

Trading update confirms a strong FY21

12th January 2022

In a Trading Update for the year ended December 31st 2021 Mpac Group confirms strong performance for the year, with revenue, adjusted PBT and the year-end cash position in line with market estimates.

Orders growing from strength to strength

Strong H2 order intake led to a year-end closing order book of £77.0m, an impressive increase of 39%YoY, which continues a rising trend. To recap, H1 Group order intake grew 69%YoY to £51.7m, with a closing order book of £62.0m, +11.7% YoY, following £45.5m in H120 and £55.5m at year-end FY20. The Group has also benefitted from resilient demand in its core markets: essential healthcare and food & beverage. We note that exposure to the latter has benefitted from the acquisition of US-based Mpac Switchback in 2020.

One Mpac initiative bearing fruits

The Group reported that the growth in order intake, revenue and profitability was underpinned by deployment of its 'One Mpac' business model. This unifies geographically distributed operations using a global ERP system, engineering, CRM and project management systems. This is particularly significant given the well-known operational difficulties caused by supply chain problems such as component shortages, and the impact of COVID-19 economic recovery on the availability, and cost, of labour.

Diversification continued as planned with the addition of the clean energy sector market vertical. Mpac reported progress in its (July 2021) contract with FREYR Battery to supply casting and unit cell assembly equipment for its prototype battery cell production line at its Customer Qualification Plant in Mo i Rana, Norway. This contract is due for completion in Q323.

Outlook maintained

We maintain our FY 21 outlook, raised at the interim. We estimate: FY21 revenue of £97.5m +16.4%YoY, comprising H1 £44.2m reported and H2 £53.3m estimated (20.3% above H1); FY21 (adj) EBITDA of £10.3m; (adj) PBT of £8.8m (FY20: £8.1m); and year-end cash at £11.5m, (H121, £11.2m) net, £10.6m. Our FY22 revenue outlook (raised at the interim from £100.0m) is £105.0m.

Performance reflects a considered strategy

The resilience of FY21 performance reflects the impact of Mpac's strategy in two respects. First, its 'outward-facing' market positioning. Examples include entry into the US beverage packaging market via the acquisition of Switchback, and the more recent addition of the clean energy vertical via the contract with FREYR. This diversification should eventually overtake the exposure to the pharma sector. Secondly, notwithstanding the underlying efforts and commitment required to offset the impact of Covid on operations, the One Mpac initiative continues to underpin performance. These are proactive initiatives which give us confidence that Mpac can extract further efficiencies and enhance growth as global economies gradually normalise. In its update Mpac also emphasises its ongoing commitment to develop OEM-based revenue streams, along with higher-margins via its Digital Services offering (c.23% of FY21(E) revenue).

Mpac currently trades on a prospective FY22 EV/EBITDA of 8.0x and PE of 13.5x. The medium-term outlook to FY23 indicates revenue CAGR at a healthy 10.3% and EBITDA CAGR of 16.5%, placing Mpac on a +2 year forward EV/EBITDA of 7.5x.

We maintain our fair value for Mpac shares of 660p.

Company Data

EPIC	AIM: MPAC
Price (last close)	514p
52 weeks Hi/Lo	647p/495p
Market cap £m	£104.0m
ED Fair Value	660p
Proforma net cash	£10.6m

Share Price, p



Source: ADVFN

Description

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

It generates 88% of revenue internationally. Core customer verticals include the healthcare, food & beverage and clean energy sectors, with clients such as 3M, J&J, Nestlé, GSK, P&G, Philips Advent, AstraZeneca, Unilever, Kellogg's, Diageo, Bausch & Lomb and FREYR Battery.

Next event: FY21 results due in the week commencing 14 March.

