

H1 Trading Update: positive momentum continues

10 July 2024

In a Trading Update for the six months to 30 June 2024, Mpac reports strong order intake of c.£60m and a closing first half order book of c.£71m. Consequently, the Group expects to post H1 24 revenue of c.£61m, significantly ahead year-on-year, being 16% above H1 23 (£52.8m). CEO Adam Holland commented: “*The Group continued to gain momentum through the period and we will report a substantial increase in revenue and profitability in H1 2024 over H1 2023*”.

No surprise after the strength of FY23 performance

The strength of order intake and positive outlook should come as no surprise. As we noted at FY23 results in March ([Equity Development report 19 March 2024 'FY23 results ahead on all metrics: record orders'](#)), the Group established a firm platform for growth, supported by the launch of a detailed five-year strategy plan, and backed by the rebound from supply chain constraints and a combined c.75% exposure to two verticals with resilient and strong demand drivers, Food & Beverage and Healthcare. Original Equipment project execution continued to progress well, with similarly strong performance from Service operations,

Expect a strong second half

A consequence of the strength of first half order intake is, as anticipated, an expansion of working capital, required to provision inventory for new projects. This is expected to unwind in the second half alongside the gathering pace of performance towards the close of the year. The estimated H1 revenue of c.£61m represents 50.8% of our FY24 target (£120m), whereas at the same stage in FY23 (£52.8m), H1 revenue represented 46.2% of the full year outcome (£114.2m).

The Group expects that the timing of order intake and impact on working capital will result in interim net debt at £4.9m. Our FY24 year-end estimated net cash outlook is unchanged at £4.1m, whilst the Group has a balance sheet that provides it with the ability to invest in growth over the medium and long term.

Outlook and fair value maintained – still compelling value

Having raised both our estimates and fair value in March, we maintain our current outlook.

Despite a strong run, Mpac's share price is currently trading at 5% below its one-year high and the outlook indicates that the Group **continues to offer compelling value**. **Our Fair Value of 530p/share is indicative of a FY25 EV/EBITDA multiple of 7.1x and PE of 12.1x, respectively 33% and 28% below the market cap weighted average of a group of Mpac peers¹, on multiples of 10.6x EV/EBITDA and 16.9x PE.**

Outlook

Yr to 31 Dec (£m)	2021	2022	2023	2024E	2025E
Revenue	94.3	97.7	114.2	120.0	130.5
EBITDA (adj)	11.2	6.8	10.7	13.5	15.1
Pre-Tax Profit (adj)	8.6	3.5	7.1	10.5	12.2
EPS (adj, p)	39.4	13.1	26.2	38.4	44.0
Net debt / (Cash)	(13.6)	4.7	(2.1)	(4.1)	(6.1)
P/E	13.3x	39.9x	20.0x	13.6x	11.9x
EV/EBITDA	9.4x	15.5x	9.8x	7.8x	7.0x

Source: Company data, Equity Development estimates.¹ Source: Koyfin.

Company Data

EPIC	AIM: MPAC
Price (last close)	520p
52 weeks Hi/Lo	550p/183p
Market cap	£106m
ED Fair Value / share	530p
Proforma net debt / (cash)	£(2.1)m

Share Price, p



Source: ADVFN

Description

Mpac Group is a specialist provider of high-speed packaging and automation systems employing c.500 people. The group comprises: Mpac Langen; Mpac Lambert; and, acquired in 2020, Mpac Switchback.

The Group generates over 90% of revenue internationally. Core customer verticals include the healthcare, food & beverage and clean energy sectors. Clients include: Advent, AstraZeneca, Bausch & Lomb, Dexcom, Diageo, GSK, J&J, Kellogg's, Nestlé, Philips, P&G, 3M, and Unilever.

Next event:

Interim results (unaudited)

10 September 2024

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Orders remain firm

As shown, the H1 24 closing order book, at £71.0m, has maintained the strength of the FY23 year end at £72.5m (a figure which was slightly reduced from £75.0m as orders converted into process). We note that H1 23 order intake was particularly high (£62.4m) due to the impact of pent-up demand unwinding, a consequence of the pandemic and associated supply chain disruption. H1 24 order levels maintain the momentum of FY23.



Source: Company data

FY23 performance recap; outlook maintained

The outstanding feature of FY23 results was the level of performance across all metrics: revenue grew 17%YoY (£114.2m) 7.1% ahead of our outlook; EBIT (adj.) doubled YoY (5.5% above our outlook), with EBITDA (adj.) +57.4%YoY; gross margin improved from 25.0% to 27.7%; cash from operations of £13.1m contrasted with cash absorption of £(12.8)m in FY22; Service operations amounted to 27.8% of revenue in line with Group strategy.

