

# Treatt

## Growth continues apace

FY17 results & share placement

Food & beverages

Treatt has posted yet another year of excellent growth, with revenues up 25% and adjusted PBT up c 45%. The company has reached its FY20 financial objectives three years early, and the management has therefore updated its strategy to take the company through to the next phase. A new facility is being built in the UK, and the US site is being expanded. Both projects are on track and Treatt has now announced a share placing to fund these projects. This was always flagged as a possibility. We update our forecasts to reflect the FY17 results and the share placement. Our fair value is 515p (from 522p previously).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	88.0	9.6	14.3	4.4	33.6	0.9
09/17	109.6	14.0	20.4	4.8	23.5	1.0
09/18e	117.3	14.4	19.2	4.6	25.0	1.0
09/19e	123.2	15.5	20.7	4.9	23.2	1.0

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

## FY17 was a record year

FY17 was a record year for the company, with revenues topping £100m for the first time (£109.6m), adjusted PBT of £12.9m and EPS of 18.3p on a company adjusted basis. The growth rate achieved in FY17 will be hard to replicate and should not be considered the new norm, but it does demonstrate the company is successfully embracing the sweet spot in flavour ingredients. We note management's comments that FY18 has started well, and the growth in FY17 was broad-based – both in terms of geography and product mix – which sets a good base for the future.

## New strategy builds on previous foundations

Treatt's new strategy is an evolution of the previous one. The focus remains on the company's core areas of citrus, tea and sugar reduction. The theme of deep customer relationships continues: this has served the company well and should further help to speed up the innovation and success rate with its customers. The management is also focused on enhancing the company's technical abilities to drive the business forward through product innovation and operational efficiencies, which in turn should drive margin expansion. The UK relocation and US expansion will help achieve these objectives.

## Valuation: Fair value is 515p

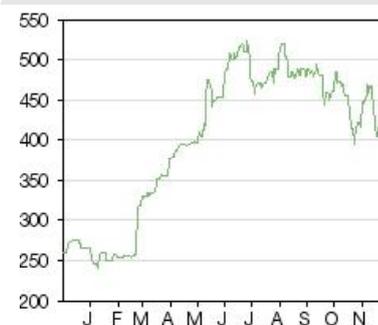
We value Treatt using a DCF model, which now indicates a fair value of 515p (previously 522p), an attractive c 7% upside to the current share price. We have incorporated the share placement into our forecasts, hence reducing our net debt and increasing the number of shares. We have assumed net proceeds of c £22m. Treatt trades at 24.6x and 14.8x calendar P/E and EV/EBITDA multiples for 2018, representing discounts of c 15% and 20% to its ingredients peer group, respectively. Given the current growth trajectory of the business, and our forecast for low double-digit CAGR EPS for 2016-20, we believe this level of discount is unwarranted.

30 November 2017

**Price** **481.75p**  
**Market cap** **£251m**

Net debt (£m) at 30 September 2017	10.2
Shares in issue	52.1m
Free float	100%
Code	TET
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	14.1	(0.6)	86.7
Rel (local)	15.6	(1.7)	69.3
52-week high/low	523.0p	239.8p	

### Business description

Treatt provides innovative ingredient solutions from its manufacturing bases in Europe, North America and Africa, principally for the flavours and fragrance industries and multinational consumer goods companies, with particular emphasis on the beverage sector.

### Next events

EGM	18 December 2017
Trading update	February 2018

### Analysts

Sara Welford	+44 (0)20 3077 5700
Paul Hickman	+44 (0)20 3681 2501

[consumer@edisongroup.com](mailto:consumer@edisongroup.com)

[Edison profile page](#)

**Treatt is a research client of  
Edison Investment Research  
Limited**

## Forecast revisions

FY17 results were broadly in line with our expectations. Following our upgrades in October with the pre-close trading update, our sales forecast was £108.7m and FY revenues came in slightly higher at £109.6m. Adjusted PBT was £12.9m, or an impressive c 45% growth vs FY16. Adjusted EPS was up c 40% to 18.3p. We illustrate the slight changes to our P&L forecasts in Exhibit 1 below. We have incorporated the share placement into our forecasts and have therefore made some changes to our net debt assumptions. We have assumed a placement equivalent to 10% of the share capital, placed at 410p, to give net proceeds of c £22m. We illustrate these in Exhibit 2 and these affect our PBT and EPS forecasts through lower interest charges and a higher number of shares.

