

Scott Technology

FY23 Result – Core Growth

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Scott Technology (SCT) released a robust FY23 result that underscored the company's strategic focus to productise automated solutions across its core industries of: 1) protein processing, 2) materials handling and logistics, and 3) minerals sample preparation. Operating revenue rose +21% to NZ\$268m, propelled by an improved performance from the materials handling segment and continued strength in the Protein (Meat) segment. SCT's three core segments collectively grew revenue by +27% and now represent 79% of group revenue. Buoyed by growth in the higher-margin service offering and improved profitability in the 'Rest of Business', SCT's EBITDA margin expanded by +60bp to 11.4%. This meant EBITDA increased +27% to NZ\$30.4m. SCT's forward order book remains robust at NZ\$195m (up from NZ\$184m in March 2023). Given outperformance relative to our forecasts in FY23, we bring forward our growth assumptions and significantly upgrade our estimates. Our blended spot valuation rises +7% to NZ\$4.47, representing ~10x 12-month forward EV/EBITDA.

NZX Code	SCT	Financials: Aug/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$3.49	Rev (NZ\$m)	268.9	302.1	338.2	371.0	PE	18.1	17.0	13.4	10.4
Spot Valuation	NZ\$4.47 (from 4.19)	NPAT* (NZ\$m)	15.4	16.9	21.8	29.0	EV/EBIT	14.4	11.6	9.3	7.1
Risk rating	Medium	EPS* (NZc)	19.3	20.5	26.0	33.7	EV/EBITDA	10.0	8.3	6.8	5.8
Issued shares	81.2m	DPS (NZc)	8.0	10.0	12.0	14.0	Price / NTA	2.3	2.1	1.9	1.7
Market cap	NZ\$283m	Imputation (%)	0	100	100	100	Cash div yld (%)	2.3	2.9	3.4	4.0
Avg daily turnover	14.0k (NZ\$41k)	*Based on normalised profits					Gross div yld (%)	2.3	4.0	4.8	5.6

What's changed?

- **Earnings:** NPAT estimates rise +16%/+11%/+21% over FY24/FY25/FY26 respectively.
- **Blended spot valuation:** Our blended spot valuation rises +28cps to NZ\$4.47.

Growth at the core of the result

SCT's focus on its three core segments continues to drive growth for the business. Across the core segments revenue grew +27% and margin (SCT's terminology) rose by +33% to NZ\$63.7m in FY23. The **Materials Handling and Logistics** segment had a blockbuster period. Revenue increased +35% to NZ\$94.4m and segment margin lifted +56% to NZ\$21.6m. This reflected (1) an unwinding of the forward order book due to easing supply chain constraints, and (2) a focus on low-risk, profitable products. FY23 was also a record result for the **Protein** segment (previously named Meat), with segment revenue +33% to NZ\$76.0m and margin up +40% to NZ\$25.4m. This was aided by six poultry trussing units being recognised in revenues and providing around one-third of segment growth. Sustained demand for BladeStop was also seen. In the **Minerals** segment (previously named Mining), revenue rose +4% to NZ\$41.2m after growing +39% in the prior year, partly due to an estimated ~NZ\$3m of contracts missed due to the Russian sanctions. Segment margin rose +5% to NZ\$16.6m. Services revenue across the group rose +28% on an average margin of ~35%.

SCT's strategic review ongoing and updated valuation

On 15 June 2023, SCT announced it was undertaking a strategic review of its ownership structure. SCT, ~53% owned by Brazilian meat company JBS, said it would be, 'exploring options to maximise value for all shareholders'. SCT has said the review is ongoing. Given recent interest rate movements, we have increased our risk-free rate input assumption to ~5.25%, up ~+75bps from ~4.5%. Our WACC for SCT increases by ~+57bp to 10.0%. Changes to the WACC and other valuation inputs reduced our blended spot valuation by -27cps to NZ\$4.19, before today's earnings upgrades. Earnings upgrades lift our blended spot valuation by +28cps to NZ\$4.47, meaning the net impact of valuation changes since our last published report is +1cps.

