

# Carr's Group

AGM update

## Recovery on track

Performance during the first 18 weeks of FY18 indicates that the recovery in both divisions that was predicted by Carr's management is well underway. As the group is trading in line with management's expectations for the full year, we leave our estimates and valuation unchanged except for an upward revision to revenues to reflect higher commodity prices.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/16	314.9	14.2	10.8	3.8**	11.5	3.1
08/17	346.2	11.9	9.4	4.0	13.2	3.2
08/18e	370.1	15.9	12.5	4.2	9.9	3.4
08/19e	377.5	16.9	12.9	4.4	9.6	3.5

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

## Continued improvement in US feed block volumes

Importantly, US feed block volumes continued to recover as cattle prices for producers improved. Going forward, this favourable trend will be augmented by the availability of low moisture feed blocks from the newly commissioned plant in Tennessee, which opens up the market in the eastern states of the US. UK farming sentiment remains positive, helping drive strong machinery sales, increased feed volumes and a good start to the year in the Country Stores, although fuel volumes were lower because of the mild and wet weather.

## Engineering activity levels high

Work continues on the significant fabrication contract that was delayed until almost the end of FY17, enabling the UK manufacturing business to be trading well ahead of the prior year. The strength of the order book indicates that this trend is set to continue for the rest of the year. The remote handling businesses continue to perform well as they too work through a strong order book. Looking ahead, the extension of the German premises, scheduled for completion later this calendar year, will provide additional capacity. The integration of NuVision, acquired in August 2017, is progressing as planned and presents an opportunity to sell German designed remote handling equipment more widely in the US.

## Valuation: Uplift as US feed block market recovers

We leave our estimates unchanged, other than revising group revenues upwards (FY18 from £364.2m to £370.1m; FY19 from £368.4m to £377.5m; FY20 from £372.8m to £383.7m) to reflect higher feed and fuel prices. Our DCF analysis, which uses a conservative 10.0% WACC and 1.0% terminal growth rate, gives a fair value of 167p/share (unchanged). Continued recovery in the US feed block market should help close the valuation gap.

## General industrials

9 January 2018

**Price** **124.0p**  
**Market cap** **£113m**

Net debt (£m) at 2 December 2017	19.0
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	(4.4)	(14.5)	(18.4)
Rel (local)	(8.2)	(16.6)	(24.6)
52-week high/low		156.0p	120.0p

## 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

Interims 16 April 2018

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**Exhibit 1: Financial summary**

	£m	2016	2017	2018e	2019e	2020e
Year-end Aug						
<b>PROFIT &amp; LOSS</b>						
Revenue		314.9	346.2	370.1	377.5	383.7
EBITDA		16.5	13.9	18.7	19.8	20.6
Operating Profit (before amort. and except.)		12.9	9.8	14.1	15.1	15.8
Amortisation of acquired intangibles		(0.2)	(0.1)	(0.5)	(0.5)	(0.5)
Share-based payments		0.1	(0.5)	(0.5)	(0.5)	(0.5)
Exceptionals		0.0	(1.3)	0.0	0.0	0.0
Operating Profit		12.8	7.9	13.1	14.1	14.8
Net Interest		(0.8)	(0.7)	(1.0)	(1.0)	(1.0)
Share of post-tax profits in JVs and associates		2.1	2.8	2.8	2.8	2.8
Profit Before Tax (norm)		14.2	11.9	15.9	16.9	17.6
Profit Before Tax (FRS 3)		14.1	10.0	14.9	15.9	16.6
Tax		(2.9)	(1.7)	(3.1)	(3.8)	(4.0)
Profit After Tax (norm)		11.2	9.9	12.8	13.1	13.6
Profit After Tax (FRS 3)		11.2	8.3	11.8	12.1	12.6
Post tax profit (loss) relating to discontinued operations		2.8	0.0	0.0	0.0	0.0
Minority interest		(1.5)	(1.3)	(1.3)	(1.3)	(1.3)
Net income (norm)		9.7	8.6	11.5	11.8	12.3
Net income (FRS 3)		12.5	7.0	10.5	10.8	11.3
Average Number of Shares Outstanding (m)		90.1	91.4	91.4	91.4	91.4
EPS - normalised (p)		10.8	9.4	12.5	12.9	13.5
EPS - normalised diluted (p)		10.4	9.4	12.4	12.8	13.4
EPS - FRS 3 (p)		13.8	7.7	11.5	11.8	12.4
Dividend per share (p)		3.8*	4.0	4.2	4.4	4.6
EBITDA Margin (%)		5.2	4.0	5.1	5.2	5.4
Operating Margin (before GW and except.) (%)		4.1	2.8	3.8	4.0	4.1
<b>BALANCE SHEET</b>						
Fixed Assets		63.1	87.9	86.6	85.2	83.6
Intangible Assets		11.7	26.5	26.4	26.2	26.1
Tangible Assets and Deferred tax assets		51.4	61.4	60.2	58.9	57.5
Current Assets		139.1	121.1	122.1	124.7	127.6
Stocks		33.4	37.0	38.5	39.0	39.5
Debtors		57.2	60.2	63.5	64.5	65.0
Cash		48.4	23.9	20.1	21.2	23.1
Current Liabilities		(69.0)	(73.7)	(71.7)	(69.2)	(66.7)
Creditors including tax, social security and provisions		(47.3)	(56.7)	(57.7)	(58.2)	(58.7)
Short term borrowings		(21.6)	(17.1)	(14.1)	(11.1)	(8.1)
Long Term Liabilities		(23.1)	(29.4)	(29.4)	(29.4)	(29.4)
Long term borrowings		(18.6)	(21.0)	(21.0)	(21.0)	(21.0)
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(4.5)	(8.4)	(8.4)	(8.4)	(8.4)
Net Assets		110.1	105.9	107.6	111.2	115.2
Minority interest		(13.4)	(14.4)	(15.4)	(16.4)	(17.4)
Shareholders' equity		96.7	91.5	92.2	94.8	97.7
<b>CASH FLOW</b>						
Operating Cash Flow		11.7	15.1	14.9	18.8	20.1
Net Interest		(0.5)	(0.7)	(1.0)	(1.0)	(1.0)
Tax		(1.1)	(1.2)	(3.1)	(3.8)	(4.0)
Investment activities		(2.9)	(1.1)	(3.8)	(3.8)	(3.8)
Acquisitions/disposals		22.7	(13.2)	(4.1)	(2.3)	(2.3)
Equity financing and other financing activities		1.0	0.1	0.0	0.0	0.0
Dividends		(3.3)	(19.5)	(3.7)	(3.8)	(4.0)
Net Cash Flow		27.5	(20.4)	(0.8)	4.0	5.0
Opening net debt/(cash)		24.4	(8.1)	14.1	14.9	10.9
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(5.1)	1.9	0.0	0.0	0.0
Closing net debt/(cash)		(8.1)	14.1	14.9	10.9	5.9

Source: Company accounts, Edison Investment Research. Note: \*Excluding 17.54p special dividend.

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