Having raised estimates in March, and introduced FY25 estimates which indicate (adj.) EBITDA c.40% above FY23 results, as shown below, we reaffirm our outlook.

Outlook to FY25 E						
£m	FY22	FY23	FY24E	FY25E	24/23	25/24
Americas	52.8	56.7	59.6	64.8	5.1%	8.7%
EMEA	37.5	47.8	50.2	54.6	5.1%	8.7%
Asia Pac	7.4	9.7	10.2	11.1	5.1%	8.7%
Sum OE	74.6	82.4	86.6	95.2	5.1%	10.0%
Sum Service	23.1	31.8	33.4	37.4	5.1%	12.0%
Service/Revenue	23.6%	27.8%	27.8%	28.7%		
Revenue:	97.7	114.2	120.0	130.5	5.1%	8.7%
Gross	24.4	31.6	37.0	40.5	17.0%	9.5%
Margin	25.0%	27.7%	30.8%	31.0%	3.1%	0.2%
EBIT (adj.)	3.9	7.8	10.7	12.4	36.9%	16.1%
Margin	4.0%	6.8%	8.9%	9.5%	2.1%	0.6%
EBITDA (adj.)	6.8	10.7	13.5	15.1	26.0%	12.0%
Margin	7.0%	9.4%	11.2%	11.6%	1.9%	0.3%
Cash	4.2	11.0	13.0	15.0		
Net debt / (cash)	4.7	(2.1)	(4.1)	(6.1)		

Source: Company data. Equity Development estimates.

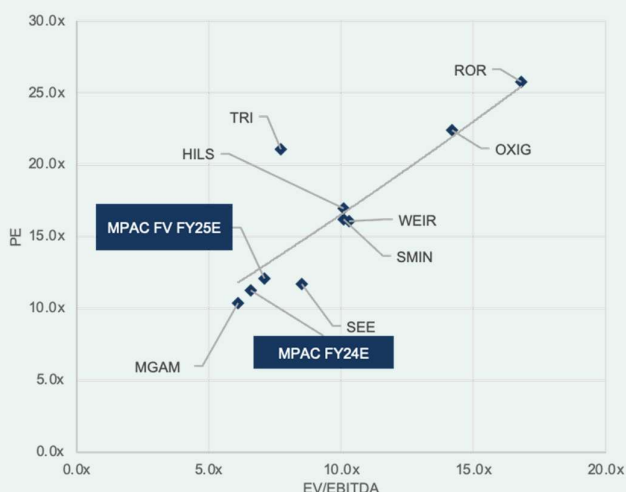
Relative undervaluation

We update on Mpac's valuation (EV/EBITDA and PE) relative to the market cap-weighted average of a selected group of peers (Smiths Group plc, The Weir Group plc, Trifast plc, Rotork plc, Sealed Air Corporation, Oxford Instruments plc, Renishaw plc, Morgan Advanced Materials plc, Avingtrans plc, Hill & Smith plc and Kronos A.G.), and based on our FY24/25 outlook and Mpac Equity Development Fair Value.

- The overall market cap-weighted EV/EBITDA multiple for the peer group is 10.6x, and PE, 16.9x.
- Our Mpac **ED Fair Value of 530p** implies a FY25, EV/EBITDA multiple of 7.1x and PE of 12.1x, 33% and 28% respectively below the peer group market cap-weighted average.

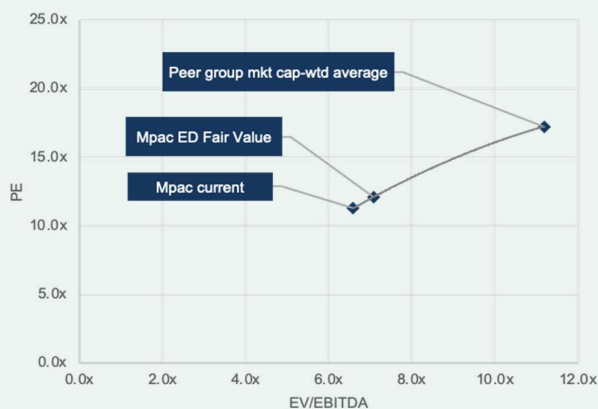
As the chart illustrates, Mpac's relative positioning remains at an indicative discount to its peers.

