

Entering 2021 in excellent shape

Like many awful dreams, the Covid19 nightmare hasn't quite finished, recently mutating into an ultra-contagious super-bug. The risk being global transmission and infection rates spiral out of control, swamping healthcare systems again.

However this time there is an answer. Hunker down for a few months, and inoculate as many vulnerable people as possible to reduce fatalities/hospitalisations. Plus, the Oxford/AstraZeneca vaccine is relatively simple to distribute (re 2°C to 8°C). Making rapid nationwide rollouts feasible, alongside ultimately bringing the curtain down on this dreadful virus.

New Year, New Variant but the outcome should be different

So what should investors do? Well trying to trade around the newsflow is almost impossible. Instead we prefer to stick with quality, battle-hardened names, underpinned by strong orderbooks & fortress balance sheets, such as Mpac.

In fact, this high speed packaging & automation solutions provider has already **navigated the pandemic in fine fettle**. Saying today that **2020 adjusted profits would be ahead of expectations**, thanks to top line resilience, cost savings and favourable product mix (re healthcare).

Consequently we've increased our EBIT estimate by 7% from £5.8m to £6.2m (7.5% margin) on revenues of £82.25m (£88.8m LY). Climbing to £7.6m (+22%) and £95m (15%) respectively in 2021 (see overleaf), assuming life starts to return to normal in H2.

Importantly too, the **group is well placed to benefit from permanent shifts in socio-economic behaviour** (eg work-from-anywhere), **Industry 4.0** and trades (at 420p) on modest EV/EBITDA, EV/EBIT & PE multiples of 9.2x, 11.9x & 13.4x (see below).

Company Data	
EPIC	AIM:MPAC
Price (last close)	420p
52 week Hi/Lo	455p/162p
Market cap	£84.7m
ED est net cash Dec'20	£14.5m
Share count (incl Treasury)	20.172m
ED valuation	445p/share



Source: Share Cast

Description

Mpac is a specialist provider of **full line, high speed packaging & automation solutions**, employing c. 510 staff. Manufacturing factory equipment & robotics, along with undertaking turnkey projects involving the design & integration of such systems. >80% of revenues are generated outside of the UK.

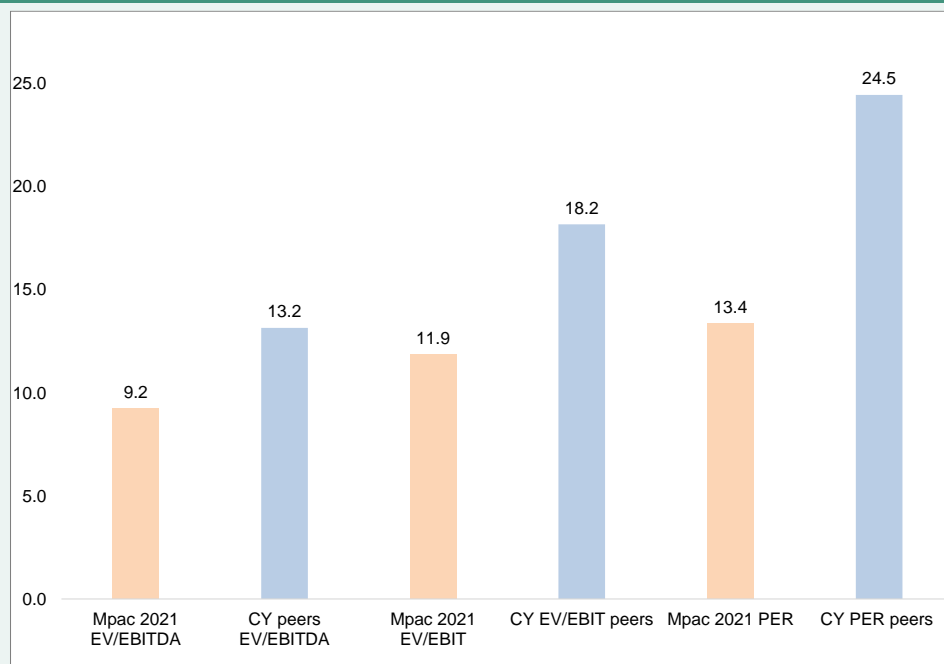
Core verticals are Healthcare, Pharmaceutical and Food/Beverage, supporting the likes of 3M, J&J, Nestlé, GSK, P&G, Philips Advent, ConvaTec, AstraZeneca, Unilever, Kellogg's, Diageo, Ferrero, Bausch + Lomb & CooperVision.

Next news: Prelims early March 2020.

