

Carr's Group

Good start to FY19

AGM update

Carr's trading update for the first 18 weeks of FY19 indicates that both divisions are performing well. As the group is trading in line with management's expectations for the full year, we leave our estimates and indicative valuation of 182p/share unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/17	346.2	11.9	9.4	4.0	17.0	2.5
08/18	403.2	17.7	15.2	4.5	10.5	2.8
08/19e	418.8	18.1	15.3	4.7	10.5	2.9
08/20e	425.5	18.9	16.0	4.9	10.0	3.1

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

Continued improvement in US feed block volumes

US feed block volumes continued to rise as the cattle price recovery has been maintained and penetration of the eastern states of the US has increased following the commissioning of the low moisture feed block plant in Tennessee in January 2018. UK farming sentiment remains positive. Although demand for fuel and animal health products for cattle being kept indoors was lower because of the mild autumn, trading overall was in line with management expectations. The integration of Animax, acquired in September 2018, with its complementary animal health product portfolio is progressing well.

Strong Engineering order book

The UK Manufacturing order book, which includes long-term contracts from the nuclear industry, is strong. The recent \$8.5m US contract for remote handling equipment from the German business demonstrates the benefits of working with NuVision (acquired August 2017) and helps top up Wälischmiller's order book following completion of the substantial Chinese orders in FY18. NuVision's own order book benefitted from two significant Mechanical Stress Improvement Process contracts, won during the summer, which extend to FY21. Funding from the US Department of Energy to develop a small-scale working prototype of NuVision's passive cooling technology, which is intended to prevent a repeat of the Fukushima tragedy, potentially opens a new product area longer-term.

Valuation: Unchanged at 182p/share

Our DCF analysis gives an indicative value of 182p/share (unchanged). At the current share price, Carr's is trading below its peers with regards to mean EV/EBITDA (6.8x vs 8.0x) and mean P/E (10.5x vs 12.1x) for the year ending August 2019. Clarity on trading arrangements post-Brexit and news of Engineering orders should help close the valuation gap, in our view.

General industrials

8 January 2019

Price 160p
Market cap £147m

Net debt (£m) at 1 December 2018	23.9
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	3.7	4.1	32.0
Rel (local)	3.2	12.4	50.4
52-week high/low		168p	124p

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 2019
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Exhibit 1: Financial summary

	£m	2017	2018	2019e	2020e	2021e
Year-end Aug		Restated				
PROFIT & LOSS						
Revenue		346.2	403.2	418.8	425.5	430.5
EBITDA		13.9	19.9	21.0	21.5	22.0
Operating Profit (before amort. and except.)		9.8	15.4	16.4	16.8	17.3
Amortisation of acquired intangibles		(0.1)	(0.3)	(0.2)	(0.2)	(0.2)
Share-based payments		(0.5)	(1.1)	(1.1)	(1.1)	(1.1)
Exceptionals		(1.3)	(0.8)	(0.2)	0.0	0.0
Operating Profit		7.9	13.2	14.9	15.5	16.0
Net Interest		(0.7)	(0.9)	(1.3)	(1.0)	(1.0)
Share of post-tax profits in JVs and associates		2.8	3.2	3.0	3.0	3.0
Profit Before Tax (norm)		11.9	17.7	18.1	18.9	19.3
Profit Before Tax (FRS 3)		10.0	15.5	16.6	17.6	18.0
Tax		(1.7)	(1.9)	(2.6)	(2.8)	(2.9)
Profit After Tax (norm)		9.9	15.6	15.5	16.1	16.5
Profit After Tax (FRS 3)		8.3	13.6	14.0	14.8	15.2
Minority interest		(1.3)	(1.8)	(1.5)	(1.5)	(1.5)
Net income (norm)		8.6	13.9	14.0	14.6	15.0
Net income (FRS 3)		7.0	11.9	12.5	13.3	13.7
Average Number of Shares Outstanding (m)		91.4	91.4	91.4	91.4	91.4
EPS - normalised (p)		9.4	15.2	15.3	16.0	16.4
EPS		9.4	14.8	15.0	15.6	16.0
EPS - FRS 3 (p)		7.7	13.0	13.6	14.5	15.0
Dividend per share (p)		4.0	4.5	4.7	4.9	5.1
EBITDA Margin (%)		4.0	4.9	5.0	5.0	5.1
Operating Margin (before GW and except.) (%)		2.8	3.8	3.9	4.0	4.0
BALANCE SHEET						
Fixed Assets		87.6	96.5	101.9	101.8	101.7
Intangible Assets		26.6	26.5	27.0	27.1	27.3
Tangible Assets, Deferred tax assets and Pension surplus		61.1	70.0	74.9	74.7	74.4
Current Assets		120.9	134.7	133.9	138.2	142.6
Stocks		37.0	42.4	47.0	51.3	51.9
Debtors		60.0	67.7	71.3	73.6	74.5
Cash		23.9	24.6	15.5	13.3	16.2
Current Liabilities		(73.9)	(99.5)	(83.7)	(81.8)	(79.6)
Creditors including tax, social security and provisions		(56.9)	(64.5)	(66.7)	(67.8)	(68.6)
Short term borrowings		(17.1)	(35.0)	(17.0)	(14.0)	(11.0)
Long Term Liabilities		(28.7)	(10.8)	(25.8)	(25.8)	(25.8)
Long term borrowings		(21.0)	(5.0)	(20.0)	(20.0)	(20.0)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(7.8)	(5.8)	(5.8)	(5.8)	(5.8)
Net Assets		105.9	121.0	126.3	132.5	138.9
Minority interest		(14.4)	(15.7)	(16.7)	(17.7)	(18.7)
Shareholders equity		91.5	105.3	109.6	114.8	120.2
CASH FLOW						
Operating Cash Flow		15.1	15.0	14.9	16.0	21.4
Net Interest		(0.7)	(1.0)	(1.3)	(1.0)	(1.0)
Tax		(1.2)	(2.5)	(2.6)	(2.8)	(2.9)
Investment activities		(1.1)	(2.8)	(5.3)	(4.8)	(4.8)
Acquisitions/disposals		(13.2)	(4.2)	(8.8)	(2.3)	(2.3)
Equity financing and other financing activities		0.1	(0.1)	0.0	0.0	0.0
Dividends to shareholders		(19.5)	(3.8)	(4.1)	(4.3)	(4.5)
Net Cash Flow		(20.4)	0.5	(7.3)	0.8	5.9
Opening net debt/(cash)		(8.1)	14.1	15.4	21.5	20.7
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		1.9	1.7	(1.2)	0.0	0.0
Closing net debt/(cash)		14.1	15.4	21.5	20.7	14.8

Source: Company data, Edison Investment Research

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