

Carr's Group

Trading update

Sellafield contract underpins engineering growth

Food producers

19 July 2016

Carr's trading update confirms that management's strategy of innovation, investment and internationalisation is able to counter challenges in the UK dairy market. A new £48m framework agreement from Sellafield underpins growth for the UK Engineering business despite continued weakness in the oil and gas sector. FY16 trading is in line with management expectations and we leave our estimates and indicative valuation of 197p unchanged.

Price 141.5p
Market cap £128m

Net debt (£m) end February 2016	27.0
Shares in issue	90.5m
Free float	78%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
8/14	429.0	17.0	13.2	3.4	10.7	2.4
8/15	411.6	18.1	14.0	3.7	10.1	2.6
8/16e	403.2	18.1	13.9	3.8	10.2	2.7
8/17e	409.2	17.7	13.3	3.9	10.6	2.7

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

Share price performance



%	1m	3m	12m
Abs	(5.7)	(5.7)	(14.2)
Rel (local)	(13.8)	(9.6)	(12.7)
52-week high/low		177p	137p

Diversification is protection from market challenges

The Agriculture division is performing better than management expected as excellent volume growth in US feedblock sales, supported by previous investment, is combatting continued weakness in the UK agriculture, especially dairy, sector. Retail sales in the Country Store network are up vs FY15 as are the volumes of oil sold. This outperformance balances underperformance in the Engineering division where utilisation levels in the UK manufacturing business were low because of weakness in the oil and gas sector and customer-triggered delays in starting some of the new nuclear projects. The Food division performed well. Previous investment in a new mill in Kirkcaldy and improvements at Silloth are helping it win new customers while expanding the activity undertaken for established ones.

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 Food division mills flour in the UK while Engineering offers remote handling equipment and fabrications to global nuclear and oil & gas sectors.

Sellafield contract largest ever for engineering

The £48m contract from Sellafield, which is already assumed in our estimates, underpins the growth and development opportunities for the Engineering division in the medium term, countering the lack of investment in the oil and gas sector. The UK feed business has taken share in a market that is down 4.4% nationally and it will also benefit from the acquisition in June of Phoenix Feeds which brings additional customers in the north-west of England.

Next events

Prelims	November 2016
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Valuation: Potential for share price appreciation

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We reiterate our indicative value of 197p, which is based on a sum-of-the-parts analysis. News of the major contract from Sellafield should help close the valuation gap with listed peers as will an improvement in farmgate milk prices. It is not possible to predict the impact of Brexit on farm incomes as this will depend on whether the CAP is replaced with an equivalent subsidy. Short term, the decline in sterling will push up raw material prices (feed prices are flagged to rise across the sector) keeping pressure on margins, but should also generate forex gains on the profits generated from sales of feed-blocks in the US. As the Engineering businesses serve very niche international markets, demand for its products is not likely to be affected.

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Exhibit 1: Financial summary

	£m	2014	2015	2016e	2017e	2018e
Year-end Aug						
PROFIT & LOSS						
Revenue		429.0	411.6	403.2	409.2	415.0
EBITDA		20.9	22.2	22.5	22.0	22.3
Operating Profit (pre amort. of acq intangibles & SBP)		15.8	17.0	17.1	16.5	16.9
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Share-based payments		(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Exceptionals		0.0	0.0	0.0	0.0	0.0
Operating Profit		15.4	16.4	16.5	16.0	16.3
Net Interest		(1.4)	(1.2)	(1.0)	(0.8)	(0.8)
Share of post-tax profits in JVs and associates		2.5	2.3	2.0	2.0	2.0
Profit Before Tax (norm)		17.0	18.1	18.1	17.7	18.1
Profit Before Tax (FRS 3)		16.6	17.5	17.5	17.2	17.5
Tax		(3.7)	(3.8)	(3.8)	(4.0)	(4.1)
Profit After Tax (norm)		13.3	14.3	14.2	13.8	14.0
Profit After Tax (FRS 3)		12.9	13.7	13.6	13.2	13.4
Post tax profit (loss) relating to discontinued operations		0.0	0.0	0.0	0.0	0.0
Minority interest		(1.5)	(1.7)	(1.7)	(1.7)	(1.7)
Net income (norm)		11.8	12.6	12.5	12.1	12.3
Net income (FRS 3)		11.4	12.0	11.9	11.5	11.7
Average Number of Shares Outstanding* (m)		89.0	89.6	90.1	90.5	90.5
EPS - normalised (p)		13.2	14.0	13.9	13.3	13.6
EPS - normalised fully diluted (p)		12.8	13.6	13.4	12.9	13.2
EPS - FRS 3 (p)		12.3	13.4	13.3	12.7	13.0
Dividend per share (p)		3.4	3.7	3.8	3.9	4.0
EBITDA Margin (%)		4.9	5.4	5.6	5.4	5.4
Operating Margin (before GW and except.) (%)		3.7	4.1	4.2	4.0	4.1
BALANCE SHEET						
Fixed Assets		83.4	86.5	90.3	89.2	88.2
Intangible Assets		10.3	11.3	11.1	10.9	10.9
Tangible Assets and Deferred tax assets		73.1	75.2	79.2	78.3	77.4
Current Assets		114.3	116.9	113.6	105.6	108.7
Stocks		33.3	35.0	35.4	29.1	29.6
Debtors		63.7	65.3	66.1	56.9	57.7
Cash		17.3	16.5	12.2	19.5	21.4
Current Liabilities		(75.6)	(70.2)	(66.8)	(53.4)	(51.0)
Creditors including tax, social security and provisions		(55.9)	(55.0)	(54.7)	(44.3)	(44.9)
Short term borrowings		(19.7)	(15.2)	(12.2)	(9.2)	(6.2)
Long Term Liabilities		(32.3)	(34.2)	(30.2)	(26.2)	(22.2)
Long term borrowings		(22.2)	(25.7)	(21.7)	(17.7)	(13.7)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(10.1)	(8.5)	(8.5)	(8.5)	(8.5)
Net Assets		89.8	99.0	106.9	115.2	123.7
Minority interest		(10.2)	(11.9)	(11.9)	(11.9)	(11.9)
Shareholders' equity		79.7	87.1	94.9	103.3	111.8
CASH FLOW						
Operating Cash Flow		17.1	15.1	20.3	27.0	21.7
Net Interest		(1.4)	(1.2)	(1.0)	(0.8)	(0.8)
Tax		(3.2)	(4.0)	(3.8)	(4.0)	(4.1)
Investment activities		(7.5)	(4.0)	(8.4)	(4.4)	(4.4)
Acquisitions/disposals		(3.6)	(1.7)	(1.0)	0.0	0.0
Equity financing and other financing activities		(4.1)	(1.8)	(7.0)	(7.0)	(7.0)
Dividends		(2.9)	(3.1)	(3.3)	(3.4)	(3.5)
Net Cash Flow		(5.7)	(0.7)	(4.3)	7.3	1.9
Opening net debt/(cash)		22.1	24.6	24.4	21.7	7.4
HP finance leases initiated		(2.3)	0.0	0.0	0.0	0.0
Other		(5.5)	(0.9)	(7.0)	(7.0)	(7.0)
Closing net debt/(cash)		24.6	24.4	21.7	7.4	(1.5)

Source: Edison investment Research; *Note: Updated to incorporate the latest number of shares.

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