

MHM Automation

Scheme Implementation Agreement Signed

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MHM Automation (MHM) has entered into a Scheme Implementation Agreement (SIA) to sell 100% of the company to US manufacturing firm Bettcher Industries. Under the agreement, Bettcher Industries will pay a cash price of NZ\$1.70 per share, a significant +87% premium to the undisturbed closing price of NZ\$0.91. On our estimates, the offer price represents ~18.7x 12-month forward PE or ~10.8x 12-month forward EV/EBITDA. MHM's board has recommended shareholders vote in favour of the takeover, with key shareholders (accounting for 47.6% of the share register) already in support. Subject to approval from MHM's shareholders, the New Zealand High Court, and the Overseas Investment Office, implementation is expected in 1Q24. We are supportive of the agreement and view it as an opportunity for shareholders to capitalise on recent solid execution. The bid constitutes a +40% premium to our blended spot valuation of NZ\$1.21.

NZX Code	MHM	Financials: Jun/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$1.52	Rev (NZ\$m)	97.8	148.5	162.0	176.9	PE	14.6	19.7	13.0	12.1
Spot Valuation	NZ\$1.21 (from 1.20)	NPAT* (NZ\$m)	9.3	6.9	10.4	11.2	EV/EBIT	69.8	14.3	10.6	9.1
Risk rating	High	EPS* (NZc)	10.4	7.7	11.7	12.6	EV/EBITDA	15.2	10.0	8.0	7.1
Issued shares	89.0m	DPS (NZc)	0.9	0.8	1.8	2.5	Price / NTA	n/a	n/a	13.2	7.2
Market cap	NZ\$135m	Imputation (%)	0	0	50	100	Cash div yld (%)	0.6	0.5	1.2	1.6
Avg daily turnover	26.9k (NZ\$24k)	*Based on normalised profits					Gross div yld (%)	0.6	0.5	1.4	2.3

Scoping out the value

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 undisturbed closing price of NZ\$0.91, MHM traded at a material discount to this peer set. We saw this as a key reason for our positive valuation outlook for the stock, given MHM's strong growth prospects relative to peers.

Who are Bettcher Industries?

Bettcher Industries is a leading manufacturer and supplier of food processing equipment that serves the protein processing, foodservice, medical instrumentation and industrial industries. The Ohio-headquartered company was founded in 1944 and has offices in the US, Europe, South America and China. In November 2021, global private equity firm Kohlberg Kravis Roberts (KKR) acquired Bettcher Industries from owners Morgenthaler Private Equity (MPE). The deal was financed with US\$385m of term loans.

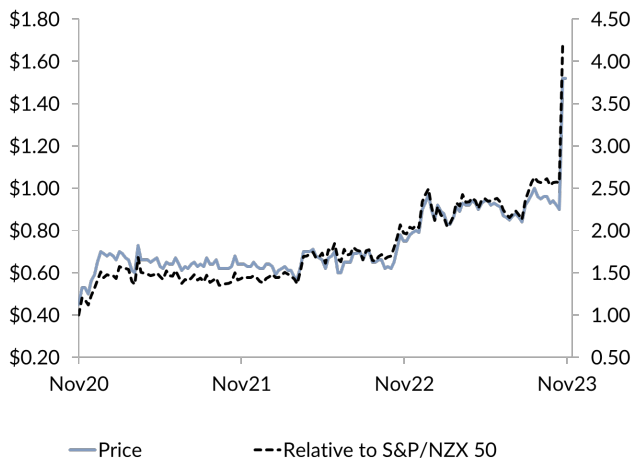
Strategic rationale

Since acquiring Bettcher Industries in 2021, KKR has shown intent to grow the global footprint of the business. In 2022, Bettcher Industries purchased Danish company Frontmatec, a specialist manufacturer of automated pork and beef processing. KKR described the deal as, 'an important step in building a diversified, scaled platform of food processing automation technologies with best-in-class capabilities to serve customers globally'. The bid for MHM signals a continuation of this strategy, with Bettcher Industries' CEO Massimo Bizzi commenting that, 'as we continue to expand and diversify our food processing platform through M&A, we plan to build off the new sector and geography exposures that MHM provides.'

