

Scott Technology

Mixed 1H24 Amidst Transition

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Scott Technology (SCT) reported a mixed 1H24 result. While revenue and operating EBITDA aligned with our expectations at a group level, the margin outlook was weaker than anticipated due to the increased revenue contribution from lower-margin Materials Handling and weakness in higher-margin Protein. Additionally, costs below the operating line surprised to the upside. Finance costs and D&A were significantly higher than expected due to: (1) lease amortisation associated with footprint expansion, (2) increased capital investment depreciation, and (3) higher interest costs as net debt grew due to the timing of cash receipts. SCT also incurred NZ\$2.4m of costs relating to its strategic review of its ownership structure. We adjust our forecasts to reflect the changing divisional composition of SCT's business and account for increased finance costs and D&A. While our blended spot valuation falls -10% to NZ\$4.10, we retain our view that the outlook for SCT remains robust. This view is supported by SCT's NZ\$161m forward order book, with Materials Handling (now ~70% of forward orders) in particular generating strong demand for its solutions.

NZX Code	SCT	Financials: Aug/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$3.00	Rev (NZ\$m)	268.9	296.3	332.0	361.6	PE	15.5	23.0	14.9	12.1
Spot Valuation	NZ\$4.10 (from 4.56)	NPAT* (NZ\$m)	15.4	10.6	16.7	21.1	EV/EBIT	12.4	16.4	10.7	9.0
Risk rating	Medium	EPS* (NZc)	19.3	13.1	20.1	24.8	EV/EBITDA	8.6	8.7	7.2	6.3
Issued shares	81.2m	DPS (NZc)	8.0	10.0	12.0	14.0	Price / NTA	2.0	1.8	1.7	1.5
Market cap	NZ\$244m	Imputation (%)	0	50	100	100	Cash div yld (%)	2.7	3.3	4.0	4.7
Avg daily turnover	13.1k (NZ\$41k)	*Based on normalised profits					Gross div yld (%)	2.7	4.0	5.6	6.5

What's changed?

- **Earnings:** NPAT estimates fall -37%/-24%/-27% over FY24/FY25/FY26 respectively
- **Blended spot valuation:** Our blended spot valuation falls -46cps to NZ\$4.10, primarily due to changes to our medium-term forecasts. Long-term changes to our forecasts are less significant.

Changing divisional mix impacts margins

While we had anticipated some weakness in Protein due to global red meat market softness, the decline (revenue -9% to NZ\$31.3m, margin -19% to NZ\$9.9m) was larger than expected. Further, commentary from management suggested a return to significant growth for Protein could be some way off, as meat processors' investment cycles typically lag market cycles. In contrast, Materials Handling (revenue +35% to NZ\$62.7m, margin +17% to NZ\$12.1m) produced another strong result, buoyed by European and US Palletisation growth. Minerals (revenue +53% to NZ\$25.6m, margin +13% to NZ\$8.7m) also had a strong period, as the first modular Rocklabs solutions were sold. The shift in divisional mix towards Materials Handling (19% margin percentage in 1H24), and away from Protein (32% margin percentage) creates an unfavourable margin skew for SCT, leading to large EBITDA reductions in our forecasts.

Solid result overshadowed by management changes

SCT's 1H24 was a mixed result with positives and negatives. Still, it has been overshadowed by the optics of both the CEO and CFO departing in quick succession during March, and the strategic review yielding no significant new insights. John Kippenberger, the departing CEO, will stay on for a while longer (until the end of August 2024), whilst the company's Europe and North America president, Aaron Vanwallegem, will serve as interim CEO. At the same time, the CFO role will be filled internally by two co-CFOs, Anthony Wesley and Mark O'Malley, in an interim capacity for at least six months.

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

Priced as at 16 Apr 2024	3.00
52 week high / low	3.90 / 2.60
Market capitalisation (NZ\$m)	243.6

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	296.3	332.0	361.6
Normalised EBITDA	23.9	29.7	30.4	38.4	43.7
Depreciation and amortisation	(8.1)	(8.5)	(11.9)	(12.9)	(13.3)
Normalised EBIT	15.9	20.6	16.1	25.6	30.4
Net interest	(0.9)	(1.7)	(3.8)	(2.4)	(1.1)
Associate income	0	0	0	0	0
Tax	(2.3)	(3.8)	(4.1)	(6.5)	(8.2)
Minority interests	0	0	0	0	0
Normalised NPAT	12.7	15.4	10.6	16.7	21.1
Abnormals/other	(12.6)	0	0	0	0
Reported NPAT	0.1	15.4	10.6	16.7	21.1
Normalised EPS (cps)	15.9	19.3	13.1	20.1	24.8
DPS (cps)	8.0	8.0	10.0	12.0	14.0

Growth Rates

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	7.5	20.2	10.2	12.0	8.9
EBITDA (%)	14.1	24.1	2.5	26.3	13.6
EBIT (%)	30.8	29.5	-21.9	59.3	18.8
Normalised NPAT (%)	50.3	22.0	-31.3	57.1	26.6
Normalised EPS (%)	47.2	21.4	-32.3	53.7	23.3
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	30.4	38.4	43.7
Working capital change	(15.7)	(6.4)	(18.7)	6.3	(6.6)
Interest & tax paid	(1.0)	(0.0)	(3.7)	(6.3)	(7.5)
Other	(0.9)	(3.1)	1.2	1.2	1.2
Operating cash flow	6.3	20.2	9.1	39.6	30.7
Capital expenditure	(2.3)	(2.0)	(6.3)	(4.6)	(5.0)
(Acquisitions)/divestments	(12.8)	(2.5)	0	0	0
Other	(4.0)	(6.3)	(8.4)	(6.9)	(6.2)
Funding available/(required)	(12.8)	9.5	(5.6)	28.1	19.5
Dividends paid	(2.7)	(2.6)	(7.3)	(9.1)	(11.1)
Equity raised/(returned)	0	0	2.2	5.4	6.6
(Increase)/decrease in net debt	(15.5)	6.9	(10.7)	24.3	15.0

Balance Sheet (NZ\$m)

	2022A	2023A	2024E	2025E	2026E
Working capital	36.2	42.6	61.3	55.0	61.5
Fixed assets	17.1	18.4	21.8	23.0	24.3
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	222.5	213.0	216.4
Net debt/(cash)	8.0	0.1	10.8	(13.6)	(28.6)
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	137.8	152.1	170.3
Minority interests	(0.3)	(0.4)	(0.3)	(0.2)	(0.1)
Total funding sources	163.3	192.3	222.5	213.0	216.4

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

Spot valuation (NZ\$)

Peers comparable	4.10
DCF	4.16

DCF valuation summary (NZ\$m)

Total firm value	513
(Net debt)/cash	(0)
Less: Capitalised operating leases	(57)
Value of equity	456

Valuation Ratios

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	1.1	1.0	0.9	0.8	0.8
EV/EBITDA (x)	10.6	8.6	8.7	7.2	6.3
EV/EBIT (x)	16.0	12.4	16.4	10.7	9.0
PE (x)	18.9	15.5	23.0	14.9	12.1
Price/NTA (x)	2.6	2.0	1.8	1.7	1.5
Free cash flow yield (%)	0.2	5.8	-0.6	12.6	8.7
Adj. free cash flow yield (%)	0.2	5.8	-0.6	12.6	8.7
Net dividend yield (%)	2.7	2.7	3.3	4.0	4.7
Gross dividend yield (%)	2.7	2.7	4.0	5.6	6.5

Capital Structure

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	16.7	12.2	4.3	10.5	28.1
Interest cover EBITDA (x)	25.2	17.6	8.1	15.8	40.4
Net debt/ND+E (%)	7.5	0.1	7.3	-9.9	-20.4
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	5.9	9.0	10.3
Return on equity (%)	12.7	11.9	7.8	11.1	12.5
Return on funds employed (%)	9.0	8.5	5.4	8.1	9.9
EBITDA margin (%)	10.7	11.0	10.3	11.6	12.1
EBIT margin (%)	7.1	7.6	5.4	7.7	8.4
Capex to sales (%)	1.0	0.7	2.1	1.4	1.4
Capex to depreciation (%)	40	31	69	46	47
Imputation (%)	0	0	50	100	100
Pay-out ratio (%)	50	41	77	60	57

