

## Strategic progress drives valuation to 600p/share

30th March 2021

Being financially trained, I'm naturally a cautious man. However occasionally you have to 'smell the coffee' when the fundamentals change, perhaps forever. In fact if nothing else, the pandemic has taught 'value investors' (like myself) to rip up many historical norms, and peer instead through the 'looking glass'. Particularly relating to medicine, sustainable living and technology, which we believe have now all entered golden periods.

Why is this important? Well for a while I've been a little sceptical that even the world's best engineering companies could consistently expand the top line at 10%+ organically, whilst delivering 10%+ EBIT margins over the economic cycle. This rarely happens (see below), but due to astute foresight, attention to detail & almost flawless execution, we think Mpac has every chance of breaking the mould.

### Company Data

EPIC	AIM:MPAC
Price (last close)	550p
52 week Hi/Lo	600p/176p
Market cap	£111m
Net cash Dec'20	£14.6m
Share count (incl Treasury)	20,172k
ED valuation	600p/share

### Share Price, p



Source: Share Cast

### Description

Mpac is a specialist provider of **full line, high speed packaging & automation solutions**, employing c. 485 staff. Manufacturing factory equipment & robotics, along with undertaking turnkey projects involving the design & integration of such systems. 89% of revenues are generated outside of the UK.

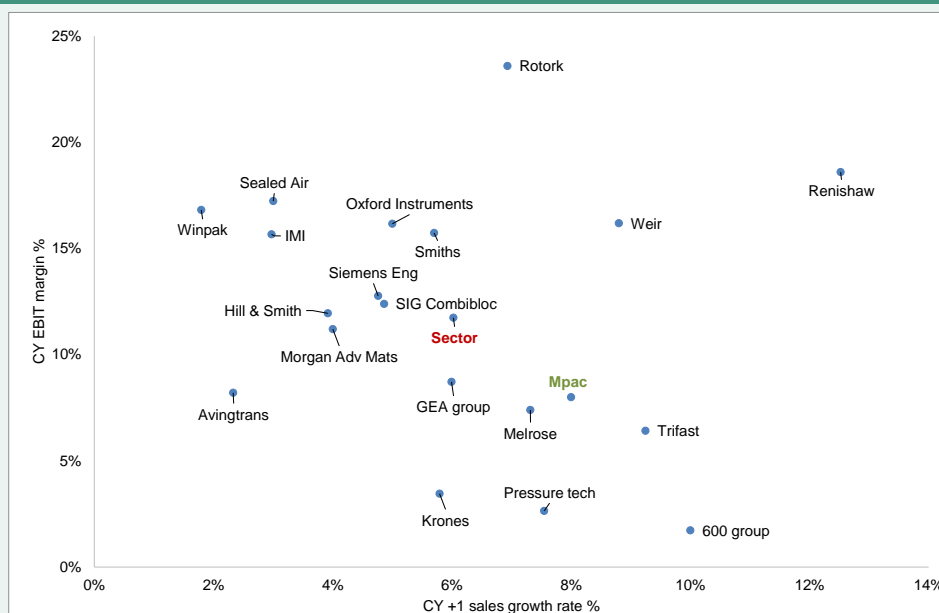
Core verticals are Healthcare, Pharmaceutical and Food/Beverage, supporting the likes of 3M, J&J, Nestlé, GSK, P&G, Philips Advent, ConvaTec, AstraZeneca, Unilever, Kellogg's, Diageo, Ferrero, Bausch + Lomb & CooperVision.

**Next news:** AGM May 2021.

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### Current year EBIT margins vs CY+1 sales growth rates vs peers



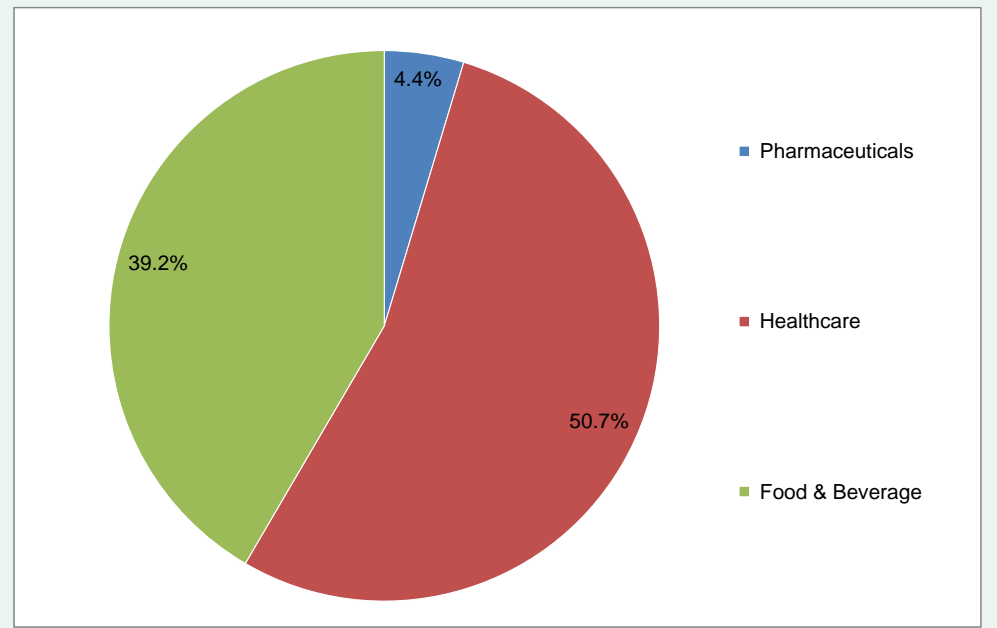
Source: Equity Development

Helped not only by its **100% exposure to the expanding healthcare, food/beverage and pharmaceuticals industries** (see overleaf). But also the **secular tailwinds** of Ecommerce, Industry 4.0, ageing populations, premiumisation, reshoring, biodegradable/recyclable materials and consumer convenience. Elsewhere there are other exciting prospects. Not least in craft beers (re post £10m Switchback acquisition in Sept'20), alongside designing state-of-the-art packaging equipment to manufacture Covid tests and/or vaccine vials, which could add further juice.

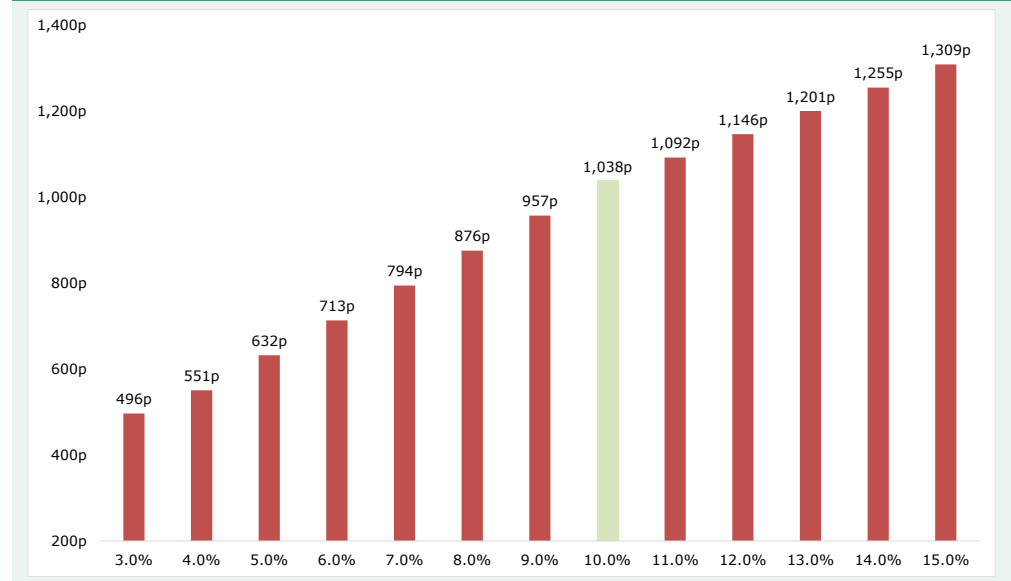
Altogether contributing towards a **highly supportive backdrop**, despite short term headwinds that Covid might pose to the global economy from new variants, lockdowns & such like.

## Shares still offer plenty of upside potential

Therefore irrespective of the recent price appreciation – we reckon **there's still plenty of gas in the tank**. Lifting our **valuation from 445p to 600p/share**, yet equally acknowledging that if Mpac can achieve its "10+10" target, then the stock would rightly deserve at least a market multiple. Driving it to possibly >£10 by 2023 (see overleaf).

**2020 sales (£83.7m) breakdown by market**


Source: Equity Development

**Possible Mpac shareprice by Dec'23 at a range of LFL growth rates**


Source: Equity Development hypothetical price estimates

**2021 has “started well” underpinned by a robust £55.5m backlog**

Plus when compared to many of its peers, Mpac actually experienced a relatively mild dose of coronavirus (see below), demonstrating its **downside resilience**. Today posting ‘in line’ **2020 results**, **net cash of £14.6m** (or 72p/share), a **£55.5m closing orderbook** (vs £52.2m LY) and an **encouraging start to 2021** (see below). Providing the Board with **ample funds to invest in new product development, organic growth &/or M&A**, if synergistic deals arise at attractive levels.

In particular, **H2'20 order intake was up 75% sequentially to £53.4m** vs H1 (£30.5m), thanks to the Switchback purchase, **pent up demand** and **substantial Q4 bookings** in North America & healthcare. Sure a handful of deferred orders remain on hold, albeit there have been no cancellations to date.

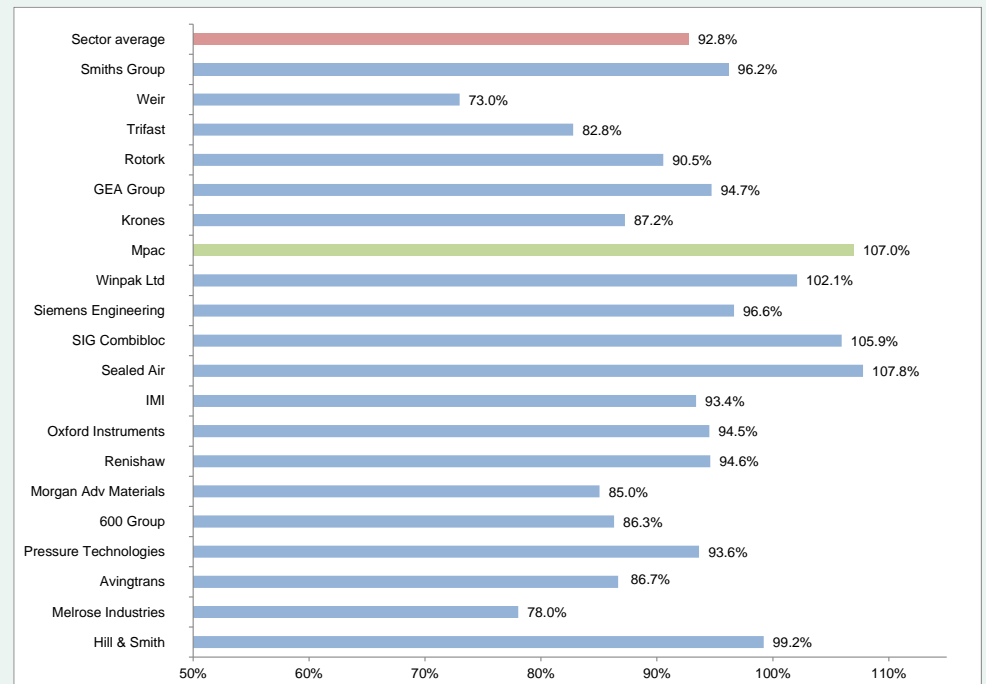
Rather several FMCG organisations are increasing capacity in North America in order to satisfy greater 'home worker' consumption of treats such as cappuccinos (eg coffee pods), freshly baked popcorn & luxury ice-cream.

