

Carr's Group

AGM update

Supplements sales offset low oil and gas investment

Carr's trading update for the first 19 weeks of FY21 notes that trading in Agriculture was ahead of management expectations because of strong sales of supplements. This was offset by a weaker than expected performance in the Engineering division caused by continued low crude oil prices. We note that net debt (excluding leases) was 24% lower year-on-year at the end of November, reflecting close inventory control and lower commodity prices. We leave our estimates broadly unchanged and reiterate our indicative valuation of 170p/share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/19	403.9	18.0	14.6	4.75	8.4	3.9
08/20	395.6	14.9	11.9	4.75	10.3	3.9
08/21e	421.2	15.4	12.2	4.90	10.1	4.0
08/22e	436.5	16.5	13.1	5.10	9.4	4.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items but not share-based payments.

Agriculture benefitting from robust US cattle prices

The division has remained fully operational during the coronavirus-related lockdowns. Cattle prices in the US have remained robust since the recovery noted towards the end of FY20, stimulating demand for feed blocks. Exports of both feed blocks and Animax supplements to the Republic of Ireland have increased following deployment of additional sales personnel there. Both these positive trends are likely to continue since US cattle prices are not significantly above the 10-year average and the Brexit deal ensures there are no tariffs on exports to Ireland. Trading in the UK Agriculture business has been in line with management expectations for FY21 so far and may potentially benefit from continued farmer confidence now the worry of a no-deal Brexit has gone, and from the current cold weather if this is prolonged.

Engineering affected by a weak oil price

Divisional performance is underpinned by long-term projects for the nuclear and defence sectors. These are progressing well, without some of the delays that have marred performance in previous years. While the major robotics order from Japan has still not been received, this is expected to benefit FY22, not FY21. However, global oil prices remain relatively low as the pandemic drags on, reducing investment by the oil and gas industry. This is having a negative impact on some of the UK manufacturing activity. While the division has also remained fully operational through the recent lockdowns, some revenue may slip into FY22 if prolonged lockdowns delay the completion of installations on customer sites.

Valuation: Indicative valuation remains 170p/share

Our DCF analysis gives an indicative value of 170p/share (unchanged). Confirmation that outperformance in the Agriculture division can compensate for the reduced Engineering revenues associated with the low oil price should, in our view, support the share price and help move it back towards our indicative valuation. So should news of the delayed major engineering order from Japan. -

General industrials

12 January 2021

Price **122.75p**
Market cap **£114m**

Net debt (£m) at end November 2020 (excluding finance leases) 20.4

Shares in issue 92.5m

Free float 58.6%

Code CARR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(0.6)	19.5	(19.3)
Rel (local)	(4.7)	5.2	(11.6)
52-week high/low	160.0p		88.0p

Business description

Carr's Group's Agriculture division serves farmers in the North of England, South Wales, the Welsh Borders and Scotland, the US, Germany, Canada and New Zealand. The Engineering division offers remote handling equipment and fabrications to the global nuclear and oil and gas industries.

Next event

H121 results April 2021

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

industrials@edisongroup.com
[Edison profile page](#)

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Revisions to estimates

We have made minor revisions to our estimates to reflect:

- Outperformance in the Agriculture division, which we believe is likely to be sustained.
- Lower heating and fuel oil prices, which affect Agriculture revenues but not operating profit.
- Lower UK manufacturing activity related to low levels of investment in the oil and gas industry. Given the long-term nature of contracts in the nuclear and defence industry, we believe it is unlikely that this underperformance will be compensated for by outperformance elsewhere in the Engineering division.

However, profit at the group level remains unchanged.

Exhibit 2: Changes to estimates

Year end 31 August (£m)	2020	2021e			2022e			2023e		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Agriculture revenues	342.6	365.0	368.0	0.8%	375.0	380.0	1.3%	390.0	392.0	0.5%
Engineering revenues	53.0	55.0	53.2	-3.3%	60.0	56.5	-5.8%	65.0	64.0	-1.5%
Group revenues	395.6	420.0	421.2	0.3%	435.0	436.5	0.3%	455.0	456.0	0.2%
Agriculture EBITA including JVs	13.4	13.4	13.9	3.7%	13.7	14.0	2.2%	14.1	14.2	0.7%
Engineering EBITA	3.8	4.5	4.0	-11.1%	5.2	4.9	-5.8%	5.9	5.8	-1.7%
Central costs	(1.0)	(1.0)	(1.0)	0.0%	(1.0)	(1.0)	0.0%	(1.1)	(1.1)	0.0%
Group EBITA after deducting share-based payments	16.2	16.9	16.9	0.0%	17.9	17.9	0.0%	18.9	18.9	0.0%
Normalised PBT after deducting share-based payments	14.9	15.4	15.4	0.0%	16.5	16.5	0.0%	17.6	17.6	0.0%
Normalised undiluted EPS after deducting share-based payments (p)	11.9	12.2	12.2	0.0%	13.1	13.1	0.0%	14.2	14.2	0.0%
Dividend per share (p)	4.75	4.9	4.9	0.0%	5.1	5.1	0.0%	5.3	5.3	0.0%
Net debt including IFRS16 finance leases	32.8	33.4	33.6	0.6%	31.8	32.1	0.8%	27.9	28.1	0.7%