Mpac valuation versus peers



Source: Equity Development estimates, Koyfin. Best fit polynomial shown.

Mpac valuation versus peer group average



Source: Equity Development estimates, Koyfin. Best fit polynomial shown.

FINANCIAL ANALYSIS

P&L					
Year to 31 Dec (£m)	FY21	FY22	FY23	FY24E	FY25E
Equipment revenue	74.1	74.6	82.4	86.6	95.2
Service revenue	20.2	23.1	31.8	33.4	37.4
Revenue	94.3	97.7	114.2	120.0	130.5
	0				
Gross	28.9	24.4	31.6	37.0	40.5
Margin	30.6%	25.0%	27.7%	30.8%	31.0%
COGS	(65.4)	(73.3)	(82.6)	(83.0)	(90.0)
Distribution	(6.8)	(8.1)	(8.8)	(9.4)	(9.8)
Admin	(12.4)	(11.9)	(14.6)	(15.0)	(16.3)
Other	(0.9)	(0.5)	(0.4)	(1.9)	(2.0)
Sum operating costs	(20.1)	(20.5)	(23.8)	(26.3)	(28.1)
One-off costs	(0.5)	(3.9)	(3.9)	(3.0)	(3.0)
EBIT Reported	8.3	0.0	3.9	7.7	9.4
EBIT Adjusted	8.8	3.9	7.8	10.7	12.4
Margin	9.3%	4.0%	6.8%	8.9%	9.5%
Amortisation	(0.6)	(0.9)	(0.8)	(0.7)	(0.6)
Depreciation	(1.8)	(2.0)	(2.1)	(2.1)	(2.1)
EBITDA Reported	10.7	2.9	6.8	10.5	12.1
EBITDA Adjusted	11.2	6.8	10.7	13.5	15.1
Margin	11.9%	7.0%	9.4%	11.2%	11.6%
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.2)	(0.4)	(0.7)	(0.2)	(0.2)
PBT Reported	8.0	0.2	4.7	7.5	9.2
PBT Adjusted	8.6	3.5	7.1	10.5	12.2
Tax	(0.4)	(0.6)	(2.0)	(2.6)	(3.2)
PAT Reported	7.6	(0.4)	2.7	4.9	6.0
PAT Adjusted	7.9	2.7	5.3	7.9	9.0
Basic wtd. av. shares (m)	19.9	20.3	20.5	20.5	20.5
Diluted wtd. av. shares (m)	20.1	20.6	20.5	20.5	20.5
EPS rptd. basic (p)	38.2	(2.0)	13.2	23.7	29.4
EPS rptd. dil.(p)	37.9	(1.9)	13.2	23.7	29.4
EPS adj. basic (p)	39.7	13.3	26.2	38.4	44.1
EPS adj. dil. (p)	39.4	13.1	26.2	38.4	44.0

Source: Company data, Equity Development estimates.

Cashflow					
Year to 31 December (£m)	FY21	FY22	FY23	FY24E	FY25E
Operating profit	8.3	0.0	3.9	7.7	9.4
One-off items	0.5	3.9	3.9	3.0	3.0
Amortisation	0.6	0.9	0.8	0.7	0.6
Depreciation	1.8	2.0	2.1	2.1	2.1
Other non-cash	0.4	0.3	0.0	0.0	0.0
Pension	(2.6)	(2.1)	(2.3)	(3.0)	(3.0)
Operating Cash Flow	9.0	5.0	8.4	10.5	12.1
Working capital					
(Increase)/Decrease inventories	(2.2)	(3.7)	(1.7)	(3.7)	(3.1)
(Increase)/Decrease in contract assets	(4.4)	(6.4)	1.7	0.1	0.1
(Increase)/Decrease in receivables	1.0	(5.3)	(0.3)	(4.2)	(4.5)
Increase/(Decrease) in payables	(1.1)	2.8	1.8	5.5	4.3
(Increase)/Decrease in contract liabilities	(0.7)	(5.7)	(0.1)	(0.1)	(0.1)
Increase / Decrease in provisions	(0.8)	0.5	3.3	0.0	0.0
Movement in working capital	(8.2)	(17.8)	4.7	(2.3)	(3.2)
Cash generated by operations	0.8	(12.8)	13.1	8.1	8.9
Acquisition costs	(0.3)	(0.8)	(0.8)	0.0	0.0
Tax (paid)/received	(0.1)	(0.4)	(1.1)	(2.6)	(3.2)
Net cash from operations	0.4	(14.0)	11.2	5.5	5.7
Investing activities					
Interest received	0.0	0.0	0.0	0.0	0.0
Sale of PPE	2.0	0.0	0.0	0.0	0.0
Capitalised R&D	(0.2)	(1.4)	(1.5)	(1.5)	(1.5)
PPE	(1.5)	(1.0)	(1.1)	(1.2)	(1.2)
Acquired cashflow/deferred payment	(0.6)	(0.8)	0.0	0.0	0.0
Net cash used in investing	(0.3)	(3.2)	(2.6)	(2.7)	(2.7)
Net OpFCF	0.1	(17.2)	8.6	2.9	3.0
Financing activities					
Borrowings	0.0	8.0	0.0	0.0	0.0
Interest paid	(0.3)	(0.3)	(0.7)	(0.2)	(0.2)
Purchase own shares	(0.2)	0.0	0.0	(0.2)	(0.2)
Lease payments	(0.9)	(1.1)	(1.1)	(0.5)	(0.5)
Net cash from financing	(1.4)	6.6	(1.8)	(0.9)	(0.9)
Net increase in cash / equivalents	(1.3)	(10.6)	6.8	2.0	2.1
Cash at beginning of year	15.5	14.5	4.2	11.0	13.0
Forex	0.3	0.3	0.0	0.0	0.0
Cash at year end	14.5	4.2	11.0	13.0	15.0
Net debt / (Cash)	(13.6)	4.7	(2.1)	(4.1)	(6.1)

