues. This resulted in an FY21 year-end net debt position of £9.1m (versus net cash of £0.4m at end FY20).

Treatt performed well across all its segments during FY21, with growth primarily driven by the healthier living categories. Tea revenue was up an impressive 113%, although part of this was due to demand last year being affected by pandemic-related closures, particularly in the hospitality space. The Health & Wellness segment was up 29% in revenue terms and built on prior strength, while the Fruit & Vegetables segment had one of its best years and grew revenues by 60%. The Herbs, Spices & Florals business grew by just 0.5%, with the slowdown ascribed to lower on-trade consumption. Citrus remains the largest product category, although revenues were down 1.2% owing to timing of deliveries and contract mix with some large customers. The legacy Aroma & HICs business was up 8.9%; while Treatt continues to shift its focus away from traded commodities and towards value-added solutions, the demand for sustainable synthetic products continues to increase.

Exhibit 1: Actual versus forecast key P&L metrics

	FY21		
	Estimate	Actual	Difference
Revenue (£000s)	124,278	124,326	0.0%
Operating profit (£000s)*	20,436	21,346	4.5%
PBT (pre-exceptional) Treatt (£000s)*	20,417	20,919	2.5%
PBT (pre-exceptional) Edison (£000s)	21,701	22,745	4.8%
Basic EPS (pre-exceptional) Treatt (p)*	27.3	27.1	-0.9%
Basic EPS (pre-exceptional) Edison (p)	29.4	30.1	2.2%

Source: Edison Investment Research. Note: *Stated on company normalised basis, which is pre-exceptional but after amortisation of acquired intangibles and share-based payments.

We have updated our forecasts in light of the FY21 results and illustrate the key changes in Exhibit 2 below.

Exhibit 2: Old versus new key P&L forecasts

	FY22e			FY23e		
	Old	New	Diff	Old	New	Diff
Revenue (£000s)	131,735	131,786	0.0%	139,639	139,693	0.0%
Operating profit (£000s)*	22,057	22,034	-0.1%	23,800	23,775	-0.1%
PBT (pre-exceptional) Treatt (£000s)*	22,051	22,016	-0.2%	23,848	23,815	-0.1%
PBT (pre-exceptional) Edison (£000s)	23,546	24,076	2.3%	25,453	25,994	2.1%
Basic EPS (pre-exceptional) Treatt (p)*	29.5	28.8	-2.3%	31.9	30.7	-3.7%
Basic EPS (pre-exceptional) Edison (p)	32.0	32.2	0.8%	34.6	34.3	-0.7%

Source: Edison Investment Research. Note: *Stated on company normalised basis, which is pre-exceptional but after amortisation of acquired intangibles and share-based payments.

Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 3 below. For 2022, Treatt trades at a c 15–20% premium to its peer group on both a P/E and 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 broadly in line with the remaining peers on both P/E and EV/EBITDA. 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 3: Comparative valuation

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2021e	2022e	2021e	2022e	2021e	2022e
Givaudan	CHF 41,764	44.7	41.4	30.1	28.8	1.5	1.6
IFF	\$36,800	25.7	23.2	19.6	17.2	2.0	2.2
Symrise	CHF 17,349	44.4	41.6	23.3	22.1	0.9	0.9
Chr Hansen	DKK 65,905	42.2	38.4	25.0	23.0	2.0	1.7
Kerry	€ 18,982	28.6	26.0	19.6	18.4	0.9	0.9
Ingredion	\$6,428	14.0	13.1	8.7	8.2	3.0	2.7
Peer group average		33.3	30.6	21.1	19.6	1.7	1.7
Treatt	£691.4	38.2	35.7	27.8	23.8	0.7	0.7
Premium/(discount) to peer group (%)		14.9%	16.5%	31.8%	21.4%	(61.9%)	(58.4%)

Source: Refinitiv, Edison Investment Research. Note: Prices as of 26 November 2021.