Source: Company data, Edison Investment Research

Exhibit 3: Financial summary

	£m	2019	2020	2021e	2022e	2023e
31-August		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		403.9	395.6	421.2	436.5	456.0
EBITDA		23.8	23.4	24.1	25.0	26.1
Operating Profit (before amor. and except.)		18.9	16.2	16.9	17.9	18.9
Amortisation of acquired intangibles		(0.8)	(1.4)	(1.3)	(1.3)	(1.3)
Exceptionals		(0.9)	(1.0)	0.0	0.0	0.0
Share of post-tax profit from JVs and associate		2.7	2.6	2.7	2.7	2.8
Reported operating profit		17.2	13.8	15.6	16.6	17.6
Net Interest		(0.9)	(1.3)	(1.5)	(1.4)	(1.3)
Profit Before Tax (norm)		18.0	14.9	15.4	16.5	17.6
Profit Before Tax (reported)		16.3	12.5	14.1	15.2	16.3
Reported tax		(2.7)	(1.6)	(2.5)	(2.8)	(3.0)
Profit After Tax (norm)		15.1	13.3	12.9	13.7	14.7
Profit After Tax (reported)		13.6	10.9	11.6	12.4	13.4
Minority interests		(1.6)	(1.4)	(1.6)	(1.6)	(1.6)
Net income (normalised)		13.4	11.0	11.3	12.1	13.1
Net income (reported)		12.0	9.5	10.0	10.8	11.8
Basic average number of shares outstanding (m)		91.8	92.3	92.5	92.5	92.5
EPS - normalised (p)		14.6	11.9	12.2	13.1	14.2
EPS - normalised fully diluted (p)		14.2	11.8	12.0	12.8	13.8
EPS - basic reported (p)		13.1	10.3	10.8	11.7	12.8
Dividend per share (p)		4.75	4.75	4.90	5.10	5.25
EBITDA Margin (%)		5.9	5.9	5.7	5.7	5.7
Normalised Operating Margin		4.7	4.1	4.0	4.1	4.2
BALANCE SHEET						
Fixed Assets		115.6	127.5	129.5	126.8	124.2
Intangible Assets		42.2	41.2	41.2	41.1	41.0
Tangible Assets		41.9	53.1	55.1	52.5	50.0
Investments & other		31.5	33.1	33.1	33.1	33.1
Current Assets		140.7	119.9	119.2	122.7	134.0
Stocks		46.3	41.0	41.5	43.1	47.5
Debtors		65.8	59.8	62.3	65.8	68.7
Cash & cash equivalents		28.6	17.6	13.8	12.3	16.3
Other		0.0	1.5	1.5	1.5	1.5
Current Liabilities		(88.8)	(70.8)	(71.2)	(70.4)	(73.2)
Creditors		(63.9)	(56.6)	(60.0)	(62.2)	(65.0)
Tax and social security		(1.0)	(0.0)	(0.0)	(0.0)	(0.0)
Short term borrowings		(23.9)	(14.2)	(11.2)	(8.2)	(8.2)
Other		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(36.6)	(42.4)	(42.4)	(42.4)	(42.4)
Long term borrowings		(28.6)	(36.2)	(36.2)	(36.2)	(36.2)
Other long term liabilities		(8.0)	(6.2)	(6.2)	(6.2)	(6.2)
Net Assets		131.0	134.2	135.1	136.7	142.6
Minority interests		(16.7)	(17.0)	(18.6)	(20.2)	(21.8)
Shareholders' equity		114.3	117.1	116.5	116.6	120.8
CASH FLOW						
Op Cash Flow before WC and tax		23.8	23.4	24.1	25.0	26.1
Working capital		(5.0)	5.2	0.3	(2.8)	(4.6)
Exceptional & other		(2.8)	(6.0)	(2.7)	(2.7)	(2.8)
Tax		(2.3)	(3.1)	(2.5)	(2.8)	(3.0)
Net operating cash flow		13.7	19.6	19.2	16.8	15.8
Investment activities		(4.2)	(7.6)	(10.5)	(5.8)	(5.8)
Acquisitions/disposals		(10.2)	(2.7)	(3.5)	(3.5)	0.0
Net interest		(1.1)	(1.5)	(1.5)	(1.4)	(1.3)
Equity financing		0.0	0.0	0.0	0.0	0.0
Dividends		(4.2)	(3.3)	(4.4)	(4.5)	(4.7)
Other		(0.6)	0.8	0.0	0.0	0.0
Net Cash Flow		(6.6)	5.2	(0.7)	1.5	3.9
Opening net debt/(cash)		15.4	23.8	32.8	33.6	32.1
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		(1.9)	(14.3)	0.0	0.0	0.0
Closing net debt/(cash)		23.8	32.8*	33.6*	32.1*	28.1*

Source: Company accounts, Edison Investment Research. Note: *Including IFRS 16 leases.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia