EDISON

Carr's Group

Trading update

Contract award supports FY18 profit recovery

Food & beverages

Carr's Group notes that the continued recovery in UK agriculture, supported by improving farmer confidence, is offsetting weak demand in the US for feed blocks caused by a surplus of cattle following a period of restocking. Importantly, management is seeing the first signs of recovery in the US market. This, together with a strong order book for the remote handling activity and improved prospects for the UK Manufacturing activity, underpin our expectations of profit recovery next year. We leave our estimates and valuation unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
8/15	331.3	14.2	10.6	3.7	12.9	2.7
8/16	314.9	14.0	10.6	3.8**	12.9	2.8
8/17e	332.2	11.8	8.9	3.9	15.3	2.9
8/18e	336.0	14.7	11.1	4.0	12.3	2.9

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

Recovery in UK agriculture continues

Management's expectations at the interim stage that the UK Agriculture sector would remain positive have proved correct. The improvement in farmgate milk prices has boosted farmer confidence, resulting in higher demand for feed, for other agricultural inputs and for farm machinery, which is particularly sensitive to farmer sentiment. US deadweight cattle prices have risen, giving management confidence of feed block demand returning during FY18. In parallel, the group is taking a pro-active approach to drive growth eg acquiring Cheshire-based feed merchant Mortimer Feeds in June, thus strengthening its presence in a key dairy region.

Delayed manufacturing contract now signed

The remote handling business, which is focused on the nuclear industry, continues to perform well as it delivers on some large orders into China. The order book is at its highest level for several years. As flagged, the UK manufacturing business was impacted by delays in commencing a major contract expected to utilise a significant proportion of FY17 production capacity. Capacity has been filled instead with lower margin business for the oil and gas sector. The contract is now in, supporting divisional recovery from FY18 onwards.

Valuation: Uplift from US feed block recovery

We expect a recovery in profits during FY18 because the dip in Engineering is related to one-off events and even if underlying demand for feed blocks in the US does not completely recover to FY16 levels, the additional volumes going to new geographies from the Tennessee facility should make up for any shortfall. Our valuation methodology is therefore 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 158p/share. Evidence of an improvement in US feed block volumes supporting a recovery in Agriculture profits during FY18 should help close the valuation gap.

20 July 2017

Price	**136.5p**
Market cap	**£125m**

Net debt (£m) at 4 March 2017	11.5
Shares in issue	91.4m
Free float	79.6%
Code	CARR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.2)	(1.2)	(1.5)
Rel (local)	(0.1)	(4.9)	(12.2)
52-week high/low		167.25p	124p

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

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Edison profile page

Carr's Group is a research client of Edison Investment Research Limited

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	14.1	17.4	18.6
Operating Profit (pre amort. of acq intangibles & SBP)	12.6	12.7	10.2	13.3	14.5
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	12.8	14.0
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	2.2	2.2	2.3
Profit Before Tax (norm)	14.2	14.0	11.8	14.7	16.0
Profit Before Tax (FRS 3)	13.7	14.1	11.3	14.2	15.5
Tax	(3.0)	(2.9)	(2.1)	(3.0)	(3.7)
Profit After Tax (norm)	11.2	11.1	9.7	11.7	12.3
Profit After Tax (FRS 3)	10.7	11.2	9.2	11.2	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	8.2	10.2	10.8
Net income (FRS 3)	12.0	12.5	7.7	9.7	10.3
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	11.1	11.8
EPS - normalised fully diluted (p)	10.2	10.2	8.6	10.8	11.4
EPS - FRS 3 (p)	13.4	13.8	8.4	10.6	11.2
Dividend per share (p)	3.7	3.8*	3.9	4.0	4.2
EBITDA Margin (%)	4.8	5.2	4.2	5.2	5.5
Operating Margin (before GW and except.) (%)	3.8	4.0	3.1	4.0	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	116.5	121.1	126.1
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	28.7	31.6	34.6
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	100.1	104.3	110.6
Minority interest	(11.9)	(13.4)	(13.4)	(13.4)	(13.4)
Shareholders equity	87.1	96.7	86.8	90.9	97.3
CASH FLOW					
Operating Cash Flow	14.3	11.7	17.3	18.5	17.6
Net Interest	(0.5)	(0.5)	(0.6)	(0.8)	(0.8)
Tax	(3.9)	(1.1)	(2.1)	(3.0)	(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	(16.7)	5.9	6.0
Opening net debt/(cash)	24.6	24.4	(8.1)	8.6	2.7
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)	8.6	2.7	(3.4)

Source: Edison Investment Research. Note: *Excluding 17.54p special dividend.

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