

Scott Technology

Meat Sector Cyclicalty Grinds On

JAMES LINDSAY

 James.Lindsay@forsythbarr.co.nz
 +64 9 368 0145

WILL TWISS

 will.twiss@forsythbarr.co.nz
 +64 9 368 0129

Several prominent names in the meat industry have delivered results highlighting the cyclical challenges in the protein/meat market. Representing 23% of our Scott Technology (SCT) FY24 sales forecasts, we adjust our Protein division estimates to reflect current market dynamics and extend the duration of the sector's cyclical downturn. Red meat markets have been under considerable pressure, while white meat may be benefiting from a shift in consumer preference, potentially insulating SCT's Poultry trussing sales. The general weakness in the Protein division contrasts with stronger results in SCT's other divisions. Noteworthy strength from the Minerals and Materials Handling segments has helped to offset revenue declines from protein-based products. Our margin outlook, however, falls on the unfavourable blend of lower sales in the higher-margin Protein division, replaced by lower-margin Materials Handling revenues (43% of sales) and similar margins in Minerals (19% of sales). These earnings adjustments see our spot valuation fall -20cps to NZ\$3.90.

NZX Code	SCT	Financials: Aug/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$2.40	Rev (NZ\$m)	268.9	294.8	330.3	356.1	PE	12.4	19.4	12.7	10.5
Spot Valuation	NZ\$3.90 (from 4.10)	NPAT* (NZ\$m)	15.4	10.1	15.7	19.4	EV/EBIT	10.1	14.1	9.4	8.1
Risk rating	Medium	EPS* (NZc)	19.3	12.4	18.9	22.8	EV/EBITDA	7.0	7.3	6.1	5.5
Issued shares	81.2m	DPS (NZc)	8.0	10.0	12.0	14.0	Price / NTA	1.6	1.5	1.4	1.2
Market cap	NZ\$195m	Imputation (%)	0	50	100	100	Cash div yld (%)	3.3	4.2	5.0	5.8
Avg daily turnover	12.0k (NZ\$38k)	*Based on normalised profits					Gross div yld (%)	3.3	5.0	6.9	8.1

What's changed?

- **Earnings:** Our revenue estimates fall -1%, -1%, and -2% in FY24, FY25, and FY25 respectively. EBITDA estimates are cut by -2% in FY24 to NZ\$32.1m, -4% in FY25 to NZ\$37.1m, and -5% in FY26 to NZ\$41.4m. EPS falls by -5%, -6%, and -8% over these years.
- **Spot valuation:** Our spot valuation falls -5% to NZ\$3.90, pulled down by weakness in peer stocks and our lowered DCF.

US based Tyson Foods outlook disappoints

Tyson Foods (TSN) is a prominent name in the US meat industry. TSN's 2Q24 result was slightly below analysts' expectations, with revenue down -0.5% on 2Q23 to US\$13,072m. However, weak outlook commentary saw its shares fall -8% after TSN flagged ongoing inflationary pressures and high commodity costs as headwinds to future earnings. TSN's outlook statements remained cautious, particularly within its chicken (where 2Q24 sales were down -6% for the quarter as compared to last year), pork (sales +3%), and prepared foods divisions (sales +1%), which are expected to underperform in coming quarters. Importantly for SCT, TSN now expects capex of between US\$1.2bn and US\$1.4bn for FY24, after spending US\$1.9bn in FY23, signalling weaker investment intentions. CEO Donnie King and other executives downplayed the gloomy forecast and emphasised operational adjustments aimed at cost reduction, including the closure of six chicken plants and a pork facility.

Australasian meat companies seeing similar trends

Recent data from the Meat Industry Association showed that in 1Q24 NZ's red meat exports hit their lowest level since 2018, or -5% on last year, to NZ\$2.58bn. ANZCO Foods, one of NZ's largest processors and owned by Japanese firm Itoham Yonekyu, saw its profit fall -60% to NZ\$44m for its FY23 result on sales down -4% to NZ\$1.83bn. This was due to 'the global impact of rising costs and interest rates, as well as consumers facing higher living costs' plus high operational costs. The result was also impacted by falls in lamb prices due to weakness in Chinese demand and higher Australian supply. Similar issues have been seen at Silver Fern Farms and Alliance Group (which anticipates raising between NZ\$100m to NZ\$150m of equity over the next two to three years to solidify its balance sheet following reporting losses).

