# Carr's Group

FY21 results

## FY21 results ahead of improved expectations

General industrials

**Carr's Group's FY21 results were ahead of management's improved expectations, with increased profits across both the Speciality Agriculture and Agricultural Supplies divisions offsetting weaker performance from the Engineering division caused by low oil prices during Q121. Noting continued strength in livestock prices in the United States and the UK, stable farmgate milk prices in the UK and a strong Engineering order book, we raise our FY22 and FY23 PBT estimates by 4.7% and 2.2% respectively.**

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 08/20** | 395.6 | 15.0 | 12.0 | 4.75 | 12.2 | 3.3 |
| 08/21 | 417.3 | 16.6 | 13.2 | 5.00 | 11.1 | 3.4 |
| 08/22e | 422.5 | 17.3 | 13.7 | 5.20 | 10.7 | 3.6 |
| 09/23e | 434.0 | 17.9 | 14.0 | 5.40 | 10.4 | 3.7 |

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

### Outperformance in agricultural divisions in FY21

Group FY21 revenues increased by 5.5% year-on-year to £417.3m reflecting higher volumes of feed blocks and feed combined with commodity price inflation, which offset underperformance in those engineering activities exposed to the oil and gas market. Adjusted operating profit grew by 7.9% to £17.6m, as improved performances from both the agriculture related divisions were partly offset by the underperformance in the Engineering division and a sharp increase in central costs, which returned to normal levels. Stronger than expected US feed block sales over the summer led to a performance ahead of management 's expectations, which had been raised in July. The results were also slightly ahead of our estimates.

### Order book underpins FY22 Engineering recovery

Livestock prices in the UK and the United States continue to be strong and milk prices in the UK are stable. This is encouraging farmers in both regions to invest in feed blocks and supplements to enhance farm outputs, which is beneficial for the Speciality Agriculture division. The situation is also supportive for the Agricultural Supplies division, which only operates in the UK. The Engineering division's order book was 15.9% higher year-on-year at end FY21, reflecting a big jump in orders for fabrication work and good order intake at the precision engineering business during H221 as oil and gas companies resumed investment in exploration activity. This improved order book backs our assumption of divisional recovery during FY22.

### Valuation: Indicative valuation of 170p/share

Our DCF analysis gives an indicative value of 170p/share (previously 165p/share), with the small increase resulting from our profits upgrade. We believe that the valuation gap with respect to our indicative valuation and peer share price multiple averages should start to close as the strong Engineering order book converts to an improved divisional performance.

**7 December 2021**

| | |
|---|---|
| **Price** | **145.9p** |
| **Market cap** | **£137m** |

| | |
|---|---|
| Net debt (£m) at end August 2021 (excluding finance leases) | 10.0 |
| Shares in issue | 93.7m |
| Free float | 59.6% |
| Code | CARR |
| Primary exchange | LSE |
| Secondary exchange | N/A |

**Share price performance**


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 3.2 | (9.9) | 16.8 |
| Rel (local) | 4.6 | (9.3) | 5.0 |
| 52-week high/low | | 167.5p | 121.0p |

**Business description**

Carr's Group's Speciality Agriculture and Agricultural Supplies divisions serve farmers in the North of England, South Wales, the Welsh Borders and Scotland, the United States, 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**

| | |
|---|---|
| AGM | January 2021 |

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# Divisional performance

## Speciality Agriculture

Divisional revenues grew by 10.6% year-on-year during FY21 to £68.5m and adjusted operating profit by 25.0% to £9.5m. The division remained fully operational during the coronavirus-related lockdowns. Cattle prices in the United States were depressed in FY20 because of a delayed start to winter feeding but have remained robust since the recovery noted towards the end of FY20 because the easing of COVID-19 restrictions increased demand for beef, offsetting the impact of drought on farm incomes. Feed block volumes in the region rose by 13.4% during FY21. During FY20 demand for both feed blocks and Animax supplements in the UK was depressed because of the unfavourable combination of unseasonably mild weather and lower cattle and lamb prices, which disincentivised farmers from pushing to maximise outputs. In contrast, weather patterns were more normal during FY21 and livestock prices were higher, resulting in a 10.8% increase in feed block volumes. Overall, the volume of feed blocks sold, which includes sales in mainland Europe and New Zealand, increased by 12.3% year-on-year.

