

Treatt

Reverting to a normal split

H1 trading update

Food & beverages

11 April 2022

Price **1,158p**
Market cap **£694m**

Approximate net debt (£m) at 31 March 2022 20

Shares in issue 60.5m

Free float 100%

Code TET

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 26.1 5.1 22.4

Rel (local) 14.6 (5.3) 13.9

52-week high/low 1,315p 900p

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

H122 results 10 May 2022

FY trading update September/October 2022

FY22 results 29 November 2022

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Treatt has continued to perform well, with the good business momentum continuing into H122. As previously flagged and as consumers emerge from the pandemic, the performance in FY22 is expected to return to more normal beverage trends, with H2 seasonally stronger than H1, and a shift back to on-trade beverage consumption. In addition, the higher-margin healthier living categories are also expected to perform better in H2, which will be reflected in the split of profitability. We raise our revenue forecasts to reflect the strong momentum, but our profit estimates remain broadly unchanged, due to mix considerations and cost inflation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/20	109.0	15.8	21.3	6.0	54.4	0.5
09/21	124.3	22.7	30.1	7.5	38.5	0.6
09/22e	134.9	24.1	32.2	8.0	36.0	0.7
09/23e	143.0	26.0	34.3	8.5	33.8	0.7

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

Demand still strong

Demand remains strong, with expected revenue growth of 11% at constant currency for H122, to £66.3m. This has been driven by citrus, where Treatt has grown a number of longstanding relationships with large beverage companies, demonstrating its strong market position. Revenue growth was also strong in both synthetic aroma, and herbs, spices & florals, in part driven by higher demand for protein flavourings. Treatt's business remains diversified as it continues to win new business with both new and existing customers, and both directly to consumer goods companies and indirectly through flavour and fragrance houses. Crucially, H1 has ended strongly and the momentum has continued into H2, with stronger growth coming from the higher-margin healthier living categories. Margins are therefore expected to be materially stronger during H2.

UK relocation nearing completion

The new UK facility is fully open, and the operational commissioning continues. According to previous guidance, most of the manufacturing will be up and running by mid CY22. Treatt has also invested in substantial inventory holdings (c six months trading), which has helped it to successfully navigate a number of supply chain challenges.

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 trading update. Treatt trades at 36.0x FY22e P/E and 27.8x FY22e EV/EBITDA. It trades at a c 30% premium to its peer group on a P/E basis and a c 40% premium on EV/EBITDA, though it trades in line with peers if we exclude those that are more exposed to lower-margin commoditised products.

Forecasts

In light of the current trading trends discussed above, we raise our revenue forecasts for FY22–24 as detailed in Exhibit 1. We now believe FY22 revenues are likely to be higher than our previous expectations. We leave our growth assumptions for FY23 and FY24 unchanged, but absolute revenue forecasts increase due to the higher base. As discussed above, we believe margins are likely to be lower than we had previously forecast, and we therefore leave our profit forecasts broadly unchanged.

Exhibit 1: Old versus new key P&L forecasts

£000s	2022e			2023e			2024e		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Revenue	131,786	134,894	2.4%	139,693	142,987	2.4%	148,074	151,567	2.4%
Operating profit	22,034	22,014	-0.1%	23,775	23,764	0.0%	25,646	25,644	0.0%
PBT*	22,016	21,993	-0.1%	23,815	23,796	-0.1%	25,738	25,728	0.0%
PBT (pre exceptional) Edison	24,076	24,050	-0.1%	25,994	25,974	-0.1%	28,047	28,037	0.0%
Basic EPS* (p)	28.8	28.8	-0.1%	30.7	30.7	-0.1%	32.7	32.7	0.0%
Basic EPS (pre exceptional) Edison (p)	32.2	32.2	-0.1%	34.3	34.3	-0.1%	36.6	36.6	0.0%

Source: Edison Investment Research. Note: *Stated on an FRS/reported basis.

Valuation

We illustrate Treatt's relative valuation versus its ingredients peer group in Exhibit 2 below. For 2022, Treatt trades at a c 30% premium to its peer group on a P/E basis, and a c 40% premium on 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 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 pandemic.

Exhibit 2: Comparative valuation

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2022e	2023e	2022e	2023e	2022e	2023e
Givaudan	CHF36,784	39.9	35.7	26.9	24.9	1.7	1.8
IFF	\$32,072	22.2	18.8	16.9	15.0	2.5	2.6
Symrise	CHF16,026	37.5	33.3	19.9	18.4	1.0	1.1
Chr Hansen	DKK73,731	42.1	37.4	25.2	23.0	1.5	1.7
Kerry	€18,169	24.6	22.3	17.6	16.2	1.0	1.1
Ingredion	\$5,922	12.6	11.4	7.9	7.3	3.0	3.1
Peer group average		29.8	26.5	19.1	17.5	1.8	1.9
Treatt	£691.4	38.2	35.7	27.8	23.8	0.7	0.7
Premium/(discount) to peer group (%)		28.3%	34.9%	45.7%	36.4%	(63.6%)	(63.3%)

Source: Refinitiv, Edison Investment Research. Note: Prices as of 7 April 2022.

