

FY22 first half trading update: supply chain pressure

11th July 2022

In a trading update for the half year to 30 June 2022, Mpac reports that supply chain difficulties affecting the availability of critical components has impacted on delivery lead times to customers. Mpac reiterates a strong prospective pipeline and order book and has implemented a series of mitigating measures. Nevertheless, combined with inflationary pressure on costs, the impact on profitability leads us to reduce our outlook for FY22:

- FY22E: revenue of £96m, +1.8%YoY, previously £105.0m.
- FY22E EBITDA (adj.) of £6.1m, reduced from an estimated £11.6m.

First half FY22

The group reports a strong period-end order book, ahead of H1 21 levels, and equally encouraging pipeline of prospective business, with resilience in the key Healthcare and Food & Beverages segments. H1 22 revenue is expected to be +12.0% YoY, in line with our outlook:

- H1 22E revenue of £49.5m (H1 21 £44.2m), +12.0% YoY.
- EBITDA (adj.) of £1.9m (H1 21: £4.8m).

Response to the situation: strong cash position

It is clear that Mpac has experienced the impact of shortages of key components, notably electronic chips and controllers, which has become a feature of the manufacturing sector in general. This has resulted in an inability to complete contracted orders and projects to customers' specifications, a situation which has become more pressing in recent months. Mpac has responded by adding inventory and adapting work in progress, actively establishing alternative sources of components and implementing a cost savings programme. We expect tight supply chain conditions to persist throughout the remainder of the year but begin to ease in 2023. In part reflecting the unified systems established in 2021, including Group ERP management, we expect Mpac to maintain strong cashflow control, resulting in an estimated interim cash position of £9.7m and projected year-end cash of £12.5m (FY21: £13.6m).

FY23 onwards

Reflecting the prospect of a gradual return to normalised improved supply chain conditions and the availability of key end components, we expect a return to growth in FY23/24 - albeit mindful of uncertainties which persist in global demand, and related uncertainties. Consequently, our revised outlook is:

- FY23E: revenue of £103.6m (prior estimate £112.5m), EBITDA (adj.) of £8.5m (prior estimate: £12.5m), indicating an EV/EBITDA multiple of 7.7x.
- FY24E: revenue of £113.4m (prior estimate £122.2m), EBITDA (adj.) of £12.9m (prior estimate: £13.4m), EV/EBITDA 5.1x.

Taking into account the impact of supply chain issues on near-term profitability, but cognisant of the strength and direction of underlying demand, discipline in cash management – including the potential fruits of collaboration with Freyr Battery – **we adjust our fair value for Mpac shares from 660p to 485p, indicative of a FY24 EV/EBITDA multiple of 6.7x.**

Company Data

EPIC	AIM: MPAC
Price (last close)	380p
52 weeks Hi/Lo	665p/340p
Market cap	£77.3m
ED Fair Value/share	485p
Proforma net cash	£11.6m

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 as 3M, J&J, Nestlé, GSK, P&G, Philips Advent, AstraZeneca, Unilever, Kellogg's, Diageo and Bausch & Lomb.

