

Scott Technology

1H23 Results Reinforce 'Scott 2025' Strategy

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Scott Technology (SCT) released a strong 1H23 result for the six months ending 28 February 2023, with revenue of NZ\$127m, up +11% on restated 1H22 numbers. Despite inflationary and supply chain pressures, group margin expanded from 22% to 26%, which flowed through to normalised EBITDA of NZ\$14.6m (+20% on 1H22) and NPAT of NZ\$7.8m (+66%). SCT's three core segments (Meat, Mining and Materials Handling, and Logistics) collectively grew revenue by +18% and now represent 92% of group margin. The Materials Handling segment, which impressed with revenue growth of +39%, contributed significantly to the improved top-line result while the Meat division saw revenue growth of +10%. The forward order book remains robust at NZ\$184m (from NZ\$190m in October 2022) after securing several contracts with high-quality customers across the US, European, Chinese, and Australian markets. Against a challenging global backdrop this result reaffirms our positive outlook as management executes its strategic productisation plan. Given the trends indicated in this result, all being part of SCT's 'Scott 2025' strategy push, we lift our FY23 revenues and update longer-term margin estimates. This results in our blended spot valuation increasing by +5% to NZ\$4.48.

NZX Code	SCT	Financials: Aug/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$3.00	NPAT* (NZ\$m)	12.7	12.9	14.6	19.6	PE	18.9	18.7	16.6	12.3
Spot Valuation	NZ\$4.48 (from 4.26)	EPS* (NZc)	15.9	16.0	18.1	24.4	EV/EBIT	15.9	13.4	11.7	8.9
Risk rating	Medium	EPS growth* (%)	47.2	0.7	13.1	34.7	EV/EBITDA	10.5	9.3	8.3	6.7
Issued shares	80.5m	DPS (NZc)	8.0	8.0	10.0	12.0	Price / NTA	2.6	2.4	2.2	1.9
Market cap	NZ\$241m	Imputation (%)	0	50	100	100	Cash div yld (%)	2.7	2.7	3.3	4.0
Avg daily turnover	9.4k (NZ\$27k)	*Based on normalised profits					Gross div yld (%)	2.7	3.2	4.6	5.6

What's changed?

- **Earnings:** NPAT estimates rise +16%/+6%/+3% over FY23/FY24/FY25 respectively.
- **Spot valuation:** Our blended spot valuation rises +22cps to NZ\$4.48.

Core segments driving growth

SCT's focus on its three core segments continues to drive growth for the business. Across these core segments, gross margin rose by +28% to NZ\$30.2m in 1H23. 1H23 was a record result for the Meat segment, with sustained demand for BladeStop (revenue +24% in 1H23 versus 1H22) and service revenues climbing +56%, culminating in segment revenues growing by +10% to NZ\$34.4m. A more favourable mix of poultry and lamb products meant margin rose +25% to NZ\$12.2m. In the Mining segment revenue fell -8%, partly due to an estimated ~NZ\$3m of contracts missed due to the Russian sanctions; however, gross margin improved due to a higher proportion of service revenues, leaving dollar margin up slightly. The materials handling segment had a blockbuster period, growing revenues by +39% to NZ\$46.5m, and segment margin lifted by +64% to NZ\$10.4m. 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. SCT is seeing success in its strategic shift toward productisation and adding more services, pushing margins higher and likely improving earnings consistency.

Changes to FY23 earnings forecasts and valuation

We lift our FY23 revenue forecasts by +4%, to NZ\$252m and bolster our margin expectations, driving our FY23 NPAT estimate up +16% to NZ\$13.1m. Rolling our new margin assumptions into FY24 and FY25, we lift our NPAT forecasts by +6% and +3%, respectively. Our blended spot valuation combines comparables-driven ratios and our increased discounted cash flow (DCF) valuation. While the 1H23 dividend was unimputed, we now estimate that 2H23 and future dividends will be fully imputed.

Results summary

At the top line SCT's operating revenue grew by +11% to \$127m. Despite material increases in the raw materials, consumables used and operating expenses (+7%), and employee benefits expenses (+13%), margin improvements led to EBITDA increasing by +20% to \$14.6m. 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\$9.7m, a +31% increase on 1H22. Net cash at 1H23 stood at NZ\$12.8m, however, given increases in contract liabilities over the period (from NZ\$26.3m to NZ\$43.1m), we would consider normalised net cash to be around NZ\$3m to NZ\$5m. Diluted EPS for the period was 8 cents per share, and a 4 cents per share (unimputed) dividend was declared.