MHM Automation Limited (MHM)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 03 Nov 2023						1.52	Peers comparable				
52 week high / low						1.52 / 0.72	DCF				
Market capitalisation (NZ\$m)						135.3	n/a				
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						5.25%	Total firm value				
Equity beta						1.35	(Net debt)/cash				
WACC						10.7%	Less: Capitalised operating leases				
Terminal growth						1.5%	Value of equity				
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2022A	2023A	2024E	2025E	2026E	2022A	2023A	2024E	2025E	2026E	
Normalised EBITDA	67.7	97.8	148.5	162.0	176.9	EV/Sales (x)	1.9	1.6	1.2	1.0	
Depreciation and amortisation	4.8	9.9	17.2	21.0	23.6	EV/EBITDA (x)	26.5	15.2	10.0	8.0	
Normalised EBIT	(1.7)	(2.4)	(5.1)	(5.1)	(5.2)	EV/EBIT (x)	55.9	69.8	14.3	10.6	
Net interest	2.3	2.2	12.1	15.9	18.5	PE (x)	38.4	14.6	19.7	13.0	
Associate income	(0.1)	(0.8)	(4.1)	(3.5)	(2.9)	Price/NTA (x)	16.3	n/a	>100x	13.2	
Tax	0	0	0	0	0	Free cash flow yield (%)	4.5	3.1	4.3	3.6	
Minority interests	(0.4)	2.6	(1.1)	(2.0)	(4.4)	Adj. free cash flow yield (%)	4.5	3.1	4.3	3.6	
Normalised NPAT	0	0	0	0	0	Gross dividend yield (%)	1.0	0.6	0.5	1.4	
Abnormals/other	(0.8)	(5.3)	0	0	0	Net dividend yield (%)	1.0	0.6	0.5	1.2	
Reported NPAT	2.6	9.3	6.9	10.4	11.2	Capital Structure					
Normalised EPS (cps)	1.8	4.0	6.9	10.4	11.2	2022A	2023A	2024E	2025E	2026E	
DPS (cps)	4.0	10.4	7.7	11.7	12.6	Interest cover EBIT (x)	28.6	2.7	2.9	4.6	
Growth Rates						2022A	2023A	2024E	2025E	2026E	
Revenue (%)	31.7	44.5	51.8	9.1	9.2	Interest cover EBITDA (x)	60.3	12.6	4.2	6.0	
EBITDA (%)	20.8	>100	74.5	22.1	12.4	Net debt/ND+E (%)	3,639.7	37.7	27.1	19.5	
EBIT (%)	-14.4	-4.9	>100	31.4	16.1	Net debt/EBITDA (x)	n/a	2.2	0.9	0.6	
Normalised NPAT (%)	6.8	>100	-25.9	51.8	7.6	Key Ratios					
Normalised EPS (%)	6.1	>100	-25.9	51.8	7.6	2022A	2023A	2024E	2025E	2026E	
Ordinary DPS (%)	n/a	-37.2	-20.4	>100	42.9	Return on assets (%)	5.2	1.7	9.5	12.1	
Cash Flow (NZ\$m)						2022A	2023A	2024E	2025E	2026E	
EBITDA	4.8	9.9	17.2	21.0	23.6	Return on equity (%)	22.4	26.1	16.4	21.0	
Working capital change	(2.0)	(12.0)	(0.5)	(4.7)	(2.1)	Return on funds employed (%)	0.0	0.0	0.0	0.0	
Interest & tax paid	(0.2)	(1.2)	(5.2)	(5.5)	(7.2)	EBITDA margin (%)	7.0	10.1	11.6	13.0	
Other	6.3	10.0	0	0	0	EBIT margin (%)	3.3	2.2	8.2	9.8	
Operating cash flow	8.9	6.5	11.5	10.8	14.3	Capex to sales (%)	3.0	1.4	2.1	2.1	
Capital expenditure	(2.0)	(1.4)	(3.2)	(3.4)	(3.7)	Capex to depreciation (%)	-176	-76	-105	-113	
(Acquisitions)/divestments	0	(11.7)	0	0	0	Imputation (%)	0	0	0	50	
Other	(0.8)	(0.9)	(2.5)	(2.5)	(2.6)	Pay-out ratio (%)	38	9	10	15	
Funding available/(required)	6.1	(7.3)	5.9	4.9	8.1	Segment Performance					
Dividends paid	(1.0)	(1.1)	0	(1.3)	(3.1)	2022A	2023A	2024E	2025E	2026E	
Equity raised/(returned)	0	0	0	0	0	Automation	47.1	70.6	121.0	133.7	
(Increase)/decrease in net debt	5.1	(8.4)	5.9	3.5	4.9	revenue growth (%)	21%	50%	71%	10%	
Balance Sheet (NZ\$m)						2022A	2023A	2024E	2025E	2026E	
Working capital	5.3	17.3	17.8	22.5	24.6	% of total revenue	70%	73%	82%	83%	
Fixed assets	9.0	15.4	17.5	19.6	21.8	EBITDA	3.2	9.4	16.7	20.4	
Intangibles	5.5	43.1	41.3	39.4	37.5	EBITDA growth (%)	-17%	196%	78%	22%	
Right of use asset	1.3	20.8	19.2	17.7	16.4	% of total EBITDA	67%	95%	97%	90%	
Other assets	2.5	10.6	11.0	11.3	11.5	EBITDA margin	7%	13%	13%	14%	
Total funds employed	23.6	107.3	106.8	110.6	111.8	Fabrication					
Net debt/(cash)	(12.0)	21.5	15.6	12.0	7.1	2022A	2023A	2024E	2025E	2026E	
Lease liability	0.6	19.5	18.0	16.6	15.4	Automation	20.4	26.2	27.2	28.0	
Other liabilities	23.3	30.9	31.4	32.3	33.0	revenue growth (%)	71%	28%	4%	3%	
Shareholder's funds	11.7	35.5	41.9	49.6	56.4	% of total revenue	30%	27%	18%	17%	
Minority interests	0	0	0	0	0	EBITDA	1.6	2.0	2.1	2.2	
Total funding sources	23.6	107.3	106.8	110.6	111.8	EBITDA growth (%)	1462%	25%	7%	6%	
						2022A	2023A	2024E	2025E	2026E	
						Fabrication	20.4	26.2	27.2	28.0	
						revenue growth (%)	71%	28%	4%	3%	
						% of total revenue	30%	27%	18%	17%	
						EBITDA	1.6	2.0	2.1	2.2	
						EBITDA growth (%)	1462%	25%	7%	6%	
						% of total EBITDA	33%	20%	12%	10%	
						EBITDA margin	8%	8%	8%	8%	