### Robust 2020 performance despite the coronavirus

Summary Financials (£'000s)	FY18	H1'19	H2'19	Act FY19	H1'20	Act H2'20	Act FY20	Est FY21
<b>Closing orderbook (ED Est)</b>	<b>53,100</b>	<b>39,900</b>		<b>52,200</b>	<b>45,400</b>		<b>55,500</b>	<b>56,888</b>
Equipment	46,200	38,200	31,200	69,400	27,100	37,000	64,100	72,754
Service	12,100	7,600	11,800	19,400	9,700	9,900	19,600	22,246
<b>Revenues</b>	<b>58,300</b>	<b>45,800</b>	<b>43,000</b>	<b>88,800</b>	<b>36,800</b>	<b>46,900</b>	<b>83,700</b>	<b>95,000</b>
<i>Reported % growth rate</i>	9.2%	62.4%	42.9%	52.3%	-19.7%	9.1%	-5.7%	13.5%
<b>Gross Profit</b>	<b>14,000</b>	<b>13,100</b>	<b>12,900</b>	<b>26,000</b>	<b>11,300</b>	<b>13,025</b>	<b>24,300</b>	<b>29,730</b>
<i>% margin</i>	24.0%	28.6%	30.0%	29.3%	30.7%	27.8%	29.0%	31.3%
Operating expenses (excl D&A)	-11,800	-7,700	-8,500	-16,200	-8,000	-8,425	-16,400	-20,581
<b>Adjusted EBITDA (post SBPs)</b>	<b>2,200</b>	<b>5,400</b>	<b>4,400</b>	<b>9,800</b>	<b>3,300</b>	<b>4,600</b>	<b>7,900</b>	<b>9,149</b>
<i>% margin</i>	3.8%	11.8%	10.2%	11.0%	9.0%	9.8%	9.4%	9.6%
Depreciation	-600	-700	-1,200	-1,900	-600	-500	-1,100	-1,249
Amortisation of intangibles (non acqn)	-200	-100	-100	-200	-100	-200	-300	-300
<b>Adjusted EBIT (post SBPs)</b>	<b>1,400</b>	<b>4,600</b>	<b>3,100</b>	<b>7,700</b>	<b>2,600</b>	<b>3,900</b>	<b>6,500</b>	<b>7,600</b>
<i>% margin</i>	2.4%	10.0%	7.2%	8.7%	7.1%	8.3%	7.8%	8.0%
Net interest	0	-100	-100	-200	-100	-100	-200	-200
<b>Adjusted PBT</b>	<b>1,400</b>	<b>4,500</b>	<b>3,000</b>	<b>7,500</b>	<b>2,500</b>	<b>3,800</b>	<b>6,300</b>	<b>7,400</b>
Tax	-503	-300	687	387	-300	300	0	-1,036
<b>Adjusted earnings</b>	<b>897</b>	<b>4,200</b>	<b>3,687</b>	<b>7,887</b>	<b>2,200</b>	<b>4,100</b>	<b>6,300</b>	<b>6,364</b>
<b>Adjusted EPS (pence)</b>	<b>4.5p</b>	<b>21.0p</b>	<b>18.5p</b>	<b>39.5p</b>	<b>11.0p</b>	<b>20.5p</b>	<b>31.6p</b>	<b>31.6p</b>
<i>EPS growth %</i>	7.5%			777.7%	-47.6%	11.3%	-20.1%	-0.1%
<b>Dividend</b>	<b>0.0p</b>	<b>0.0p</b>	<b>1.5p</b>	<b>1.5p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>
<b>Net cash / (debt) - Ex IFRS16</b>	<b>27,000</b>	<b>9,600</b>	<b>18,000</b>	<b>18,000</b>	<b>22,500</b>	<b>14,600</b>	<b>14,600</b>	<b>12,729</b>
Net cash per share	134p	48p	89p	89p	112p	72p	72p	63p

Source: Equity Development.

### Current year sales as a % of pre Covid levels



Source: Equity Development

Similarly **2020 sales, underlying EBIT, PBT and EPS all came in 'on track'** at £83.7m (£88.8m), £6.5m (margin 7.8% vs 8.7% LY), £6.3m (£7.5m) and 31.6p (39.5p) respectively. Customer investment too returned to pre-pandemic levels by yearend. While the Board has sensibly decided to pass the final dividend in light of the considerable strategic opportunities that lie ahead both organically and via M&A.

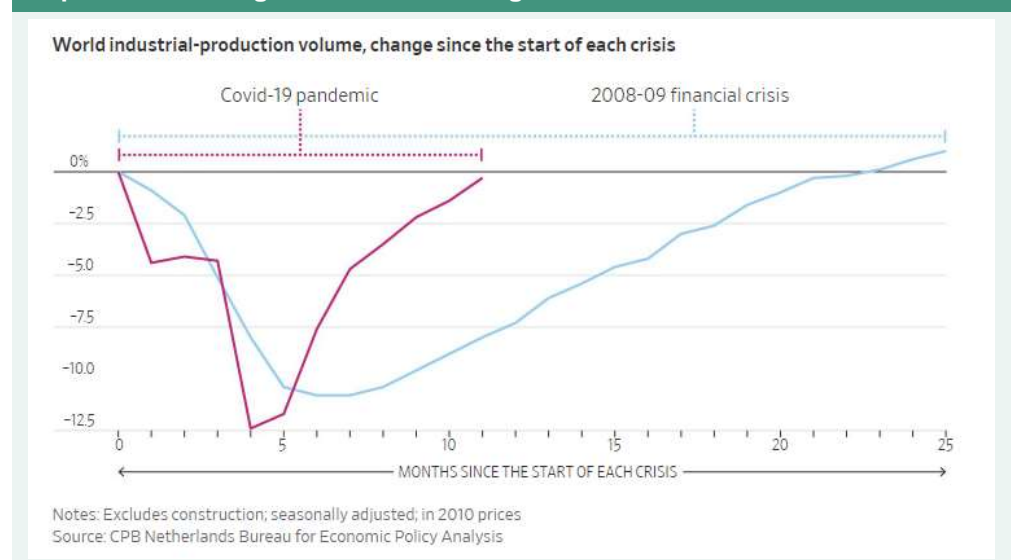
## £10m Switchback acquisition has bedded down well

Elsewhere, craft beer specialist **Switchback continues to trade ahead of expectations**, offering **significant scope for x-selling** - especially combining its case packing machines with Mpac's high-speed cartoning solutions. There are plans to **launch the brand in Europe** later this year, **together with bolstering its US service proposition** by leveraging the group's wider geographic footprint/capability.

## Estimated £70m+ of revenue cover already in the bag for 2021

Hence going forward, by blending the approx. **£22m/year of mostly 'repeat' service revenue** (eg spare parts) **with the £55.5m orderbook**, we estimate there is more than £70m of forward visibility this year. Thus underpinning our **adjusted 2021 EBIT forecast of £7.5m on £95m of turnover**.

### Rapid rebound in global manufacturing



Source: Internet

## Pandemic has accelerated Industry 4.0 adoption

Last but not least, it is worth mentioning that demand for digital support has increased significantly due to the pandemic. In response Mpac, with an **installed base of c. 10,000 machines**, is rapidly **enhancing its portfolio of Industry 4.0 solutions** – such as the remote & automatic control of client production processes, OEE monitoring (Overall Equipment Effectiveness), predictive maintenance, video instructions and connectivity via multiple devices through an enhanced Human Machine Interface.

## Strategic targets within touching distance

CEO Tony Steels concluding: "**Mpac is positioned to serve resilient end markets with long term growth potential leading to continuous customer demand**. Supported by our sizeable and increasingly diverse order book we remain well placed, serving Covid-19 resilient markets which have good underlying demand.

**2021 has started well across all regions** and after taking into consideration the challenge of predicting the impact of the pandemic the **Board believes that the Group's long-term prospects remain positive**.

*The Group aims to achieve annual double-digit % revenue growth over the medium-term, culminating in delivering an improved return on sales, targeted at 10%. We continue to evaluate potential complementary acquisition opportunities."*

## Key risks

- COVID-19 impacts last longer than expected. Plus in past recessions, capital equipment volumes are typically exposed to the cyclical nature of the global economy.
- The large size of the UK (£423.6m of liabilities as at December 2020) & US (£10.1m of liabilities) defined benefit pension schemes compared to Mpac's market capitalisation.
- Currency exposure, trade tariffs, raw material price increases (eg steel, aluminium) and 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.
- Industry suffers occasionally from lumpy orders, protracted customer purchasing decisions and irregular cashflows over the period end.
- Long term trend towards clients outsourcing production to 'low cost' contract manufacturers.
- Continued industry consolidation could impact pricing and margins.

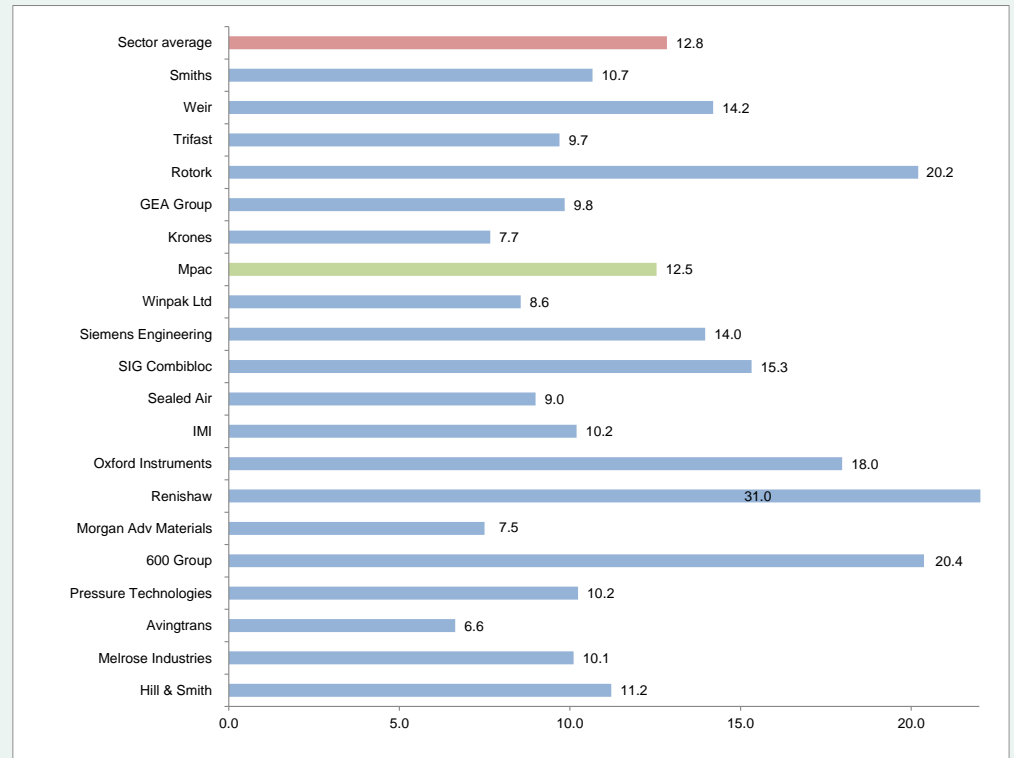
## Summary projections

Mpac Group plc - continuing (December year end)	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
<b>Closing orderbook</b>	<b>34,400</b>	<b>53,100</b>	<b>52,200</b>	<b>55,500</b>	<b>56,888</b>	<b>61,439</b>	<b>66,354</b>	<b>71,662</b>	<b>77,395</b>
<i>Growth</i>	34.9%	54.4%	-1.7%	6.3%	2.5%	8.0%	8.0%	8.0%	8.0%
Equipment	40,400	46,200	69,400	64,100	72,754	78,574	84,860	91,649	98,981
Service	13,000	12,100	19,400	19,600	22,246	24,026	25,948	28,024	30,266
<b>Turnover</b>	<b>53,400</b>	<b>58,300</b>	<b>88,800</b>	<b>83,700</b>	<b>95,000</b>	<b>102,600</b>	<b>110,808</b>	<b>119,673</b>	<b>129,246</b>
<i>Equipment</i>	40.3%	14.4%	50.2%	-7.6%	13.5%	8.0%	8.0%	8.0%	8.0%
<i>Service</i>	2.4%	-6.9%	60.3%	1.0%	13.5%	8.0%	8.0%	8.0%	8.0%
<b>Total % YoY growth</b>	<b>28.7%</b>	<b>9.2%</b>	<b>52.3%</b>	<b>-5.7%</b>	<b>13.5%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>
<b>Total gross margin</b>	<b>14,500</b>	<b>14,000</b>	<b>26,000</b>	<b>24,300</b>	<b>29,730</b>	<b>32,622</b>	<b>35,231</b>	<b>38,050</b>	<b>41,094</b>
<b>% gross margin</b>	<b>27.2%</b>	<b>24.0%</b>	<b>29.3%</b>	<b>29.0%</b>	<b>31.3%</b>	<b>31.8%</b>	<b>31.8%</b>	<b>31.8%</b>	<b>31.8%</b>
<b>EBITDA</b>	<b>2,200</b>	<b>2,200</b>	<b>9,800</b>	<b>7,900</b>	<b>9,149</b>	<b>11,078</b>	<b>12,682</b>	<b>14,451</b>	<b>16,398</b>
<i>% Margin</i>	4.1%	3.8%	11.0%	9.4%	9.6%	10.8%	11.4%	12.1%	12.7%
Distribution	-5,400	-5,000	-7,200	-6,800	-8,030	-8,415	-8,819	-9,243	-9,686
Administration	-7,300	-7,200	-10,300	-9,900	-12,500	-13,100	-13,729	-14,388	-15,078
Other	-500	-400	-800	-1,100	-1,600	-1,677	-1,757	-1,842	-1,930
<b>Adjusted EBIT</b>	<b>1,300</b>	<b>1,400</b>	<b>7,700</b>	<b>6,500</b>	<b>7,600</b>	<b>9,429</b>	<b>10,926</b>	<b>12,578</b>	<b>14,399</b>
<i>% Operating Margin</i>	2.4%	2.4%	8.7%	7.8%	8.0%	9.2%	9.9%	10.5%	11.1%
Underlying interest charge	-170	0	-200	-200	-200	-200	-200	-200	-200
<b>Adjusted Profit before Tax</b>	<b>1,130</b>	<b>1,400</b>	<b>7,500</b>	<b>6,300</b>	<b>7,400</b>	<b>9,229</b>	<b>10,726</b>	<b>12,378</b>	<b>14,199</b>
<b>Adjusted EPS (p)</b>	<b>4.2p</b>	<b>4.5p</b>	<b>39.5p</b>	<b>31.6p</b>	<b>31.6p</b>	<b>39.3p</b>	<b>44.7p</b>	<b>49.1p</b>	<b>56.3p</b>
<i>EPS growth rate</i>		7.5%	777.7%	-20.1%		24.7%	13.7%	9.9%	14.7%
<b>Dividend (p)</b>	<b>0.0p</b>	<b>0.0p</b>	<b>1.5p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>
<i>Yield</i>	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reported sharecount (Ks - incl Treasury)	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172
<b>Valuation benchmarks</b>									
<i>P/E ratio</i>	131.4	122.2	13.9	17.4	17.4	14.0	12.3	11.2	9.8
<i>PER (adjusted for pension recovery payments)</i>				39.3	39.1	28.8	24.1	21.4	10.7
<i>EV/Sales (pension adjusted)</i>	2.15	1.97	1.29	1.37	1.21	1.12	1.04	0.96	0.89
<i>EV/EBITDA (pension adjusted)</i>	52.1	52.1	11.7	14.5	12.5	10.4	9.0	7.9	7.0
<i>EV/EBIT (pension adjusted)</i>	88.2	81.9	14.9	17.6	15.1	12.2	10.5	9.1	8.0
<i>PEG ratio</i>					-274.04	0.57	0.91	1.13	0.66
<i>Corporate tax rate</i>	-26.5%	-35.9%	5.2%	0.0%	-14.0%	-14.0%	-16.0%	-20.0%	-20.0%
<i>EBITDA drop through rate</i>		0.0%	24.9%	37.3%	11.1%	25.4%	19.5%	19.9%	20.3%
<i>Return on equity (%)</i>	1.9%	2.2%	16.6%	14.2%	12.5%	13.5%	13.3%	12.8%	12.8%
<b>Net cash/(debt)</b>	<b>29,400</b>	<b>27,000</b>	<b>18,000</b>	<b>14,600</b>	<b>12,729</b>	<b>13,504</b>	<b>15,381</b>	<b>17,367</b>	<b>24,864</b>
<b>Information only - Estimated non-underlying Pension charges</b>									
UK pension recovery payments		-1,900	-1,940	-1,981	-2,022	-2,065	-2,108	-2,152	0
Topup UK pension payments above £5.5m EBIT		0	-726	-800	-693	-1,297	-1,791	-2,336	0
UK pension admin costs		-900	-1,200	-1,224	-1,248	-1,273	-1,299	-1,325	-1,351
UK tax shield		532	735	761	753	881	1,143	1,453	338
US pension recovery payments (net tax shield)		-790	-790	-300	-315	-331	-347	-365	0
Deferred consideration (Lambert & Switchback)					-3,241	-741			
<b>Cashflow effect</b>		<b>-3,058</b>	<b>-3,921</b>	<b>-3,544</b>	<b>-6,766</b>	<b>-4,826</b>	<b>-4,401</b>	<b>-4,724</b>	<b>-1,014</b>
<b>Net cash per share</b>	<b>146</b>	<b>134</b>	<b>89</b>	<b>72</b>	<b>63</b>	<b>67</b>	<b>76</b>	<b>86</b>	<b>123</b>
Net assets / diluted share (p)	212	201	235	220	252	291	336	385	441
<b>Shareprice (p)</b>	<b>550p</b>								

Source: Equity Development

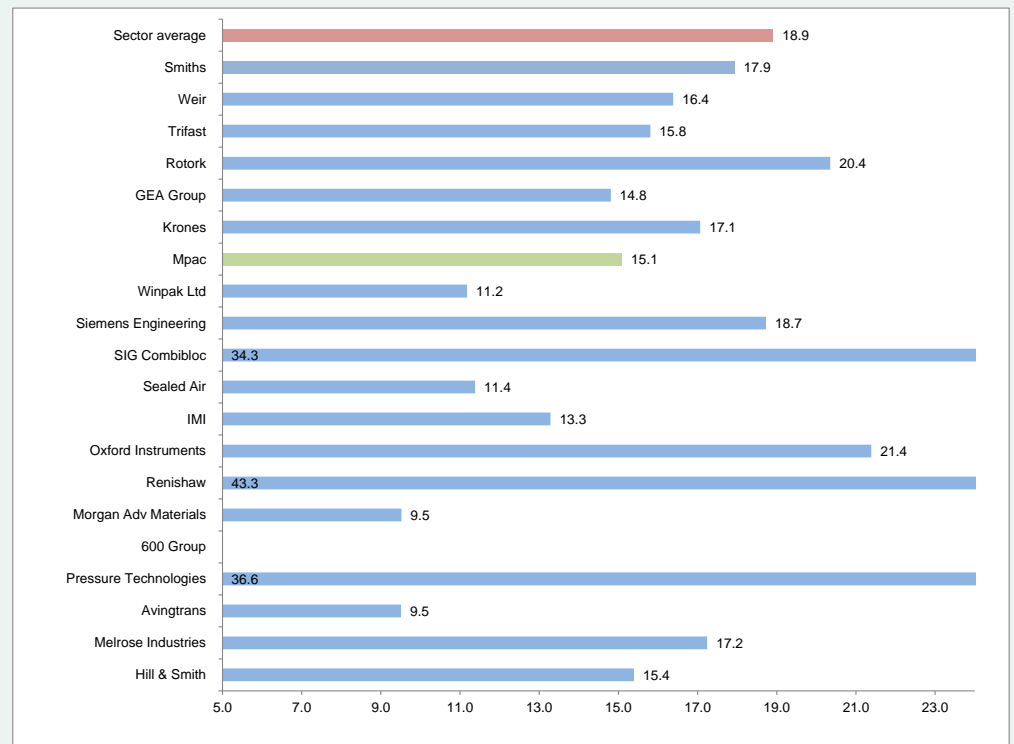
## Appendices - sector valuation metrics and KPIs