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Summary valuation metrics vs specialist engineering peers



Source: Equity Development (Mpac EBIT & EBITDA multiples have been pension adjusted)

Strong 2020 close, with a £55.5m backlog & Est £14.5m cash pile

What's more, our conservative numbers are supported by a robust closing **£55.5m orderbook** (£55.4m LY) - reflecting positive Q4 bookings in North America & healthcare, in spite of a handful of orders shifting to the right (albeit no cancellations). Alongside an estimated (ED) **£14.5m net cash pile** (worth 72p/share vs £10m in Sept'20), boosted by tight working capital control & lower debtor days. Providing the Board with ample funds to invest in new products, organic growth &/or strategic M&A, if opportunities arise at attractive prices.

Resilient 2020 results despite the coronavirus

Summary Financials (£'000s)	FY18	H1'19	H2'19	Act FY19	H1'20	Est H2'20	Est FY20	Est FY21
Closing orderbook (ED Est)	53,100	39,900		52,200	45,400		55,500	56,888
Equipment	46,200	38,200	31,200	69,400	27,100	31,150	58,250	61,500
Service	12,100	7,600	11,800	19,400	9,700	10,300	20,000	20,500
Switchback						4,000	4,000	13,000
Revenues	58,300	45,800	43,000	88,800	36,800	45,450	82,250	95,000
<i>Reported % growth rate</i>	<i>9.2%</i>	<i>62.4%</i>	<i>42.9%</i>	<i>52.3%</i>	<i>-19.7%</i>	<i>5.7%</i>	<i>-7.4%</i>	<i>15.5%</i>
Equipment	9,300	10,400	7,800	18,200	6,911	8,235	15,145	16,605
Service	4,700	2,700	5,100	7,800	4,365	4,435	8,800	9,225
Switchback						1,200	1,200	3,900
Gross Profit	14,000	13,100	12,900	26,000	11,300	13,870	25,145	29,730
<i>% margin</i>	<i>24.0%</i>	<i>28.6%</i>	<i>30.0%</i>	<i>29.3%</i>	<i>30.7%</i>	<i>30.5%</i>	<i>30.6%</i>	<i>31.3%</i>
Operating expenses (excl D&A)	-11,800	-7,700	-8,500	-16,200	-8,000	-9,069	-17,045	-19,991
Adjusted EBITDA (post SBPs)	2,200	5,400	4,400	9,800	3,300	4,800	8,100	9,739
<i>% margin</i>	<i>3.8%</i>	<i>11.8%</i>	<i>10.2%</i>	<i>11.0%</i>	<i>9.0%</i>	<i>10.6%</i>	<i>9.8%</i>	<i>10.3%</i>
Depreciation	-600	-700	-1,200	-1,900	-600	-1,100	-1,700	-1,964
Amortisation of intangibles (non acqn)	-200	-100	-100	-200	-100	-100	-200	-200
Adjusted EBIT (post SBPs)	1,400	4,600	3,100	7,700	2,600	3,600	6,200	7,575
<i>% margin</i>	<i>2.4%</i>	<i>10.0%</i>	<i>7.2%</i>	<i>8.7%</i>	<i>7.1%</i>	<i>7.9%</i>	<i>7.5%</i>	<i>8.0%</i>
Net interest	0	-100	-100	-200	-100	-100	-200	-200
Adjusted PBT	1,400	4,500	3,000	7,500	2,500	3,500	6,000	7,375
Tax	-503	-300	687	387	-300	-540	-840	-1,033
Adjusted earnings	897	4,200	3,687	7,887	2,200	2,960	5,160	6,343
Adjusted EPS (pence)	4.5p	21.0p	18.5p	39.5p	11.0p	14.8p	25.7p	31.4p
<i>EPS growth %</i>	<i>7.5%</i>			<i>777.7%</i>	<i>-47.6%</i>	<i>-20.1%</i>	<i>-34.9%</i>	<i>22.3%</i>
Dividend	0.0p	0.0p	1.5p	1.5p	0.0p	0.0p	0.0p	0.0p
Net cash / (debt) - Ex IFRS16	27,000	9,600	18,000	18,000	22,500	14,500	14,500	12,952
Net cash per share	134p	48p	89p	89p	112p	72p	72p	64p

Source: Equity Development.

Smooth integration of \$13m Switchback acquisition

Elsewhere, the integration of its earnings enhancing \$13m acquisition of Switchback in September, has proved a major success. Already generating synergies by combining its case packing machines with Mpac's high-speed cartoning solutions.

Additionally, management plans to launch Switchback in Europe later this year, together with bolstering its US service proposition by leveraging the group's enlarged worldwide footprint/capability.

Reinstatement of the dividend is not out of the question either, and will be reviewed at the prelims in March.

Work from home, Industry 4.0 & reshoring to drive L/T demand

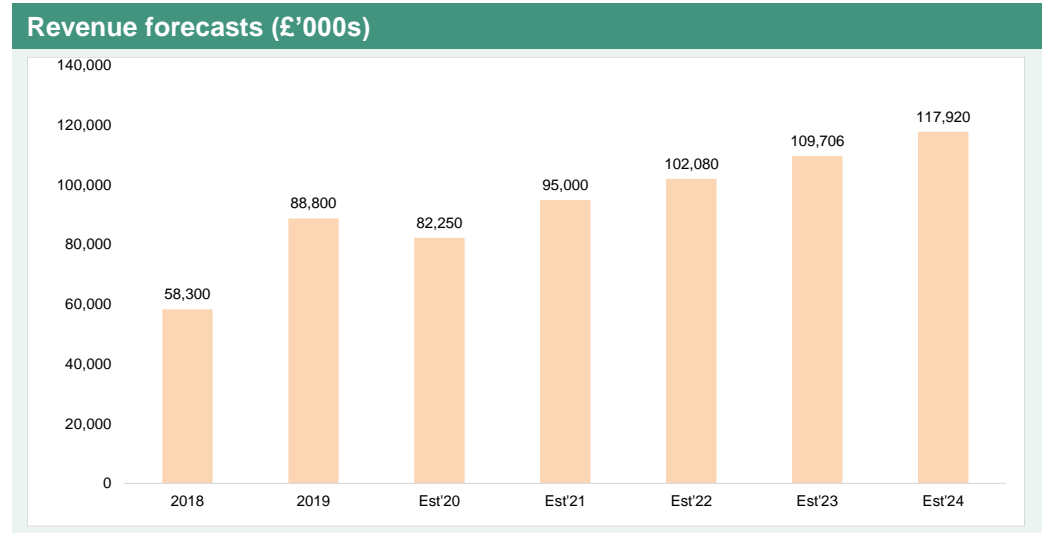
Yet that's not all. Going forward, in addition to pent up demand (re delayed projects), several FMCG brands are now planning to expand manufacturing capacity particularly in America. In order to satisfy greater home worker consumption of treats such as cappuccinos (eg coffee pods), freshly baked popcorn & luxury ice-cream. Here employees will be loath to abandon these sunk costs, with new habits equally difficult to reverse.

Similarly, Mpac's medical grade packing/cartoning expertise is ideally suited for boxing Covid19 test kits and vaccine vials/ampoules. Although this opportunity was not mentioned specifically in the RNS, we

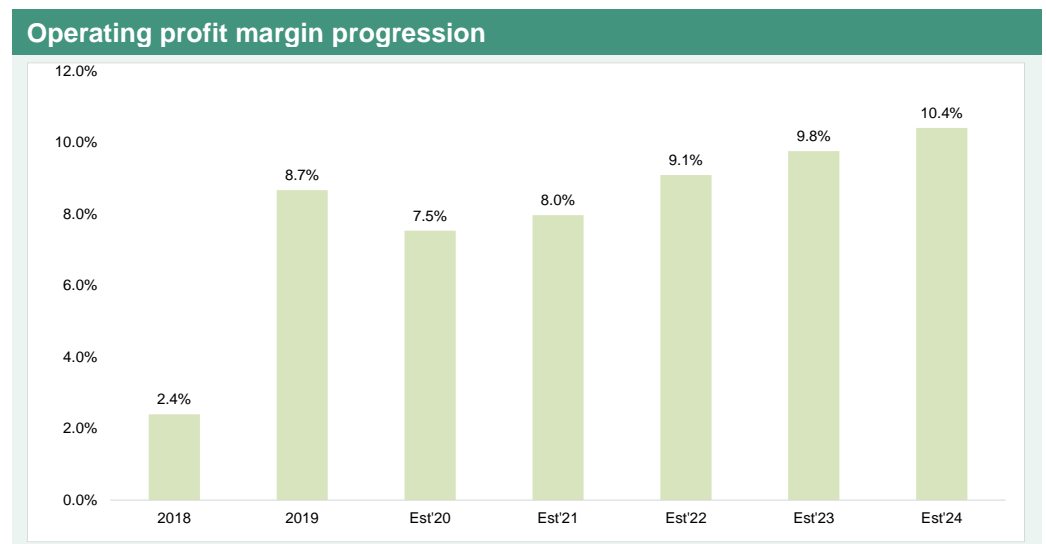
reckon it could offer **substantial potential upside** – and is not priced into our **upgraded 445p/share valuation** (vs 380p before).

Encouraging 2021 outlook

CEO Tony Steels concluding: *“Our customers remain active, and we continue to win OEM & service orders with robust demand, particularly in Healthcare and the Americas. Our pipeline and closing order book give confidence for 2021.”*



Source: Equity Development.



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Key risks

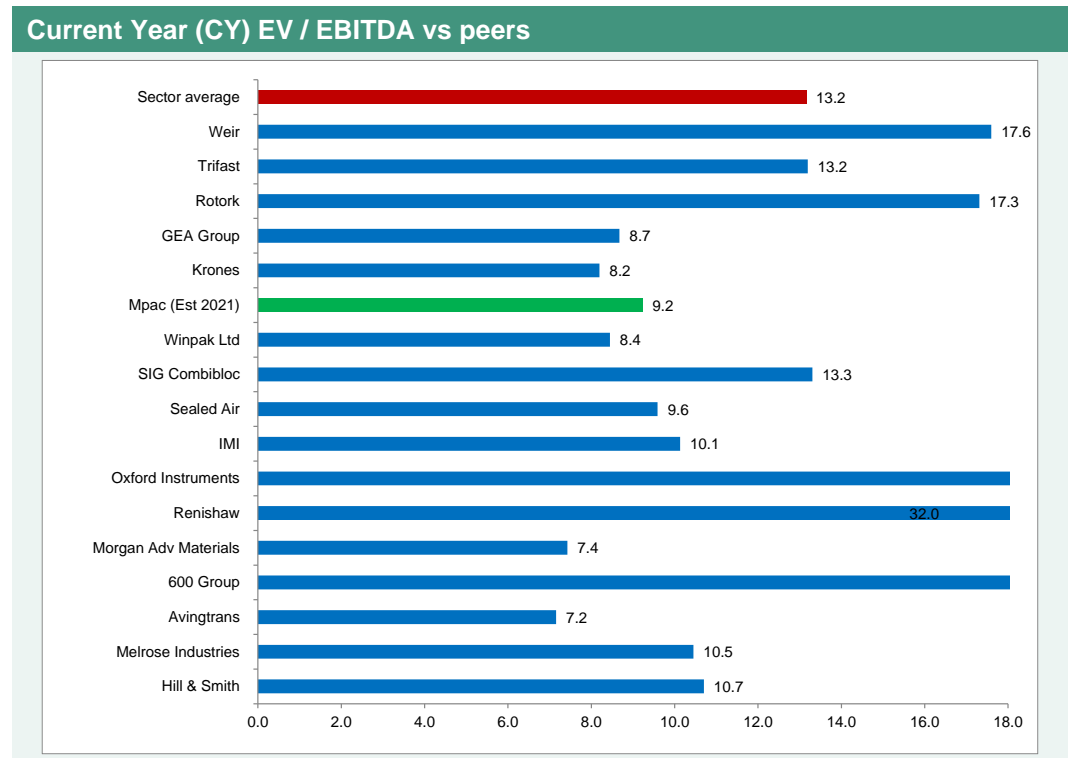
- COVID-19 impacts last longer than expected. Plus in past recessions, capital equipment volumes are typically exposed to the cyclical nature of the global economy.
- The large size of the UK (£403.2m of liabilities as at December 2019) & US (£13.5m of liabilities) defined benefit pension schemes compared 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.

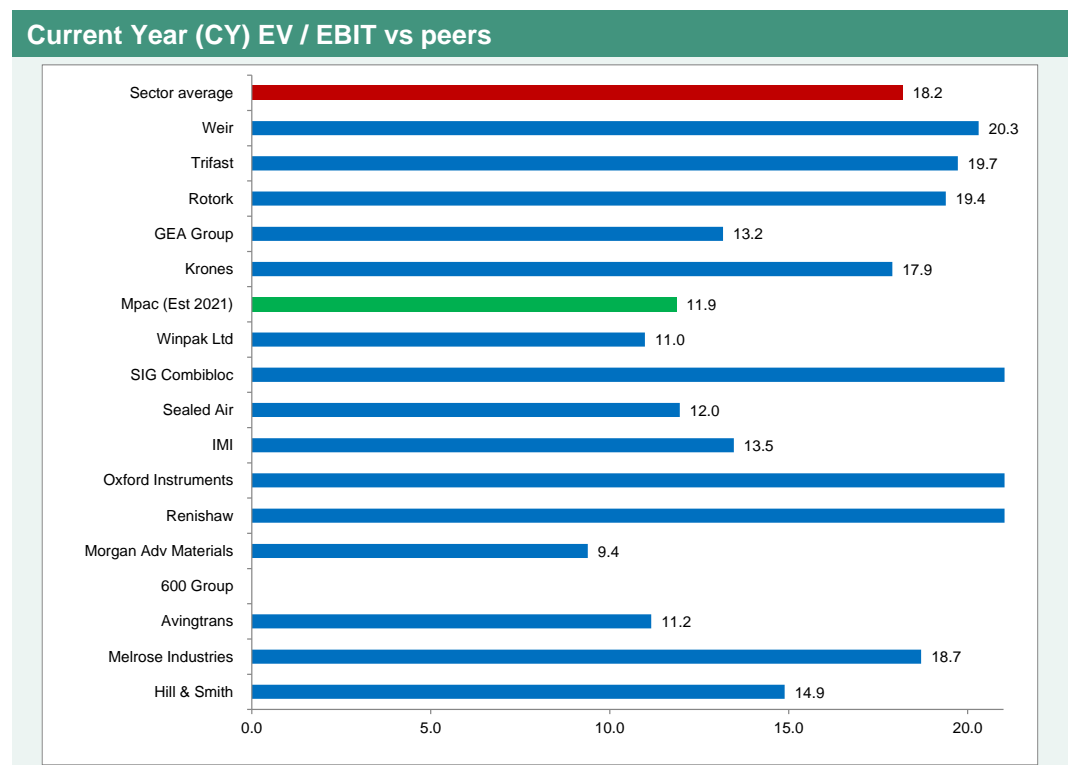
Summary projections (£'000s)					
Mpac Group plc - continuing (December year end)	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s
Closing orderbook	34,400	53,100	52,200	55,500	56,888
<i>Growth</i>	34.9%	54.4%	-1.7%	6.3%	2.5%
Equipment	40,400	46,200	69,400	58,250	61,500
Service	13,000	12,100	19,400	20,000	20,500
Switchback				4,000	13,000
Turnover	53,400	58,300	88,800	82,250	95,000
<i>Equipment</i>	40.3%	14.4%	50.2%	-16.1%	5.6%
<i>Service</i>	2.4%	-6.9%	60.3%	3.1%	2.5%
Total % YoY growth	28.7%	9.2%	52.3%	-7.4%	15.5%
Equipment	9,200	9,300	18,200	15,145	16,605
Service	5,300	4,700	7,800	8,800	9,225
Switchback				1,200	3,900
Total gross margin	14,500	14,000	26,000	25,145	29,730
<i>Equipment</i>	22.8%	20.1%	26.2%	26.0%	27.0%
<i>Service</i>	40.8%	38.8%	40.2%	44.0%	45.0%
% gross margin	27.2%	24.0%	29.3%	30.6%	31.3%
EBITDA	2,200	2,200	9,800	8,100	9,739
<i>% Margin</i>	4.1%	3.8%	11.0%	9.8%	10.3%
Distribution	-5,400	-5,000	-7,200	-6,763	-7,602
Administration	-7,300	-7,200	-10,300	-10,829	-11,757
Switchback				-600	-1,950
Other	-500	-400	-800	-753	-846
Adjusted EBIT	1,300	1,400	7,700	6,200	7,575
<i>% Operating Margin</i>	2.4%	2.4%	8.7%	7.5%	8.0%
Underlying interest charge	-170	0	-200	-200	-200
Adjusted Profit before Tax	1,130	1,400	7,500	6,000	7,375
Adjusted EPS (p)	4.2p	4.5p	39.5p	25.7p	31.4p
<i>EPS growth rate</i>		7.5%	777.7%	-34.9%	22.3%
Dividend (p)	0.0p	0.0p	1.5p	0.0p	0.0p
<i>Yield</i>	0.0%	0.0%	0.4%	0.0%	0.0%
Reported sharecount (Ks - incl Treasury)	20,172	20,172	20,172	20,172	20,172
<u>Valuation benchmarks</u>					
<i>P/E ratio</i>	100.3	93.3	10.6	16.3	13.4
<i>PER (adjusted for pension recovery payments)</i>				44.8	-132.0
<i>EV/Sales (pension adjusted)</i>	1.68	1.54	1.01	1.09	0.95
<i>EV/EBITDA (pension adjusted)</i>	40.8	40.8	9.2	11.1	9.2
<i>EV/EBIT (pension adjusted)</i>	69.1	64.2	11.7	14.5	11.9
<i>PEG ratio</i>					0.60
<i>Corporate tax rate</i>	-26.5%	-35.9%	5.2%	-14.0%	-14.0%
<i>EBITDA drop through rate</i>		0.0%	24.9%	26.0%	12.9%
<i>Return on equity (%)</i>	1.9%	2.2%	16.6%	9.8%	10.7%
Net cash/(debt)	29,400	27,000	18,000	14,500	12,952
Information only - Estimated non-underlying Pension charges					
UK pension recovery payments		-1,900	-1,940	-1,981	-2,022
Topup UK pension payments above £5.5m EBIT		0	-726	-231	-685
UK pension admin costs		-900	-1,200	-1,224	-1,248
UK tax shield		532	735	653	752
US pension recovery payments (net tax shield)		-790	-790	-514	-540
Deferred consideration (Lambert & Switchback)					-3,241
Cashflow effect		-3,058	-3,921	-3,297	-6,985
Net cash per share	146	134	89	72	64
Net assets / diluted share (p)	212	201	235	261	293
Shareprice (p)	420p				