Operating Performance

	2022A	2023A	2024E	2025E	2026E
Protein (Meat)					
Revenue (NZ\$m)	57.1	76.0	69.9	76.2	87.6
Revenue growth (%)	21%	33%	-8%	9%	15%
Gross margin (%)	32%	33%	33%	33%	33%
Gross profit (NZ\$m)	18.1	25.4	23.1	25.2	29.1
Minerals (Mining)					
Revenue (NZ\$m)	39.5	41.2	55.6	66.2	76.1
Revenue growth (%)	39%	4%	35%	19%	15%
Gross margin (%)	40%	40%	35%	38%	39%
Gross profit (NZ\$m)	15.8	16.6	19.5	25.2	29.3

Materials Handling and Logistics

	2022A	2023A	2024E	2025E	2026E
Revenue (NZ\$m)	70.0	94.4	124.6	142.1	149.2
Revenue growth (%)	3%	35%	32%	14%	5%
Gross margin (%)	20%	23%	21%	21%	21%
Gross profit (NZ\$m)	13.8	21.6	25.5	29.8	31.8
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

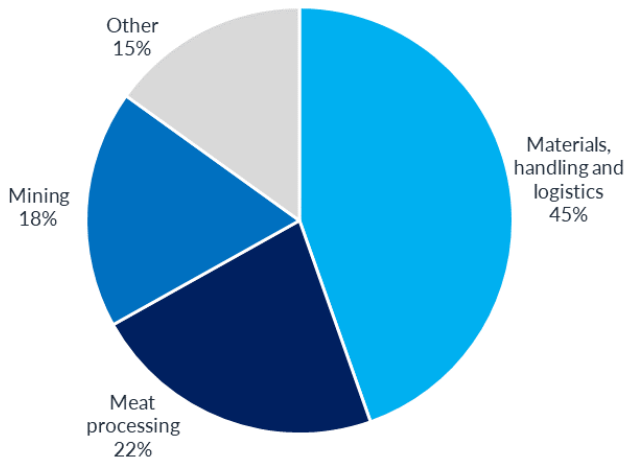
1H24 results analysis

Figure 1. 1H24 result summary

NZ\$m	1H23 Actual	1H24 Actual	Change
Operating revenue	126.5	140.9	+11%
Other operating income	0.2	1.2	+405%
Share of joint ventures' net surplus	0.1	(0.0)	-140%
Total operating expenses	(112.3)	(125.5)	+12%
Operating EBITDA	14.6	16.6	+14%
Other Adjustments	-	(2.4)	
Interest revenue	0.1	0.0	-53%
Depreciation & amortisation	(3.9)	(5.9)	+50%
Finance costs	(1.0)	(2.2)	+117%
Net Profit Before Tax	9.7	6.1	-37%
Taxation (expense)	(1.9)	(1.6)	-14%
Net Profit/(Loss) after Tax (from continuing ops)	7.8	4.5	-43%
Translation of foreign operations	(0.6)	-	
Comprehensive Profit (Loss)	7.3	4.5	-38%
Diluted EPS (cps)	9.8	5.5	-44%

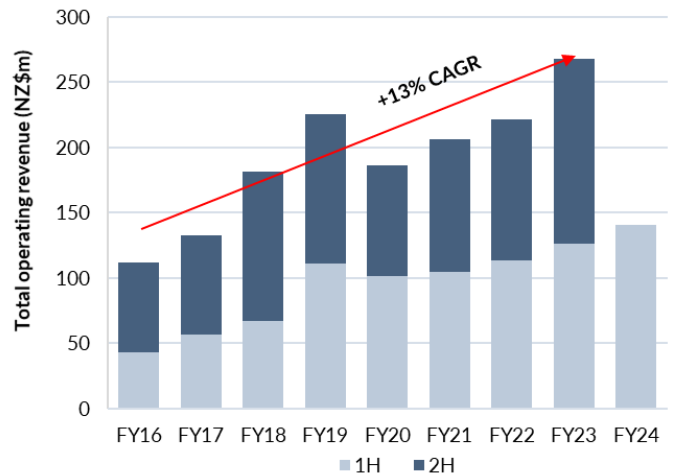
Source: Company, Forsyth Barr analysis

Figure 2. SCT—Revenue stack by segment (1H24)