### Current Year (CY) EV / EBITDA vs peers



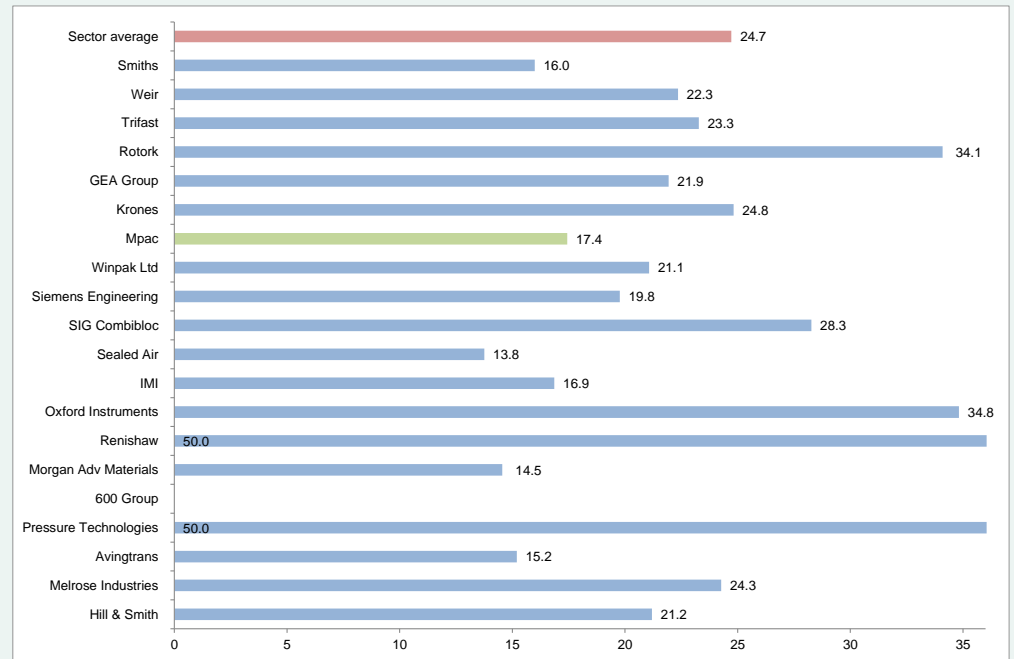
Source: Equity Development (Mpac pension adjusted)

### Current Year (CY) EV / EBIT vs peers



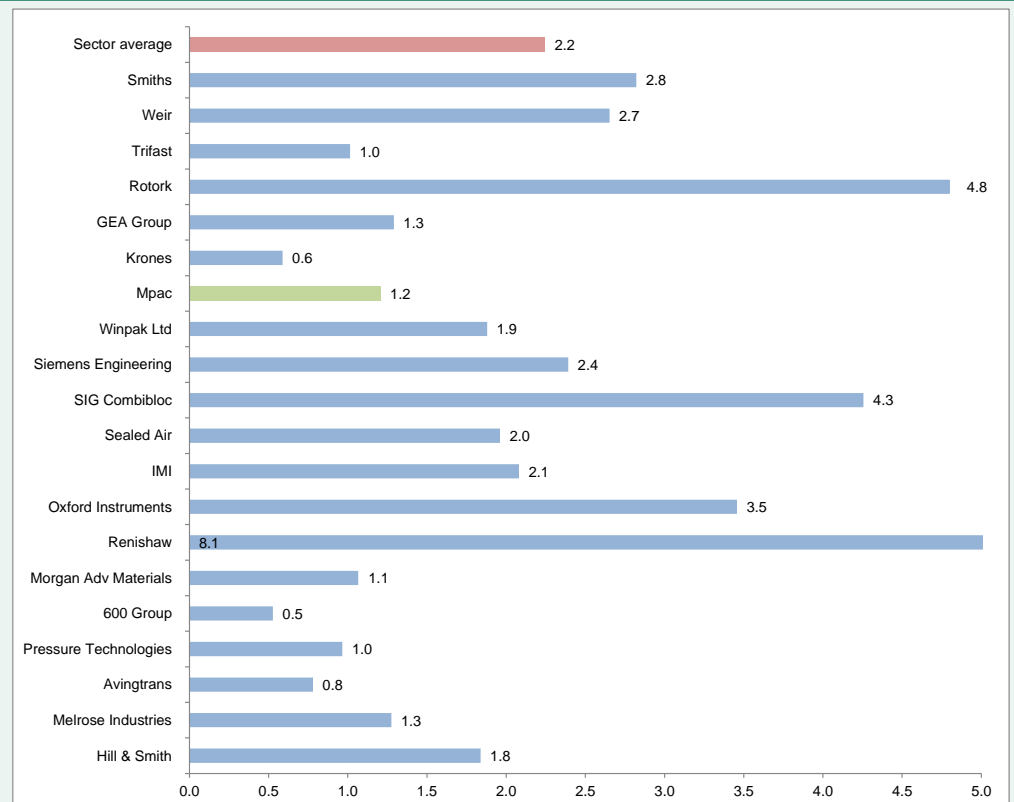
Source: Equity Development (Mpac pension adjusted)