SCT's effective tax rate for 1H23 was only 19.3%, a marked decrease from the unusually high 36.3% it paid in the pcp, flowing through to a disproportionate increase in NPAT of +66% to NZ\$7.8m. The lower tax rate reflected an extended period before tax losses were fully utilised. We consider SCT has now fully utilised its tax losses so corporate tax rates in the future should normalise toward headline rates.

SCT's restatement of 1H22 related to the closure of its US robotic solutions and integration operation 'RobotWorx' on 16 June 2022. This had a limited impact at the NPAT line, given it was unprofitable, with restated revenue -NZ\$4.6m lower.

Figure 1. Results summary

	1H22 Actual (restated) NZ\$m	1H23 Actual NZ\$m	Change
Operating revenue	113.8	126.5	+11%
Other operating income	0.6	0.2	-57%
Share of joint ventures' net surplus	0.4	0.1	-73%
Raw materials, consumables used & operating expenses	(69.9)	(75.1)	+7%
Employee benefits expense	(32.9)	(37.3)	+13%
EBITDA	12.1	14.6	+20%
Interest revenue	0.0	0.1	n/a
Depreciation & amortisation	(4.1)	(3.9)	n/a
Finance costs	(0.7)	(1.0)	+57%
Net Profit Before Tax	7.4	9.7	+31%
Taxation (expense)	(2.7)	(1.9)	-30%
Net Profit after Tax (from continuing ops)	4.7	7.8	+66%

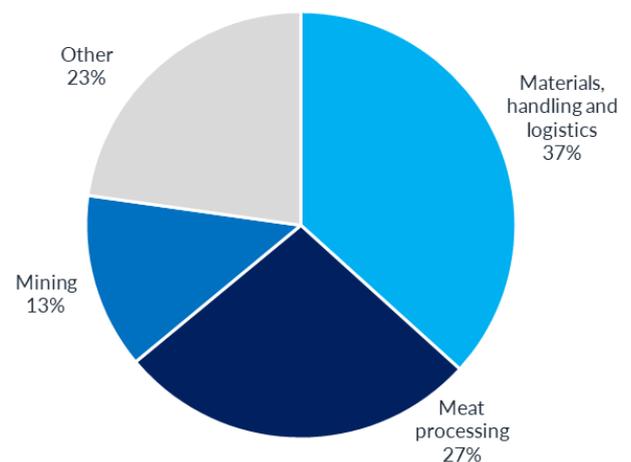
Source: Company, Forsyth Barr analysis

Figure 2. SCT – HY operating revenues



Source: Company, Forsyth Barr analysis

Figure 3. SCT – revenue by segment 1H23



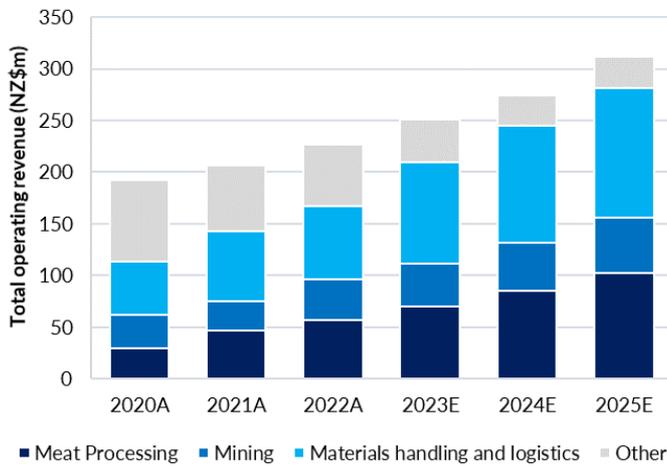
Source: Company, Forsyth Barr analysis

Earnings and valuation revisions

Following the solid 1H23 result we adjust our forecasts upwards. Our new group FY23 revenue estimates increase by +4% to NZ\$252m and EBITDA by +7% to NZ\$26.9m. At the revenue line this is mostly due to higher Materials Handling growth as we largely retain our FY23 growth forecasts for Meat and Mining, despite slightly weaker-than-expected growth rates in 1H23. This reflects our expectations for a solid 2H23. We raise our forecast assumptions given the stronger than expected 1H23 margins. We increase our finance cost estimates given higher forward interest rates and new leases. Further, we lower our tax rate estimate to 24% for FY23 from 28%, given changes in our estimate of when SCT's tax losses were fully utilised. Overall, our NPAT estimate for FY23 rises by +16% to NZ\$12.9m.