Source: Equity Development

Appendices - sector valuation metrics and KPIs

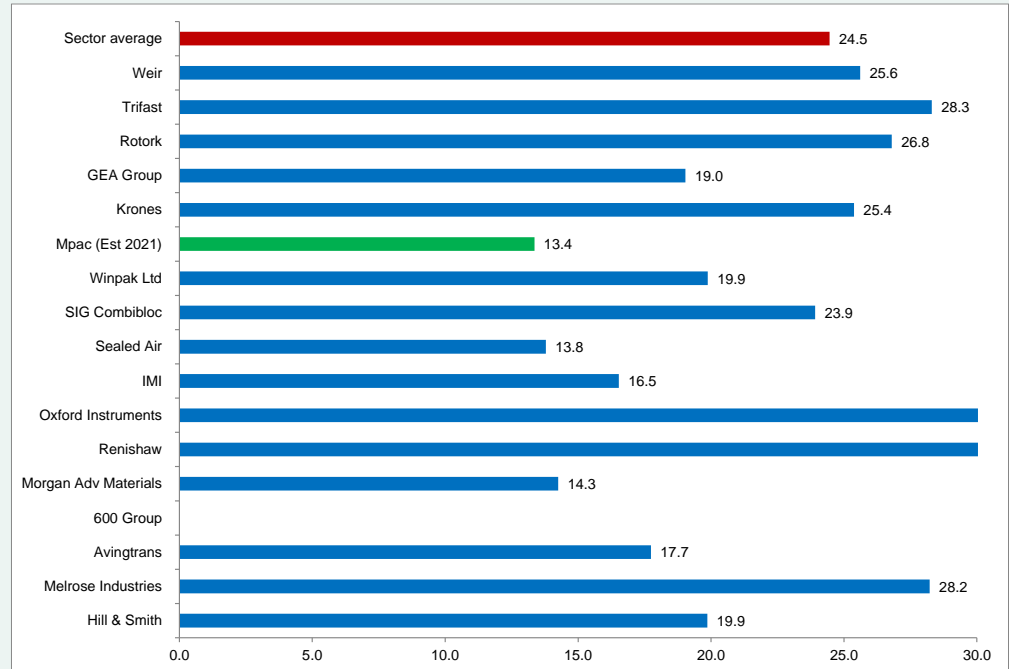


Source: Equity Development (Mpac pension adjusted)



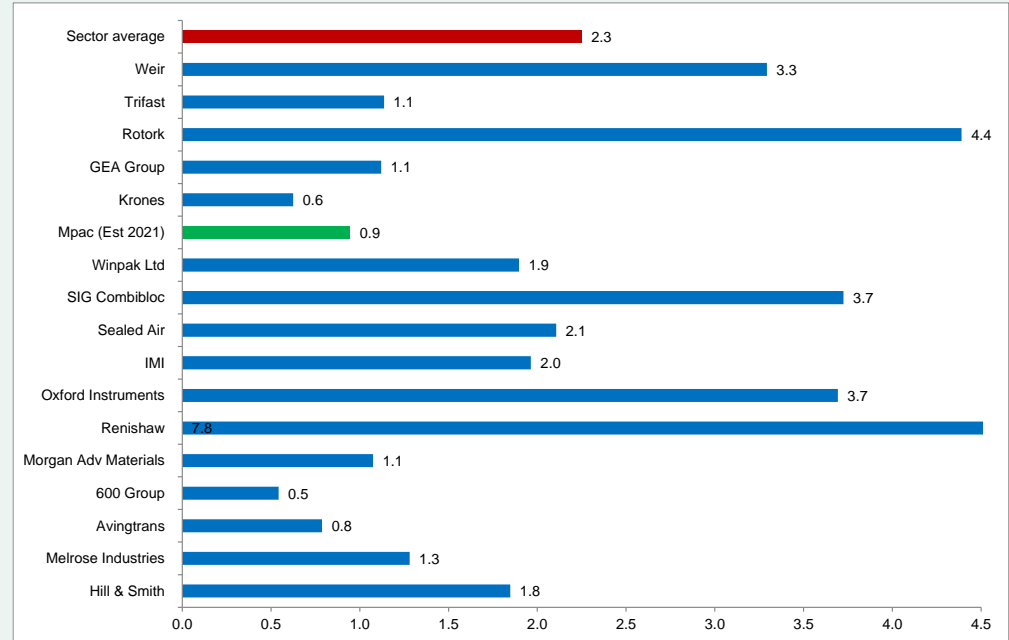
Source: Equity Development (Mpac pension adjusted)

