

# Scott Technology

## Leadership Transition Amid Continued Growth

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Scott Technology's (SCT) CEO, John Kippenberger, and CFO, Cameron Mathewson, have resigned within one week. The pair were instrumental in steering SCT through a significant strategic overhaul, focussing on commercialising proven technologies to achieve scale. Aaron Vanwalleghem, SCT's head of Europe and North America divisions, will step into the interim CEO role, and a CFO search will start immediately. The departure of two key executives in quick succession will likely raise concerns for some investors. However, SCT's board stressed the departures were unrelated to the firm's operational health and provided guidance for double-digit revenue and EBITDA growth in 1H24, in-line with our expectations. Solid guidance is a positive reminder of SCT's growth potential, even as it enters a management transition period. We leave our estimates and blended spot valuation unchanged ahead of SCT's 1H24 result on 16 April 2024.

NZX Code	SCT	Financials: Aug/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$2.80	Rev (NZ\$m)	268.9	302.1	338.2	371.0	PE	14.5	13.7	10.9	8.4
Spot Valuation	NZ\$4.56	NPAT* (NZ\$m)	15.4	16.9	21.8	29.0	EV/EBIT	11.7	9.4	7.5	5.7
Risk rating	Medium	EPS* (NZc)	19.3	20.4	25.8	33.2	EV/EBITDA	8.1	6.7	5.5	4.7
Issued shares	81.2m	DPS (NZc)	8.0	10.0	12.0	14.0	Price / NTA	1.8	1.7	1.5	1.3
Market cap	NZ\$227m	Imputation (%)	0	100	100	100	Cash div yld (%)	2.9	3.6	4.3	5.0
Avg daily turnover	12.9k (NZ\$41k)	*Based on normalised profits					Gross div yld (%)	2.9	5.0	6.0	6.9

### CEO and CFO departing

On 19 March 2024, SCT announced CEO John Kippenberger would be stepping down to pursue other interests. Less than a week later, SCT notified the market that CFO Cameron Mathewson would also leave to take up another CFO role. Given Mathewson's unexpected departure, Kippenberger has agreed to delay his exit to smooth the transition process, having originally planned to step down in May 2024. SCT named Aaron Vanwalleghem interim CEO. Vanwalleghem has served as SCT's President of Europe and North America (overseeing 57% of group revenue) for the past six years.

### Disappointing departures but positive guidance

Kippenberger and Mathewson were well-regarded and appeared to be invested in SCT's growth story, so it is disappointing to see them go. Cognisant of market perception of these two departures, SCT's board noted that 'the two resignations are completely unrelated' and 'in no way signal that there are any matters that are of concern to the board'. To alleviate potential concerns, SCT provided 1H24 guidance for 'double-digit growth at both the revenue and EBITDA level'. While this guidance is broad, it does align with our estimates for revenue and EBITDA to grow by +11.8% and +16.5%, respectively, in 1H24. Divisionally, SCT commented that it was experiencing 'positive growth drivers across all key sectors', consistent with our expectations for robust growth in each of the core segments for FY24. SCT will release its full 1H24 results on 16 April 2024.

**Figure 1. 1H24 estimates summary**

NZ\$m	1H23	1H24E	Change (%)
Revenue	126.5	141.5	+11.8%
Operating EBITDA	14.6	17.0	+16.5%
NPAT (continuing ops)	7.8	8.3	+6.5%

Source: Company data, Forsyth Barr analysis

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

Priced as at 22 Mar 2024	2.80
52 week high / low	3.90 / 2.60
Market capitalisation (NZ\$m)	227.4

**Key WACC assumptions**

Risk free rate	5.00%
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
<b>Normalised EBITDA</b>	<b>23.9</b>	<b>29.7</b>	<b>34.9</b>	<b>42.0</b>	<b>49.1</b>
Depreciation and amortisation	(8.1)	(8.5)	(10.0)	(11.2)	(8.9)
<b>Normalised EBIT</b>	<b>15.9</b>	<b>20.6</b>	<b>24.9</b>	<b>30.8</b>	<b>40.2</b>
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
<b>Normalised NPAT</b>	<b>12.7</b>	<b>15.4</b>	<b>16.9</b>	<b>21.8</b>	<b>29.0</b>
Abnormals/other	(12.6)	0	0	0	0
<b>Reported NPAT</b>	<b>0.1</b>	<b>15.4</b>	<b>16.9</b>	<b>21.8</b>	<b>29.0</b>
Normalised EPS (cps)	15.9	19.3	20.4	25.8	33.2
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	5.7	26.4	28.9
Ordinary DPS (%)	33.3	0.0	25.0	20.0	16.7

