

AGM statement: momentum maintained

15 May 2024

In a statement to accompany today's AGM, Mpac reports that the strong earnings momentum established in the second half of 2023 has continued into 2024. Accordingly, the Group is on track to meet FY24 market expectations, with the customary second-half earnings weighting.

As we noted at FY23 results on 19 March (Going for Growth: FY23 results ahead on all metrics), following FY23 performance which was ahead of our outlook in all respects, including record £118.5m intake, the Group returned to normalised operations. We raised our Fair Value to 530p/share from 485p/share with the prospect of FY25 adj. EBITDA c.40% above FY23.

In the AGM statement, Mpac notes that the combination of the timing of H1 24 order intake and project milestones has led to working capital expansion, resulting in a small net debt position at the end of the period. This is expected to revert to a net cash position in H2 24. Our FY24 year-end estimated net cash outlook is unchanged at £4.1m.

Underlying target market resilience and growth strategy

As noted at FY23 results, 40% of revenue is derived from the Food & Beverage sector, with Healthcare taking the combined weighting to 76%. These are sectors which display both strong underlying demand and the requirement for innovative, especially environmentally acceptable, packaging solutions. In line with Group strategy, latest earnings data showed 28% of total derived from Service revenue, the basis for increased profitability and client retention. In FY23, the Group increased the technical staff headcount from 272 to 330, and technical hours billed from 295,000 to 383,000, +30%.

At FY23 results, Mpac outlined its strategy to broadly double revenue within a five-year horizon, noting that over 37% of Original Equipment (OE) orders by value stemmed from new customer wins, and OE orders were achieved with 78 different customers. The Group sees a strong correlation between the ability to win new business and a technical environment which fosters innovation and encourages creative solutions. The growth strategy is augmented by the opportunity to expand through acquisition, notably in areas of new technology, and development of new verticals such as clean energy (8% of FY23 revenue).

Outlook maintained: Fair Value 530p

Following the AGM statement, our outlook is maintained. Our Fair Value of 530p/share is indicative of a FY24 EV/EBITDA multiple of 7.9x and PE of 13.9x. Compared to market cap weighted averages of 11.8x and 18.2x respectively for a group of Mpac peers¹, Mpac trades at a significant discount.

Outlook					
Yr to 31 Dec (£m)	2021	2022	2023	2024E	2025E
Revenue	94.3	97.7	114.2	120.0	130.5
EBITDA (adj)	11.2	6.8	10.7	13.5	15.1
Pre-Tax Profit (adj)	8.6	3.5	7.1	10.5	12.2
EPS (adj, p)	39.4	13.1	26.2	38.4	44.0
Net debt / (Cash)	(13.6)	4.7	(2.1)	(4.1)	(6.1)
P/E	12.0x	35.9x	18.0x	12.3x	10.7x
EV/EBITDA	8.4x	13.9x	8.8x	7.0x	6.2x

Source: Company data. Equity Development estimates.

¹ Source Koyfin, +1 year earnings estimates, priced 13.05.2024.

Company Data

EPIC	AIM: MPAC
Price (last close)	485p
52 weeks Hi/Lo	485p/183p
Market cap	£99m
ED Fair Value / share	530p
Proforma net debt / (cash)	£(2.1)m

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

Next event

Interim results, September 2024.

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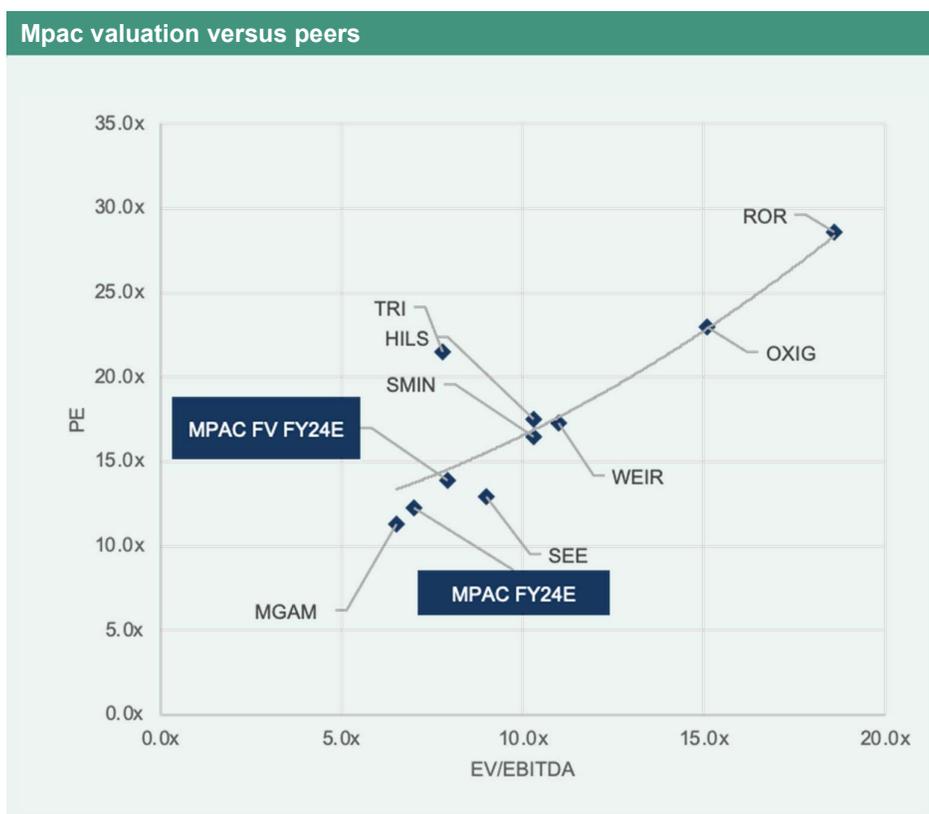
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Comparative valuation update

