

Scott Technology

Rocklabs' New Auckland Site Grand Opening

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Rocklabs, a renowned brand within Scott Technology's (SCT) minerals division (~15% of group sales), is a pioneer in sample preparation equipment for mining. On 13 March 2024, we had the pleasure of being hosted for the grand opening of Rocklabs' new Auckland facility. The new 5,500m² warehouse facility is more than double the size of its predecessor, providing significant additional capacity. SCT's minerals division has pivoted away from designing complex and costly bespoke systems and is now focussed on repeatable product solutions. As part of this strategic shift, SCT has developed modular components for sample preparation which can be sold individually or combined to create an end-to-end automated modular solution (AMS). Expanding into the new facility will provide ample space for SCT to manufacture multiple AMS lines simultaneously, and we expect this to be a key driver of growth for the minerals division. We leave our estimates and spot valuation unchanged ahead of SCT's 1H24 result, expected on 16 April 2024.

NZX Code	SCT	Financials: Aug/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$3.08	Rev (NZ\$m)	268.9	302.1	338.2	371.0	PE	16.0	15.0	11.8	9.1
Spot Valuation	NZ\$4.56	NPAT* (NZ\$m)	15.4	16.9	21.8	29.0	EV/EBIT	12.8	10.3	8.2	6.3
Risk rating	Medium	EPS* (NZc)	19.3	20.5	26.0	33.7	EV/EBITDA	8.8	7.3	6.0	5.1
Issued shares	81.2m	DPS (NZc)	8.0	10.0	12.0	14.0	Price / NTA	2.0	1.8	1.6	1.5
Market cap	NZ\$250m	Imputation (%)	0	100	100	100	Cash div yld (%)	2.6	3.2	3.9	4.5
Avg daily turnover	12.8k (NZ\$41k)	*Based on normalised profits					Gross div yld (%)	2.6	4.5	5.4	6.3

Key takeaways from the site visit

We walk away from our site visit with an increased understanding of Rocklabs' operations. Some of the key takeaways were:

- **Capacity:** The new Auckland site is 2x the footprint of the previous site and will allow for up to a 5x increase in capacity over time.
- **Lease terms:** SCT has signed a ten-year lease for the site, with 2x five-year renewal rights.
- **Capabilities:** The new site facilitates SCT's product design, engineering, testing and assembly, with some fabrication outsourced.
- **Staff:** Rocklabs has 67 staff, predominantly in Auckland, with around a dozen in Perth.
- **Sales by geography:** ~30% of Rocklabs' sales are to Australia, with the rest sold globally.
- **Sales channels:** Sales are split roughly evenly between direct and agent channels.
- **Customers:** Direct sales are split between mining firms and labs ~50:50. Rocklabs has limited visibility into its agent channels.
- **New AMS systems:** Our main takeaway from the visit was increased confidence that the new AMS systems can be the core driver for revenue growth and improved profitability in minerals. We estimate the systems sell for more than NZ\$1m each and are likely to be sold with multi-year parts and servicing agreements that, over time, generate substantial revenue. Additionally, the modular nature of the ASM systems means efficient production and limited ongoing design and engineering costs.

There is no change to our SCT earnings estimates as we await the 16 April 2024 release of SCT's 1H24 result

While we maintain our FY24 forecast of NZ\$34.9m in operating EBITDA for SCT, recent weakness in global protein markets provides some downside risk. Ample meat supplies and lower consumer demand have put downward pressure on output prices, potentially leading meat processors to delay equipment purchases and investment until market conditions improve. As we approach SCT's 1H24 (for the six months ending 29 February 2024), which is set to be released on 16 April 2024, we are hopeful that continued progress in the materials, handling and logistics segment can offset any potential protein market headwinds. SCT's strong forward order book (NZ\$195m in October 2023) and recurring service revenues (largely unaffected by the investment cycle and generally higher margin) should also offer some insulation.