Exhibit 3: Financial summary

	£000s	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	134,894	142,987	151,567
Cost of Sales		(84,407)	(84,060)	(77,140)	(82,103)	(89,082)	(93,998)	(99,183)
Gross Profit		27,756	28,657	31,876	42,223	45,812	48,990	52,384
EBITDA		16,627	15,785	17,862	24,877	28,995	30,951	32,995
Operating Profit (before amort., except and sbp.)		15,108	14,226	16,053	23,172	24,071	25,941	27,953
Intangible Amortisation		(124)	(90)	(75)	(93)	(79)	(67)	(57)
Share based payments		(1,040)	(637)	(886)	(1,733)	(1,979)	(2,110)	(2,252)
Other		0	0	0	0	0	0	0
Operating Profit		13,944	13,499	15,092	21,346	22,014	23,764	25,644
Net Interest		(1,302)	(199)	(291)	(427)	(21)	33	84
Exceptionals		(1,105)	(755)	(1,060)	(1,302)	0	0	0
Profit Before Tax (norm)		13,806	14,027	15,762	22,745	24,050	25,974	28,037
Profit Before Tax (FRS 3)		11,537	12,545	13,741	19,617	21,993	23,796	25,728
Profit Before Tax (company)		12,642	13,300	14,801	20,919	21,993	23,796	25,728
Tax		(2,284)	(2,673)	(2,896)	(4,469)	(4,698)	(5,354)	(6,046)
Profit After Tax (norm)		11,392	11,263	12,762	18,090	19,352	20,619	21,991
Profit After Tax (FRS 3)		9,253	9,872	10,845	15,148	17,294	18,442	19,682
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	34.0	34.3	34.6
EBITDA Margin (%)		14.8	14.0	16.4	20.0	21.5	21.6	21.8
Operating Margin (before GW and except.) (%)		13.5	12.6	14.7	18.6	17.8	18.1	18.4
Operating Margin (%)		12.4	12.0	13.8	17.2	16.3	16.6	16.9
BALANCE SHEET								
Fixed Assets		21,863	31,730	54,048	65,811	64,776	66,843	69,018
Intangible Assets		752	845	1,358	2,424	2,345	2,278	2,221
Tangible Assets		20,038	29,485	50,159	61,039	61,639	63,774	66,005
Investments		1,073	1,400	2,531	2,348	792	792	792
Current Assets		102,401	98,158	69,472	83,606	86,748	96,328	111,470
Stocks		39,642	36,799	36,050	47,263	51,011	53,785	56,709
Debtors		28,828	23,020	24,167	26,371	28,478	30,043	31,694
Cash		32,304	37,187	7,739	7,260	7,260	12,499	23,067
Other		1,627	1,152	1,516	2,712	0	0	0
Current Liabilities		(35,781)	(28,905)	(15,989)	(30,460)	(24,209)	(21,639)	(22,135)
Creditors		(16,479)	(11,784)	(12,640)	(17,620)	(20,987)	(21,496)	(21,992)
Short term borrowings		(19,244)	(16,860)	(3,203)	(12,697)	(3,079)	0	0
Provisions		(58)	(261)	(146)	(143)	(143)	(143)	(143)
Long Term Liabilities		(6,858)	(13,876)	(16,411)	(11,605)	(11,521)	(9,981)	(9,981)
Long term borrowings		(3,001)	(4,369)	(3,450)	(2,624)	(1,540)	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	115,794	131,551	148,371
CASH FLOW								
Operating Cash Flow		3,580	20,544	15,677	13,892	26,508	27,119	28,916
Net Interest		(609)	(199)	(191)	(270)	(21)	33	84
Tax		(2,978)	(2,208)	(2,191)	(4,874)	(4,698)	(5,354)	(6,046)
Capex		(6,190)	(10,392)	(23,909)	(13,195)	(5,523)	(7,145)	(7,273)
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)	(4,795)	(5,113)
Net Cash Flow		20,374	6,142	(15,102)	(9,541)	11,756	9,858	10,567
Opening net debt/(cash)		10,225	(10,059)	(15,958)	(427)	9,114	(2,641)	(12,499)
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	(2,641)	(12,499)	(23,067)

Source: Edison Investment Research, company data

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