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

Priced as at 18 Oct 2023	3.49
52 week high / low	3.52 / 2.46
Market capitalisation (NZ\$m)	283.4

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	20.5	26.0	33.7
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	6.1	27.0	29.7
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)	(9.2)	(11.2)
Equity raised/(returned)	0	0	4.4	5.5	6.6
(Increase)/decrease in net debt	(15.5)	6.9	9.0	15.5	18.5

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)	(42.9)
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	182.9
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

Spot valuation (NZ\$)

Peers comparable	4.18
DCF	4.66

DCF valuation summary (NZ\$m)

Total firm value	548
(Net debt)/cash	(0)
Less: Capitalised operating leases	(52)
Value of equity	496

Valuation Ratios

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.3	1.1	1.0	0.8	0.8
EV/EBITDA (x)	12.3	10.0	8.3	6.8	5.8
EV/EBIT (x)	18.5	14.4	11.6	9.3	7.1
PE (x)	21.9	18.1	17.0	13.4	10.4
Price/NTA (x)	3.0	2.3	2.1	1.9	1.7
Free cash flow yield (%)	0.2	5.0	5.0	7.1	8.4
Adj. free cash flow yield (%)	0.2	5.0	5.0	7.1	8.4
Net dividend yield (%)	2.3	2.3	2.9	3.4	4.0
Gross dividend yield (%)	2.3	2.3	4.0	4.8	5.6

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	97.0	n/a
Net debt/ND+E (%)	7.5	0.1	-6.7	-18.2	-31.0
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

FY23 Results analysis

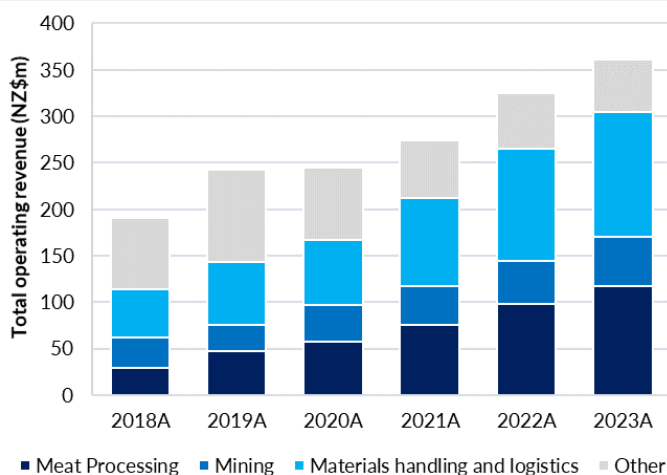
SCT's operating revenue grew +21% to \$268m. EBITDA margin expansion from 10.8% to 11.4% led to operating EBITDA increasing by +27% to \$30.4m. Net interest costs were higher due to rising interest rates and lease costs (from new vehicles and a new long-term property lease). Net profit before tax (NPBT) was NZ\$19.2m, a +29% increase on FY22 with tax expense growing +67%. SCT's effective tax rate for FY23 was only 21%, reflecting an extended period before tax losses were fully utilised. SCT has now fully utilised its tax losses, so corporate tax rates in the future should normalise toward NZ headline rates. SCT's balance sheet remains strong, with only NZ\$0.1m of net debt. Diluted EPS for the period was 19.3 cents per share (cps), while a 4cps (unimputed) final dividend was declared. SCT has declared 8cps of total unimputed dividends in FY23.

Figure 1. SCT—Operating revenue FY22 actual versus FY23 actual (NZ\$m)

	FY22 Actual NZ\$m	FY23 Actual NZ\$m	Change %
Operating revenue	221.8	267.5	+21%
Other operating income	2.0	1.4	-31%
Share of joint ventures' net surplus	0.3	0.1	-61%
Raw materials, consumables used & operating expenses	(186.2)	(221.2)	+19%
Employee benefits expense	(14.0)	(17.5)	+25%
Other Adjustments	-	(0.7)	n/a
EBITDA	23.9	29.7	+24%
Interest revenue	0.6	0.6	-0%
Depreciation & amortisation	(8.1)	(8.8)	+9%
Finance costs	(1.5)	(2.2)	+49%
Net Profit Before Tax	14.9	19.2	+29%
Taxation (expense)	(2.3)	(3.8)	+67%
Net Profit/(Loss) after Tax (from continuing ops)	12.7	15.4	+22%
Diluted EPS	15.9	19.3	+21%