Scott Technology (SCT)
Market Data (NZ\$)

Priced as at 13 Mar 2024	3.08
52 week high / low	3.90 / 2.60
Market capitalisation (NZ\$m)	250.1

Key WACC assumptions

Risk free rate	5.25%
Equity beta	1.30
WACC	10.0%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Revenue	223.8	268.9	302.1	338.2	371.0
Normalised EBITDA	23.9	29.7	34.9	42.0	49.1
Depreciation and amortisation	(8.1)	(8.5)	(10.0)	(11.2)	(8.9)
Normalised EBIT	15.9	20.6	24.9	30.8	40.2
Net interest	(0.9)	(1.7)	(1.4)	(0.4)	0.0
Associate income	0	0	0	0	0
Tax	(2.3)	(3.8)	(6.6)	(8.5)	(11.3)
Minority interests	0	0	0	0	0
Normalised NPAT	12.7	15.4	16.9	21.8	29.0
Abnormals/other	(12.6)	0	0	0	0
Reported NPAT	0.1	15.4	16.9	21.8	29.0
Normalised EPS (cps)	15.9	19.3	20.4	25.9	33.4
DPS (cps)	8.0	8.0	10.0	12.0	14.0

Growth Rates

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	7.5	20.2	12.4	11.9	9.7
EBITDA (%)	14.1	24.1	17.5	20.4	17.0
EBIT (%)	30.8	29.5	21.1	23.6	30.6
Normalised NPAT (%)	50.3	22.0	9.4	29.4	32.6
Normalised EPS (%)	47.2	21.4	5.9	26.6	29.3
Ordinary DPS (%)	33.3	0.0	25.0	20.0	16.7

Cash Flow (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
EBITDA	23.9	29.7	34.9	42.0	49.1
Working capital change	(15.7)	(6.4)	(6.1)	(6.0)	(6.5)
Interest & tax paid	(1.0)	(0.0)	(6.0)	(8.1)	(10.6)
Other	(0.9)	(3.1)	1.2	1.2	1.2
Operating cash flow	6.3	20.2	24.0	29.1	33.2
Capital expenditure	(2.3)	(2.0)	(5.7)	(4.7)	(5.1)
(Acquisitions)/divestments	(12.8)	(2.5)	0	0	0
Other	(4.0)	(6.3)	(6.2)	(5.2)	(5.1)
Funding available/(required)	(12.8)	9.5	12.0	19.2	23.0
Dividends paid	(2.7)	(2.6)	(7.4)	(9.3)	(11.3)
Equity raised/(returned)	0	0	4.4	5.5	6.7
(Increase)/decrease in net debt	(15.5)	6.9	9.0	15.4	18.4

Balance Sheet (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Working capital	36.2	42.6	48.6	54.6	61.1
Fixed assets	17.1	18.4	21.2	22.6	24.1
Intangibles	7.2	5.6	3.0	0	0
Right of use asset	9.5	12.5	14.8	16.8	18.5
Other assets	93.3	113.3	111.6	109.8	108.1
Total funds employed	163.3	192.3	199.3	203.9	211.8
Net debt/(cash)	8.0	0.1	(8.9)	(24.4)	(42.8)
Lease liability	7.1	9.6	11.8	13.7	15.2
Other liabilities	47.7	51.2	53.4	55.0	56.6
Shareholder's funds	100.7	131.9	143.3	159.8	182.8
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

Spot valuation (NZ\$)

Peers comparable	4.41
DCF	4.68

DCF valuation summary (NZ\$m)

Total firm value	570
(Net debt)/cash	(0)
Less: Capitalised operating leases	(54)
Value of equity	516