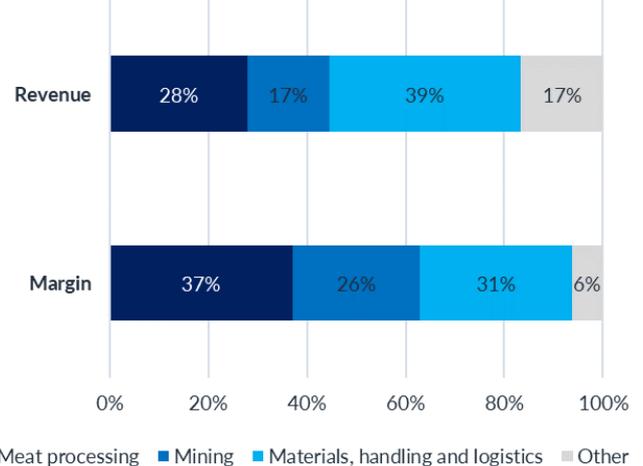
Looking beyond FY23, we lift our FY24 and FY25 revenue expectations marginally. Flowing on from a lift in service revenues and a positive product mix change (a key part of SCT's 'Scott 2025' strategy) we see structurally higher margin assumptions. As such, NPAT assumptions for FY24 lift by +6% and FY25 by +3%.

Figure 4. SCT – Revenue stack by segment (NZ\$m)



Source: Company, Forsyth Barr analysis

Figure 5. SCT – FY23 Margin and revenue by segment



Source: Company, Forsyth Barr analysis

Figure 6. Earnings revisions (NZ\$m)

	FY23E			FY24E			FY25E		
	Old NZ\$m	New NZ\$m	Change	Old NZ\$m	New NZ\$m	Change	Old NZ\$m	New NZ\$m	Change
Operating revenue	241.0	250.7	+4%	272.5	273.9	+0%	309.6	311.5	+1%
Other operating income	1.1	1.1	n/a	0.7	0.7	n/a	0.3	0.3	n/a
Share of joint ventures' net surplus	0.4	0.4	n/a	0.4	0.4	n/a	0.4	0.4	n/a
Raw materials, consumables used & operating expenses	(152.1)	(153.9)	+1%	(174.0)	(164.3)	-6%	(202.5)	(189.4)	-6%
Employee benefits expense	(65.2)	(71.4)	+10%	(71.3)	(81.2)	+14%	(72.3)	(86.4)	+20%
EBITDA	25.1	26.9	+7%	28.4	29.5	+4%	35.6	36.4	+2%
Interest revenue	0.1	0.4	n/a	0.2	0.5	n/a	0.2	0.6	n/a
Depreciation & amortisation	(8.1)	(8.2)	n/a	(8.4)	(8.7)	n/a	(8.7)	(9.0)	n/a
Finance costs	(1.6)	(2.0)	n/a	(1.1)	(1.1)	n/a	(0.7)	(0.7)	n/a
Net Profit Before Tax	15.5	17.0	+9%	19.1	20.2	+6%	26.4	27.3	+3%
Taxation (expense)	(4.3)	(4.1)	-6%	(5.3)	(5.7)	+6%	(7.4)	(7.6)	+3%
Net Profit after Tax (from continuing ops)	11.2	12.9	+16%	13.8	14.6	+6%	19.0	19.6	+3%

Source: Forsyth Barr analysis

Forward order book shows healthy demand

SCT has already secured a number of new contracts across its global operations for FY23. The forward order book is NZ\$184m, only marginally down from the NZ\$190 in October 2022. New contracts include:

- SCT's Transbotics division has secured Automated Guided Vehicle (AGV) contracts with Microsoft, Novelis, and Gulfstream, bolstering its materials handling business.

- In the USA, ahead of the International Production and Processing Expo (IPPE) in Atlanta, SCT has forged a significant partnership with retail giant Costco Wholesale for the launch of its automated poultry trussing product. An initial order of two machines has been placed, with an anticipated phase two order for an additional eight machines in the coming month. SCT's trussing technology, which can process up to 96 birds per minute, is aimed at improving capacity in the US\$95bn US poultry market.
- In Australia SCT has a new materials handling system contract with international building materials firm James Hardie Industries.
- In China SCT will continue to support appliance automation, having secured another contract with Fortune 500 company Midea Group. The RMB ¥32m (NZ\$7.5m) deal is a replication of a washer cabinet line delivered by SCT in 2021 but with reduced risk.