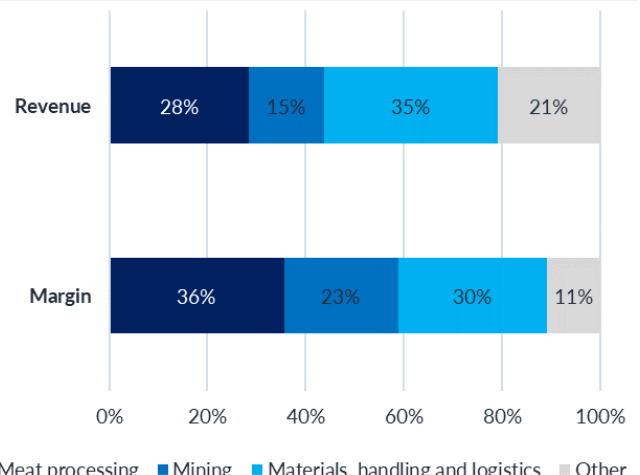
Source: Company data, Forsyth Barr analysis

Figure 2. SCT—Revenue stack by segment (NZ\$m)



Source: Company data, Forsyth Barr analysis

Figure 3. SCT—FY23 Margin and revenue by segment



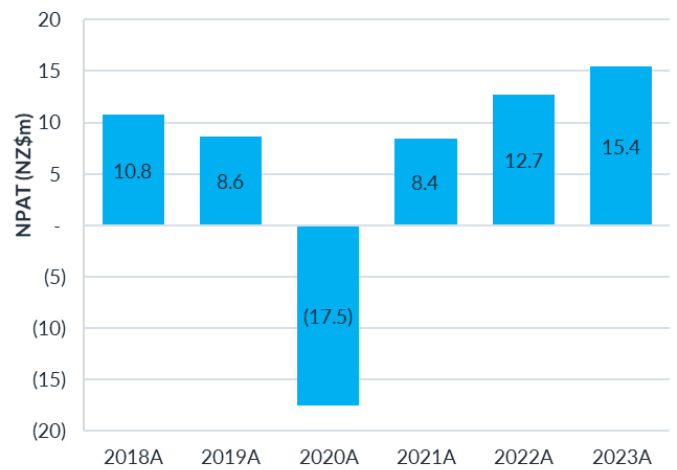
Source: Company data, Forsyth Barr analysis

Figure 4. SCT–Gross Profit (NZ\$m)



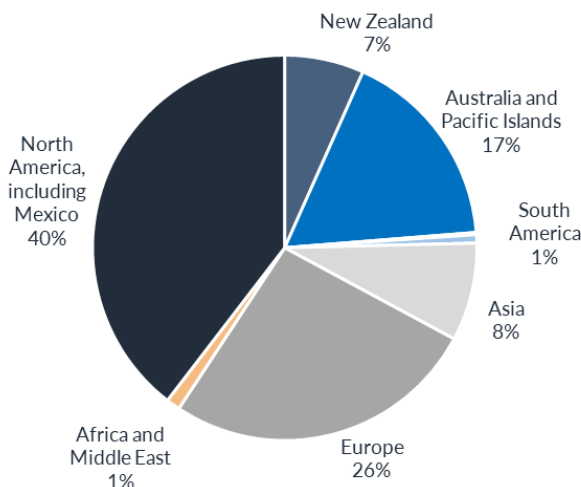
Source: Company data, Forsyth Barr analysis

Figure 5. SCT–NPAT (NZ\$m)



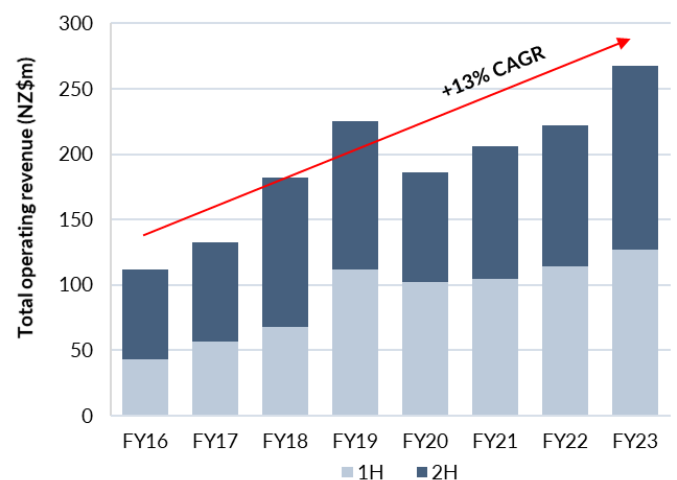
Source: Company data, Forsyth Barr analysis

Figure 6. SCT–Revenue by geography (NZ\$m)