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

Priced as at 07 May 2024	2.40
52 week high / low	3.90 / 2.38
Market capitalisation (NZ\$m)	194.9

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	294.8	330.3	356.1
Normalised EBITDA	23.9	29.7	29.7	37.1	41.4
Depreciation and amortisation	(8.1)	(8.5)	(11.9)	(12.8)	(13.2)
Normalised EBIT	15.9	20.6	15.3	24.2	28.1
Net interest	(0.9)	(1.7)	(3.8)	(2.4)	(1.1)
Associate income	0	0	0	0	0
Tax	(2.3)	(3.8)	(3.9)	(6.1)	(7.6)
Minority interests	0	0	0	0	0
Normalised NPAT	12.7	15.4	10.1	15.7	19.4
Abnormals/other	(12.6)	0	0	0	0
Reported NPAT	0.1	15.4	10.1	15.7	19.4
Normalised EPS (cps)	15.9	19.3	12.4	18.8	22.5
DPS (cps)	8.0	8.0	10.0	12.0	14.0

Growth Rates

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	7.5	20.2	9.6	12.0	7.8
EBITDA (%)	14.1	24.1	-0.1	24.9	11.6
EBIT (%)	30.8	29.5	-25.6	58.4	16.2
Normalised NPAT (%)	50.3	22.0	-34.9	55.9	24.0
Normalised EPS (%)	47.2	21.4	-35.8	51.7	20.0
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	29.7	37.1	41.4
Working capital change	(15.7)	(6.4)	(18.6)	6.5	(6.4)
Interest & tax paid	(1.0)	(0.0)	(3.5)	(5.9)	(6.9)
Other	(0.9)	(3.1)	1.2	1.2	1.2
Operating cash flow	6.3	20.2	8.7	38.8	29.2
Capital expenditure	(2.3)	(2.0)	(6.3)	(4.6)	(4.9)
(Acquisitions)/divestments	(12.8)	(2.5)	0	0	0
Other	(4.0)	(6.3)	(8.4)	(6.9)	(6.3)
Funding available/(required)	(12.8)	9.5	(6.0)	27.3	18.0
Dividends paid	(2.7)	(2.6)	(7.3)	(9.2)	(11.2)
Equity raised/(returned)	0	0	2.2	5.4	6.6
(Increase)/decrease in net debt	(15.5)	6.9	(11.1)	23.6	13.4

Balance Sheet (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Working capital	36.2	42.6	61.2	54.7	61.1
Fixed assets	17.1	18.4	21.7	23.0	24.2
Intangibles	7.2	5.6	4.0	2.3	1.0
Right of use asset	9.5	12.5	23.9	22.8	21.4
Other assets	93.3	113.3	111.6	109.8	108.1
Total funds employed	163.3	192.3	222.3	212.6	215.9
Net debt/(cash)	8.0	0.1	11.2	(12.4)	(25.8)
Lease liability	7.1	9.6	20.8	19.6	18.2
Other liabilities	47.7	51.2	53.4	55.0	56.6
Shareholder's funds	100.7	131.9	137.2	150.6	167.0
Minority interests	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)
Total funding sources	163.3	192.3	222.3	212.6	215.9

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

Spot valuation (NZ\$)

Peers comparable	3.78
DCF	3.98

DCF valuation summary (NZ\$m)

Total firm value	493
(Net debt)/cash	(0)
Less: Capitalised operating leases	(57)
Value of equity	436

Valuation Ratios

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	0.9	0.8	0.7	0.7	0.6
EV/EBITDA (x)	8.6	7.0	7.3	6.1	5.5
EV/EBIT (x)	12.9	10.1	14.1	9.4	8.1
PE (x)	15.1	12.4	19.4	12.8	10.6
Price/NTA (x)	2.1	1.6	1.5	1.4	1.3
Free cash flow yield (%)	0.3	7.3	-0.9	15.3	10.2
Adj. free cash flow yield (%)	0.3	7.3	-0.9	15.3	10.2
Net dividend yield (%)	3.3	3.3	4.2	5.0	5.8
Gross dividend yield (%)	3.3	3.3	5.0	6.9	8.1

