

# Carr's Group

Trading update

Both divisions slightly ahead of expectations

Basic materials

The recovery in both US feed block sales and the UK manufacturing businesses noted at Carr's Group's AGM in January has continued through to the end of June. As both divisions are trading slightly ahead of management's expectations at the interim stage, we raise our estimates again and revise our indicative valuation from 169p/share to 178p/share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/16	314.9	14.2	10.8	3.8**	15.3	2.3
08/17	346.2	11.9	9.4	4.0	17.6	2.4
08/18e	377.4	16.6	13.1	4.3	12.6	2.6
08/19e	384.3	16.9	13.4	4.5	12.3	2.7

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Excluding 17.54p special dividend.

## Positive trends in agriculture continue

As noted at the AGM and the interims, UK farming sentiment remains positive, resulting in feed volumes, retail sales, machinery sales and fuel sales all ahead of the prior year. The acquisition of Pearson Farm Supplies in October 2017 also benefited both retail sales and feed volumes. US feed block volumes continued to recover as cattle prices for producers improved. A favourable environment for dairy producers in Germany supported a further increase in feed block volumes from the German joint venture.

## Strong recovery in UK Manufacturing continues

Work continues on the significant fabrication contract that was delayed until almost the end of FY17. The precision engineering business is benefiting from a recovery and stabilisation of the oil price, which happily coincides with a strengthened management team, resulting in more effective business development and improved operating efficiencies. The remote handling businesses are also performing well and the programme to create additional capacity in Germany is nearing completion. NuVision's order book is looking good, having secured a major contract to mitigate stress corrosion cracking in welded pipes in certain nuclear plants. NuVision was acquired in August 2017 and has integrated well.

## Valuation: Trading at a discount to peers

Following the estimates upgrade, our updated DCF analysis gives an indicative value of 178p/share (previously 169p). At the current share price, Carr's is trading below its peers with regards to mean P/E (12.6x vs. 14.5x) for the year ending August 2018. Continued recovery in the US feed block market and further confirmation of the Engineering upturn should help close the valuation gap.

18 July 2018

**Price** 165.0p  
**Market cap** £151m

Net debt (£m) at 3 March 2018	16.1
Shares in issue	91.4m
Free float	84.5%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	11.1	13.4	22.5
Rel (local)	11.4	7.6	18.1
52-week high/low		165p	120p

### Business description

Carr's Agriculture division serves farmers in the North of England, South Wales, the 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

FY18 results	12 November 2018
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## Changes to estimates

**Exhibit 1: Estimate revisions**

£m	FY18e			FY19e			FY20e		
	Old	New	change	Old	New	change	Old	New	change
Agriculture revenues	329.9	331.7	0.5%	336.4	338.1	0.5%	341.4	343.2	0.5%
Agriculture EBITA	12.4	12.7	2.4%	12.6	12.6	0.0%	12.9	12.9	0.0%
Engineering revenues	45.2	45.7	1.1%	46.2	46.2	0.0%	47.3	47.3	0.0%
Engineering EBITA	4.3	4.4	2.3%	4.8	4.8	0.0%	5.2	5.2	0.0%
Group revenues	375.1	377.4	0.6%	382.5	384.3	0.5%	388.7	390.5	0.5%
Adjusted PBT	16.2	16.6	2.5%	16.9	16.9	0.0%	17.6	17.6	0.0%
EPS (p)	12.8	13.1	2.6%	12.9	13.4	3.6%	13.5	14.0	3.6%
DPS(p)	4.3	4.3	0.0%	4.5	4.5	0.0%	4.7	4.7	0.0%
Net (cash)/debt	14.7	14.4	-2.1%	10.7	10.0	-6.8%	5.8	4.7	-20.1%

Source: Edison Investment Research

Following the trading update, we revise our estimates slightly to reflect the following:

- higher commodity prices;
- strong demand for agricultural inputs in the UK; and
- outperformance in the Engineering division.

We also reduce the tax rate for FY19 and FY20 from 27% to 24% so it is in line with the rate applied for FY18.

