

Carr's Group

Diversity helps keep group on track

Interim management
statement

General industrials

11 January 2017

Price **145.50p**
Market cap **£133m**

Net debt (£m) at end December 2016	16.9
Shares in issue	91.4m
Free float	78%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.3)	0.0	(10.2)
Rel (local)	(7.5)	(2.5)	(6.4)
52-week high/low	167.25p	135.75p	

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

Interims April 2017

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Once again, the in-built diversity provided by having two divisions operating in different sectors and internationalisation within those two divisions shows its worth. During the first 18 weeks of FY17 a better than expected performance from the Agricultural division was balanced against a significant contract delay in the Engineering division, with the group as a whole trading in line with management's expectations for the full year. We leave our estimates and valuation unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/15	331.3	14.2	10.6	3.7	13.7	2.5
08/16	314.9	14.0	10.6	3.8**	13.7	2.6
08/17e	332.2	14.6	10.7	3.9	13.6	2.7
08/18e	336.0	15.3	11.2	4.0	13.0	2.7

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

Stronger than expected Agriculture performance

Confidence appears to be returning to the UK agriculture sector, boosting sales of feed blocks, machinery and agricultural inputs generally, while Carr's continues to gain share in the compound feed market. Prior year investment in the Country Store retail chain and improving farmer confidence delivered growth exceeding management expectations. In the US, sales of feed blocks were similar to the previous year as ranchers adjusted to lower beef prices.

Single significant contract delay affects Engineering

The remote handling businesses are performing in line with expectations, with Wälischmiller working on significant contracts such as the first self-propelled vehicle mounted Telbot for the vitrification plant in Karlsruhe and MSM busy with the life of plant contract for Sellafeld. However, there has been a significant delay with a contract in the UK Manufacturing business that was expected to utilise a significant proportion of FY17 production capacity and is not expected to commence until towards the year end. Management is taking a range of actions to limit the financial impacts of this delay, but notes that divisional performance will be lower than originally expected despite some recent contract wins that will benefit H2. Management is confident that the recovery in UK agriculture will compensate for the FY17 shortfall in Engineering and lack of growth in the US. The divisional order book and pipeline for FY18 and beyond are encouraging.

Valuation: At a moderate discount to market

We retain our estimates and leave our valuation unchanged at 161p/share. Triggers to close the valuation gap include news of management action to reduce the impact of the delayed manufacturing contract and stabilisation in the US beef cattle market.

Exhibit 1: Financial summary

	£m	2015	2016	2017e	2018e	2019e
Year-end Aug						
PROFIT & LOSS						
Revenue		331.3	314.9	332.2	336.0	340.0
EBITDA		16.0	16.5	17.1	18.2	18.8
Operating Profit (pre amort. of acq intangibles & SBP)		12.6	12.7	13.2	14.1	14.7
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	12.7	13.6	14.2
Net Interest		(0.7)	(0.8)	(0.6)	(0.8)	(0.8)
Share of post-tax profits in JVs and associates		2.3	2.1	2.0	2.0	2.1
Profit Before Tax (norm)		14.2	14.0	14.6	15.3	16.0
Profit Before Tax (FRS 3)		13.7	14.1	14.1	14.8	15.5
Tax		(3.0)	(2.9)	(3.3)	(3.5)	(3.7)
Profit After Tax (norm)		11.2	11.1	11.3	11.8	12.3
Profit After Tax (FRS 3)		10.7	11.2	10.8	11.3	11.8
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	9.8	10.2	10.8
Net income (FRS 3)		12.0	12.5	9.3	9.7	10.3
Average Number of Shares Outstanding (m)		89.6	90.1	91.3	91.4	91.4
EPS - normalised (p)		10.6	10.6	10.7	11.2	11.8
EPS - normalised fully diluted (p)		10.2	10.2	10.3	10.8	11.4
EPS - FRS 3 (p)		13.4	13.8	10.1	10.7	11.3
Dividend per share (p)		3.7	3.8	3.9	4.0	4.2
EBITDA Margin (%)		4.8	5.2	5.2	5.4	5.5
Operating Margin (before GW and except.) (%)		3.8	4.0	4.0	4.2	4.3
BALANCE SHEET						
Fixed Assets		86.5	63.1	73.0	72.4	71.8
Intangible Assets		11.3	11.7	16.0	16.0	16.0
Tangible Assets and Deferred tax assets		75.2	51.4	57.0	56.4	55.7
Current Assets		120.4	139.1	118.3	123.2	128.4
Stocks		35.0	33.4	32.4	33.0	34.0
Debtors		65.3	57.2	55.5	56.5	57.5
Cash		20.1	48.4	30.5	33.7	36.9
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	101.9	106.4	112.9
Minority interest		(11.9)	(13.4)	(13.4)	(13.4)	(13.4)
Shareholders equity		87.1	96.7	88.6	93.0	99.6
CASH FLOW						
Operating Cash Flow		14.3	11.7	20.3	19.3	17.8
Net Interest		(0.5)	(0.5)	(0.6)	(0.8)	(0.8)
Tax		(3.9)	(1.1)	(3.3)	(3.5)	(3.7)
Investment activities		(4.0)	(2.9)	(7.9)	(3.5)	(3.5)
Acquisitions/disposals		(1.7)	22.7	(4.2)	(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	(14.9)	6.2	6.2
Opening net debt/(cash)		24.6	24.4	(8.1)	6.8	0.6
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)	6.8	0.6	(5.6)

Source: Company accounts, Edison Investment Research

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