### Exhibit 1: Old vs new key P&L forecasts

	EPS (p)*			PBT (£000s)*			Revenue (£000s)		
	Old	New	% change	Old	New	% change	Old	New	% change
2018e	19.3	17.3	-10.1%	13,479	13,352	-0.9%	116,340	117,301	0.8%
2019e	19.2	18.7	-2.8%	13,429	14,380	7.1%	122,157	123,166	0.8%

Source: Edison Investment Research. Note: \*Stated on IFRS basis.

### Exhibit 2: Old vs new net (debt)/cash forecasts, £000s

	Old	New	% change
2018e	(26,984)	(2,728)	-89.9%
2019e	(38,642)	(15,531)	-59.8%

Source: Edison Investment Research

## Valuation update

We illustrate Treatt's valuation versus its ingredients peer group in Exhibit 3 below. Treatt trades at a significant discount to its peer group on all metrics. Some discount can be applied to reflect its small size and because some of its products are relatively 'upstream' in the ingredients spectrum, particularly the bulk ingredients that are sold to other ingredients companies. However, we believe a 15-25% discount on EV/EBITDA and P/E is unwarranted.

### Exhibit 3: Benchmark valuation

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2018e	2019e	2018e	2019e	2018e	2019e
Givaudan	CHF 20,665	28.2	26.4	19.5	18.1	2.6%	2.8%
IFF	\$12,207	26.7	24.6	17.5	16.1	1.7%	1.9%
Symrise	CHF 10,690	31.2	28.5	16.5	15.2	1.3%	1.4%
Frutarom	ILS 18,312	33.8	28.3	22.0	18.9	0.3%	0.4%
Chr Hansen	DKK 73,969	40.7	35.8	26.4	23.4	1.6%	1.8%
Kerry	€ 15,502	25.9	23.8	18.6	16.8	0.7%	0.8%
Ingredient	\$10,043	18.1	16.8	10.3	9.6	1.5%	1.7%
<b>Peer group average</b>		<b>29.2</b>	<b>26.3</b>	<b>18.7</b>	<b>16.9</b>	<b>1.2%</b>	<b>1.3%</b>
Treatt	£247.4	24.6	22.9	14.8	12.7	1.0%	1.0%
<b>Premium/(discount) to peer group (%)</b>		<b>-15.9%</b>	<b>-13.1%</b>	<b>-20.6%</b>	<b>-25.0%</b>	<b>-18.1%</b>	<b>-22.2%</b>

Source: Bloomberg (prices as of 30 November 2017). Note: Treatt figures are calendarised to aid comparison.

Our DCF-derived fair value is now 515p (previously 522p) following the changes to our model detailed in our forecast review section above. Our longer-term sales growth forecast is 5% pa, falling to 2% growth in perpetuity. Our DCF is calculated based on a WACC of 7.3% (encompassing a beta of 0.8, an equity risk premium of 5.0% and a borrowing spread of 5.0%) and a terminal growth rate of 2%.