Valuation Ratios

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.2	1.0	0.9	0.7	0.7
EV/EBITDA (x)	10.9	8.8	7.3	6.0	5.1
EV/EBIT (x)	16.4	12.8	10.3	8.2	6.3
PE (x)	19.4	16.0	15.1	11.9	9.2
Price/NTA (x)	2.6	2.0	1.8	1.6	1.5
Free cash flow yield (%)	0.2	5.7	5.6	8.0	9.5
Adj. free cash flow yield (%)	0.2	5.7	5.6	8.0	9.5
Net dividend yield (%)	2.6	2.6	3.2	3.9	4.5
Gross dividend yield (%)	2.6	2.6	4.5	5.4	6.3

Capital Structure

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	16.7	12.2	17.3	71.0	n/a
Interest cover EBITDA (x)	25.2	17.6	24.2	96.9	n/a
Net debt/ND+E (%)	7.5	0.1	-6.7	-18.2	-30.9
Net debt/EBITDA (x)	0.3	0.0	n/a	n/a	n/a

Key Ratios

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	7.7	8.1	9.6	11.1	13.1
Return on equity (%)	12.7	11.9	11.9	13.8	16.0
Return on funds employed (%)	9.0	8.5	9.2	11.1	13.0
EBITDA margin (%)	10.7	11.0	11.5	12.4	13.2
EBIT margin (%)	7.1	7.6	8.2	9.1	10.8
Capex to sales (%)	1.0	0.7	1.9	1.4	1.4
Capex to depreciation (%)	40	31	91	68	67
Imputation (%)	0	0	100	100	100
Pay-out ratio (%)	50	41	49	46	42

Operating Performance

	2022A	2023A	2024E	2025E	2026E
Meat processing					
Revenue (NZ\$m)	57.1	76.0	90.4	105.8	123.8
Gross margin (%)	32%	33%	34%	35%	35%
Gross profit (NZ\$m)	18.1	25.4	31.1	36.7	43.4

Mining laboratory

Revenue (NZ\$m)	39.5	41.2	46.1	53.1	61.0
Gross margin (%)	40%	40%	41%	42%	43%
Gross profit (NZ\$m)	15.8	16.6	18.7	22.0	26.0

Materials Handling and Logistics

Revenue (NZ\$m)	70.0	94.4	108.6	120.5	125.3
Gross margin (%)	20%	23%	24%	24%	24%
Gross profit (NZ\$m)	13.8	21.6	25.9	29.1	30.6

Other

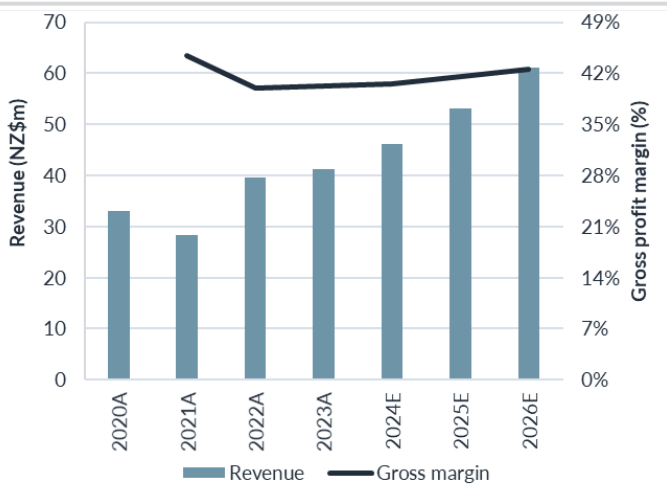
Revenue (NZ\$m)	55.6	56.0	56.0	58.2	60.6
Gross margin (%)	10%	14%	15%	15%	15%
Gross profit (NZ\$m)	5.4	7.8	8.4	8.7	9.0

Rocklabs – SCT's minerals business

SCT's minerals division, spearheaded by the Rocklabs brand, designs and supplies innovative sample preparation equipment. To align with the 'Scott 2025' strategy, the minerals division has pivoted away from building complex bespoke systems, to focus on designing product solutions, including an automated modular solution (AMS) for sample preparation. The Rocklabs AMS combines three modular machines into a linear automated solution for crushing, pulverising, and dispensing. Customers can utilise the system as an end-to-end solution for sample preparation or integrate its modular components into existing systems.

