

Scott Technology

MHM Takeover Crystallises Value

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Scott Technology's (SCT) strategic review has been brought into the limelight again, with NZX-listed peer MHM Automation Limited (MHM) receiving a takeover bid from Bettcher Industries. If the deal goes ahead, MHM's shareholders will receive NZ\$1.70 per share in cash, a significant +87% premium over 2 November's closing price of NZ\$0.91. The MHM takeover offer represents ~10.8x EV/EBITDA on our twelve-month forward estimates, reaffirming our view that SCT remains undervalued. Applying the same multiple to our EBITDA estimates for SCT yields an implied valuation of NZ\$4.73, +26% ahead of the current price. SCT is currently in the midst of a strategic review, which has now spanned several months, with ~53% shareholder JBS 'exploring options to maximise value for all shareholders'. MHM's takeover bid could crystallise SCT's value for potential acquirers, especially given our view that SCT has: 1) superior profitability, 2) greater scale and geographical diversification, and 3) more robust growth prospects relative to MHM. Our updated blended spot valuation rises +2% to NZ\$4.57, representing ~10.1x EV/EBITDA, with the MHM deal offering support to our valuation thesis.

NZX Code	SCT	Financials: Aug/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$3.74	Rev (NZ\$m)	268.9	302.1	338.2	371.0	PE	19.4	18.3	14.4	11.1
Spot Valuation	NZ\$4.57 (from 4.47)	NPAT* (NZ\$m)	15.4	16.9	21.8	29.0	EV/EBIT	15.4	12.4	10.0	7.6
Risk rating	Medium	EPS* (NZc)	19.3	20.5	26.0	33.7	EV/EBITDA	10.6	8.9	7.3	6.2
Issued shares	81.2m	DPS (NZc)	8.0	10.0	12.0	14.0	Price / NTA	2.4	2.2	2.0	1.8
Market cap	NZ\$304m	Imputation (%)	0	100	100	100	Cash div yld (%)	2.1	2.7	3.2	3.7
Avg daily turnover	14.2k (NZ\$42k)	*Based on normalised profits					Gross div yld (%)	2.1	3.7	4.5	5.2

What's changed?

- **Spot valuation:** Our blended spot valuation rises from NZ\$4.47 to NZ\$4.57 given updated peer multiples.

Automation technology – in the right place at the right time?

The intersection of SCT's review and the bid for MHM likely reflects broader trends within the industry, particularly the escalating interest in automation and acquisition pursuits, aimed at bolstering operational capabilities and market position. When many companies are seeing a shortage of staff, escalating wages and other costs, and growing health and safety pressures, companies that assist with solutions in this area have been sought after. SCT's recent FY23 result showed these trends continue to drive growth for the business. Across the core segments revenue grew +27% and margin (SCT's terminology) rose +33% to NZ\$63.7m. EBITDA margin expansion from 10.8% to 11.4% led to operating EBITDA increasing +27% to \$30.4m. Further, SCT's balance sheet remains strong, with only NZ\$0.1m of net debt.

Scoping out the value – Bettcher Industries bid

Bettcher Industries' offer of NZ\$1.70 per share values MHM at ~18.7x 12-month forward PE, or ~10.8x 12-month forward EV/EBITDA. This is in-line with MHM's automation peers, which trade on median multiples of 18.6x 12-month forward PE and 11.7x 12-month forward EV/EBITDA. At its last closing price of NZ\$0.91, MHM had traded at material discounts to this peer set. We think SCT deserves to trade on at least the same multiple as MHM, with a case to be made that it could also trade at a premium. SCT (three-year average EBITDA margin of 10.8%) is a more profitable business than MHM (8.3%). Further, we expect SCT to grow revenue at a 10-year CAGR of +6.6%, higher than +5.8% for MHM (normalised for the Wyma acquisition). The MHM deal provides valuation support to our blended spot valuation of NZ\$4.57, representing 10.1x 12-month forward EV/EBITDA or 20.8x 12-month forward PE.