**Cash Flow (NZ\$m)**

	2022A	2023A	2024E	2025E	2026E
<b>EBITDA</b>	<b>23.9</b>	<b>29.7</b>	<b>34.9</b>	<b>42.0</b>	<b>49.1</b>
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
<b>Operating cash flow</b>	<b>6.3</b>	<b>20.2</b>	<b>24.0</b>	<b>29.1</b>	<b>33.2</b>
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)
<b>Funding available/(required)</b>	<b>(12.8)</b>	<b>9.5</b>	<b>12.0</b>	<b>19.2</b>	<b>23.0</b>
Dividends paid	(2.7)	(2.6)	(7.4)	(9.3)	(11.3)
Equity raised/(returned)	0	0	4.4	5.5	6.7
<b>(Increase)/decrease in net debt</b>	<b>(15.5)</b>	<b>6.9</b>	<b>9.0</b>	<b>15.4</b>	<b>18.4</b>

**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
<b>Total funds employed</b>	<b>163.3</b>	<b>192.3</b>	<b>199.3</b>	<b>203.9</b>	<b>211.8</b>
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)
<b>Total funding sources</b>	<b>163.3</b>	<b>192.3</b>	<b>199.3</b>	<b>203.9</b>	<b>211.8</b>

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

**Spot valuation (NZ\$)**

Peers comparable	4.42
DCF	4.66

**DCF valuation summary (NZ\$m)**

Total firm value	571
(Net debt)/cash	(0)
Less: Capitalised operating leases	(54)
Value of equity	517

**Valuation Ratios**

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	9.9	8.1	6.7	5.5	4.7
EV/EBIT (x)	15.0	11.7	9.4	7.5	5.7
PE (x)	17.6	14.5	13.7	10.9	8.4
Price/NTA (x)	2.4	1.8	1.7	1.5	1.3
Free cash flow yield (%)	0.3	6.3	6.2	8.8	10.4
Adj. free cash flow yield (%)	0.3	6.3	6.2	8.8	10.4
Net dividend yield (%)	2.9	2.9	3.6	4.3	5.0
Gross dividend yield (%)	2.9	2.9	5.0	6.0	6.9

**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	47	42

**Operating Performance**

	2022A	2023A	2024E	2025E	2026E
<b>Meat processing</b>					
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
<b>Mining laboratory</b>					
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

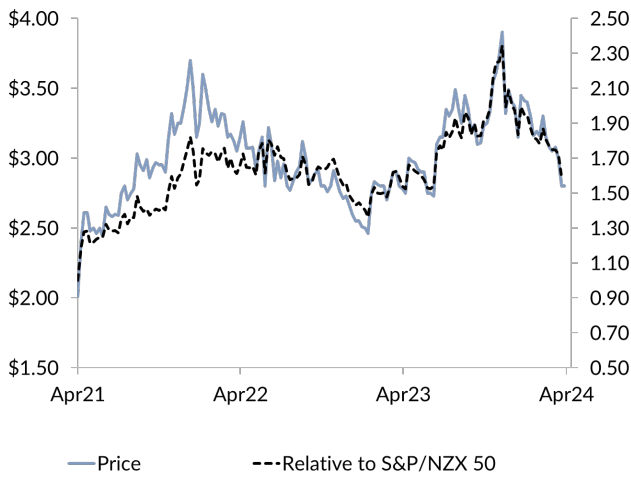
**Materials Handling and Logistics**

	2022A	2023A	2024E	2025E	2026E
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**

	2022A	2023A	2024E	2025E	2026E
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