Valuation update

SCT trades on a one-year forward PE multiple of 17x, in-line with its competitor average but below the wider comparable group trading on 21x. However, our growth estimate for FY23 is for a +13% lift in revenues, the highest amongst the peer group (see Figure 8). On an EV/EBITDA basis SCT trades on a one-year forward multiple of 9x, below the competitor average of 10x and well below the wider comparable average of 14x.

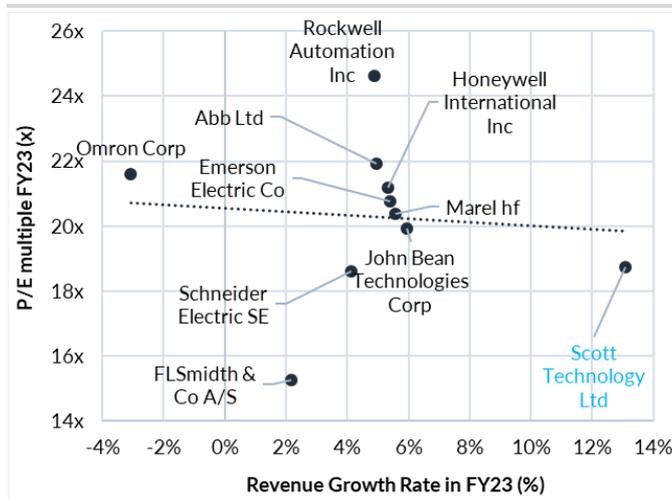
We lift our blended spot valuation of SCT from NZ\$4.26 to NZ\$4.48.

Figure 7. SCT – Competitor and comparable metrics

Ticker	Company	Headquarters	Market capitalisation (NZ\$m)	Next FY revenue growth (%)	Gross profit margin	EBITDA margin	ROE (%)	12m forward PE (x)	12m forward EV/EBITDA
MARL.IC	Marel hf	Iceland	\$5,103	5.6%	33.8%	10.5%	15.5%	18.7x	11.3x
JBT	John Bean Technologies Corp	Iceland	\$5,398	5.9%	28.3%	12.1%	17.7%	18.8x	11.7x
MHM.NZ	MHM Automation Ltd	NZ	\$63	-	37.9%	5.8%	-	-	-
FLS.CO	FLSmith & Co A/S	Denmark	\$3,571	2.2%	-	7.1%	6.4%	14.7x	7.8x
XRF.FX	XRF Scientific Ltd	Switzerland	\$148	-	42.8%	23.5%	14.8%	-	9.3x
Competitor average		-	-	4.6%	35.7%	11.8%	13.6%	17.4x	10.0x
ABB	Abb Ltd	USA	\$107,029	5.0%	39.9%	17.2%	21.9%	20.7x	12.9x
EMR	Emerson Electric Co	USA	\$77,959	5.4%	39.9%	24.1%	19.5%	19.5x	15.5x
HON.O	Honeywell International Inc	USA	\$206,724	5.3%	32.8%	23.3%	34.6%	20.4x	14.5x
6645.T	Omron Corp	USA	\$18,528	-3.1%	45.5%	14.8%	9.7%	23.4x	12.5x
ROK	Rockwell Automation Inc	USA	\$51,655	4.9%	40.0%	20.2%	41.7%	23.4x	18.2x
SCHN.PA	Schneider Electric SE	USA	\$146,755	4.1%	40.7%	20.7%	16.5%	18.1x	12.1x
Wider comparables average		-	-	3.6%	39.8%	20.1%	24.0%	20.9x	14.3x
Total peer & wider comparables average		-	-	5.0%	39.9%	17.2%	17.1%	19.5x	12.3x