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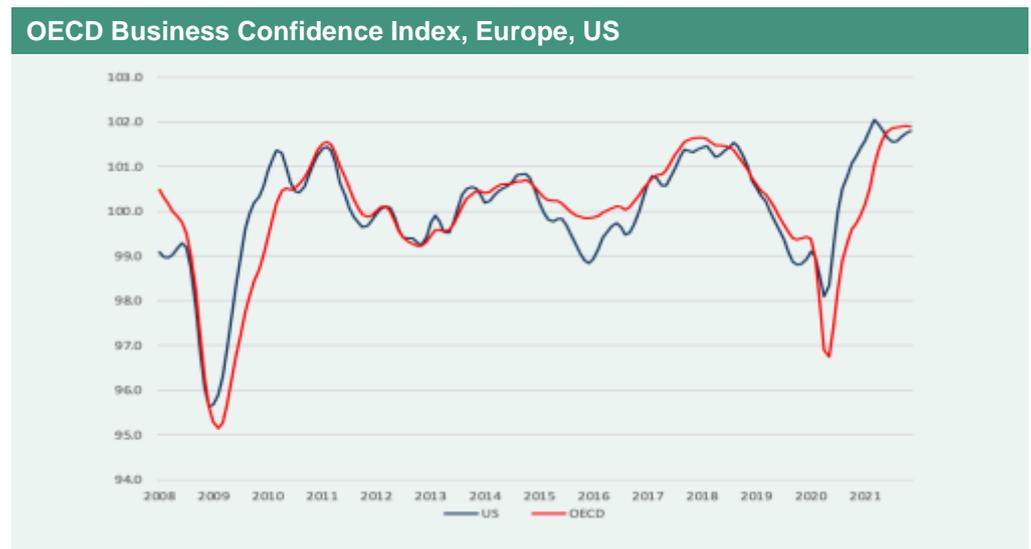
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Mpac's strategy connects with macro demand

We view Mpac's positive growth prospects as an established 'connection' between the underlying macro indicators for its markets and prospects, and, as highlighted, the all-important *proactive* input of its strategy and the pragmatic implementation of key initiatives.

Macro remains positive

The big picture outlook remains positive. Shown below are the last three business cycles¹; the latest Q4 21 OECD Business Confidence Index outlook maintains the pattern of rebound and recovery which, with continued monitoring of the pandemic, points to continued recovery in FY22. This remains an important factor given Mpac's market opportunities in Europe and the US.



Source: OECD Business Confidence Index. ¹ The average business cycle lasts 4.7 years.

Strategic initiatives and implementation

It is worth recapping Mpac's strategic initiatives and priorities, which the Group also highlighted as underpinning the strength of FY21 performance:

- The geographic focus on **manageable growth opportunities** in Europe and the Americas, such as the introduction of products and solutions across the group, for example from Mpac Langen and Mpac Lambert into US markets via Mpac Switchback's presence.
- Expansion of the new **clean energy market vertical**, with the Norwegian FREYR Battery contract on track. We expect this area to supplant Mpac's exposure to the pharmaceutical sector.
- **Continual product innovation** ("Ingenuity"). This remains key to continuity of product development, backed by service activities including client consultation, systems installation and training, subsequent monitoring, and digital modelling.
- The role of the **One Mpac** programme in combining these initiatives, creating increased alignment in engineering processes and the flow of information across customer-facing systems.

Finally, as noted, **Mpac** continues to prioritise OEM order intake and customer relationships, and an increased contribution from **higher-margin Digital Services** revenue component, which comprised 23.1% of H221 revenue and which we estimate at 23.3% for H221.