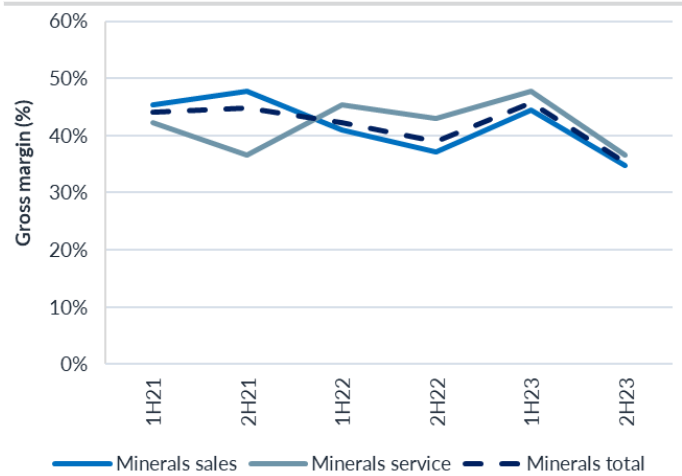
Minerals is the smallest of SCT's core divisions by revenue and gross profit, generating sales of NZ\$41.2m and gross profit of NZ\$16.6m in FY23. However, it did achieve the highest gross margin (40.2%) of the core divisions, and we estimate it contributed ~35% of EBITDA in FY23. The significant proportion of high margin recurring service revenues supports robust profitability in the division, with services representing ~38% of sales in FY23. Revenue in the division has grown at +7.7% p.a. over the last three years, despite the conflict in Ukraine causing lost sales of ~NZ\$3m in FY23 alone. Over the next three years, we forecast a revenue growth CAGR for minerals of ~+14% as the Rocklabs AMS cements itself in the market. SCT has already signed a NZ\$12m contract with Mineral Resources Limited for two of its AMS systems, and there has been considerable interest from other industry participants.