### CY PERs vs peers



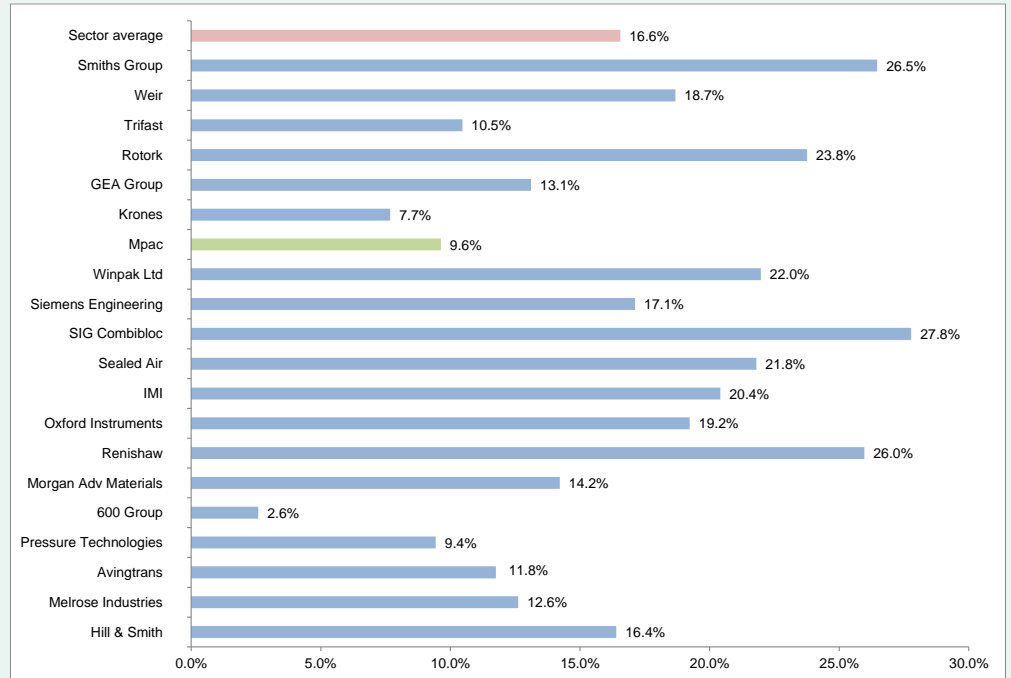
Source: Equity Development

### CY EV/sales vs peers

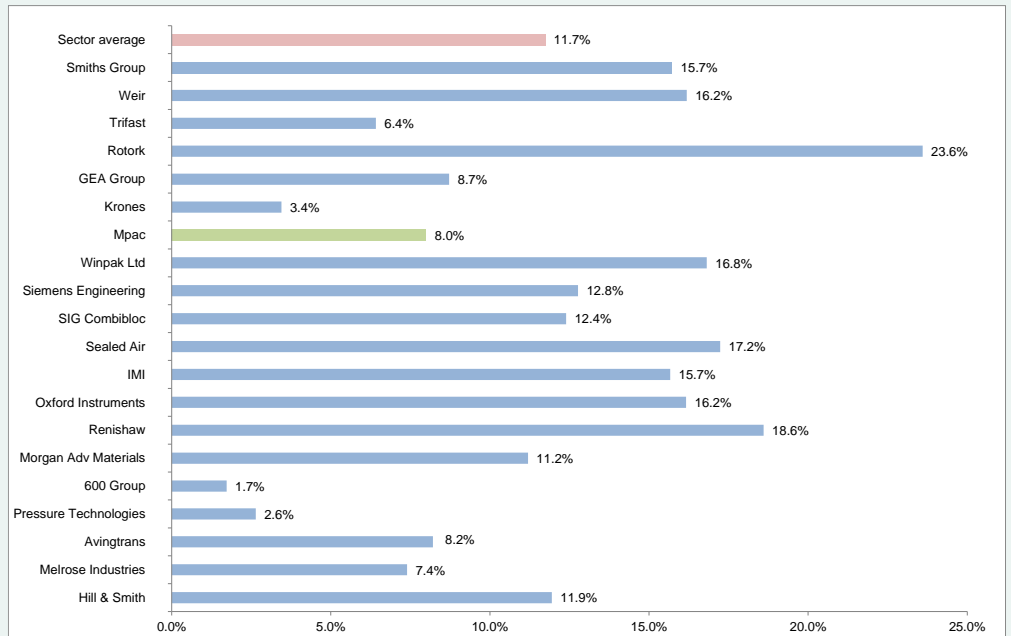


Source: Equity Development (Mpac pension adjusted)