Exhibit 4: Financial summary

	£000's	2018	2019	2020	2021	2022e	2023e	2024e
Year end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		112,163	112,717	109,016	124,326	131,786	139,693	148,074
Cost of Sales		(84,407)	(84,060)	(77,140)	(82,103)	(86,897)	(91,692)	(96,749)
Gross Profit		27,756	28,657	31,876	42,223	44,888	48,001	51,325
EBITDA		16,627	15,785	17,862	24,877	29,007	30,951	32,984
Operating Profit (before amort., except and sbp.)		15,108	14,226	16,053	23,172	24,093	25,954	27,955
Intangible Amortisation		(124)	(90)	(75)	(93)	(79)	(67)	(57)
Share based payments		(1,040)	(637)	(886)	(1,733)	(1,981)	(2,112)	(2,253)
Other		0	0	0	0	0	0	0
Operating Profit		13,944	13,499	15,092	21,346	22,034	23,775	25,646
Net Interest		(1,302)	(199)	(291)	(427)	(18)	40	92
Exceptionals		(1,105)	(755)	(1,060)	(1,302)	0	0	0
Profit Before Tax (norm)		13,806	14,027	15,762	22,745	24,076	25,994	28,047
Profit Before Tax (FRS 3)		11,537	12,545	13,741	19,617	22,016	23,815	25,738
Profit Before Tax (company)		12,642	13,300	14,801	20,919	22,016	23,815	25,738
Tax		(2,284)	(2,673)	(2,896)	(4,469)	(4,703)	(5,358)	(6,048)
Profit After Tax (norm)		11,392	11,263	12,762	18,090	19,372	20,635	21,999
Profit After Tax (FRS 3)		9,253	9,872	10,845	15,148	17,313	18,457	19,689
Discontinued operations		2,976	(1,084)	0	0	0	0	0
Average Number of Shares Outstanding (m)		56.8	59.1	59.8	60.1	60.1	60.1	60.1
EPS - normalised (p)		20.1	19.0	21.3	30.1	32.2	34.3	36.6
EPS - adjusted (p)		18.0	17.8	19.7	27.1	28.8	30.7	32.7
EPS - (IFRS) (p)		16.3	16.7	18.1	25.2	28.8	30.7	32.7
Dividend per share (p)		5.1	5.5	6.0	7.5	8.0	8.5	9.1
Gross Margin (%)		24.7	25.4	29.2	34.0	34.1	34.4	34.7
EBITDA Margin (%)		14.8	14.0	16.4	20.0	22.0	22.2	22.3
Operating Margin (before GW and except.) (%)		13.5	12.6	14.7	18.6	18.3	18.6	18.9
Operating Margin (%)		12.4	12.0	13.8	17.2	16.7	17.0	17.3
BALANCE SHEET								
Fixed Assets		21,863	31,730	54,048	65,811	64,740	66,770	68,905
Intangible Assets		752	845	1,358	2,424	2,345	2,278	2,221
Tangible Assets		20,038	29,485	50,159	61,039	61,603	63,700	65,892
Investments		1,073	1,400	2,531	2,348	792	792	792
Current Assets		102,401	98,158	69,472	83,606	84,917	95,951	111,125
Stocks		39,642	36,799	36,050	47,263	49,835	52,546	55,403
Debtors		28,828	23,020	24,167	26,371	27,821	29,351	30,964
Cash		32,304	37,187	7,739	7,260	7,260	14,054	24,759
Other		1,627	1,152	1,516	2,712	0	0	0
Current Liabilities		(35,781)	(28,905)	(15,989)	(30,460)	(22,794)	(21,157)	(21,642)
Creditors		(16,479)	(11,784)	(12,640)	(17,620)	(20,517)	(21,014)	(21,499)
Short term borrowings		(19,244)	(16,860)	(3,203)	(12,697)	(2,134)	0	0
Provisions		(58)	(261)	(146)	(143)	(143)	(143)	(143)
Long Term Liabilities		(6,858)	(13,876)	(16,411)	(11,605)	(11,048)	(9,981)	(9,981)
Long term borrowings		(3,001)	(4,369)	(3,450)	(2,624)	(1,067)	0	0
Other long-term liabilities		(3,857)	(9,507)	(12,961)	(8,981)	(9,981)	(9,981)	(9,981)
Net Assets		81,625	87,107	91,120	107,352	115,815	131,583	148,407
CASH FLOW								
Operating Cash Flow		3,580	20,544	15,677	13,892	27,881	27,208	29,000
Net Interest		(609)	(199)	(191)	(270)	(18)	40	92
Tax		(2,978)	(2,208)	(2,191)	(4,874)	(4,703)	(5,358)	(6,048)
Capex		(6,190)	(10,392)	(23,909)	(13,195)	(5,477)	(7,095)	(7,221)
Acquisitions/disposals		8,357	855	(1,041)	(1,178)	0	0	0
Financing		21,090	622	(69)	(212)	0	0	0
Dividends		(2,876)	(3,080)	(3,378)	(3,704)	(4,509)	(4,800)	(5,117)
Net Cash Flow		20,374	6,142	(15,102)	(9,541)	13,174	9,994	10,705
Opening net debt/(cash)		10,225	(10,059)	(15,958)	(427)	9,114	(4,060)	(14,054)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(90)	(243)	(429)	(0)	0	0	(0)
Closing net debt/(cash)		(10,059)	(15,958)	(427)	9,114	(4,060)	(14,054)	(24,759)

Source: Company accounts, Edison Investment Research

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