Source: Company data, Forsyth Barr analysis

Figure 7. SCT–Half year revenue split



Source: Company data Forsyth Barr analysis

Regional update

- In New Zealand a strong focus on production execution led to revenue growth in lamb boning at Silver Fern Farms Finegand plant and continued growth in lamb modular products for many Australian customers. Poultry Trussers are being produced to meet Costco Wholesale's orders, plus expected further demand out of North America. Despite Russia sanctions weighing on sales volumes, NZ has managed price, mix and aftersales to maintain margin dollars. It is moving to a larger site in Auckland to increase capacity.
- In Australia, while there's been a drop in revenue due to the exit from complex legacy mining projects, the investment in service capability has led to a near +50% revenue increase, particularly in BladeStop and protein service sectors.
- Scott Europe saw a +53% increase in revenue as pandemic and supply chain pressures eased, accompanied by the expansion of assembly facilities in the Czech Republic and significant gains in BladeStop, protein revenues and the sale of two appliance line projects, which were manufactured by Scott China, delivering good margins for the group.
- In North America revenue increased by over +50% after leadership changes, with significant customer wins, including Costco's purchases of multiple poultry trussing units, Automated Guided Vehicles (AGVs) sales to Microsoft and Gulfstream, McCain Foods ordering Scott's MHL palletisation solution, and strong BladeStop sales (being up +51% on the prior year).
- China reported record contract wins of NZ\$20m in FY23, becoming increasingly important for procurement and manufacturing support for the wider Scott group. The company called out further work that is being done in the protein space, looking for cost-saving opportunities for the group.

Earnings revisions

Following SCT's solid FY23 result, we lift our forward estimates. Our FY24 operating revenue forecasts increase by +10% to NZ\$301m and EBITDA by +18% to NZ\$34.9m. Given the stronger-than-expected FY23 margins, we raise our estimates from 27.7% to 27.9% in FY24. We increase our finance cost estimates due to higher forward interest rates and new leases. Overall, our NPAT estimate for FY24 rises by +16% to NZ\$16.9m. We forecast 10cps of fully imputed dividends during FY24, split evenly between the first half and full year dividends.

Looking beyond FY24, we also lift our FY25 and FY26 revenue expectations. Following a lift in service revenues, new contract wins and favourable product mix change (a crucial part of SCT's 'Scott 2025' strategy), we see structurally higher margin assumptions. We forecast EBITDA margin improving again in FY24 to 11.6% and in the long term we foresee EBITDA margins >16%. Our NPAT assumptions for FY25 lift by +11% and FY26 by +21%.

Figure 8. Earnings revisions

	FY24E			FY25E			FY26E		
	Old NZ\$m	New NZ\$m	Change %	Old NZ\$m	New NZ\$m	Change %	Old NZ\$m	New NZ\$m	Change %
Operating revenue	273.9	301.1	+10%	311.5	337.6	+8%	343.1	370.7	+8%
Other operating income	0.7	1.0	+33%	0.3	0.6	+70%	0.3	0.3	+0%
Share of joint ventures' net surplus	0.4	0.1	-64%	0.4	0.1	-64%	0.4	0.1	-64%
Raw materials, consumables used & operating expenses	(219.0)	(246.5)	+13%	(246.8)	(273.2)	+11%	(269.2)	(296.5)	+10%
Employee benefits expense	(26.4)	(20.9)	-21%	(29.0)	(23.1)	-20%	(31.8)	(25.5)	-20%
Other Adjustments	-	-		-	-		-	-	
EBITDA	29.5	34.9	+18%	36.4	42.0	+15%	42.8	49.1	+15%
Interest revenue	0.5	0.6	+21%	0.6	0.4	-30%	0.8	0.7	-18%
Depreciation & amortisation	(8.7)	(10.0)	+15%	(9.0)	(11.2)	+24%	(9.8)	(8.9)	-9%
Finance costs	(1.1)	(2.0)	+88%	(0.7)	(0.9)	+22%	(0.5)	(0.7)	+33%
Net Profit Before Tax	20.2	23.4	+16%	27.3	30.3	+11%	33.3	40.2	+21%
Taxation (expense)	(5.7)	(6.6)	+16%	(7.6)	(8.5)	+11%	(9.3)	(11.3)	+21%
Net Profit/(Loss) after Tax (from continuing ops)	14.6	16.9	+16%	19.6	21.8	+11%	24.0	29.0	+21%
Diluted EPS	18.1	20.5	+13%	24.4	26.0	+7%	29.8	33.7	+13%