Outlook: P&L

P&L: FY19 – FY23E					
P&L Year to 31 Dec (£m)	FY19	FY20	FY21E	FY22E	FY23E
Equipment revenue	69.4	64.1	74.9	80.6	86.2
Service revenue	19.4	19.6	22.6	24.4	26.3
Revenue	88.8	83.7	97.5	105.0	112.5
Gross Sum	26.0	24.3	29.3	32.2	34.6
<i>Gross Margin</i>	29.3%	29.0%	30.1%	30.7%	30.8%
COGS	(62.8)	(59.4)	(68.2)	(72.7)	(77.8)
Distribution	(7.2)	(6.8)	(7.0)	(8.2)	(8.8)
Admin	(10.3)	(9.9)	(12.8)	(13.3)	(14.1)
Other	(0.8)	(1.1)	(1.2)	(1.7)	(1.8)
Sum operating costs	(18.3)	(17.8)	(21.0)	(23.2)	(24.7)
One-off costs	(2.4)	(3.6)	(3.5)	(3.6)	(3.6)
EBIT Reported	5.3	2.9	4.8	5.4	6.4
EBIT Adjusted	7.7	6.5	8.3	9.0	10.0
<i>Margin</i>	8.7%	7.8%	8.5%	8.6%	8.9%
Amortisation	(0.2)	(0.3)	(0.6)	(0.7)	(0.6)
Depreciation	(1.9)	(1.1)	(1.4)	(1.9)	(1.9)
EBITDA Reported	7.4	4.3	6.8	8.0	8.9
EBITDA Adjusted	9.8	7.9	10.3	11.6	12.5
<i>Margin</i>	11.0%	9.4%	10.6%	11.1%	11.1%
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
PBT Reported	5.4	2.9	4.6	5.2	6.2
PBT Adjusted	7.5	6.3	8.1	8.8	9.8
Tax	0.5	0.4	0.3	0.0	0.0
PAT Reported	5.9	3.3	3.9	4.0	4.7
PAT Adjusted	7.8	6.3	7.1	7.6	8.3
Basic wtd. Av. shares (m)	20.0	20.0	20.0	20.0	20.0
Diluted wtd. av. shares (m)	20.1	20.1	20.1	20.1	20.1
EPS Reported Basic (p)	29.5	16.5	19.5	20.2	23.4
EPS Reported Diluted (p)	29.3	16.4	19.4	20.0	23.3
EPS Adjusted Basic (p)	39.1	31.6	35.6	38.2	41.5
EPS Adjusted Diluted (p)	38.7	31.4	35.3	38.0	41.2

Source: Company data, Equity Development estimates

Outlook: cashflow

Cashflow: FY19 – FY23E					
Cashflow Year to 31 December (£m)	FY19	FY20	FY21E	FY22E	FY23E
Operating profit	5.3	2.9	4.8	5.4	6.4
One-off items	2.4	3.6	3.5	3.6	3.6
Amortisation	0.2	0.3	0.6	0.7	0.6
Depreciation	1.9	1.1	1.4	1.9	1.9
Other non-cash	0.3	0.4	1.0	0.0	0.0
Pension	(2.9)	(3.0)	(3.0)	(3.0)	(3.0)
Operating Cash Flow	7.2	5.3	8.3	8.6	9.5
Working capital					
(Increase)/Decrease inventories	(0.2)	0.2	(0.5)	(0.3)	(0.3)
(Increase)/Decrease in contract assets	(2.4)	(1.7)	(1.5)	(1.0)	0.0
(Increase)/Decrease in receivables	4.7	(0.6)	(0.5)	(0.3)	(0.3)
Increase/(Decrease) in payables	2.8	4.1	4.3	3.5	3.5
(Increase)/Decrease in contract liabilities	(7.4)	5.4	(7.7)	(2.0)	0.0
Increase / Decrease in provisions	0.4	0.1	0.0	0.0	0.0
Movement in working capital	(2.1)	7.5	(5.9)	(0.1)	2.9
Cash generated by operations	5.1	12.8	2.4	8.5	12.3
Acquisition costs	(1.0)	(0.9)	(0.3)	0.0	0.0
Tax (paid)/received	1.0	(0.7)	(0.2)	0.0	0.0
Net cash from operations	5.1	11.2	1.9	8.5	12.3
Investing activities	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0
Sale of PPE	0.2	0.2	0.5	0.0	0.0
Capitalised R&D	(0.3)	(1.8)	(1.8)	(1.8)	(1.9)
Assets under construction	(0.6)	0.0	(0.3)	0.0	0.0
PPE	(1.4)	(1.2)	(2.5)	(2.6)	(2.8)
Acquired cashflow/deferred payment	(10.6)	(10.3)	(0.8)	(3.3)	0.0
Net cash used in investing	(12.7)	(13.1)	(4.9)	(7.8)	(4.6)
Net OpFCF	(7.6)	(1.9)	(3.0)	0.7	7.7
Financing activities					
Borrowings	0.0	0.0	0.0	0.0	0.0
Interest paid	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Purchase own shares	(0.1)	(0.2)	(0.2)	0.0	0.0
Lease payments	(1.0)	(0.9)	(0.6)	(0.5)	(0.5)
Net cash from financing	(1.2)	(1.3)	(1.0)	(0.7)	(0.7)
Net increase in cash / equivalents	(8.8)	(3.2)	(4.0)	0.0	7.0
Cash at beginning of year	27.9	18.9	15.5	11.5	11.5
Forex	(0.2)	(0.2)	0.0	0.0	0.0
Cash at year end	18.9	15.5	11.5	11.5	18.5
Net cash/(debt)	18.0	14.6	10.6	10.6	17.6