Scott Technology (SCT)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 03 Nov 2023					3.74	Peers comparable					4.41
52 week high / low					3.74 / 2.46	DCF					4.68
Market capitalisation (NZ\$m)					303.7						
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					5.25%	Total firm value					551
Equity beta					1.30	(Net debt)/cash					(0)
WACC					10.0%	Less: Capitalised operating leases					(52)
Terminal growth					2.0%	Value of equity					498
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Revenue	223.8	268.9	302.1	338.2	371.0	EV/Sales (x)	1.4	1.2	1.0	0.9	0.8
Normalised EBITDA	23.9	29.7	34.9	42.0	49.1	EV/EBITDA (x)	13.1	10.6	8.9	7.3	6.2
Depreciation and amortisation	(8.1)	(8.5)	(10.0)	(11.2)	(8.9)	EV/EBIT (x)	19.8	15.4	12.4	10.0	7.6
Normalised EBIT	15.9	20.6	24.9	30.8	40.2	PE (x)	23.5	19.4	18.3	14.4	11.1
Net interest	(0.9)	(1.7)	(1.4)	(0.4)	0.0	Price/NTA (x)	3.2	2.4	2.2	2.0	1.8
Associate income	0	0	0	0	0	Free cash flow yield (%)	0.2	4.7	4.6	6.6	7.8
Tax	(2.3)	(3.8)	(6.6)	(8.5)	(11.3)	Adj. free cash flow yield (%)	0.2	4.7	4.6	6.6	7.8
Minority interests	0	0	0	0	0	Net dividend yield (%)	2.1	2.1	2.7	3.2	3.7
Normalised NPAT	12.7	15.4	16.9	21.8	29.0	Gross dividend yield (%)	2.1	2.1	3.7	4.5	5.2
Abnormals/other	(12.6)	0	0	0	0	Capital Structure					
Reported NPAT	0.1	15.4	16.9	21.8	29.0	Interest cover EBIT (x)	16.7	12.2	17.3	71.0	n/a
Normalised EPS (cps)	15.9	19.3	20.5	26.0	33.8	Interest cover EBITDA (x)	25.2	17.6	24.2	97.0	n/a
DPS (cps)	8.0	8.0	10.0	12.0	14.0	Net debt/ND+E (%)	7.5	0.1	-6.7	-18.3	-31.0
Growth Rates						Net debt/EBITDA (x)	0.3	0.0	n/a	n/a	n/a
Revenue (%)	7.5	20.2	12.4	11.9	9.7	Key Ratios					
EBITDA (%)	14.1	24.1	17.5	20.4	17.0	Return on assets (%)	7.7	8.1	9.6	11.1	13.1
EBIT (%)	30.8	29.5	21.1	23.6	30.6	Return on equity (%)	12.7	11.9	11.9	13.8	16.0
Normalised NPAT (%)	50.3	22.0	9.4	29.4	32.6	Return on funds employed (%)	9.0	8.5	9.2	11.1	13.0
Normalised EPS (%)	47.2	21.4	6.2	27.1	29.9	EBITDA margin (%)	10.7	11.0	11.5	12.4	13.2
Ordinary DPS (%)	33.3	0.0	25.0	20.0	16.7	EBIT margin (%)	7.1	7.6	8.2	9.1	10.8
Cash Flow (NZ\$m)						Capex to sales (%)	1.0	0.7	1.9	1.4	1.4
EBITDA	23.9	29.7	34.9	42.0	49.1	Capex to depreciation (%)	40	31	91	68	67
Working capital change	(15.7)	(6.4)	(6.1)	(6.0)	(6.5)	Imputation (%)	0	0	100	100	100
Interest & tax paid	(1.0)	(0.0)	(6.0)	(8.1)	(10.6)	Pay-out ratio (%)	50	41	49	46	41
Other	(0.9)	(3.1)	1.2	1.2	1.2	Operating Performance					
Operating cash flow	6.3	20.2	24.0	29.1	33.2	2022A	2023A	2024E	2025E	2026E	
Capital expenditure	(2.3)	(2.0)	(5.7)	(4.7)	(5.1)	Meat processing					
(Acquisitions)/divestments	(12.8)	(2.5)	0	0	0	Revenue (NZ\$m)	57.1	76.0	90.4	105.8	123.8
Other	(4.0)	(6.3)	(6.2)	(5.2)	(5.1)	Gross margin (%)	32%	33%	34%	35%	35%
Funding available/(required)	(12.8)	9.5	12.0	19.2	23.0	Gross profit (NZ\$m)	18.1	25.4	31.1	36.7	43.4
Dividends paid	(2.7)	(2.6)	(7.4)	(9.2)	(11.1)	Mining laboratory					
Equity raised/(returned)	0	0	4.4	5.5	6.6	Revenue (NZ\$m)	39.5	41.2	46.1	53.1	61.0
(Increase)/decrease in net debt	(15.5)	6.9	9.0	15.5	18.5	Gross margin (%)	40%	40%	41%	42%	43%
Balance Sheet (NZ\$m)						Gross profit (NZ\$m)	15.8	16.6	18.7	22.0	26.0
Working capital	36.2	42.6	48.6	54.6	61.1	Materials Handling and Logistics					
Fixed assets	17.1	18.4	21.2	22.6	24.1	Revenue (NZ\$m)	70.0	94.4	108.6	120.5	125.3
Intangibles	7.2	5.6	3.0	0	0	Gross margin (%)	20%	23%	24%	24%	24%
Right of use asset	9.5	12.5	14.8	16.8	18.5	Gross profit (NZ\$m)	13.8	21.6	25.9	29.1	30.6
Other assets	93.3	113.3	111.6	109.8	108.1	Other					
Total funds employed	163.3	192.3	199.3	203.9	211.8	Revenue (NZ\$m)	55.6	56.0	56.0	58.2	60.6
Net debt/(cash)	8.0	0.1	(8.9)	(24.4)	(42.9)	Gross margin (%)	10%	14%	15%	15%	15%
Lease liability	7.1	9.6	11.8	13.7	15.2	Gross profit (NZ\$m)	5.4	7.8	8.4	8.7	9.0
Other liabilities	47.7	51.2	53.4	55.0	56.6						
Shareholder's funds	100.7	131.9	143.3	159.8	182.9						
Minority interests	(0.3)	(0.4)	(0.3)	(0.2)	(0.1)						
Total funding sources	163.3	192.3	199.3	203.9	211.8						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Compelling valuation reinforced by MHM bid