Capital Structure

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	16.7	12.2	4.1	9.9	24.8
Interest cover EBITDA (x)	25.2	17.6	7.9	15.2	36.5
Net debt/ND+E (%)	7.5	0.1	7.6	-9.1	-18.5
Net debt/EBITDA (x)	0.3	0.0	0.4	n/a	n/a

Key Ratios

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	7.7	8.1	5.7	8.6	9.6
Return on equity (%)	12.7	11.9	7.4	10.5	11.8
Return on funds employed (%)	9.0	8.5	5.1	7.7	9.3
EBITDA margin (%)	10.7	11.0	10.1	11.2	11.6
EBIT margin (%)	7.1	7.6	5.2	7.3	7.9
Capex to sales (%)	1.0	0.7	2.1	1.4	1.4
Capex to depreciation (%)	40	31	69	46	46
Imputation (%)	0	0	50	100	100
Pay-out ratio (%)	50	41	81	64	62

Operating Performance

	2022A	2023A	2024E	2025E	2026E
Protein (Meat)					
Revenue (NZ\$m)	57.1	76.0	68.4	71.1	75.4
Revenue growth (%)	21%	33%	-10%	4%	6%
Gross margin (%)	32%	33%	33%	33%	33%
Gross profit (NZ\$m)	18.1	25.4	22.2	23.1	24.9
Minerals (Mining)					
Revenue (NZ\$m)	39.5	41.2	55.6	69.5	80.0
Revenue growth (%)	39%	4%	35%	25%	15%
Gross margin (%)	40%	40%	35%	37%	38%
Gross profit (NZ\$m)	15.8	16.6	19.5	25.7	30.4

Materials Handling and Logistics

	2022A	2023A	2024E	2025E	2026E
Revenue (NZ\$m)	70.0	94.4	124.6	142.1	152.0
Revenue growth (%)	3%	35%	32%	14%	7%
Gross margin (%)	20%	23%	21%	21%	21%
Gross profit (NZ\$m)	13.8	21.6	25.5	29.8	32.4
Other					
Revenue (NZ\$m)	55.6	56.0	44.8	46.6	48.5
Revenue growth (%)	-12%	1%	-20%	4%	4%
Gross margin (%)	10%	14%	26%	22%	22%
Gross profit (NZ\$m)	5.4	7.8	11.6	10.3	10.7

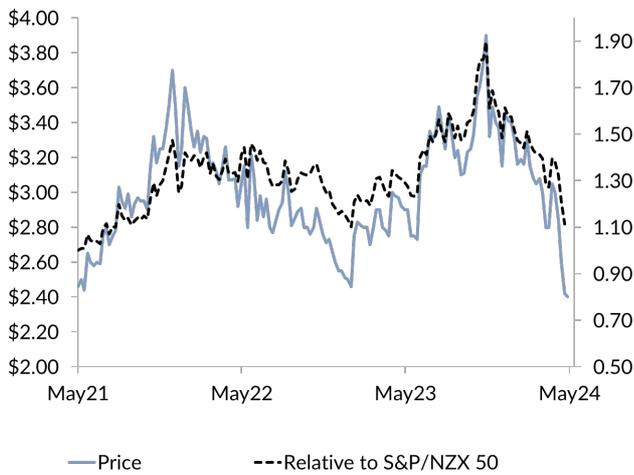
Earnings revisions

Figure 1. Earnings revision table (NZ\$m)