Source: Company data, Equity Development estimates

Outlook: balance sheet

Balance sheet: FY19 – FY23E						
Balance sheet year to 31 December (£m)	FY19	FY20	FY21E	FY22E	FY23E	
Fixed Assets						
Intangible assets	16.9	27.4	26.0	22.0	21.4	
PPE net	5.6	5.1	6.2	6.9	7.8	
Property	0.8	0.8	0.8	0.8	0.8	
Right of use	4.7	4.0	4.0	4.0	4.0	
Employee benefits	20.4	14.0	14.0	14.0	14.0	
Deferred tax, other	1.7	1.8	1.8	1.8	1.8	
Sum Fixed Assets	50.1	53.1	52.8	49.5	49.8	
Current Assets						
Inventories	3.2	3.5	4.0	4.3	4.6	
Trade receivables	28.0	32.2	29.4	28.8	30.8	
Tax assets	0.4	0.8	0.8	0.8	0.8	
Cash, Equivalents	18.9	15.5	11.5	11.5	18.5	
Contract assets	0.0	0.0	0.0	0.0	0.0	
Sum Current Assets	50.5	52.0	45.6	45.4	54.8	
Total Assets	100.6	105.1	98.4	94.9	104.6	
Current Liabilities						
Trade payables	(30.9)	(41.1)	(45.4)	(48.9)	(52.4)	
Leases	(0.9)	(0.8)	(0.8)	(0.8)	(0.8)	
Provisions	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)	
Tax, Other	(0.7)	(0.4)	(0.4)	(0.4)	(0.4)	
Contract liabilities	0.0	0.0	0.0	0.0	0.0	
Sum Current Liabilities	(33.8)	(43.7)	(48.0)	(51.5)	(55.0)	
Total Assets less Current Liabilities	66.8	61.4	50.5	43.4	49.6	
Long-term Liabilities						
Borrowings	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	
Employee benefits	(3.1)	(3.0)	(3.0)	(3.0)	(3.0)	
Tax	(8.8)	(6.8)	(6.8)	(6.8)	(6.8)	
Leases	(3.9)	(3.4)	(3.4)	(3.4)	(3.4)	
Deferred consideration	(2.6)	(2.9)	(3.2)	(0.7)	0.0	
Sum Long-term liabilities	(19.3)	(17.0)	(17.3)	(14.8)	(14.1)	
Total liabilities	(53.1)	(60.7)	(65.3)	(66.3)	(69.1)	
Net Assets	47.5	44.4	33.2	28.6	35.5	
Capital & Reserves						
Share Capital	5.0	5.0	5.0	5.0	5.0	
Share Premium	26.0	26.0	10.9	2.2	4.5	
Capital Reserve	5.2	5.2	5.2	5.2	5.2	
Retained earnings	11.3	8.2	12.1	16.1	20.8	
Equity	47.5	44.4	33.2	28.6	35.5	

Source: Company data, Equity Development estimates



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