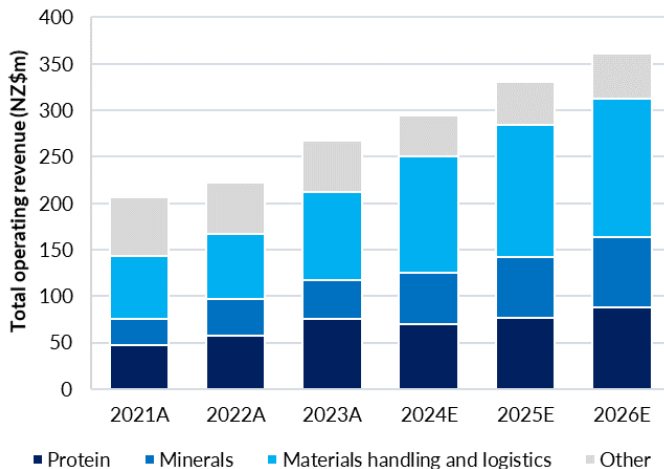
Source: Company data, Forsyth Barr analysis

Figure 3. SCT—Half year revenue



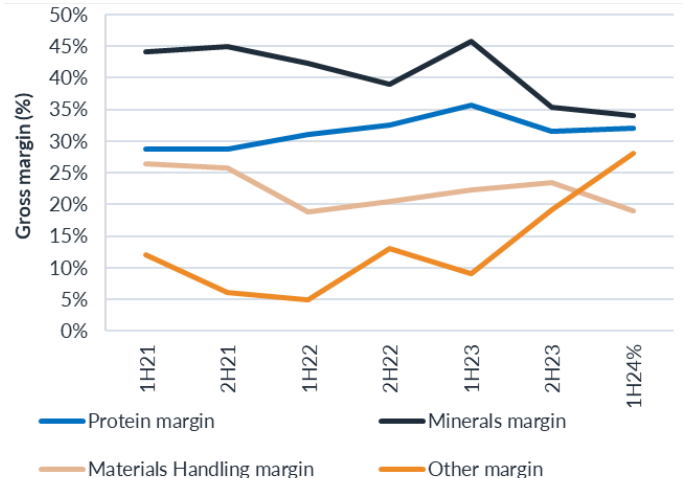
Source: Company data, Forsyth Barr analysis

Figure 4. SCT—Revenue stack (NZ\$m)



Source: Company data, Forsyth Barr analysis

Figure 5. SCT—Margin by division



Source: Company data, Forsyth Barr analysis

Earnings revisions

Following SCT's 1H24 result, we adjust our estimates for the sales mix across its divisions. The anticipated theme of weakness in Protein being countered by revenue growth from Minerals and the Materials Handling segments has been more pronounced than anticipated. Overall, we make cuts to our FY24/FY25/FY26 revenue estimates of -2%, -2%, and -3%, respectively. Further, given the mix change in sales and several one-off factors affecting some divisions for contract instalments, our operating EBITDA forecasts have been impacted more significantly, with FY24/FY25/FY26 reductions of -6%, -8%, and -11%, respectively.

We anticipate a normalisation in cash flow in 2H24 following weak operating cash flow in 1H24, with the DRP being turned back on (after pausing for 2H23 dividend). However, we don't anticipate sufficient cash recovery (we expect net debt of ~NZ\$11m at the FY24 result) to counter a higher cost of debt to avoid increases in our interest cost lines. This sees a substantial lift in our interest cost assumptions. We also raise our assumptions for D&A, reflecting new information on the larger property footprint for Minerals (Rocklab's new Auckland facility) and Materials Handling.

We retain our forecast for 10cps in FY24 dividends (~50% imputed). This represents a payout ratio of ~77%, falling towards ~60% in FY25 as earnings recover.