Livestock prices in the UK and the United States continue to be strong and milk prices in the UK are stable, encouraging farmers to invest in feed blocks and supplements to enhance farm outputs. In addition, the project to automate production at Animax, which will provide additional capacity and more consistent product quality, is close to completion. This will be timely as, following successful business development initiatives, demand currently exceeds supply. Management expects that the new production line at Animax, which cost c £1m, will be fully operational during FY22. Our estimates model zero growth in divisional profits during FY22 on the basis that the drought in the United States will have an adverse impact on sales of feed blocks in the region, but not as large a drop as previously (see Changes to estimates section.) We model a small year-on-year drop in contribution from joint ventures (JVs) and associate for the same reason. We then model a modest improvement in profits from both the Speciality Agriculture division and the contribution from JVs and associate during FY23 to reflect the positive impact of strengthening the group's sales presence in the United States, particularly Texas, and in Canada and Germany.

## Agricultural Supplies

Divisional revenues grew by 6.0% year-on-year to £297.5m and adjusted operating profit increased by 15.7% to £6.7m. This division also remained operational during the coronavirus-related lockdowns, though the retail outlets shifted to a collection model during the most severe phases of lockdown. The recovery in UK livestock prices during FY21 noted above together with improved farmgate milk prices supported a 2.6% increase in total feed volumes and the recovery of higher raw material costs. UK farmer confidence generally improved as the prospect of a no-deal Brexit, which would have been ruinous for sheep farmers, disappeared, contributing to a 6.3% increase in like-for-like retail sales (1.6% overall) and an 8.3% rise in machinery revenues. However, fuel volumes reduced by 5.6% year-on-year because customers had stocked up on fuel while it was relatively inexpensive over the summer of calendar 2020.

The outlook for this division is favourable as well, for the reasons discussed above. Management is focusing on investing in IT and processes to enhance margins by standardising product ranges and prices, improving supply chain arrangements and strengthening raw material procurement. To this end it spent £1.9m in FY21 (which was expensed) towards a new ERP system, which went live in September 2021. Our estimates model modest divisional growth in profits during both FY22 and FY23. This is based on management's comments that it has created a new central buying team, recruited new sales managers and introduced a programme to ensure that the management teams spend more of their time with customers.

## Engineering

Divisional revenues reduced by 3.2% year-on-year to £51.3m, though adjusted operating profit rose by 3.0% to £3.9m. This division also remained fully operational through the lockdowns. The remote handling and robotics business performed well (£16.3m revenues in FY21 vs £14.8m in FY20) despite coronavirus-related restrictions preventing access to customer sites. Revenues attributable to the engineering solutions segment declined from £20.5m to £19.2m as several mechanical stress improvement process (MSIP) projects completed during the year. Revenues from the UK fabrication and precision engineering segment fell from £17.7m to £15.8m. While low oil prices depressed investment from the oil and gas industry in exploration during H121, adversely affecting order intake in the precision engineering business, this was partly offset by a higher level of fabrication activity for the nuclear industry throughout the year.

The divisional order book totalled £38.8m the end of FY21, which was 15.9% higher than a year previously. It then rose further, reaching £44.6m at the end of October. The improvement reflects a big jump in orders for fabrication work and good order take at the precision engineering business during H221, partly offset by a small reduction in the robotics order book. During FY21 the UK engineering solutions business won several major contracts, including a £4.5m defence contract to upgrade testing facilities that runs into FY22 and FY23, and the US engineering solutions business won a $4m MISP project in Slovenia for delivery in late calendar 2022. The strengthening order book, especially for the precision engineering business, puts the division in a good position for growth in FY22 and supports our assumption of a substantial improvement in divisional profitability during FY22 followed by more modest improvement in FY23.

# Group performance

## P&L: FY21 trading ahead of management expectations

Group FY21 revenues increased by 5.5% year-on-year to £417.3m, reflecting higher volumes of feed blocks and feed combined with commodity price inflation, which offset underperformance in those engineering activities exposed to the oil and gas market. Adjusted operating profit grew by 7.9% to £17.6m. Improved performances from both the agriculture related divisions were partly offset by the Engineering division's underperformance and a sharp increase in central costs attributable to a changes in provision for a non-recoverable debt, higher performance related remuneration and CEO handover costs. The results were ahead of the board's expectations, which were raised in July, because of stronger than expected US feed block sales over the summer. They were also slightly ahead of our estimates. For example, actual adjusted PBT was £0.5m or 3.2% better than our estimate, which had been raised by 4.5% in July. Non-recurring items affecting profit before tax totalling £4.6m included a £1.0m credit related to a net decrease in fair value of deferred consideration payable for the US and UK engineering solutions businesses, £1.9m expenditure on the ERP system and a £2.1m impairment on the value of the Afgritech joint venture in the United States, which manufactures bypass-proteins and has been affected by a shortage of canola. The full year dividend was raised from 4.75p/share to 5.00p/share, ahead of our 4.9p/share estimate.