Source: Company data, Forsyth Barr analysis

Valuation

On our estimates, SCT trades on a 12-month forward PE of 16.6x, an ~-8% discount to the total peer average of 18.0x and a 12-month forward EV/EBITDA multiple of 7.9x, a ~-30% discount to the total peer average of 11.8x. Given its recent revenue growth trajectory and prospects relative to peers, these discounts appear unjustified. SCT's revenue rose +21% in FY23 and we forecast a solid +13% increase for FY24. By contrast, companies included in the peer group are expected to grow revenues by an average of +5% over the next year.

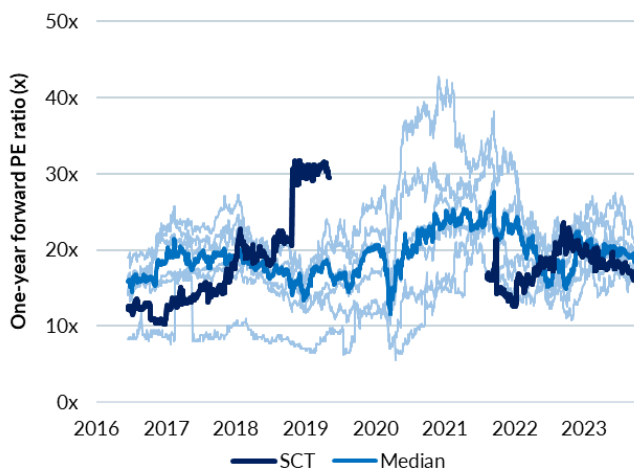
Our blended spot valuation rises by +7% to NZ\$4.47 following earnings upgrades. At this price, SCT would trade on a ~21x 12-month forward PE and a ~10x 12-month forward EV/EBITDA multiple.

Figure 9. SCT—Table of competitor and comparable metrics

Ticker	Company	Headquarters	Market cap (NZ\$m)	Next FY rev growth (%)	Gross profit margin	EBITDA margin	ROE (%)	12m forward PE (x)	12m forward EV/EBITDA
MAR.LIC	Marel hf	Iceland	\$3,469	4.8%	33.8%	10.5%	7.6%	16.4x	9.4x
JBT	John Bean Technologies	Iceland	\$5,585	5.5%	28.5%	12.2%	11.3%	23.1x	14.3x
MHM.NZ	MHM Automation Ltd	NZ	\$83	9.1%	39.4%	9.4%	16.8%	9.9x	6.7x
FLS.CO	FLSmith & Co A/S	Denmark	\$4,046	-3.5%		7.1%	6.1%	14.5x	7.5x
XRF.FAX	XRF Scientific Ltd	Switzerland	\$143		40.3%	23.8%	14.8%		8.6x
Competitor average		-	-	4.0%	35.5%	12.6%	11.3%	16.0x	9.3x
ABB	Abb Ltd	USA	\$115,866	4.6%		17.2%	26.1%	16.8x	11.8x
EMR	Emerson Electric Co	USA	\$93,039	16.4%	39.9%	24.1%	37.2%	18.0x	12.8x
HON.O	Honeywell International	USA	\$209,854	5.5%	32.8%	23.3%	34.7%	18.9x	13.7x
6645.T	Omron Corp	USA	\$14,952	5.7%	45.0%	14.5%	8.4%	19.1x	10.3x
ROK	Rockwell Automation Inc	USA	\$56,612	6.6%	40.0%	20.2%	43.8%	22.0x	16.9x
SCHN.PA	Schneider Electric SE	USA	\$155,842	4.8%	40.7%	20.7%	16.7%	18.0x	13.0x
Wider comparables average		-	-	7.2%	39.7%	20.0%	27.8%	18.8x	13.1x
Total peer & wider comparables average		-	-	5.5%	39.9%	17.2%	16.7%	18.0x	11.8x
SCT.NZ	Scott Technology Ltd	NZ	\$273	12.6%	37.6%	12.9%	14.4%	16.6x	7.9x