CY PERs vs peers

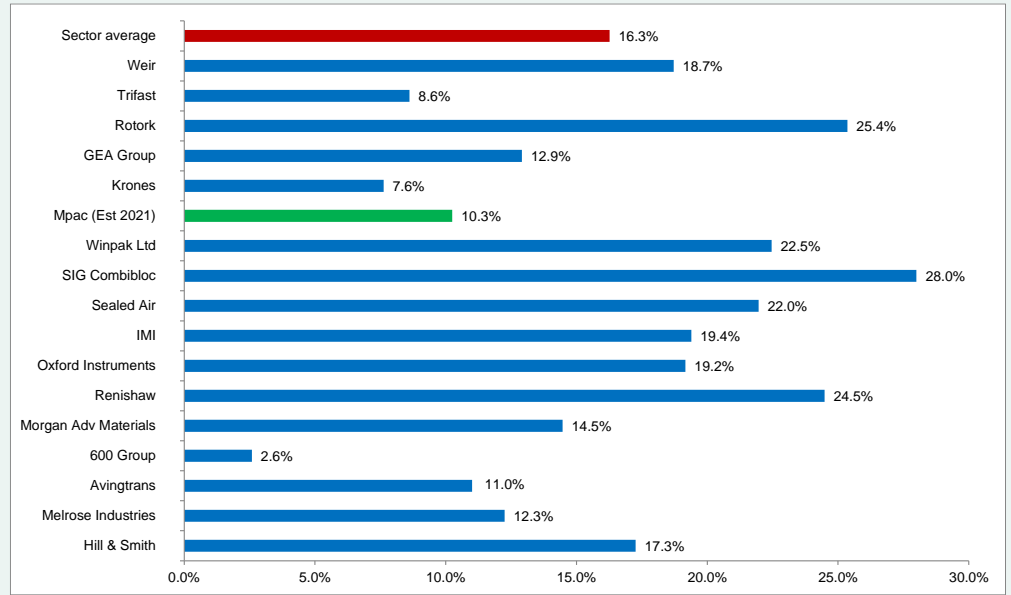


Source: Equity Development

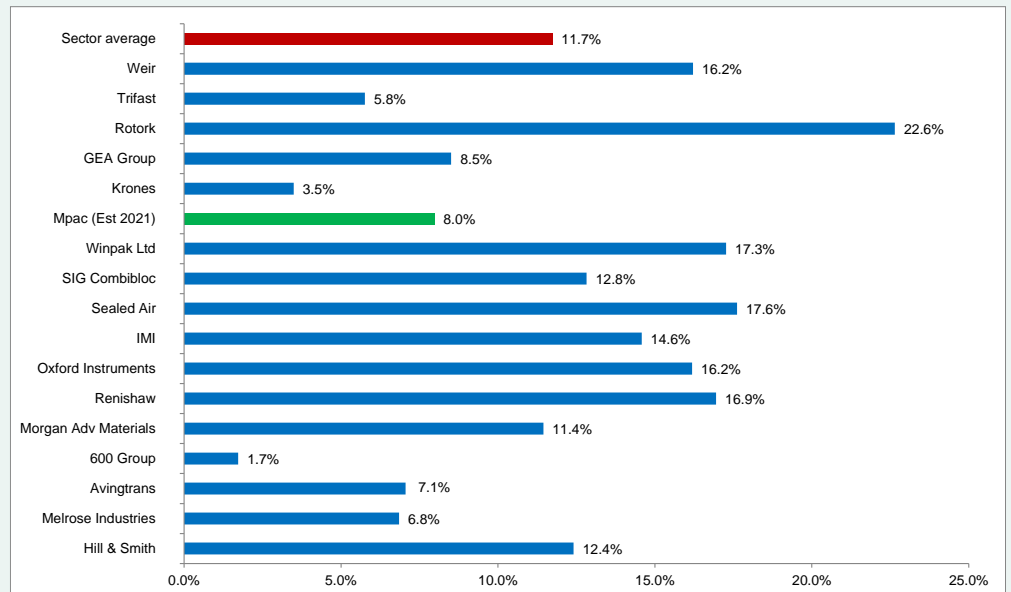
CY EV/sales vs peers



Source: Equity Development (Mpac pension adjusted)