## Strong cash generation

Net debt (excluding £15.4m finance leases) reduced by £8.9m during FY21 to £10.0m at the year-end. Strong cash generation from operating activities benefited from a £3.2m decrease in working capital requirements. The retirement benefit surplus increased by £1.3m to £9.4m at end FY21. The group no longer makes deficit reduction contributions because the pension scheme was fully funded at the last full actuarial valuation.

## Changes to estimates

We make the following changes to our estimates:

- We reduce our FY22 and FY23 Agricultural Supplies revenues to reflect growth from a slightly lower base.
- We raise our FY22 and FY23 Speciality Agriculture EBITA estimates to reflect a continuation of strong feed block sales in the United States, which do not seem to be as much affected by the drought there as management had initially anticipated because of the strong livestock prices. This means that the year-on-year decline in FY22 is much less pronounced than previously. We reduce our FY22 and FY23 Specialist Agriculture revenues to keep EBITA margin constant.
- We raise our FY22 and FY23 dividend estimates to reflect the higher-than-expected dividend payment in FY21.
- Our estimates assume that the high level of creditor days at the end of FY21 is not sustained.

**Exhibit 1: Estimate revisions**

| £m | 2021 | | | 2022e | | | 2023e | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | Actual | Change | Old | New | Change | Old | New | Change |
| Speciality Agriculture revenues | 66.8 | 68.5 | 2.4% | 72.2 | 67.0 | -7.2% | 76.5 | 68.5 | -10.5% |
| Agricultural Supplies revenues | 320.0 | 297.5 | -7.0% | 319.8 | 300.5 | -6.0% | 322.5 | 303.5 | -5.9% |
| Total Agriculture revenues | 386.8 | 366.0 | -5.4% | 392.0 | 367.5 | -6.3% | 399.0 | 372.0 | -6.8% |
| Engineering revenues | 53.2 | 51.3 | -3.6% | 55.0 | 55.0 | 0.0% | 62.0 | 62.0 | 0.0% |
| **Group revenues (£m)** | **440.0** | **417.3** | **-5.2%** | **447.0** | **422.5** | **-5.5%** | **461.0** | **434.0** | **-5.9%** |
| Speciality Agriculture EBITA excluding JVs | 7.4 | 8.5 | 15.2% | 7.4 | 8.3 | 12.2% | 7.9 | 8.5 | 7.6% |
| Agricultural Supplies EBITA excluding JVs | 4.8 | 4.7 | -1.1% | 4.9 | 4.9 | 0.0% | 5.0 | 5.0 | 0.0% |
| Agriculture JVs EBITA | 2.8 | 2.9 | 5.2% | 2.8 | 2.8 | 0.0% | 2.9 | 2.9 | 0.0% |
| Total Agriculture EBITA including JVs | 15.8 | 16.2 | 2.6% | 15.1 | 16.0 | 6.0% | 15.8 | 16.4 | 3.8% |
| Engineering EBITA | 4.7 | 3.9 | -16.5% | 4.9 | 4.9 | 0.0% | 5.3 | 5.3 | 0.0% |
| Central costs (£m) | (3.5) | (2.6) | 94.5% | (2.5) | (2.6) | -13.2% | (2.5) | (2.7) | -21.1% |
| **Group EBITA after deducting share-based payments (£m)** | **17.0** | **17.6** | **3.4%** | **17.5** | **18.3** | **4.4%** | **18.6** | **18.9** | **2.1%** |
| Normalised PBT after deducting share-based payments (£m) | 16.1 | 16.6 | 3.2% | 16.5 | 17.3 | 4.7% | 17.6 | 17.9 | 2.2% |
| Normalised undiluted EPS after deducting share-based payments (p) | 11.6 | 13.2 | 14.2% | 13.0 | 13.7 | 5.0% | 13.7 | 14.0 | 2.3% |
| Dividend per share (p) | 4.9 | 5.0 | 2.0% | 5.1 | 5.2 | 2.0% | 5.3 | 5.4 | 2.9% |
| Net debt/(cash) (£m) | 29.0 | 25.4 | -12.4% | 26.7 | 23.6 | -11.3% | 21.1 | 17.3 | -18.2% |

Source: Carr's Group data, Edison Investment Research

# Management changes

In line with the succession plan announced in August 2020, Hugh Pelham was appointed as CEO in September 2020 and took up his role when the previous CEO, Tim Davies, stood down at the group's AGM in January 2021. Hugh left the group in October 2021. Chairman Peter Page has moved from a non-executive to an executive role while a new CEO is found. The board expects to complete this process during the current financial year.