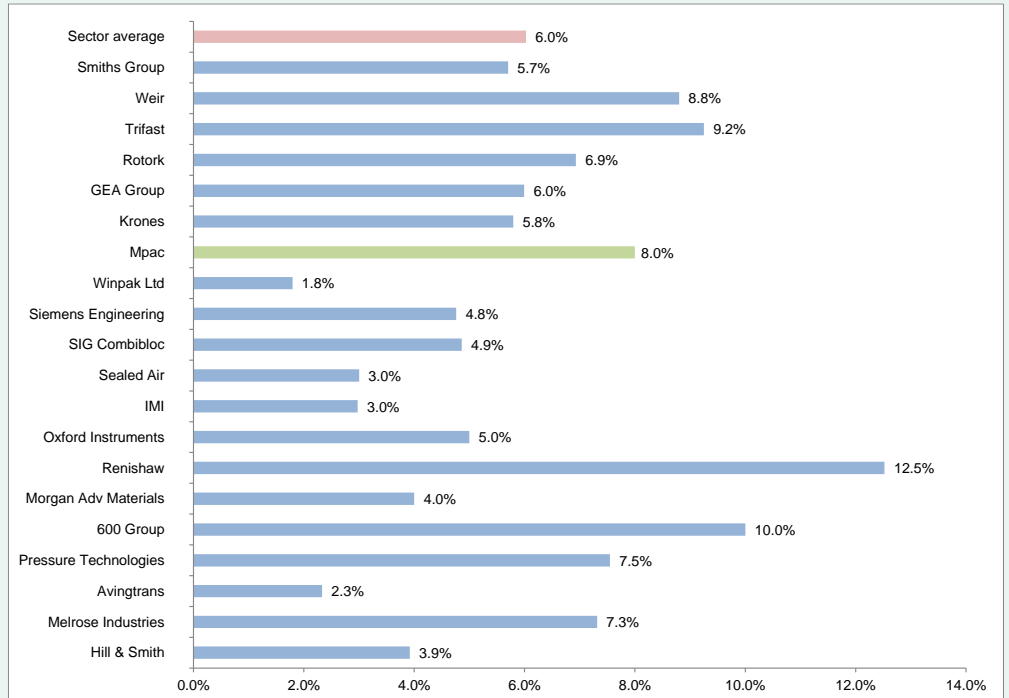
**CY EBITDA margins (%) vs peers**


Source: Equity Development

**CY % EBIT margins vs peers**


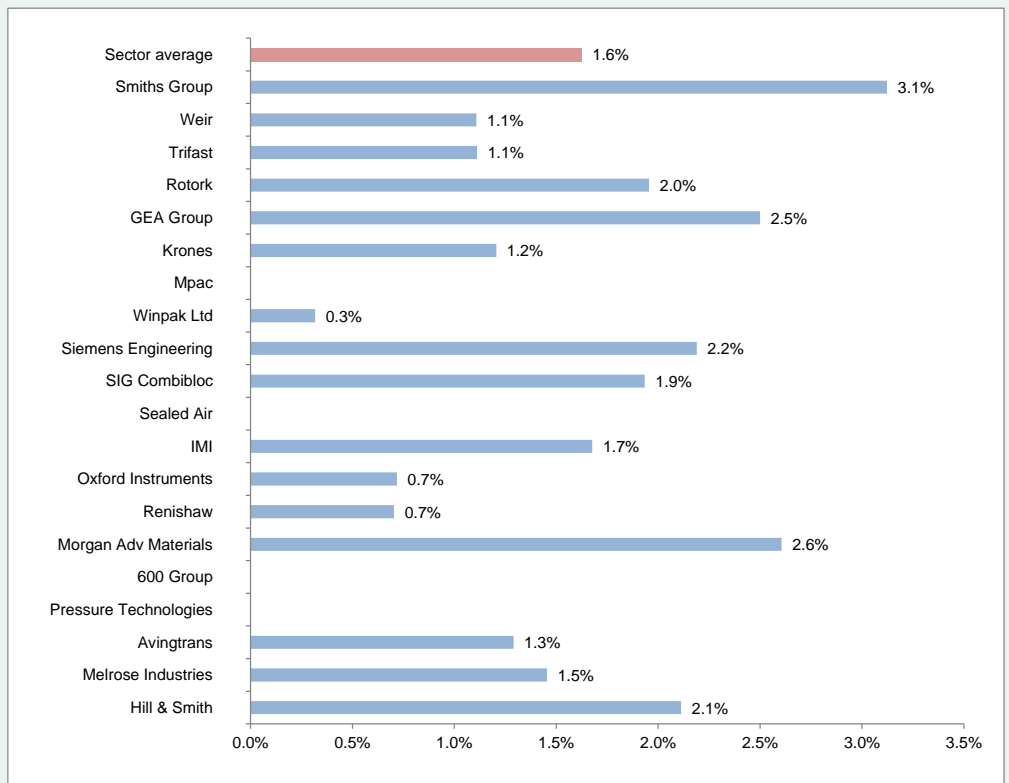
Source: Equity Development

### CY + 1 sales growth

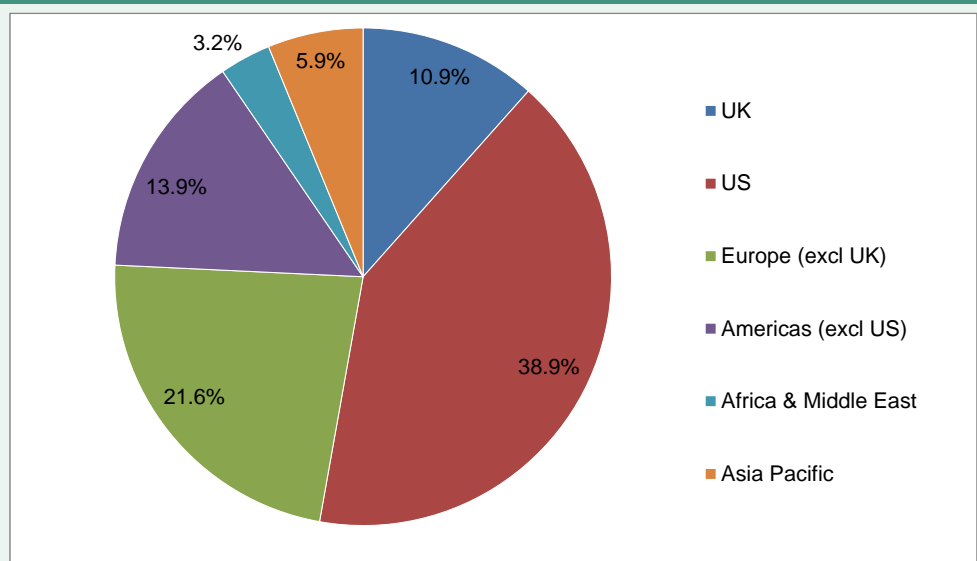


Source: Equity Development

### CY dividend yield (%)



Source: Equity Development

**2020 sales (£83.7) breakdown by geography**


Source: Equity Development

**Market capitalisation of peers**

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Hill & Smith	1,420p	£1,128.9	-£138.0	£1,266.9
Melrose Industries	165p	£8,016	-£2,899	£10,915
Avingtrans	310p	£99.0	£22.0	£77.0
Pressure Technologies	90p	£28.0	£2.4	£25.6
600 Group	12p	£13.9	-£16.7	£30.6
Morgan Adv Materials	307p	£875.0	-£77.0	£952.0
Renishaw	6,250p	£4,550	£176	£4,374
Oxford Instruments	1,950p	£1,119	£82	£1,037
IMI	1,300p	£3,536	-£104	£3,640
Sealed Air	\$46.50	\$7,208	-\$2,920	\$10,128
SIG Combibloc	€ 21.20	€ 6,784	-€ 1,183	€ 7,967
Siemens Engineering	€ 137.00	€ 109,600	-€ 25,585	€ 135,185
Winpak Ltd	\$34.77	\$2,260	\$583	\$1,677
Mpac	550p	£110.9	£14.6	£96.3
Krones	€ 68.00	€ 2,149	€ 118	€ 2,031
GEA Group	€ 34.00	€ 6,137	€ 170	€ 5,967
Rotork	358p	£3,118	£208	£2,910
Trifast	135p	£178.9	£3.4	£175.5
Weir	1,750p	£4,568	-£586	£5,154
Smiths Group	1,505p	£6,005	-£776	£6,781

Source: Equity Development

**Mpac's core addressable markets**

Sector	Solutions	Market value	CAGR	Drivers
<b>Pharmaceutical</b> 	<ul style="list-style-type: none"> <li>&gt; Dry powder inhaler</li> <li>&gt; Point of use drug delivery</li> <li>&gt; Device assembly</li> </ul>	<b>\$4bn*</b>	5%	<b>Drivers</b> Premiumisation Recycling Increasing income Health Convenience Urbanization
<b>Healthcare</b> 	<ul style="list-style-type: none"> <li>&gt; Ostomy</li> <li>&gt; Contact lens</li> <li>&gt; Personal care</li> <li>&gt; Other</li> </ul>	<b>\$6.7bn*</b>	4%	
<b>Food and beverage</b> 	<ul style="list-style-type: none"> <li>&gt; Bakery</li> <li>&gt; Chilled and frozen foods</li> <li>&gt; Spirits</li> <li>&gt; Craft beer</li> </ul>	<b>\$30.1bn*</b>	4%	

\*94902 - Jan 2021

**Leadership in higher margin segments in long-term growth markets**

Source: Company



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