Next event

First half FY22 results
8th September 2022

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Outlook: P&L

P&L: FY19 – FY24E

P&L Year to 31 Dec (£m)	FY20	FY21	H1 22E	H2 22E	FY22E	FY23E	FY24E
Equipment revenue	64.1	74.1	36.0	39.0	75.0	81.0	89.1
Service revenue	19.6	20.2	13.5	7.5	21.0	22.6	24.3
Revenue	83.7	94.3	49.5	46.5	96.0	103.6	113.4
Gross Sum	24.3	28.9	10.5	13.5	24.0	28.7	35.4
<i>Gross Margin</i>	29.0%	30.6%	21.3%	29.0%	25.0%	27.8%	31.2%
COGS	(59.4)	(65.4)	(39.0)	(33.0)	(72.0)	(74.8)	(78.0)
Distribution	(6.8)	(6.8)	(3.0)	(4.5)	(7.5)	(8.1)	(8.8)
Admin	(9.9)	(12.4)	(6.0)	(6.0)	(12.0)	(12.9)	(14.2)
Other	(1.1)	(0.9)	(0.5)	(0.5)	(1.0)	(1.7)	(1.8)
Sum operating costs	(17.8)	(20.1)	(9.5)	(11.0)	(20.5)	(22.7)	(24.8)
One-off costs	(3.6)	(0.5)	(1.9)	(1.7)	(3.6)	(3.6)	(3.6)
EBIT Reported	2.9	8.3	(0.9)	0.8	(0.1)	2.4	6.9
EBIT Adjusted	6.5	8.8	1.0	2.5	3.5	6.0	10.5
<i>Margin</i>	7.8%	9.3%	2.1%	5.3%	3.6%	5.8%	9.3%
Amortisation	(0.3)	(0.6)	(0.4)	(0.3)	(0.7)	(0.6)	(0.5)
Depreciation	(1.1)	(1.8)	(0.5)	(1.4)	(1.9)	(1.9)	(1.9)
EBITDA Reported	4.3	10.7	0.0	2.5	2.5	4.9	9.3
EBITDA Adjusted	7.9	11.2	1.9	4.2	6.1	8.5	12.9
<i>Margin</i>	9.4%	11.9%	3.9%	9.0%	6.4%	8.2%	11.4%
Financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.2)	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
PBT Reported	2.9	8.2	(1.0)	0.9	(0.3)	2.2	6.7
PBT Adjusted	6.3	8.6	0.9	2.4	3.3	5.8	10.3
Tax	1.3	(0.4)	(0.7)	0.2	(0.5)	(1.5)	(2.0)
PAT Reported	4.2	7.8	(1.7)	0.6	(0.8)	0.7	4.7
PAT Adjusted	6.3	7.9	0.7	2.1	2.8	4.3	8.3
Basic wtd. Av. shares (m)	20.0	19.9	19.9	19.9	19.9	19.9	19.9
Diluted wtd. av. shares (m)	20.1	20.1	20.0	20.1	20.1	20.1	20.1
EPS Reported Basic (p)	21.0	39.2	(8.4)	2.9	(4.0)	3.7	23.8
EPS Reported Diluted (p)	20.9	38.9	(8.4)	2.9	(4.0)	3.6	23.7
EPS Adjusted Basic (p)	31.6	39.7	3.6	10.4	14.1	21.7	41.9
EPS Adjusted Diluted (p)	31.4	39.4	3.6	10.4	14.0	21.6	41.6

Source: Company data, Equity Development estimates

Outlook: Cashflow

Cashflow FY19 – FY24E								
Cashflow Year to 31 December (£m)	FY20	FY21	H1 22E	H2 22E	FY22E	FY23E	FY24E	
Operating profit	2.9	8.3	(0.9)	0.8	(0.1)	2.4	6.9	
One-off items	3.6	0.5	1.9	1.7	3.6	3.6	3.6	
Amortisation	0.3	0.6	0.4	0.3	0.7	0.6	0.5	
Depreciation	1.1	1.8	0.5	1.4	1.9	1.9	1.9	
Other non-cash	0.4	0.4	0.3	(0.3)	0.0	0.0	0.0	
Pension	(3.0)	(2.6)	(1.6)	(1.4)	(3.0)	(3.0)	(3.0)	
Operating Cash Flow	5.3	9.0	0.6	2.5	3.1	5.5	9.9	
Working capital								
(Increase)/Decrease inventories	0.2	(2.2)	(0.5)	0.5	(0.0)	1.3	(0.4)	
(Increase)/Decrease in contract assets	(1.7)	(4.4)	(0.5)	(0.5)	(1.0)	(2.0)	(3.0)	
(Increase)/Decrease in receivables	(0.6)	1.0	1.5	1.4	2.9	3.2	(2.7)	
Increase/(Decrease) in payables	4.1	(1.1)	1.5	(0.8)	0.7	3.2	4.1	
(Increase)/Decrease in contract liabilities	5.4	(0.7)	(5.9)	3.9	(2.0)	(3.0)	(3.0)	
Increase / Decrease in provisions	0.1	(0.8)	0.0	0.0	0.0	0.0	0.0	
Movement in working capital	7.5	(8.2)	(3.9)	4.5	0.6	2.6	(5.0)	
Cash generated by operations	12.8	0.8	(3.3)	7.0	3.7	8.2	5.0	
Acquisition costs	(0.9)	(0.3)	(0.3)	0.3	0.0	0.0	0.0	
Tax (paid)/received	(0.7)	(0.1)	(0.2)	0.2	0.0	0.0	0.0	
Net cash from operations	11.2	0.4	(3.8)	7.5	3.7	8.2	5.0	
Investing activities								
Interest received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Sale of PPE	0.2	2.0	0.1	(0.1)	0.0	0.0	0.0	
Capitalised R&D	(1.8)	(0.2)	(0.2)	(0.0)	(0.2)	(0.2)	(0.2)	
Assets under const	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PPE	(1.2)	(1.5)	(0.3)	(1.3)	(1.6)	(1.7)	(1.7)	
Acquired cashflow/deferred payment	(10.3)	(0.6)	0.0	(3.3)	(3.3)	0.0	0.0	
Net cash used in investing	(13.1)	(0.3)	(0.4)	(4.7)	(5.1)	(1.9)	(1.9)	
Net OpFCF	(1.9)	0.1	(4.2)	2.8	(1.3)	6.3	3.0	
Financing activities								
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Interest paid	(0.2)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	
Purchase own shares	(0.2)	(0.2)	(0.2)	0.2	0.0	0.0	0.0	
Lease payments	(0.9)	(0.9)	(0.3)	(0.2)	(0.5)	(0.5)	(0.5)	
Net cash from financing	(1.3)	(1.4)	(0.6)	(0.1)	(0.7)	(0.7)	(0.7)	
Net increase in cash / equivalents	(3.2)	(1.3)	(4.8)	2.7	(2.0)	5.6	2.3	
Cash at beginning of year	18.9	15.5	14.5	9.7	14.5	12.5	18.0	
Forex	(0.2)	0.3	0.0	0.0	0.0	0.0	0.0	
Cash at year end	15.5	14.5	9.7	12.5	12.5	18.0	20.4	
Net debt / (Cash)	(14.6)	(13.6)	(8.8)	(11.6)	(11.6)	(17.1)	(19.5)	