Figure 1. SCT – Minerals division revenue and margin



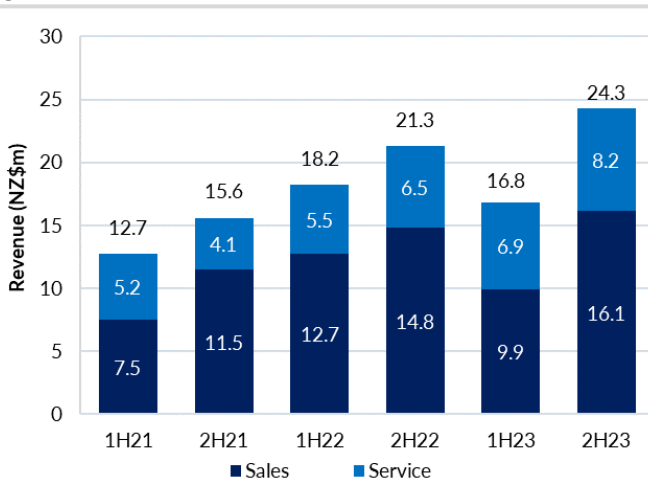
Source: Company, Forsyth Barr analysis

Figure 2. SCT – Minerals gross margin composition



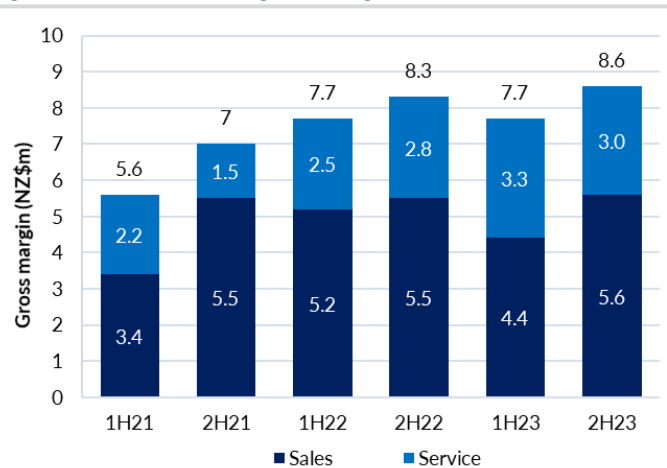
Source: Company, Forsyth Barr analysis

Figure 3. SCT – Minerals revenue breakdown



Source: Company, Forsyth Barr analysis

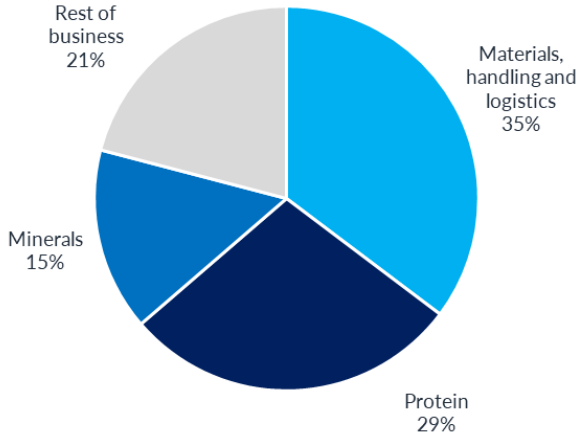
Figure 4. SCT – Minerals gross margin breakdown



Source: Company, Forsyth Barr analysis

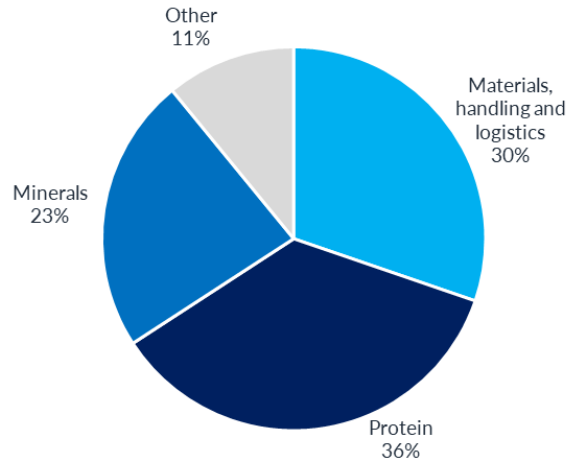
Minerals – SCT's smallest but most profitable core segment

Figure 5. SCT – Revenue by segment (FY23)



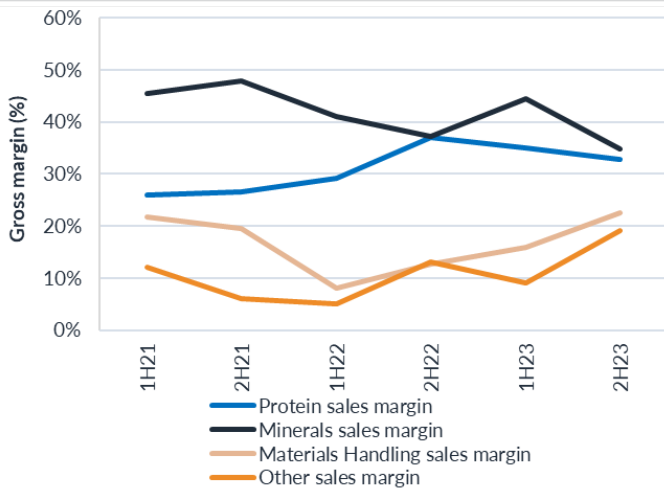
Source: Company, Forsyth Barr analysis

Figure 6. SCT – Gross margin by segment (FY23)