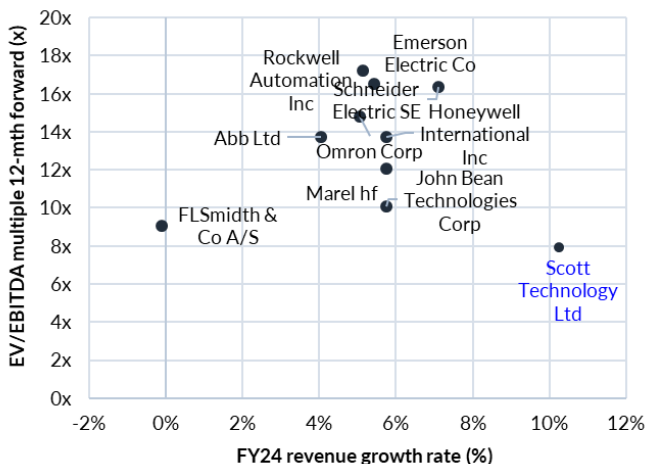
Figure 6. Earnings revisions

	FY24			FY25			FY26		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating revenue	301.1	294.9	-2%	337.6	331.0	-2%	370.7	361.4	-3%
Other operating income	1.0	1.4	+40%	0.6	1.0	+68%	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	(246.5)	(242.7)	-2%	(273.2)	(270.6)	-1%	(296.5)	(292.6)	-1%
Employee benefits expense	(20.9)	(20.9)	+0%	(23.1)	(23.1)	+0%	(25.5)	(25.5)	+0%
Operating EBITDA	34.9	32.9	-6%	42.0	38.4	-8%	49.1	43.7	-11%
Other Adjustments	-	(2.4)		-	-		-	-	
Interest revenue	0.6	0.4	-33%	0.4	0.2	-59%	0.7	0.7	+2%
Depreciation & amortisation	(10.0)	(11.9)	+19%	(11.2)	(12.9)	+14%	(8.9)	(13.3)	+48%
Finance costs	(2.0)	(4.2)	+107%	(0.9)	(2.6)	+206%	(0.7)	(1.8)	+172%
Net Profit Before Tax	23.4	14.7	-37%	30.3	23.2	-24%	40.2	29.3	-27%
Taxation (expense)	(6.6)	(4.1)	-37%	(8.5)	(6.5)	-24%	(11.3)	(8.2)	-27%
Net Profit/(Loss) after Tax (from continuing ops)	16.9	10.6	-37%	21.8	16.7	-24%	29.0	21.1	-27%
Diluted EPS	20.4	13.1	-36%	25.8	20.1	-22%	33.2	24.8	-25%

Source: Company data, Forsyth Barr analysis

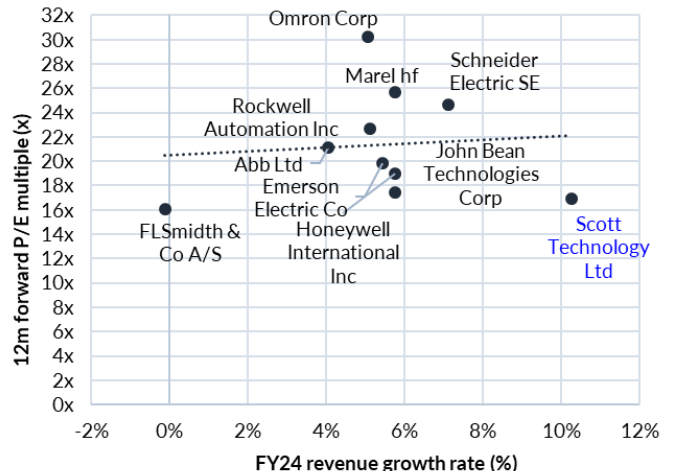
Key valuation charts

Figure 7. SCT—Sector EV/EBITDA versus FY24 revenue growth



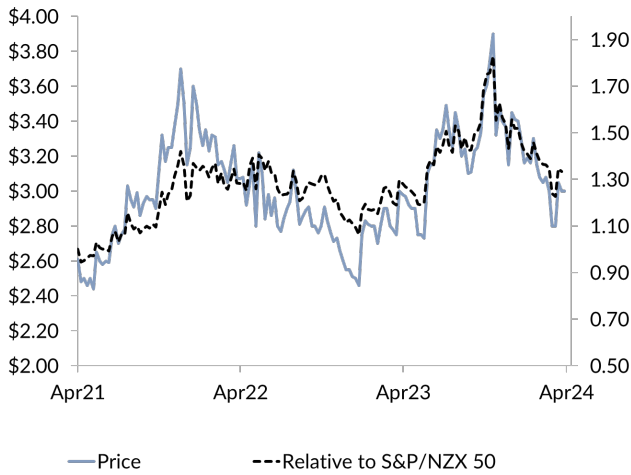
Source: Refinitiv, Forsyth Barr analysis