Source: Company data, Equity Development estimates.

Balance sheet						
Year to 31 December (£m)		FY21	FY22	FY23	FY24E	FY25E
Fixed Assets						
	Intangible assets	25.3	25.4	24.0	23.3	22.7
	PPE net	4.0	4.0	4.1	3.2	2.3
	Property	0.8	0.8	0.8	0.8	0.8
	Right of use	5.8	5.0	5.9	5.9	5.9
	Employee benefits	35.7	31.5	32.2	32.2	32.2
	Deferred tax, other	1.4	1.3	0.9	0.9	0.9
	Sum Fixed Assets	73.0	68.0	67.9	66.3	64.8
Current Assets						
	Inventories	5.5	9.6	11.1	14.8	17.9
	Trade receivables	34.5	46.7	46.8	51.0	55.4
	Tax assets	0.6	0.6	1.1	1.1	1.1
	Cash, Equivalents	14.5	4.2	11.0	13.0	15.0
	Contract assets	0.0	0.0	0.0	0.0	0.0
	Sum Current Assets	55.1	61.1	70.0	79.8	89.4
	Total Assets	128.1	129.1	137.9	146.1	154.2
Current Liabilities						
	Trade payables	(39.5)	(38.4)	(43.8)	(49.3)	(53.6)
	Leases	(1.8)	(1.4)	(1.3)	(1.3)	(1.3)
	Provisions	(0.6)	(1.0)	(0.9)	(0.9)	(0.9)
	Tax, Other	(0.7)	(0.1)	(0.9)	(0.9)	(0.9)
	Sum Current Liabilities	(42.6)	(48.9)	(54.9)	(60.4)	(64.7)
	Total Assets less Current Liabilities	85.5	80.2	83.0	85.6	89.4
Long-term Liabilities						
	Borrowings	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
	Employee benefits	(2.5)	(2.1)	(1.8)	(3.0)	(3.0)
	Tax	(12.5)	(11.1)	(11.4)	(6.8)	(6.8)
	Leases	(4.2)	(3.9)	(4.9)	(3.4)	(3.4)
	Deferred consideration	0.0	0.0	0.0	0.0	0.0
	Sum Long-term liabilities	(20.1)	(18.0)	(19.0)	(14.1)	(14.1)
	Total liabilities	(62.7)	(66.9)	(73.9)	(74.5)	(78.8)
	Net Assets	65.4	62.2	64.0	71.5	75.3
Capital & Reserves						
	Share Capital	5.0	5.1	5.1	5.1	5.1
	Share Premium	26.0	26.0	26.0	27.3	25.1
	Capital Reserve	3.7	2.1	3.8	5.2	5.2
	Retained earnings	30.7	29.0	29.1	34.0	40.0
	Equity	65.4	62.2	64.0	71.5	75.3
	Net debt / (Cash)	(13.6)	4.7	(2.1)	(4.1)	(6.1)

Source: Company data, Equity Development estimates.



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