Source: Company data, Equity Development estimates

Outlook: Balance Sheet

Balance sheet: FY19 – FY24E						
Balance sheet year to 31 December (£m)	FY20	FY21	FY22E	FY23E	FY24E	
Fixed Assets						
Intangible assets	27.4	25.3	25.3	24.7	24.2	
PPE net	5.1	4.0	3.7	3.4	3.3	
Property	0.8	0.8	0.8	0.8	0.8	
Right of use	4.0	5.8	5.8	5.8	5.8	
Employee benefits	14.0	35.7	35.7	35.7	35.7	
Deferred tax, other	1.8	1.4	1.4	1.4	1.4	
Sum Fixed Assets	53.1	73.0	72.7	71.8	71.2	
Current Assets						
Inventories	3.5	5.5	5.5	4.3	4.7	
Trade receivables	32.2	34.5	31.6	28.4	31.1	
Tax assets	0.8	0.6	0.6	0.6	0.6	
Cash, Equivalents	15.5	14.5	12.5	18.0	20.4	
Contract assets	0.0	0.0	0.0	0.0	0.0	
Sum Current Assets	52.0	55.1	50.1	51.3	56.7	
Total Assets	105.1	128.1	122.8	123.1	127.9	
Current Liabilities						
Trade payables	(41.1)	(39.5)	(40.2)	(43.4)	(47.5)	
Leases	(0.8)	(1.8)	(1.8)	(1.8)	(1.8)	
Provisions	(1.4)	(0.6)	(0.6)	(0.6)	(0.6)	
Tax, Other	(0.4)	(0.7)	(0.7)	(0.7)	(0.7)	
Contract liabilities	0.0	0.0	0.0	0.0	0.0	
Sum Current Liabilities	(43.7)	(42.6)	(43.3)	(46.5)	(50.6)	
Total Assets less Current Liabilities	61.4	85.5	79.5	76.6	77.3	
Long-term Liabilities						
Borrowings	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	
Employee benefits	(3.0)	(2.5)	(3.0)	(3.0)	(3.0)	
Tax	(6.8)	(12.5)	(6.8)	(6.8)	(6.8)	
Leases	(3.4)	(4.2)	(3.4)	(3.4)	(3.4)	
Deferred consideration	(2.9)	0.0	0.0	0.0	0.0	
Sum Long-term liabilities	(17.0)	(20.1)	(14.1)	(14.1)	(14.1)	
Total liabilities	(60.7)	(62.7)	(57.4)	(60.6)	(64.7)	
Net Assets	44.4	65.4	65.4	62.5	63.2	
Capital & Reserves						
Share Capital	5.0	5.0	5.0	5.0	5.0	
Share Premium	26.0	26.0	26.8	21.7	17.6	
Capital Reserve	5.2	3.7	3.7	5.2	5.2	
Retained earnings	8.2	30.7	29.9	30.6	35.4	
Equity	44.4	65.4	65.4	62.5	63.2	
Net debt / (Cash)	(14.6)	(13.6)	(11.6)	(17.1)	(19.5)	

Source: Company data, Equity Development estimates



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