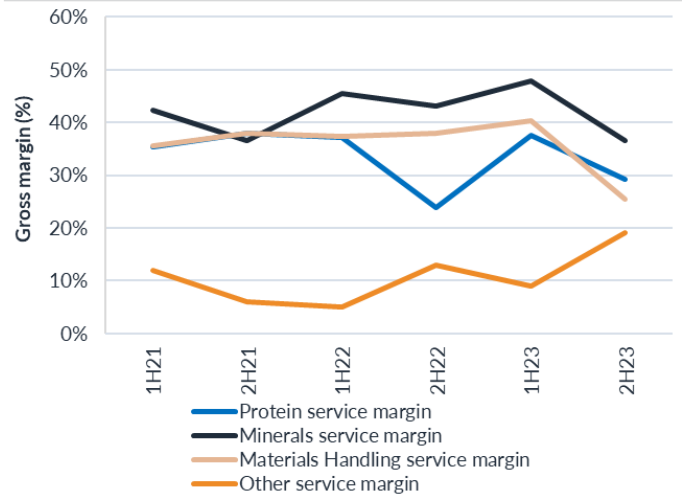
Source: Company, Forsyth Barr analysis

Figure 7. SCT – Sales margins by division (%)



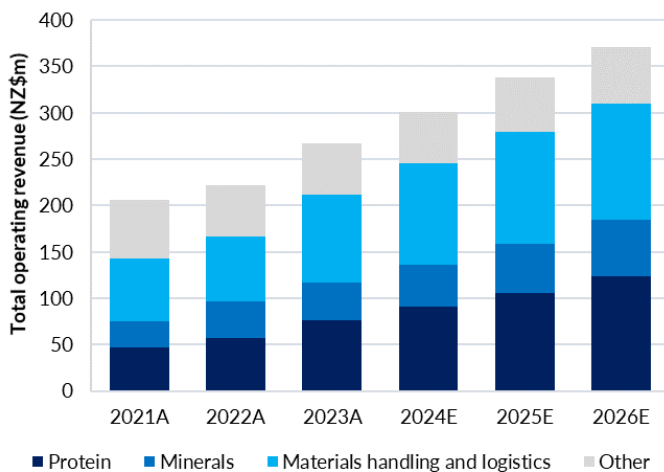
Source: Company, Forsyth Barr analysis

Figure 8. SCT – Service margins by division (%)