	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating revenue	294.9	293.4	-1%	331.0	329.3	-1%	361.4	355.8	-2%
Other operating income	1.4	1.4	+0%	1.0	1.0	+0%	0.3	0.3	+0%
Share of joint ventures' net surplus	0.1	0.1	+0%	0.1	0.1	+0%	0.1	0.1	+0%
Raw materials, consumables used & operating expenses	(242.7)	(242.0)	-0%	(270.6)	(270.2)	-0%	(292.6)	(289.3)	-1%
Employee benefits expense	(20.9)	(20.9)	+0%	(23.1)	(23.1)	+0%	(25.5)	(25.5)	+0%
Operating EBITDA	32.9	32.1	-2%	38.4	37.1	-4%	43.7	41.4	-5%
Other Adjustments	(2.4)	(2.4)		-	-		-	-	
Interest revenue	0.4	0.4	-2%	0.2	0.2	-7%	0.7	0.7	-5%
Depreciation & amortisation	(11.9)	(11.9)	-0%	(12.9)	(12.8)	-0%	(13.3)	(13.2)	-0%
Finance costs	(4.2)	(4.2)	+0%	(2.6)	(2.6)	+0%	(1.8)	(1.8)	+1%
Net Profit Before Tax	14.7	14.0	-5%	23.2	21.8	-6%	29.3	27.0	-8%
Taxation (expense)	(4.1)	(3.9)	-5%	(6.5)	(6.1)	-6%	(8.2)	(7.6)	-8%
Net Profit/(Loss) after Tax (from continuing ops)	10.6	10.1	-5%	16.7	15.7	-6%	21.1	19.4	-8%
Diluted EPS	13.1	12.4	-5%	20.1	18.9	-6%	24.8	22.8	-8%

Source: Forsyth Barr analysis

Figure 2. Price performance



Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

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

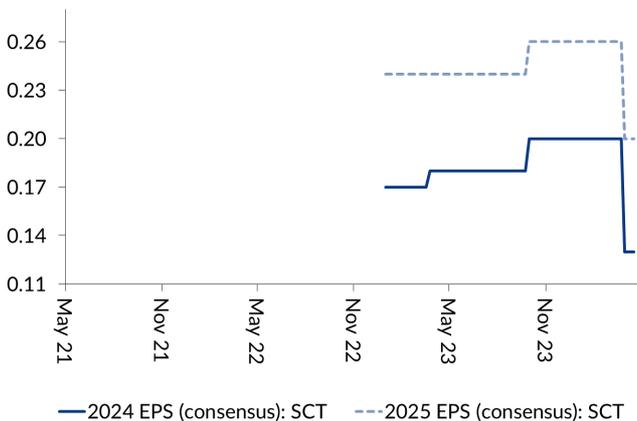
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 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\$2.40	NZ\$195	19.4x	12.7x	7.3x	6.1x	14.1x	9.4x	5.0%		
Marel Hf	MAREL	€3.18	€2,452	n/a	20.5x	14.1x	11.1x	25.5x	17.3x	1.3%		
Flsmidth & Co A/S	FLS DC	kr357.60	kr20,616	25.7x	15.2x	10.8x	8.5x	15.8x	11.5x	2.6%		
Xrf Scientific	XRF AT	A\$1.37	A\$189	0.4x	0.3x	12.3x	11.0x	13.5x	12.1x	2.8%		
Abb-Reg	ABBN SW	US\$45.47	US\$85,575	21.2x	19.4x	14.6x	13.2x	16.9x	15.2x	2.2%		
Emerson Electric Co	EMR US	US\$106.24	US\$60,737	18.4x	18.2x	15.8x	14.3x	21.3x	18.0x	2.0%		
Honeywell International Inc	HON US	US\$195.00	US\$126,981	20.7x	18.5x	15.0x	13.6x	17.3x	15.3x	2.4%		
John Bean Technologies Corp	JBT US	US\$92.11	US\$2,932	13.6x	n/a	10.7x	n/a	16.6x	14.4x	n/a		
Omron Corp	6645 JP	¥5441.00	¥1,122,178	>75x	32.5x	18.2x	13.1x	35.6x	21.3x	1.9%		
Rockwell Automation Inc	ROK US	US\$277.39	US\$31,787	23.3x	21.0x	17.9x	16.2x	19.9x	18.1x	1.9%		
Schneider Electric Se	SU FP	€219.60	€125,795	27.8x	24.4x	17.6x	16.2x	21.2x	19.1x	1.8%		
Compco Average:				18.9x	18.9x	14.7x	13.0x	20.4x	16.2x	2.1%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				SCT Relative:		3%	-33%	-51%	-53%	-31%	-42%	138%

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

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