

# Carr's Group

Acquisition

## Expansion of engineering activity in the US

Carr's Group has acquired US-based NuVision Engineering for a total cash consideration of up to US\$20m (£15.4m). The transaction is immediately earnings enhancing. Importantly, it gives German-based Wälischmiller, which is part of the Carr's Group Engineering division, greatly enhanced access to the US nuclear market. We raise our FY18 and FY19 estimates and revise our indicative valuation from 158p/share to 163p/share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/15	331.3	14.2	10.6	3.7	13.8	2.5
08/16	314.9	14.0	10.6	3.8**	13.8	2.6
08/17e	332.2	11.8	8.9	3.9	16.5	2.7
08/18e	342.8	15.3	11.6	4.0	12.7	2.7

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

## Acquisition opens up US market

NuVision provides products and field services to clients in the commercial nuclear and fossil power plant industries, including a process for mitigating stress corrosion cracking in nuclear plant pipe welds, engineering design and analysis and radiological decontamination equipment and services. It also supports nuclear decommissioning programmes in the US, UK and Canada through the provision of specialist equipment including its proprietary remote handling arms. Following the transaction, NuVision will start to sell Wälischmiller's complementary range of remote handling equipment to its established base, thus creating a route to market that overcomes the resistance to purchasing from non-US suppliers that Wälischmiller has experienced in the past. In addition, the acquisition strengthens the services that the group's Engineering division is able to provide to its customers in the nuclear industry. For example, NuVision is a key supplier on a major nuclear contract that will be delivered by the Manufacturing businesses during FY18.

## Acquisition immediately earnings enhancing

For the year ended March 2017, NuVision generated \$8.8m revenues and \$1.1m profit before tax (adjusted for non-recurring items and amortisation of intangibles). The maximum total consideration payable is \$20m, with an initial consideration of \$11.5m payable in cash, funded through £6m new term loan facilities and the group's existing credit facilities. The remaining \$8.5m, also payable in cash, is contingent on NuVision's performance over the 32 months ending March 2020. The upwards revisions to our estimates assume NuVision's revenues and PBT remain at historic levels and exclude any potential from cross-selling.

## Valuation: Modest uplift from acquisition

Our valuation methodology is based on a DCF analysis, as this captures the medium- and long-term prospects for the group. We continue to use a conservative 10.0% WACC and a 1.0% terminal growth rate, which gives a fair value of 163p/share (previously 158p/share).

Food & beverages

8 August 2017

Price **146.75p**

Market cap **£134m**

£/US\$:1/1.30

Net debt (£m) at 4 March 2017 11.5

Shares in issue 91.4m

Free float 80.5

Code CARR

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 9.9 13.8 3.2

Rel (local) 7.2 10.5 (7.7)

52-week high/low 167.2p 124.0p

### 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 events

Prelims 13 November 2017

### Analysts

Anne Margaret Crow +44 (0)20 3077 5700

Roger Johnston +44 (0)20 3077 5722

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

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## Revisions to estimates

The changes to our estimates make the following assumptions:

- No impact on FY17 revenues or profits as the acquisition takes place very close to the year end
- NuVision's revenues and profits remain at the levels reported for the year ending March 2017, although the extensive contract and opportunity pipeline indicates potential for growth
- Although management expects to see material benefit from cross-selling from FY19 onwards, we currently exclude this from our estimates. We will revisit these assumptions when the FY17 results are announced in November.

### Exhibit 1: Changes to estimates

Year end August	FY16	FY17e			FY18e			FY19e		
(£m)	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	314.9	332.2	332.2	0.0%	336.0	342.8	2.0%	340.0	346.8	2.0%
Adjusted PBT	14.0	11.8	11.8	0.0%	14.7	15.3	4.1%	16.0	16.6	3.7%
EPS (p)	10.6	8.9	8.9	0.0%	11.1	11.6	4.5%	11.8	12.3	4.1%
Net (cash)/debt	(8.1)	8.6	17.4	103.3%	2.7	10.2	283.9%	(3.4)	2.9	N/A