# Valuation

## DCF methodology

Our valuation methodology is based on a discounted cash flow (DCF) analysis, supplemented with a comparison of peer group multiples. We continue to use a conservative 10.0% WACC and a 1.0% terminal growth rate for our DCF calculation. This gives a fair value of 170p/share (previously 165p/share), with the small increase resulting from our profits upgrade. We prefer a DCF analysis to a peer-based multiples approach because it looks beyond any short-term issues of unseasonal weather, which the group, like other companies engaged in agricultural supply, is exposed to. We believe that the valuation gap should begin to close as the strong order book in Engineering starts to convert to an improved divisional performance.

**Exhibit 2: DCF valuation (p/share) – sensitivities to WACC and terminal growth assumptions**

| | | WACC | | | | |
|---|---|---|---|---|---|---|
| | | **9.0%** | **9.5%** | **10.0%** | **10.5%** | **11.0%** |
| Terminal growth | 0.0% | 176 | 166 | 157 | 149 | 141 |
| | 1.0% | 194 | 181 | **170** | 160 | 151 |
| | 1.5% | 204 | 190 | 178 | 167 | 158 |
| | 2.0% | 216 | 200 | 187 | 175 | 164 |
| | 3.0% | 245 | 225 | 208 | 193 | 180 |

Source: Edison Investment Research

## Peer-based multiples

In Exhibit 3 we compare Carr's prospective EV/EBITDA and P/E multiples with those for its listed peers in the agricultural sector. At the current share price (145.9p), Carr's is trading below the mean for its peers (excluding Anpario) on all metrics. In our opinion, this discount is not justified because Carr's feed block activity in North America, mainland Europe and New Zealand reduces the exposure of its agricultural businesses to challenges caused by the UK climate and government policy. This sets Carr's apart from both NWF and Wynnstay, whose agricultural activities are confined to the UK. In addition, since a substantial proportion of operating profit (47% FY21) is derived from sales of feed blocks and supplements, Carr's Group merits multiples that are closer to the higher values achieved by natural feed additives provider Anpario than pure-play agricultural supply companies like ForFarmers or Origin Enterprises.

**Exhibit 3: Peer based multiples**

| Name | Market cap (£m) | EV/EBITDA 1FY (x) | EV/EBITDA 2FY (x) | P/E 1FY (x) | P/E 2FY (x) |
|---|---|---|---|---|---|
| Anpario | 151.7 | 20.1 | 19.4 | 29.8 | 29.0 |
| ForFarmers | 311.6 | 5.4 | 4.9 | 11.1 | 10.1 |
| NWF Group | 105.6 | 6.3 | 6.2 | 12.1 | 12.1 |
| Origin Enterprises | 365.8 | 5.8 | 5.5 | 8.4 | 8.0 |
| Ridley Corporation | 231.5 | 6.9 | 6.4 | 13.6 | 11.9 |
| Wynnstay Group | 112.2 | 8.3 | 8.1 | 14.5 | 14.0 |
| **Mean excluding Anpario** | | **6.5** | **6.2** | **12.0** | **11.2** |
| **Mean including Anpario** | | **8.8** | **8.4** | **14.9** | **14.2** |
| Carr's Group @ 145.9p/share | 136.7 | 5.9 | 5.8 | 10.7 | 10.4 |
| Carr's Group at 170p/share | 159.4 | 6.8 | 6.7 | 12.4 | 12.1 |

Source: Refinitiv, Edison Investment Research. Note: Prices as at 2 December 2021.

At the indicative value of 170p/share derived from our DCF calculation, Carr's would be trading at a small premium to the average for its peers, excluding Anpario, but at a discount when Anpario is included in the mean calculation.

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### Exhibit 4: Financial summary

