

# Carr's Group

Trading update

## Order delay and weather affect FY20 performance

As flagged in an interim management statement in January, Carr's Group's UK agricultural activities have been adversely affected by the mild winter that has depressed demand for feed and feed supplements. Based on the order pipeline, management had expected this would be balanced by overperformance in the Engineering division, but delays in receiving orders will lead to underperformance here as well. We cut our FY20 and FY21 EPS estimates by 26% and 10% respectively and reduce our indicative valuation from 190p/share to 172p/share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/18	403.2	17.7	15.2	4.50	6.1	4.9
08/19	403.9	18.9	15.6	4.75	5.9	5.1
08/20e	372.0	15.2	12.0	4.75	7.7	5.1
08/21e	412.6	18.5	15.2	4.90	6.1	5.3

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

## Mild UK weather affects demand

As flagged in January, compared to financial H119, demand for animal feed in the UK during Carr's FY H120 was depressed by the unseasonably mild weather that resulted in plentiful supplies of forage. Moreover, H119 followed a prolonged period of drought, so while farmers typically started H119 with very low stores of forage, levels were more normal at the start of H120. In addition, a combination of lower cattle prices, rising input prices and continuing Brexit uncertainty resulted in lower sales of supplements as farmers were not pushing to maximise outputs and lower sales of products related to infrastructure investment. In the US there was lower demand for feed blocks because of reduced cattle prices and a delayed start to winter feeding. Given the significant uncertainty in agricultural markets, management has begun to implement longer-term cost reduction measures to better position the division beyond the current financial year.

## Contract delays impact Engineering performance

As previously flagged, contract phasing meant the Engineering division had a slow start to the year. In January management had anticipated the strong pipeline would result in full-year divisional outperformance. However, a major order from Japan for remote handling equipment was not closed as anticipated and is now not expected until Q121.

## Valuation: Indicative valuation of 172p/share

Our DCF analysis gives an indicative value of 172p/share (previously 190p/share). At the current share price, Carr's is trading below its peers with regards to the mean EV/EBITDA multiple (5.4x vs 6.6x) and P/E multiple (7.7x vs 10.8x) for FY20e. Confirmation that Carr's diversified business model can address issues caused by Brexit uncertainty and climate change plus news of Engineering orders should, in our view, help move the share price back towards our indicative valuation.

### Basic materials

13 March 2020

**Price** **92.5p**
**Market cap** **£85m**

Net debt (£m) at end November 2019 29.7

Shares in issue 92.4m

Free float 63.3%

Code CARR

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(41.9)	(43.0)	(44.1)
Rel (local)	(17.2)	(21.9)	(25.4)

52-week high/low 166.0p 89.5p

### Business description

Carr'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 event

Interim results 15 April 2020

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## Changes to estimates

Exhibit 1: Estimate changes										
	FY19		FY20e		FY21e			FY22e		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Agriculture revenues (£m)	357.4	378.2	320.0	-15.4%	382.0	355.0	-7.1%	385.8	360.0	-6.7%
Agriculture EBITA (£m)	13.6	13.7	10.2	-25.5%	14.1	12.6	-10.8%	14.3	12.8	-10.5%
Engineering revenues (£m)	46.5	56.4	52.0	-7.8%	57.6	57.6	0.0%	58.8	58.8	0.0%
Engineering EBITA (£m)	5.3	6.0	5.2	-12.1%	6.2	6.2	0.0%	6.4	6.4	0.0%
Group revenues (£m)	403.9	434.6	372.0	-14.4%	439.6	412.6	-6.1%	444.6	418.8	-5.8%
Adjusted PBT (£m)	18.9	19.4	15.2	-21.8%	20.0	18.5	-7.6%	20.4	18.9	-7.3%
EPS (p)	15.6	16.2	12.0	-25.8%	16.8	15.2	-9.8%	17.2	15.6	-9.4%
DPS(p)	4.75	4.90	4.75	-3.1%	5.1	4.9	-3.9%	5.3	5.1	-3.8%
Net (cash)/debt (£m)	23.8	29.0	29.3	0.9%	26.6	26.7	0.3%	22.0	22.0	0.0%

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 ascribed a value to the group that looks beyond the short-term issues and gives a fair value of 172p/share (previously 190p/share). The valuation gap should begin to close as investors see signs of a recovery in the Agricultural division which will depend on data on the cost-reduction programme and clarity on trading arrangements post-Brexit as well as positive news regarding contracts to replenish the order book for the German robotics business.

Exhibit 2: DCF valuation							
		Discount rate (post-tax, nominal)					
		172	9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth	0.0%	178	167	157	148	140	
	1.0%	197	184	172	161	151	
	1.5%	209	194	180	168	158	
	2.0%	222	205	190	177	165	
	2.5%	235	216	200	186	173	
	3.0%	255	233	214	197	183	

Source: Edison Investment Research

### Peer-based multiples

Exhibit 3: Peer multiple analysis						
Ticker	Name	Market cap	EV/EBITDA (x)		P/E (x)	
			(£m)	2020e	2021e	2020e
NWF.L	NWF Group PLC	84.6	6.1	6.1	11.0	10.8
OGN.I	Origin Enterprises PLC	511.7	7.1	6.9	8.6	8.4
RIC.AX	Ridley Corporation Ltd	178.9	7.3	6.3	15.0	12.2
WYWYN.L	Wynnstay Group PLC	55.7	5.9	5.4	8.6	7.5
	Mean		6.6	6.2	10.8	9.7
CARRC.L	Carr's Group PLC at 92.5p/share	85.5	5.4	4.8	7.7	6.1
	Carr's Group PLC at 172.0p/share	158.9	9.0	8.1	14.3	11.3

Source: Refinitiv, Edison Investment Research. Prices at 12 March 2020

In Exhibit 3 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. We note the shares of all four peers have fallen substantially in recent weeks. At the current share price (92.5p),

and on our revised estimates, Carr's is trading below its peers on all metrics. In our opinion this is undeserved. Firstly, Carr's derives around one-third of its profits from engineering related activities. While divisional performance this year has been affected by contract delays, it is likely to recover next year, regardless of what happens in the UK agricultural sector. Secondly, 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 172p/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.

**Exhibit 4: Financial summary**

	£m	2018	2019	2020e	2021e	2022e
Year-end August						
<b>PROFIT &amp; LOSS</b>						
Revenue		403.2	403.9	372.0	412.6	418.8
EBITDA		19.9	22.1	20.3	22.7	23.0
Operating Profit (before amort. and except.)		18.6	19.8	16.3	19.7	20.1
Amortisation of acquired intangibles		(0.3)	(0.8)	(0.8)	(0.8)	(0.8)
Share-based payments		(1.1)	(0.9)	(0.9)	(0.9)	(0.9)
Exceptionals		(0.8)	(0.9)	0.0	0.0	0.0
Share of post-tax profits in JVs and associates		3.2	2.7	1.0	1.9	2.0
Operating Profit		16.4	17.2	14.6	18.0	18.4
Net Interest		(0.9)	(0.9)	(1.2)	(1.2)	(1.2)
Profit Before Tax (norm)		17.7	18.9	15.2	18.5	18.9
Profit Before Tax (FRS 3)		15.5	16.3	13.5	16.8	17.2
Tax		(1.9)	(2.7)	(2.5)	(2.9)	(3.0)
Profit After Tax (norm)		15.6	15.9	12.7	15.6	16.0
Profit After Tax (FRS 3)		13.6	13.6	11.0	13.9	14.3
Minority interest		(1.8)	(1.6)	(1.6)	(1.6)	(1.6)
Net income (norm)		13.9	14.3	11.1	14.0	14.4
Net income (FRS 3)		11.9	12.0	9.4	12.3	12.7
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	15.2	15.6
EPS - normalised fully diluted (p)		14.8	15.2	11.7	14.8	15.1
EPS - FRS 3 (p)		13.0	13.1	10.2	13.3	13.7
Dividend per share (p)		4.5	4.75	4.75	4.9	5.1
EBITDA Margin (%)		4.9	5.5	5.5	5.5	5.5
Operating Margin (before GW and except.) (%)		4.6	4.9	4.4	4.8	4.8
<b>BALANCE SHEET</b>						
Fixed Assets		96.5	115.6	115.7	115.8	115.9
Intangible Assets		26.5	42.2	42.6	42.9	43.3
Tangible Assets, Deferred tax assets and Pension surplus		70.0	73.4	73.1	72.9	72.6
Current Assets		134.7	140.7	135.8	144.1	147.1
Stocks		42.4	46.3	51.5	53.1	53.4
Debtors		67.7	65.8	64.2	71.2	72.3
Cash		24.6	28.6	20.2	19.8	21.4
Current Liabilities		(99.5)	(88.8)	(81.0)	(84.4)	(82.4)
Creditors including tax, social security and provisions		(64.5)	(64.9)	(60.1)	(66.6)	(67.6)
Short term borrowings		(35.0)	(23.9)	(20.9)	(17.9)	(14.9)
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)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(5.8)	(8.0)	(8.0)	(8.0)	(8.0)
Net Assets		121.0	131.0	134.0	138.9	144.0
Minority interest		(15.7)	(16.7)	(17.7)	(18.7)	(19.7)
Shareholders equity		105.3	114.3	116.2	120.2	124.2
<b>CASH FLOW</b>						
Operating Cash Flow		15.0	16.0	11.9	20.4	22.7
Net Interest		(1.0)	(1.1)	(1.2)	(1.2)	(1.2)
Tax		(2.5)	(2.3)	(2.5)	(2.9)	(3.0)
Investment activities		(2.8)	(4.2)	(5.8)	(5.8)	(5.8)
Acquisitions/disposals		(4.2)	(10.2)	(3.5)	(3.5)	(3.5)
Equity financing and other financing activities		(0.1)	0.6	0.0	0.0	0.0
Dividends		(3.8)	(4.2)	(4.4)	(4.4)	(4.5)
Net Cash Flow		0.5	(5.4)	(5.5)	2.6	4.6
Opening net debt/(cash)		14.1	15.4	23.8	29.3	26.7
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		1.7	3.0	0.0	0.0	0.0
Closing net debt/(cash)		15.4	23.8	29.3	26.7	22.0

Source: Company accounts, Edison Investment Research

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