**Exhibit 2: Financial summary**

	£m	2016	2017	2018e	2019e	2020e
Year-end Aug						
<b>PROFIT &amp; LOSS</b>						
Revenue		314.9	346.2	377.4	384.3	390.5
EBITDA		16.5	13.9	19.4	19.8	20.6
Operating Profit (before amort. and except.)		12.9	9.8	14.8	15.1	15.8
Amortisation of acquired intangibles		(0.2)	(0.1)	(0.5)	(0.5)	(0.5)
Share-based payments		0.1	(0.5)	(0.5)	(0.5)	(0.5)
Exceptionals		0.0	(1.3)	0.0	0.0	0.0
Operating Profit		12.8	7.9	13.8	14.1	14.8
Net Interest		(0.8)	(0.7)	(1.0)	(1.0)	(1.0)
Share of post-tax profits in JVs and associates		2.1	2.8	2.8	2.8	2.8
Profit Before Tax (norm)		14.2	11.9	16.6	16.9	17.6
Profit Before Tax (FRS 3)		14.1	10.0	15.6	15.9	16.6
Tax		(2.9)	(1.7)	(3.3)	(3.4)	(3.6)
Profit After Tax (norm)		11.2	9.9	13.3	13.5	14.1
Profit After Tax (FRS 3)		11.2	8.3	12.3	12.5	13.1
Post tax profit (loss) relating to discontinued operations		2.8	0.0	0.0	0.0	0.0
Minority interest		(1.5)	(1.3)	(1.3)	(1.3)	(1.3)
Net income (norm)		9.7	8.6	12.0	12.2	12.8
Net income (FRS 3)		12.5	7.0	11.0	11.2	11.8
Average Number of Shares Outstanding (m)		90.1	91.4	91.4	91.4	91.4
EPS - normalised (p)		10.8	9.4	13.1	13.4	14.0
EPS – normalised and fully diluted (p)		10.4	9.4	13.0	13.3	13.9
EPS - FRS 3 (p)		13.8	7.7	12.0	12.3	12.9
Dividend per share (p)		3.8*	4.0	4.3	4.5	4.7
EBITDA Margin (%)		5.2	4.0	5.1	5.2	5.3
Operating Margin (before GW and except.) (%)		4.1	2.8	3.9	3.9	4.0
<b>BALANCE SHEET</b>						
Fixed Assets		63.1	87.9	86.6	85.2	83.6
Intangible Assets		11.7	26.5	26.4	26.2	26.1
Tangible Assets, Deferred tax assets and Pension surplus		51.4	61.4	60.2	58.9	57.5
Current Assets		139.1	121.1	122.7	125.5	128.9
Stocks		33.4	37.0	38.5	39.0	39.5
Debtors		57.2	60.2	63.5	64.5	65.0
Cash		48.4	23.9	20.7	22.0	24.4
Current Liabilities		(69.0)	(73.7)	(71.7)	(69.2)	(66.7)
Creditors including tax, social security and provisions		(47.3)	(56.7)	(57.7)	(58.2)	(58.7)
Short term borrowings		(21.6)	(17.1)	(14.1)	(11.1)	(8.1)
Long Term Liabilities		(23.1)	(29.4)	(29.4)	(29.4)	(29.4)
Long term borrowings		(18.6)	(21.0)	(21.0)	(21.0)	(21.0)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(4.5)	(8.4)	(8.4)	(8.4)	(8.4)
Net Assets		110.1	105.9	108.1	112.1	116.4
Minority interest		(13.4)	(14.4)	(15.4)	(16.4)	(17.4)
Shareholders equity		96.7	91.5	92.7	95.6	99.0
<b>CASH FLOW</b>						
Operating Cash Flow		11.7	15.1	15.6	18.8	20.1
Net Interest		(0.5)	(0.7)	(1.0)	(1.0)	(1.0)
Tax		(1.1)	(1.2)	(3.3)	(3.4)	(3.6)
Investment activities		(2.9)	(1.1)	(3.8)	(3.8)	(3.8)
Acquisitions/disposals		22.7	(13.2)	(4.1)	(2.3)	(2.3)
Equity financing and other financing activities		1.0	0.1	0.0	0.0	0.0
Dividends		(3.3)	(19.5)	(3.7)	(3.9)	(4.1)
Net Cash Flow		27.5	(20.4)	(0.2)	4.4	5.3
Opening net debt/(cash)		24.4	(8.1)	14.1	14.4	10.0
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(5.1)	1.9	0.0	0.0	0.0
Closing net debt/(cash)		(8.1)	14.1	14.4	10.0	4.7

Source: Edison Investment Research, Carr's Group accounts. Note: \*excluding 17.54p special dividend.

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