Figure 8. SCT—Sector PE versus FY24 revenue growth



Source: Refinitiv, Forsyth Barr analysis

Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. 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

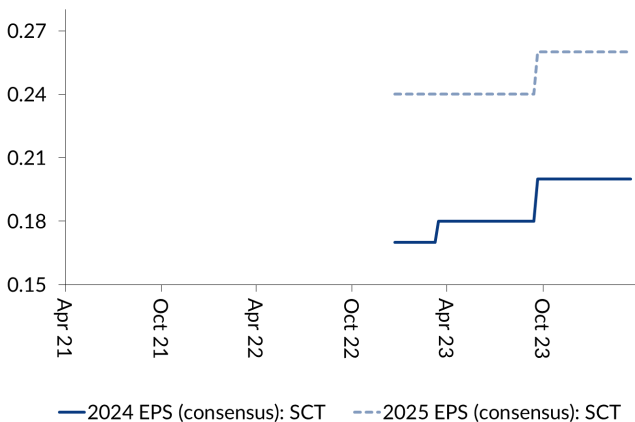
Figure 11. International valuation comparisons

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\$3.00	NZ\$244	23.0x	14.9x	8.7x	7.2x	16.4x	10.7x	4.0%
Marel Hf	MAREL	€3.31	€2,552	n/a	20.9x	14.5x	11.5x	25.8x	17.5x	1.2%
	NA									
Flsmidth & Co A/S	FLS DC	kr363.20	kr20,938	26.1x	15.4x	11.0x	8.6x	16.4x	11.9x	2.5%
Xrf Scientific	XRF AT	A\$1.28	A\$176	0.4x	0.3x	11.4x	10.3x	12.6x	11.2x	3.0%
Abb-Reg	ABBN SW	US\$41.87	US\$78,799	20.0x	18.5x	13.7x	12.6x	15.9x	14.5x	2.4%
Emerson Electric Co	EMR US	US\$112.65	US\$64,402	19.5x	19.5x	16.6x	14.9x	22.2x	18.9x	1.9%
Honeywell International Inc	HON US	US\$196.16	US\$127,736	20.8x	18.6x	14.9x	13.4x	17.3x	15.2x	2.4%
John Bean Technologies Corp	JBT US	US\$92.63	US\$2,948	13.6x	n/a	10.8x	n/a	16.6x	14.2x	n/a
Omron Corp	6645 JP	¥5327.00	¥1,098,666	>75x	27.2x	17.1x	12.4x	30.6x	18.6x	2.0%
Rockwell Automation Inc	ROK US	US\$284.82	US\$32,638	23.9x	21.6x	18.3x	16.9x	20.2x	18.4x	1.8%
Schneider Electric Se	SU FP	€209.40	€119,952	26.7x	23.6x	16.9x	15.6x	20.3x	18.3x	1.9%
			Compco Average:	18.9x	18.4x	14.5x	12.9x	19.8x	15.9x	2.1%
			SCT Relative:	22%	-19%	-40%	-45%	-17%	-32%	87%

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

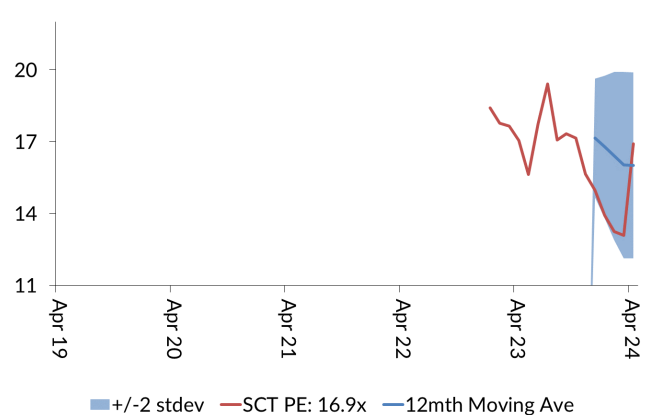
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SCT) companies fiscal year end

Figure 12. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)



Source: Forsyth Barr analysis

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