The takeover bid received by MHM supports our view that at current prices SCT continues to be undervalued, despite a +49% rally YTD. SCT trades at ~8.2x 12-month forward EV/EBITDA, a -24% discount to the ~10.8x multiple implied by Bettcher Industries' NZ\$1.70 bid for MHM. Using the ~10.8x multiple from the MHM takeover bid, and our 12-month forward EBITDA estimate, implies NZ\$4.73 for SCT. A complete valuation sensitivity analysis is provided in Figure 1 for varying multiple and EBITDA ranges.

Figure 1. SCT—Valuation sensitivity analysis

		12m forward EBITDA range (NZ\$m)						
		\$30.69	\$32.50	\$34.30	\$36.11 [^]	\$37.91	\$39.72	\$41.53
EV/EBITDA multiple	8.8x	\$3.25	\$3.45	\$3.65	\$3.84	\$4.04	\$4.23	\$4.43
	9.8x	\$3.63	\$3.85	\$4.07	\$4.29	\$4.50	\$4.72	\$4.94
	10.8x*	\$4.01	\$4.25	\$4.49	\$4.73	\$4.97	\$5.21	\$5.45
	11.8x	\$4.39	\$4.65	\$4.91	\$5.18	\$5.44	\$5.70	\$5.96
	12.8x	\$4.77	\$5.05	\$5.34	\$5.62	\$5.91	\$6.19	\$6.47