| £m | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|
| Year end 31 August | IFRS | IFRS | IFRS | IFRS |
| **INCOME STATEMENT** | restated | | | |
| Revenue | 395.6 | 417.3 | 422.5 | 434.0 |
| Share of post-tax profit from JVs and associate | 2.6 | 2.9 | 2.8 | 2.9 |
| EBITDA | 23.4 | 23.9 | 24.8 | 25.4 |
| Operating Profit (before amor. and except.) | 16.3 | 17.6 | 18.3 | 18.9 |
| Amortisation of acquired intangibles | (1.4) | (1.2) | (1.2) | (1.2) |
| Exceptionals | (2.6) | (3.4) | 0.0 | 0.0 |
| Reported operating profit | 12.3 | 13.0 | 17.1 | 17.8 |
| Net Interest | (1.3) | (1.0) | (1.0) | (1.0) |
| Profit Before Tax (norm) | 15.0 | 16.6 | 17.3 | 17.9 |
| Profit Before Tax (reported) | 10.9 | 12.1 | 16.1 | 16.8 |
| Reported tax | (1.3) | (2.4) | (2.9) | (3.2) |
| Profit After Tax (norm) | 12.7 | 14.7 | 14.4 | 14.7 |
| Profit After Tax (reported) | 9.6 | 9.7 | 13.2 | 13.5 |
| Minority interests | (1.2) | (1.9) | (1.6) | (1.6) |
| Net income (normalised) | 11.1 | 12.3 | 12.8 | 13.1 |
| Net income (reported) | 8.4 | 7.7 | 11.6 | 11.9 |
| Average number of shares outstanding (m) | 92.3 | 93.1 | 93.7 | 93.7 |
| EPS - normalised (p) | 12.0 | 13.2 | 13.7 | 14.0 |
| EPS - normalised fully diluted (p) | 11.8 | 13.0 | 13.4 | 13.8 |
| EPS - basic reported (p) | 9.1 | 8.3 | 12.4 | 12.7 |
| Dividend (p) | 4.75 | 5.00 | 5.20 | 5.40 |
| EBITDA Margin (%) | 5.9 | 5.7 | 5.9 | 5.9 |
| Normalised Operating Margin | 4.1 | 4.2 | 4.3 | 4.4 |
| **BALANCE SHEET** | | | | |
| Fixed Assets | 124.4 | 123.4 | 120.3 | 117.2 |
| Intangible Assets | 38.4 | 36.7 | 35.5 | 34.3 |
| Tangible Assets | 53.1 | 53.0 | 51.1 | 49.3 |
| Investments & other | 32.9 | 33.7 | 33.7 | 33.7 |
| Current Assets | 120.4 | 139.1 | 136.9 | 143.2 |
| Stocks | 41.0 | 43.2 | 44.0 | 45.2 |
| Debtors | 59.8 | 68.9 | 67.1 | 69.0 |
| Cash & cash equivalents | 17.6 | 24.3 | 23.1 | 26.4 |
| Other | 2.1 | 2.7 | 2.7 | 2.7 |
| Current Liabilities | (70.8) | (86.1) | (75.9) | (73.5) |
| Creditors | (56.6) | (72.0) | (64.8) | (65.4) |
| Tax and social security | (0.0) | (0.0) | (0.0) | (0.0) |
| Short term borrowings including finance leases | (14.2) | (14.1) | (11.1) | (8.1) |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Liabilities | (42.4) | (41.2) | (41.2) | (41.2) |
| Long term borrowings including finance leases | (36.2) | (35.6) | (35.6) | (35.6) |
| Other long term liabilities | (6.2) | (5.6) | (5.6) | (5.6) |
| Net Assets | 131.6 | 135.2 | 140.0 | 145.8 |
| Minority interests | (16.8) | (17.2) | (18.7) | (20.3) |
| Shareholders' equity | 114.8 | 118.1 | 121.3 | 125.5 |
| **CASH FLOW** | | | | |
| Op Cash Flow before WC and tax | 23.4 | 23.9 | 24.8 | 25.4 |
| Working capital | 5.2 | 3.2 | (6.1) | (2.4) |
| Exceptional & other | (7.4) | (4.9) | (2.8) | (2.9) |
| Tax | (3.1) | (2.1) | (2.9) | (3.2) |
| Operating cash flow | 18.2 | 20.0 | 13.0 | 16.8 |
| Investment activities | (6.2) | (3.6) | (4.6) | (4.6) |
| Acquisitions/disposals | (2.7) | (1.1) | (0.9) | 0.0 |
| Net interest | (1.5) | (1.1) | (1.0) | (1.0) |
| Equity financing | 0.0 | 0.9 | 0.0 | 0.0 |
| Dividends | (3.3) | (5.5) | (4.7) | (4.9) |
| Other | 0.8 | 0.3 | 0.0 | 0.0 |
| Net Cash Flow | 5.2 | 9.9 | 1.8 | 6.4 |
| Opening net debt/(cash) including finance leases | 23.8 | 32.8 | 25.4 | 23.6 |
| FX | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-cash movements | (14.3) | (2.5) | 0.0 | 0.0 |
| Closing net debt/(cash) including finance leases | 32.8 | 25.4 | 23.6 | 17.3 |
| Finance leases | 13.9 | 15.4 | 15.4 | 15.4 |
| Closing net debt/(cash) excluding finance leases | 18.9 | 10.0 | 8.2 | 1.8 |

Source: company data, Edison Investment Research

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