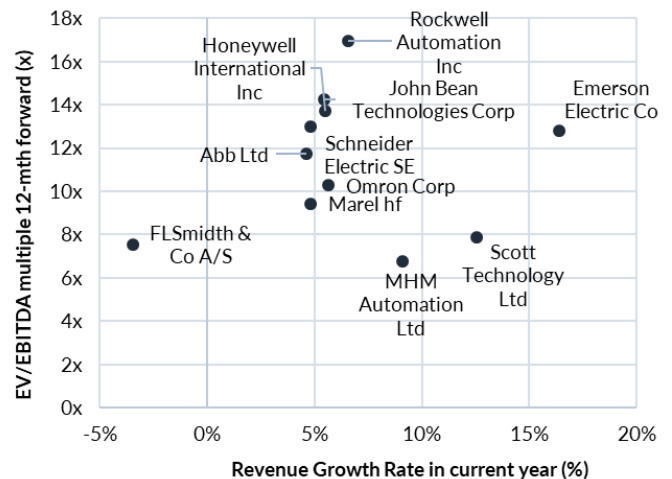
Source: Refinitiv, Forsyth Barr analysis

Figure 10. SCT—PE ratio relative to peers



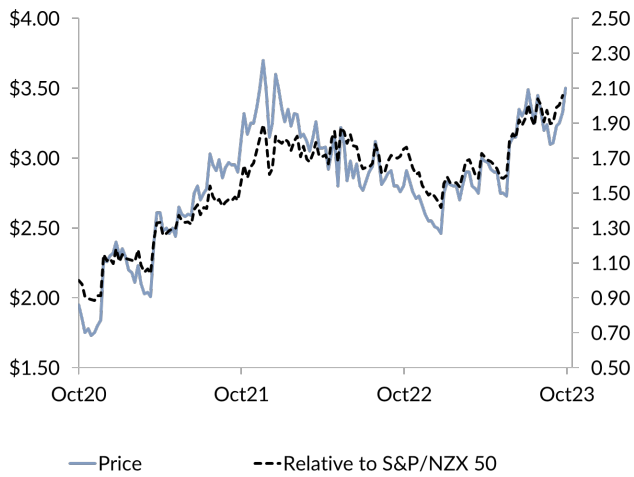
Source: Refinitiv, Forsyth Barr analysis

Figure 11. SCT—EV/EBITDA (x) vs revenue growth (%)



Source: Refinitiv, Forsyth Barr analysis

Figure 12. Price performance



Source: Forsyth Barr analysis

Figure 13. 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 14. International valuation comparisons

Company (metrics re-weighted to reflect SCT's balance date - August)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E		
				2024E	2025E	2024E	2025E	2024E	2025E			
Scott Technology	SCT NZ	NZ\$3.49	NZ\$283	25.2x	20.4x	11.5x	10.1x	17.0x	14.3x	2.9%		
Marel Hf	MAREL NA	€2.58	€1,989	n/a	12.9x	11.0x	8.9x	17.5x	12.8x	2.2%		
Flsmidth & Co A/S	FLS DC	kr289.00	kr16,661	15.6x	11.7x	8.2x	6.5x	12.3x	8.4x	3.6%		
Xrf Scientific	XRF AT	A\$1.05	A\$144	16.3x	12.5x	9.4x	8.6x	10.2x	n/a	3.8%		
Abb-Reg	ABBN SW	US\$32.95	US\$62,012	16.2x	15.1x	11.0x	10.4x	12.9x	12.2x	3.2%		
Emerson Electric Co	EMR US	US\$94.76	US\$54,155	19.3x	17.8x	12.3x	11.4x	14.8x	13.6x	2.3%		
Honeywell International Inc	HON US	US\$183.56	US\$121,877	18.8x	17.2x	13.6x	12.7x	15.4x	14.4x	2.5%		
John Bean Technologies Corp	JBT US	US\$100.68	US\$3,205	22.9x	18.5x	14.4x	12.5x	23.1x	19.2x	0.4%		
Omron Corp	6645 JP	¥6329.00	¥1,305,324	19.5x	17.2x	11.0x	9.7x	14.4x	12.6x	1.7%		
Rockwell Automation Inc	ROK US	US\$288.32	US\$33,116	21.9x	20.4x	17.1x	16.1x	18.8x	17.2x	1.8%		
Schneider Electric Se	SU FP	€153.12	€87,713	18.6x	17.1x	13.1x	12.3x	15.6x	14.5x	2.6%		
Compco Average:				18.8x	16.1x	12.1x	10.9x	15.5x	13.9x	2.4%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				SCT Relative:		34%	27%	-5%	-8%	10%	3%	18%

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

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