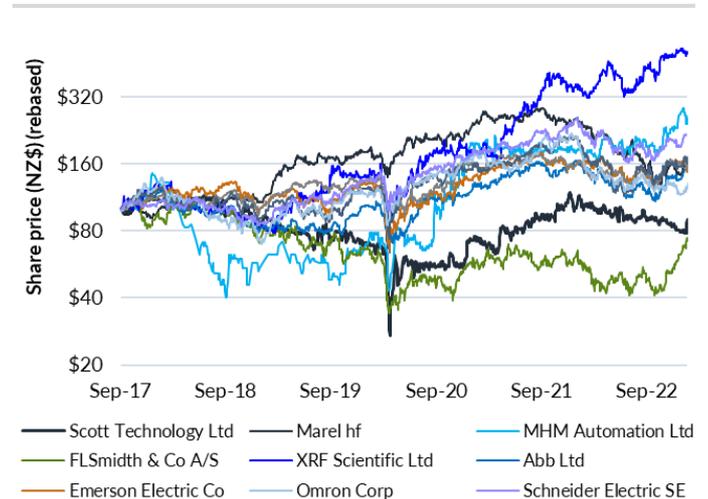
Source: Refinitiv, Forsyth Barr analysis

Figure 8. Sector – P/E (x) versus Revenue growth (%) (in FY23)



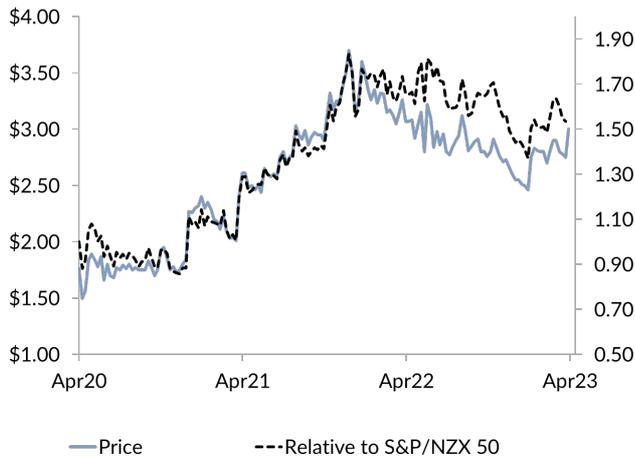
Source: Refinitiv, Forsyth Barr analysis

Figure 9. SCT – Peer analysis share price (rebased)



Source: Refinitiv, Forsyth Barr analysis

Figure 10. Price performance



Source: Forsyth Barr analysis

Figure 11. Substantial shareholders

Shareholder	Latest Holding
JBS Australia Pty	52.0%
Oakwood Securities	6.8%

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

Figure 12. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect SCT's balance date - August)										
				2023E	2024E	2023E	2024E	2023E	2024E	2024E
Scott Technology	SCT NZ	NZ\$3.00	NZ\$241	18.7x	16.6x	9.3x	8.3x	13.4x	11.7x	3.3%
Marel Hf	MAREL	€3.78	€2,914	n/a	17.4x	15.8x	11.6x	26.5x	17.3x	1.4%
	NA									
Flsmidth & Co A/S	FLS DC	kr263.00	kr15,162	27.3x	16.0x	10.8x	7.8x	22.9x	13.2x	2.6%
Xrf Scientific	XRF AT	A\$1.01	A\$138	16.8x	15.3x	10.2x	9.3x	11.2x	10.2x	3.3%
Abb-Reg	ABBN SW	US\$30.66	US\$60,239	19.9x	17.3x	13.2x	11.7x	16.1x	14.0x	3.1%
Emerson Electric Co	EMR US	US\$84.44	US\$48,249	20.5x	19.2x	14.5x	13.5x	18.2x	16.4x	2.6%
Honeywell International Inc	HON US	US\$192.19	US\$127,941	22.9x	19.9x	7.0x	14.1x	8.5x	15.9x	2.2%
John Bean Technologies Corp	JBT US	US\$104.99	US\$3,339	21.8x	18.0x	13.5x	11.6x	20.9x	17.0x	0.4%
Omron Corp	6645 JP	¥7428.00	¥1,531,987	22.7x	22.8x	12.5x	12.5x	16.1x	16.3x	1.4%
Rockwell Automation Inc	ROK US	US\$278.52	US\$31,969	25.5x	22.7x	19.0x	17.9x	21.2x	19.6x	1.8%
Schneider Electric Se	SU FP	€146.46	€83,642	20.4x	17.8x	12.9x	11.8x	16.0x	14.2x	2.5%
			Compco Average:	22.0x	18.6x	12.9x	12.2x	17.8x	15.4x	2.1%
			SCT Relative:	-15%	-11%	-28%	-32%	-24%	-24%	57%

EV = Mkt cap+net debt+lease liabilities+min interests-investments

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

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