Source: Carr's Group accounts (historics), Edison Investment Research

**Exhibit 2: Financial summary**

	£m	2015	2016	2017e	2018e	2019e
Year-end Aug						
<b>PROFIT &amp; LOSS</b>						
Revenue		331.3	314.9	332.2	342.8	346.8
EBITDA		16.0	16.5	14.1	19.0	20.2
Operating Profit (pre amort. of acq intangibles & SBP)		12.6	12.7	10.2	14.1	15.3
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Share-based payments		(0.5)	0.1	(0.5)	(0.5)	(0.5)
Exceptionals		0.0	0.0	0.0	0.0	0.0
Operating Profit		12.1	12.8	9.7	13.6	14.8
Net Interest		(0.7)	(0.8)	(0.6)	(1.0)	(1.0)
Share of post-tax profits in JVs and associates		2.3	2.1	2.2	2.2	2.3
Profit Before Tax (norm)		14.2	14.0	11.8	15.3	16.6
Profit Before Tax (FRS 3)		13.7	14.1	11.3	14.8	16.1
Tax		(3.0)	(2.9)	(2.1)	(3.1)	(3.9)
Profit After Tax (norm)		11.2	11.1	9.7	12.2	12.7
Profit After Tax (FRS 3)		10.7	11.2	9.2	11.7	12.2
Post tax profit (loss) relating to discontinued operations		3.0	2.8	0.0	0.0	0.0
Minority interest		(1.7)	(1.5)	(1.5)	(1.5)	(1.5)
Net income (norm)		9.5	9.5	8.2	10.6	11.2
Net income (FRS 3)		12.0	12.5	7.7	10.1	10.7
Average Number of Shares Outstanding (m)		89.6	90.1	91.4	91.4	91.4
EPS - normalised (p)		10.6	10.6	8.9	11.6	12.3
EPS - normalised fully diluted (p)		10.2	10.2	8.6	11.2	11.9
EPS - FRS 3 (p)		13.4	13.8	8.4	11.1	11.7
Dividend per share (p)		3.7	3.8**	3.9	4.0	4.2
EBITDA Margin (%)		4.8	5.2	4.2	5.5	5.8
Operating Margin (before GW and except.) (%)		3.8	4.0	3.1	4.1	4.4
<b>BALANCE SHEET</b>						
Fixed Assets		86.5	63.1	81.9	80.5	78.9
Intangible Assets		11.3	11.7	16.0	15.8	15.6
Tangible Assets and Deferred tax assets		75.2	51.4	65.9	64.7	63.4
Current Assets		120.4	139.1	108.5	114.3	120.6
Stocks		35.0	33.4	33.1	33.8	34.8
Debtors		65.3	57.2	55.5	56.5	57.5
Cash		20.1	48.4	19.9	24.0	28.3
Current Liabilities		(73.8)	(69.0)	(66.3)	(66.1)	(64.1)
Creditors including tax, social security and provisions		(55.0)	(47.3)	(47.7)	(50.5)	(51.5)
Short term borrowings		(18.7)	(21.6)	(18.6)	(15.6)	(12.6)
Long Term Liabilities		(34.2)	(23.1)	(23.1)	(23.1)	(23.1)
Long term borrowings		(25.7)	(18.6)	(18.6)	(18.6)	(18.6)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(8.5)	(4.5)	(4.5)	(4.5)	(4.5)
Net Assets		99.0	110.1	100.9	105.5	112.3
Minority interest		(11.9)	(13.4)	(13.4)	(13.4)	(13.4)
Shareholders equity		87.1	96.7	87.5	92.2	98.9
<b>CASH FLOW</b>						
Operating Cash Flow		14.3	11.7	17.3	20.1	19.2
Net Interest		(0.5)	(0.5)	(0.6)	(1.0)	(1.0)
Tax		(3.9)	(1.1)	(2.1)	(3.1)	(3.9)
Investment activities		(4.0)	(2.9)	(7.9)	(3.5)	(3.5)
Acquisitions/disposals		(1.7)	22.7	(13.1)	(1.8)	0.0
Equity financing and other financing activities		(0.3)	1.0	0.0	0.0	0.0
Dividends		(3.1)	(3.3)	(19.2)	(3.6)	(3.7)
Net Cash Flow		0.8	27.5	(25.6)	7.2	7.3
Opening net debt/(cash)		24.6	24.4	(8.1)	17.4	10.2
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.6	(5.1)	0.0	0.0	0.0
Closing net debt/(cash)		24.4	(8.1)	17.4	10.2	2.9

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

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