**Figure 2. Price performance**



Source: Forsyth Barr analysis

**Figure 3. Substantial shareholders**

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

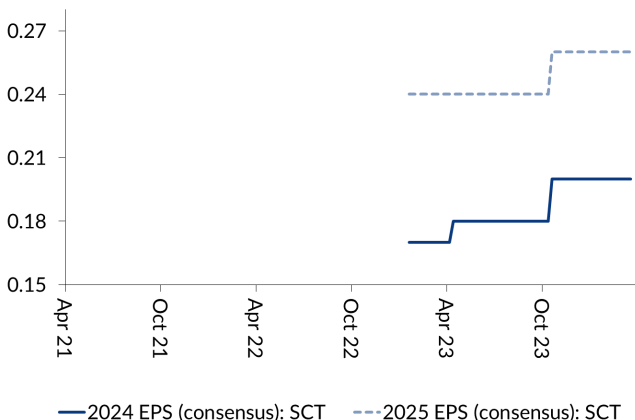
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 4. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E		
				2024E	2025E	2024E	2025E	2024E	2025E			
(metrics re-weighted to reflect SCT's balance date - August)												
Scott Technology	SCT NZ	NZ\$2.80	NZ\$227	13.7x	10.9x	6.7x	5.5x	9.4x	7.5x	4.3%		
Marel Hf	MAREL	€3.15	€2,429	n/a	19.7x	14.0x	11.1x	24.9x	16.9x	1.3%		
Flsmidth & Co A/S	FLS DC	kr334.00	kr19,255	24.2x	14.4x	10.3x	8.1x	15.0x	10.9x	2.7%		
Xrf Scientific	XRF AT	A\$1.26	A\$173	19.0x	17.2x	11.2x	10.1x	12.4x	11.0x	3.1%		
Abb-Reg	ABBN SW	US\$42.40	US\$79,797	20.3x	18.9x	13.9x	12.8x	16.1x	14.8x	2.4%		
Emerson Electric Co	EMR US	US\$110.59	US\$63,224	19.2x	19.2x	16.3x	14.8x	22.4x	18.8x	2.0%		
Honeywell International Inc	HON US	US\$197.69	US\$128,930	21.0x	18.7x	15.0x	13.5x	17.4x	15.3x	2.4%		
John Bean Technologies Corp	JBT US	US\$102.03	US\$3,244	15.2x	n/a	11.8x	n/a	18.1x	15.6x	n/a		
Omron Corp	6645 JP	¥5450.00	¥1,124,035	66.7x	25.1x	16.3x	11.7x	28.5x	17.5x	2.0%		
Rockwell Automation Inc	ROK US	US\$280.88	US\$32,187	23.1x	21.1x	17.9x	16.6x	19.5x	17.9x	1.9%		
Schneider Electric Se	SU FP	€215.00	€123,160	27.3x	24.1x	17.3x	16.0x	20.8x	18.7x	1.9%		
<b>Compco Average:</b>				<b>26.2x</b>	<b>19.8x</b>	<b>14.4x</b>	<b>12.7x</b>	<b>19.5x</b>	<b>15.7x</b>	<b>2.2%</b>		
<b>EV = Mkt cap+net debt+lease liabilities+min interests-investments</b>				<b>SCT Relative:</b>		<b>-48%</b>	<b>-45%</b>	<b>-54%</b>	<b>-57%</b>	<b>-52%</b>	<b>-53%</b>	<b>97%</b>

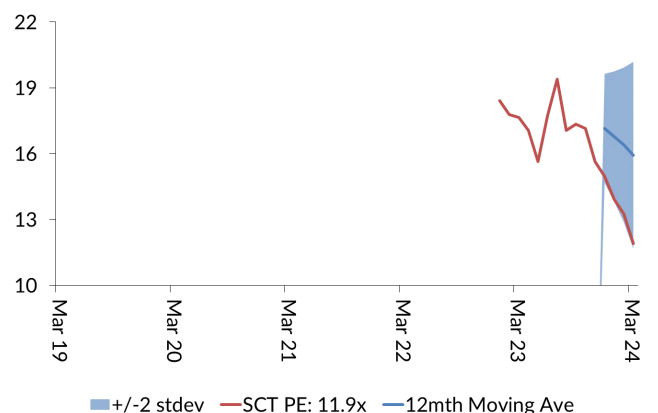
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SCT) companies fiscal year end

**Figure 5. Consensus EPS momentum (NZ\$)**



Source: Forsyth Barr analysis

**Figure 6. One year forward PE (x)**



Source: Forsyth Barr analysis

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