Source: Forsyth Barr analysis

* implied EV/EBITDA multiple of NZ\$1.70 per share bid for MHM

[^] FB 12-month forward EBITDA

We view SCT's valuation discount to MHM as unjustified, and conservatively believe it should trade at least in line with MHM's multiple. Several factors drive this belief. SCT is more profitable than MHM (11.4% EBITDA margin in FY23 versus 10.2% for MHM) and generates a much higher proportion of revenue from high-margin services, which should aid group margins in the future. In addition, we consider it likely that SCT will be able to generate superior revenue growth over the next ten years, driven by innovative new products like its chicken trussing line, a new Bladestop model and the beef processing line as examples. SCT's scale and geographic diversification (with only ~24% of revenue from Australia, NZ and the Pacific Islands) should also improve the consistency of its earnings relative to MHM (where ~67% of revenue comes from Australia and NZ).

Figure 2. Comparison of SCT and MHM

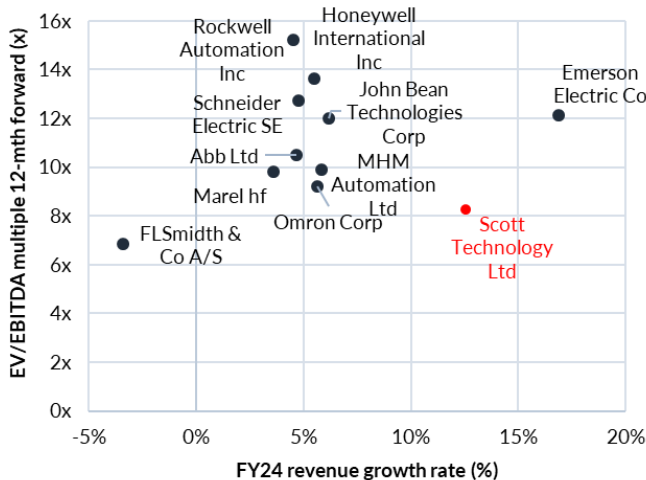
Company	Share price (NZ\$)	Market cap (NZ\$m)	12-m forward EV/EBITDA (x)	12m fwd PE (x)	FY23 revenue (NZ\$m)	FY23 EBITDA (NZ\$m)	FY23 EBITDA margin (%)	FY33E/FY23 revenue CAGR
Scott Technology	3.74	297.8	8.2x	17.1	267.5	30.4	11.4%	+6.6%
MHM Automation	1.50	133.6	10.8x*	18.7x*	96.7	9.9	10.2%	+5.8%

Source: Refinitiv Eikon, Forsyth Barr analysis

* Based on takeover bid of NZ\$1.70 per share

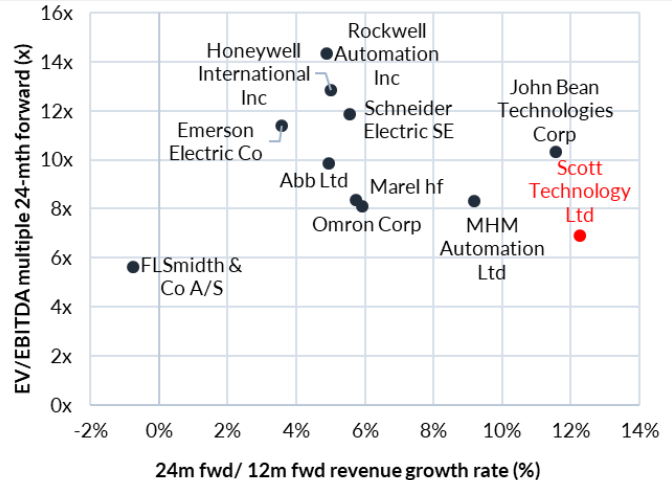
SCT's global automation peers trade on an average 12-month forward EV/EBITDA multiple of 10.5x and an average 12-month forward PE of 18.3x. Among this group, SCT should grow revenue the second quickest in FY24 and the fastest in the 24-month/12-month forward period. Given its best-in-class growth prospects, we feel this provides further evidence that SCT is undervalued.