**Exhibit 4: Financial summary**

	£000s	2015	2016	2017	2018e	2019e	2020e
Year end September		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		85,934	88,040	109,627	117,301	123,166	128,093
Cost of Sales		(66,955)	(67,639)	(82,819)	(88,258)	(92,055)	(95,609)
Gross Profit		18,979	20,401	26,808	29,043	31,111	32,483
EBITDA		10,307	11,604	16,307	17,317	20,539	22,680
Operating Profit (before amort., except and sbp)		9,063	10,257	14,908	15,362	16,886	17,840
Intangible Amortisation		(175)	(142)	(137)	(160)	(160)	(160)
Share-based payments		(198)	(566)	(966)	(915)	(986)	(1,053)
Other		0	0	0	0	0	0
Operating Profit		8,690	9,549	13,805	14,287	15,741	16,626
Net Interest		(740)	(703)	(913)	(936)	(1,361)	(1,260)
Exceptionals		(174)	(553)	0	0	0	0
Profit Before Tax (norm)		8,323	9,554	13,995	14,427	15,525	16,580
Profit Before Tax (FRS 3)		7,776	8,293	12,892	13,352	14,380	15,366
Profit Before Tax (company)		7,950	8,846	12,892	13,352	14,380	15,366
Tax		(1,786)	(2,144)	(3,347)	(3,405)	(3,667)	(3,918)
Profit After Tax (norm)		6,537	7,410	10,648	11,022	11,858	12,661
Profit After Tax (FRS 3)		5,990	6,149	9,545	9,947	10,713	11,448
Average Number of Shares Outstanding (m)		51.5	51.9	52.2	57.4	57.4	57.4
EPS - normalised (p)		12.7	14.3	20.4	19.2	20.7	22.1
EPS - normalised & fully diluted (p)		12.6	14.1	19.8	18.7	20.1	21.4
EPS - (IFRS) (p)		11.6	11.8	18.3	17.3	18.7	19.9
Dividend per share (p)		4.0	4.4	4.8	4.6	4.9	5.2
Gross Margin (%)		22.1	23.2	24.5	24.8	25.3	25.4
EBITDA Margin (%)		12.0	13.2	14.9	14.8	16.7	17.7
Operating Margin (before GW and except.) (%)		10.5	11.7	13.6	13.1	13.7	13.9
<b>BALANCE SHEET</b>							
Fixed Assets		13,381	16,161	19,532	43,176	63,211	62,132
Intangible Assets		1,736	3,364	3,331	3,171	3,011	2,851
Tangible Assets		10,998	11,361	14,821	38,625	58,820	57,901
Investments		647	1,436	1,380	1,380	1,380	1,380
Current Assets		45,045	54,435	68,230	71,295	74,129	76,392
Stocks		25,799	29,990	42,878	45,410	47,434	49,076
Debtors		17,635	17,853	19,973	21,137	21,947	22,569
Cash		1,477	6,588	4,748	4,748	4,748	4,748
Other		134	4	631	0	0	0
Current Liabilities		(13,481)	(16,388)	(27,003)	(28,722)	(38,444)	(33,244)
Creditors		(12,675)	(15,834)	(19,266)	(23,737)	(24,924)	(25,921)
Short term borrowings		(567)	(487)	(7,680)	(4,984)	(13,519)	(7,323)
Provisions		(239)	(67)	(57)	0	0	0
Long Term Liabilities		(11,760)	(17,021)	(14,281)	(9,877)	(13,945)	(10,646)
Long term borrowings		(7,065)	(7,755)	(7,293)	(2,492)	(6,760)	(3,661)
Other long term liabilities		(4,695)	(9,266)	(6,988)	(7,385)	(7,185)	(6,985)
Net Assets		33,185	37,187	46,478	75,872	84,952	94,634
<b>CASH FLOW</b>							
Operating Cash Flow		8,667	10,804	4,683	19,343	18,691	21,215
Net Interest		(740)	(703)	(913)	(936)	(1,361)	(1,260)
Tax		(1,469)	(2,022)	(2,822)	(3,405)	(3,667)	(3,918)
Capex		(924)	(679)	(5,111)	(25,760)	(23,847)	(3,921)
Acquisitions/disposals		(103)	(861)	(1,667)	0	0	0
Financing		147	280	270	20,759	0	0
Dividends		(1,978)	(2,095)	(3,025)	(2,506)	(2,618)	(2,820)
Net Cash Flow		3,600	4,724	(8,585)	7,497	(12,803)	9,295
Opening net debt/(cash)		9,584	6,155	1,654	10,225	2,728	15,531
HP finance leases initiated		0	0	0	0	0	0
Other		(171)	(223)	14	0	0	0
Closing net debt/(cash)		6,155	1,654	10,225	2,728	15,531	6,236

Source: Edison Investment Research, Treatt accounts

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Treatt and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investments Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.