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Molins

Industrial engineering

27 February 2014

Offering real value

Recent share price weakness stemming from the delayed introduction of a new regulatory regime for tobacco products in the US has been reversed following strong 2013 results. The shares look undervalued on the performance of the group's engineering businesses alone; the medium-term potential from Scientific Services adds significantly to the potential.

Profits ahead of expectations

Results for the year to December 2013 show underlying pre-tax profits up by 10% to£5.4m, some £0.2m above City expectations. Progress was delivered in each division, although the product mix and uneven factory loading in Packaging Machinery contributed to a small reduction in gross and operating margins. Earlier hopes that the new tobacco products regulatory regime in the US would boost the performance of the laboratory business were not fulfilled, although the shortfall was more than balanced by progress in the machinery manufacturing businesses.

Potential in all divisions

There is a clear growth strategy for each division. In Scientific Services, the product range continues to widen at Cerulean, while the major investment in Arista Laboratories offers significant potential for when the new US regulatory regime is clarified. Organic growth remains the key in both machinery divisions; each is developing important new products, while there is added potential from the new Singapore office for Packaging Machinery. The balance sheet remains very strong; although net funds were reduced modestly to £5.2m (25p per share), a sharp reduction in the pension deficit helped lift shareholders' funds by £10.0m to £40.5m. Molins is also well able to support its acquisition ambitions.

Profit estimates raised

Estimates have been raised modestly following the results announcement, although the indicated higher tax charge means that EPS will fall in 2014. These estimates look conservative, especially if the FDA demands further testing during 2014.

Valuation: Undervalued

The prospective rating of 8.9x consensus 2014 earnings is less than half that of larger UK-based global machinery manufacturing groups (range 15.7x to 20.7x). The relative size of Molins and its high sales to the tobacco products industry account for some of the disparity, but the shares look distinctly undervalued.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/12	93	4.9	21.8	5.50	8.5	3.0
12/13	105	5.4	23.6	5.50	7.8	3.0
12/14e	105	5.7	20.8	5.75	8.9	3.1
12/15e	108	6.2	23.5	6.00	7.9	3.2

Source: Bloomberg

Price	185p
Market cap	£37m

Share price graph

Share details

Code	MLIN
Listing	LSE
Shares in issue	20.2m

Business description

Molins is an international specialist technology and services group, providing high performance instrumentation, machinery and analytical services. It supplies principally to the tobacco products industry, but also to a number of FMCG industries such as pharmaceuticals, healthcare and beverages.

Bull

- Consistent and progressive recent trading record.
- Medium-term potential from FDA implementation of regulatory regime for tobacco products.
- Strong balance sheet.

Bear

- Vagaries of the capital goods cycle.
- External perception of the tobacco products industry.
- Gearing impact of pension assets and liabilities in excess of £300m.

Analysts

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