Figure 3. Sector—12mth forward EV/EBITDA (x) versus revenue growth in FY24 (%)



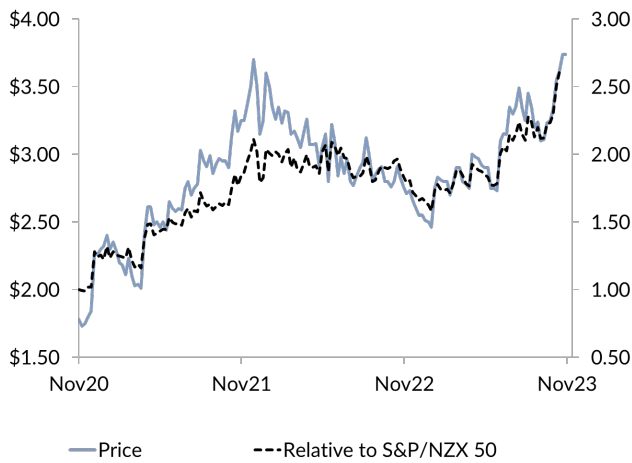
Source: Refinitiv Eikon, Forsyth Barr analysis

Figure 4. Sector—24mth forward EV/EBITDA (x) versus 24mth forward/12mth forward revenue growth (%)



Source: Refinitiv Eikon, Forsyth Barr analysis

Figure 5. Price performance



Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

Shareholder	Latest Holding
JBS Australia Pty	53.1%
Oakwood Securities	6.8%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 7. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2024E	PE 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBIT 2024E	EV/EBIT 2025E	Cash Yld 2025E		
(metrics re-weighted to reflect SCT's balance date - August)												
Scott Technology	SCT NZ	NZ\$3.74	NZ\$304	18.3x	14.4x	8.9x	7.3x	12.4x	10.0x	3.2%		
Marel Hf	MAREL NA	€2.32	€1,789	n/a	13.5x	11.0x	8.8x	17.0x	13.0x	2.3%		
Flsmidth & Co A/S	FLS DC	kr269.20	kr15,519	14.6x	10.9x	7.6x	6.0x	11.5x	7.8x	3.9%		
Xrf Scientific	XRF AT	A\$1.00	A\$138	15.6x	11.9x	8.9x	8.2x	9.8x	n/a	3.9%		
Abb-Reg	ABBN SW	US\$29.80	US\$56,084	14.7x	13.8x	9.9x	9.5x	11.7x	11.0x	3.4%		
Emerson Electric Co	EMR US	US\$88.83	US\$50,766	17.9x	16.7x	11.3x	10.6x	13.8x	12.9x	2.5%		
Honeywell International Inc	HON US	US\$178.09	US\$118,245	18.3x	16.7x	13.2x	12.4x	15.1x	14.1x	2.6%		
John Bean Technologies Corp	JBT US	US\$105.89	US\$3,371	23.9x	19.7x	12.3x	10.7x	20.0x	16.7x	0.4%		
Omron Corp	6645 JP	¥6204.00	¥1,279,543	19.1x	16.9x	10.8x	9.5x	14.1x	12.4x	1.8%		
Rockwell Automation Inc	ROK US	US\$263.32	US\$30,245	20.0x	18.6x	15.8x	14.9x	17.3x	15.9x	2.0%		
Schneider Electric Se	SU FP	€139.98	€80,186	17.0x	15.7x	12.2x	11.4x	14.4x	13.4x	2.9%		
Compc Average:				17.9x	15.4x	11.3x	10.2x	14.5x	13.0x	2.6%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				SCT Relative:		2%	-7%	-22%	-29%	-14%	-24%	25%

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compc metrics re-weighted to reflect headline (SCT) companies fiscal year end

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