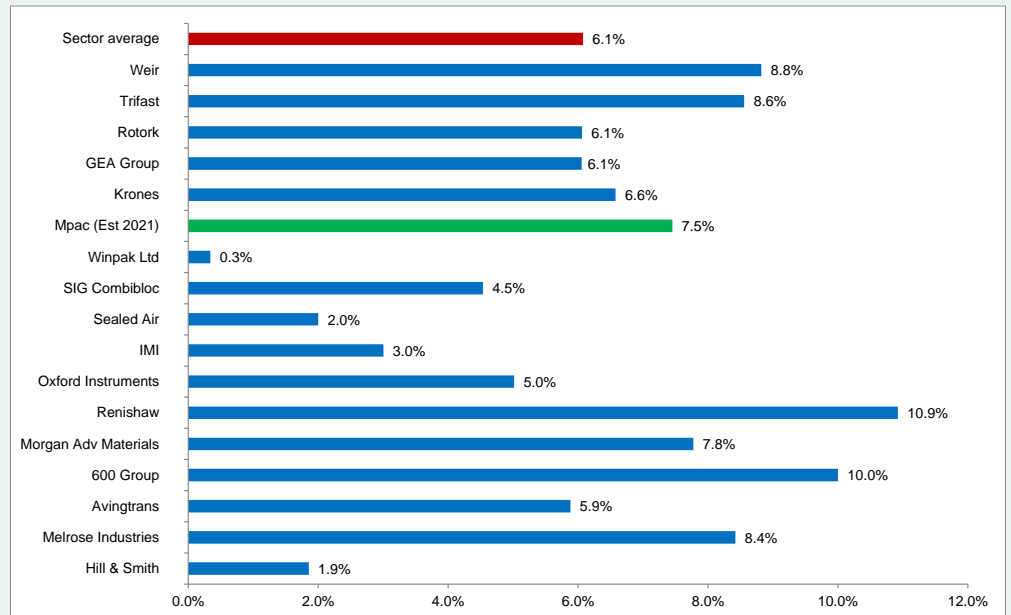
CY EBITDA margins (%) vs peers


Source: Equity Development

CY % EBIT margins vs peers


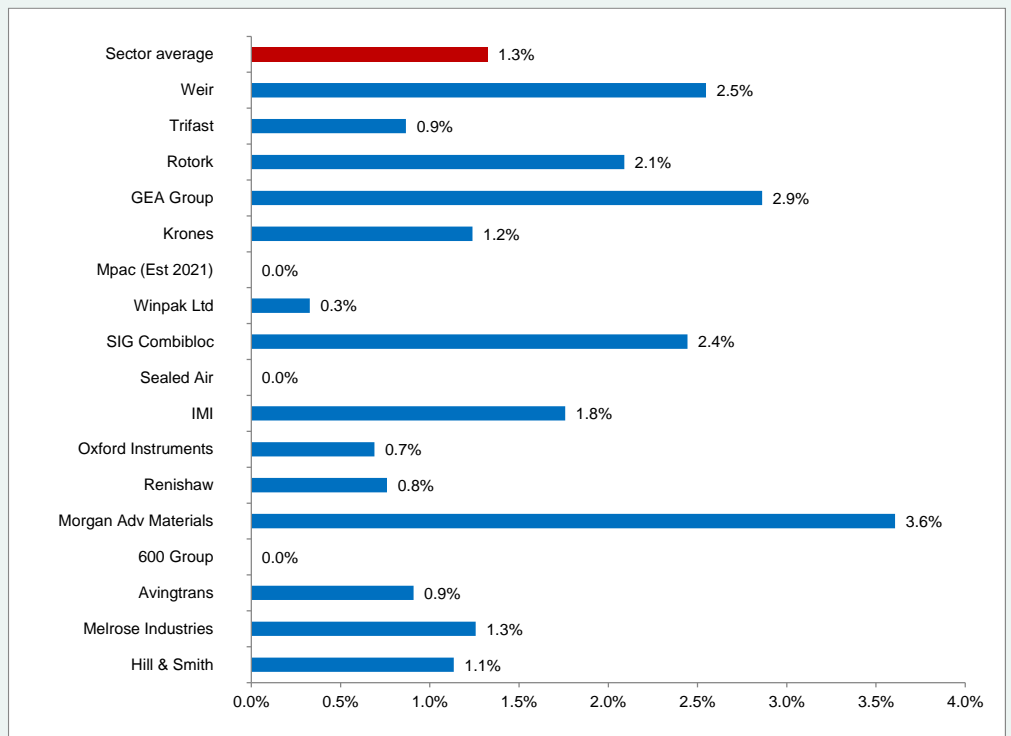
Source: Equity Development

CY + 1 sales growth



Source: Equity Development

CY dividend yield (%)



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Hill & Smith	1,410p	£1,121.0	-£174.0	£1,295.0
Melrose Industries	175p	£8,502	-£3,131	£11,633
Avingtrans	275p	£86.4	-£7.4	£93.8
600 Group	13p	£14.8	-£16.7	£31.5
Morgan Adv Materials	305p	£869.3	-£126.0	£995.3
Renishaw	5,920p	£4,310	£152	£4,158
Oxford Instruments	2,030p	£1,165	£61	£1,104
IMI	1,240p	£3,373	-£223	£3,596
Sealed Air	\$45.50	\$7,053	-\$3,373	\$10,426
SIG Combibloc	€ 18.41	€ 5,892	-€ 1,252	€ 7,144
Wipak Ltd	\$33.59	\$2,184	\$503	\$1,681
Mpac (Est 2021)	420p	£84.7	£14.5	£70.2
Krones	€ 67.00	€ 2,117	-€ 30	€ 2,147
GEA Group	€ 29.70	€ 5,361	€ 68	€ 5,293
Rotork	335p	£2,918	£165	£2,753
Trifast	150p	£202.5	£3.3	£199.2
Weir	2,100p	£5,460	-£1,262	£6,722

Source: Equity Development



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