MPAC Group plc (formerly Molins)

Nothing untoward as GFD decides to step down

4th May 2018

Last night after the bell, MPAC announced that Group Finance Director, Jim Haughey, had resigned as a board member for "personal reasons".

Having spoken to the company, we understand there is nothing untoward for shareholders to worry about, since this is absolutely Jim's decision. Indeed, he has willingly agreed to work his 6 month notice period until a suitable replacement is found.

Additionally, there is considerable bench strength in the in-house finance team, so we don't believe the news will in anyway impact the business's day-to-day operations. CEO Tony Steels, adding:

"*Whilst it is disappointing to lose a member of the senior management team, we respect Jim's decision and wish him well for the future. We will commence a search process immediately and update shareholders in due course*".

Financials / valuation

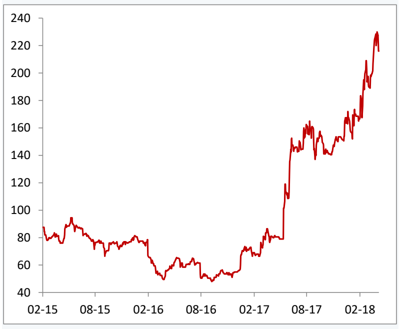
By way of reminder, this year MPAC revenues are forecast to rise +10% to £58.7m, with adjusted EBIT and EPS coming in at £2.8m (vs £1.3m LY) and 9.9p (4.2p) respectively. Our estimates are fully detailed below.

This news does not affect our fair value of 225p/share.

Company Data

EPIC	**AIM:MPAC**
Price (last close)	216p
52 week Hi/Lo	230p/79p
Market cap	£44m
ED valuation	225p/share
Avg. daily volume	50,000

Share Price, p



Source: WebFG

Description

MPAC (formerly Molins) is a specialist provider of high speed packaging machines (76% of sales) and complementary services (24%, eg spares/maintenance) with c. 350 staff.

The group was rebranded MPAC in Jan'18, encompassing the design / manufacture of cartoning equipment, case packers, end-of-line and robotic packaging solutions, as well as undertaking turnkey projects involving the design/integration of packaging systems. Here it has sites in Canada and the Netherlands, plus service engineers based throughout the world.

On top in Coventry (UK), the firm develops innovative technology and associated production / packaging machinery. Core clients include Nestlé, GSK, Unilever, Kellogg's, Diageo, Ferrero and CooperVision.

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Financial projections

MPAC plc - continuing (December year end)	2016 Act £'000s	2017 Act £'000s	2018 Est £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s
Closing orderbook	**25,500**	**34,400**				
Equipment	28,800	40,400	44,440	48,884	53,772	59,150
Service	12,700	13,000	14,300	15,730	17,303	19,033
Turnover	**41,500**	**53,400**	**58,740**	**64,614**	**71,075**	**78,183**
Equipment		*40.3%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Service		*2.4%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Total % YoY growth		*28.7%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Equipment	5,400	9,200	10,977	12,221	13,443	14,787
Service	5,600	5,300	5,720	6,292	6,921	7,613
Total gross margin	**11,000**	**14,500**	**16,697**	**18,513**	**20,364**	**22,401**
Equipment	*18.8%*	*22.8%*	*24.7%*	*25.0%*	*25.0%*	*25.0%*
Service	*44.1%*	*40.8%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*
% Margin	*26.5%*	*27.2%*	*28.4%*	*28.7%*	*28.7%*	*28.7%*
EBITDA	**500**	**2,200**	**3,797**	**4,986**	**6,182**	**7,535**
% Margin	*1.2%*	*4.1%*	*6.5%*	*7.7%*	*8.7%*	*9.6%*
Distribution	-5,300	-5,400	-5,670	-5,954	-6,251	-6,564
Administration	-6,600	-7,300	-7,665	-8,048	-8,451	-8,873
Other	-300	-500	-525	-551	-579	-608
Adjusted EBIT	**-1,200**	**1,300**	**2,837**	**3,960**	**5,084**	**6,356**
% Operating Margin	***-2.9%***	***2.4%***	***4.8%***	***6.1%***	***7.2%***	***8.1%***
Underlying interest charge	-330	-170	-200	-200	-200	-200
Adjusted Profit before Tax	**-1,530**	**1,130**	**2,637**	**3,760**	**4,884**	**6,156**
Adjusted EPS (p)	**-6.0**	**4.2**	**9.9**	**14.1**	**18.2**	**22.9**
EPS growth rate			*137.1%*	*41.9%*	*29.2%*	*25.8%*
Dividend (pence)	***1.25***	***0.00***	***0.00***	***0.00***	***0.00***	***0.00***
Reported sharecount (Ks - incl Treasury)	20,172	20,172	20,172	20,172	20,172	20,172
Valuation benchmarks						
P/E ratio		*51.6*	*21.8*	*15.3*	*11.9*	*9.4*
PER (adjusted for pension recovery payments)					*31.2*	*17.3*
EV/Sales (pension adjusted)	*0.95*	*0.74*	*0.67*	*0.61*	*0.55*	*0.50*
EV/EBITDA (pension adjusted)		*17.9*	*10.3*	*7.9*	*6.4*	*5.2*
EV/EBIT (pension adjusted)		*30.2*	*13.8*	*9.9*	*7.7*	*6.2*
PEG ratio			*0.16*	*0.37*	*0.41*	*0.37*
EBITDA drop through rate			*29.9%*	*20.2%*	*18.5%*	*19.0%*
Return on equity (%)		*1.9%*	*4.3%*	*5.8%*	*7.0%*	*8.1%*
Net cash/(debt)	**800**	**29,400**	**24,800**	**22,832**	**21,881**	**22,060**
Estimated non-underlying Pension charges						
UK pension recovery payments		-1,847	-1,886	-1,925	-1,966	-2,007
UK tax shield		369	377	385	393	401
US pension recovery payments			-1,100	-900	-700	-500
Cashflow effect		**-1,478**	**-2,609**	**-2,440**	**-2,273**	**-2,106**
Net cash/(debt) - pence per share		**146**	**123**	**113**	**108**	**109**
Net assets / diluted share (p)	175	216	226	240	258	281
Shareprice (p)	**216**					

Source: Equity Development. MPAC's EV has been adjusted for pension/spare land. The cost of UK PPF levy is included within EBIT.

Key risks

- As demonstrated in past recessions, capital equipment volumes are typically exposed to the cyclical nature of the global economy.
- The large size of the UK (£397m of liabilities) & US (£23m of liabilities) defined benefit pension schemes compared to MPAC's market capitalisation.
- Currency exposure and greater competition.
- MPAC is smaller than its rivals/clients (eg German and Italian) and could see margins squeezed.
- Slower than expected growth, higher costs and/or lower cash generation.
- Occasionally lumpy orders and cashflow over the period end.
- Long term trend towards clients outsourcing production to 'low cost' contract manufacturers.
- Continued industry consolidation could impact pricing and margins.
- Difficulties passing on cost inflation, such as salaries and raw materials.

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