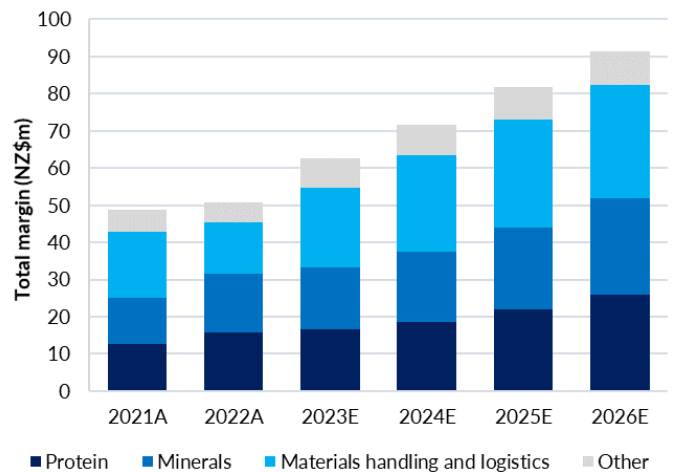
Source: Company, Forsyth Barr analysis

Figure 9. SCT – Revenue stack



Source: Company, Forsyth Barr analysis

Figure 10. SCT – Gross margin stack



Source: Company, Forsyth Barr analysis

Rocklabs' Auckland site photos

Figure 11. Rocklabs' new facility from the outside



Source: Company

Figure 12. Rocklabs' AMS system



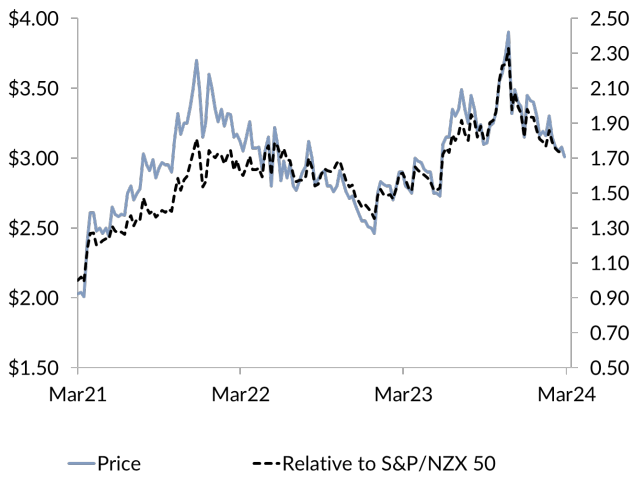
Source: Forsyth Barr analysis

Figure 13. Inside Rocklabs' new facility



Source: Forsyth Barr analysis

Figure 14. Price performance



Source: Forsyth Barr analysis

Figure 15. Substantial shareholders

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

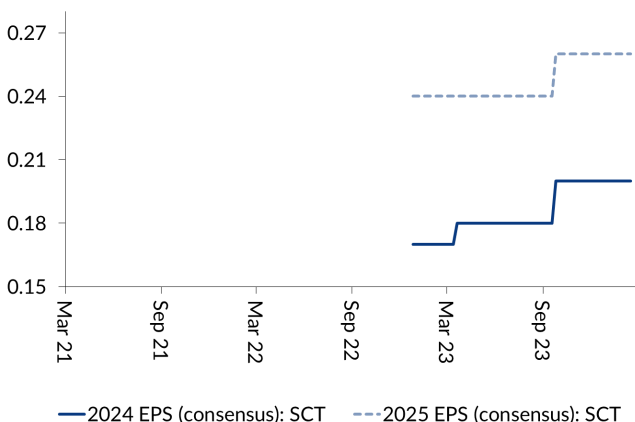
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 16. 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\$3.08	NZ\$250	15.0x	11.8x	7.3x	6.0x	10.3x	8.2x	3.9%		
Marel Hf	MAREL	€3.21	€2,475	n/a	20.3x	14.2x	11.4x	25.4x	17.5x	1.2%		
Flsmidth & Co A/S	FLS DC	kr322.20	kr18,575	23.5x	14.0x	9.9x	7.9x	14.1x	10.4x	2.9%		
Xrf Scientific	XRF AT	A\$1.13	A\$155	17.0x	15.4x	10.0x	9.0x	11.1x	9.9x	3.5%		
Abb-Reg	ABBN SW	US\$40.74	US\$76,673	19.5x	18.2x	13.4x	12.3x	15.5x	14.3x	2.5%		
Emerson Electric Co	EMR US	US\$108.14	US\$61,824	18.8x	19.1x	15.9x	14.5x	21.9x	18.5x	2.0%		
Honeywell International Inc	HON US	US\$198.67	US\$129,569	21.1x	18.8x	15.1x	13.6x	17.5x	15.4x	2.4%		
John Bean Technologies Corp	JBT US	US\$101.77	US\$3,235	15.1x	n/a	11.8x	n/a	18.1x	15.5x	n/a		
Omron Corp	6645 JP	¥5700.00	¥1,175,596	72.1x	26.9x	17.2x	12.4x	31.0x	18.8x	1.9%		
Rockwell Automation Inc	ROK US	US\$289.05	US\$33,123	23.6x	21.5x	18.3x	17.0x	20.0x	18.3x	1.8%		
Schneider Electric Se	SU FP	€209.90	€120,238	26.6x	23.6x	16.9x	15.6x	20.3x	18.4x	1.9%		
Compcpo Average:				26.4x	19.7x	14.3x	12.6x	19.5x	15.7x	2.2%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				SCT Relative:		-43%	-40%	-49%	-52%	-47%	-48%	75%

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

Figure 17. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

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