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Figure 1. Price performance


Source: Forsyth Barr analysis

Figure 2. Substantial shareholders

Shareholder	Latest Holding
Jajar Investments	22.9%
Asset Management Limited	20.6%

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

Figure 3. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld	
				2024E	2025E	2024E	2025E	2024E	2025E		
MHM Automation	MHM NZ	NZ\$1.52	NZ\$135	19.7x	13.0x	10.0x	8.0x	14.3x	10.6x	1.2%	
Scott Technology *	SCT NZ	NZ\$3.55	NZ\$288	17.5x	14.3x	8.7x	7.2x	12.3x	9.8x	3.3%	
John Bean Technologies Corp	JBT US	US\$105.89	US\$3,371	24.6x	20.4x	12.6x	11.0x	20.5x	17.3x	0.4%	
Marel Hf	MAREL NA	€2.32	€1,789	n/a	14.4x	11.5x	9.1x	18.1x	13.4x	2.2%	
Abb-Reg	ABBN SW	US\$29.80	US\$56,084	14.7x	14.0x	10.0x	9.5x	11.7x	11.2x	3.4%	
Emerson Electric Co	EMR US	US\$88.83	US\$50,766	18.3x	16.9x	11.6x	10.8x	14.1x	13.0x	2.4%	
Honeywell International Inc	HON US	US\$178.09	US\$118,245	18.6x	17.0x	13.3x	12.6x	15.3x	14.2x	2.6%	
Omron Corp	6645 JP	¥6204.00	¥1,279,543	19.5x	17.2x	11.1x	9.6x	14.5x	12.6x	1.8%	
Fanuc Corp	6954 JP	¥3752.00	¥3,763,534	28.2x	22.6x	17.0x	13.9x	23.6x	18.3x	2.7%	
Rockwell Automation Inc	ROK US	US\$263.32	US\$30,245	20.4x	18.9x	16.0x	15.0x	17.6x	16.1x	2.0%	
Schneider Electric Se	SU FP	€139.98	€80,186	17.2x	15.9x	12.3x	11.5x	14.6x	13.6x	2.8%	
Gea Group Ag	G1A GR	€32.02	€5,779	12.9x	12.3x	7.0x	6.8x	9.4x	8.9x	3.4%	
Compco Average:				19.2x	16.7x	11.9x	10.6x	15.6x	13.5x	2.5%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				MHM Relative:	3%	-22%	-16%	-24%	-9%	-21%	-53%

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

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