As shown below, based on our FY24 outlook, both Mpac's current valuation (EV/EBITDA and PE) and Equity Development's Fair Value remain at a discount to peers (Smiths Group plc, Weir Group plc, Trifast plc, Rotork plc, Sealed Air Corp., Oxford Instruments plc, Morgan Advanced Materials plc and Hill & Smith plc). Data is based on the +1 year forward consensus earnings outlook and latest prices (source: Koyfin).

- The overall market cap-weighted EV/EBITDA multiple for the peer group is 11.8x, and PE, 18.2x.
- By comparison, based on our outlook, Mpac currently trades on a FY24 EV/EBITDA multiple of 7.0x, and for FY25, 6.2x, with respective PE multiples of 12.3x and 10.7x.
- **Our ED Fair Value of 530p** implies a Mpac FY24E EV/EBITDA multiple of 7.9x and PE of 13.9x.



Source: Equity Development estimates, Koyfin. Best fit polynomial shown.

SUMMARY FINANCIALS

P&L: FY21 – FY25E					
P&L Year to 31 Dec (£m)	FY21	FY22	FY23	FY24E	FY25E
Equipment revenue	74.1	74.6	82.4	86.6	95.2
Service revenue	20.2	23.1	31.8	33.4	37.4
Revenue	94.3	97.7	114.2	120.0	130.5
Gross	28.9	24.4	31.6	37.0	40.5
<i>Margin</i>	<i>30.6%</i>	<i>25.0%</i>	<i>27.7%</i>	<i>30.8%</i>	<i>31.0%</i>
COGS	(65.4)	(73.3)	(82.6)	(83.0)	(90.0)
Distribution	(6.8)	(8.1)	(8.8)	(9.4)	(9.8)
Admin	(12.4)	(11.9)	(14.6)	(15.0)	(16.3)
Other	(0.9)	(0.5)	(0.4)	(1.9)	(2.0)
Sum operating costs	(20.1)	(20.5)	(23.8)	(26.3)	(28.1)
One-off costs	(0.5)	(3.9)	(3.9)	(3.0)	(3.0)
EBIT Reported	8.3	0.0	3.9	7.7	9.4
EBIT Adjusted	8.8	3.9	7.8	10.7	12.4
<i>Margin</i>	<i>9.3%</i>	<i>4.0%</i>	<i>6.8%</i>	<i>8.9%</i>	<i>9.5%</i>
Amortisation	(0.6)	(0.9)	(0.8)	(0.7)	(0.6)
Depreciation	(1.8)	(2.0)	(2.1)	(2.1)	(2.1)
EBITDA Reported	10.7	2.9	6.8	10.5	12.1
EBITDA Adjusted	11.2	6.8	10.7	13.5	15.1
<i>Margin</i>	<i>11.9%</i>	<i>7.0%</i>	<i>9.4%</i>	<i>11.2%</i>	<i>11.6%</i>
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.2)	(0.4)	(0.7)	(0.2)	(0.2)
PBT Reported	8.0	0.2	4.7	7.5	9.2
PBT Adjusted	8.6	3.5	7.1	10.5	12.2
Tax	(0.4)	(0.6)	(2.0)	(2.6)	(3.2)
PAT Reported	7.6	(0.4)	2.7	4.9	6.0
PAT Adjusted	7.9	2.7	5.3	7.9	9.0
Basic wtd. av. shares (m)	19.9	20.3	20.5	20.5	20.5
Diluted wtd. av. shares (m)	20.1	20.6	20.5	20.5	20.5
EPS Rptd Basic (p)	38.2	(2.0)	13.2	23.7	29.4
EPS Rptd Dil.(p)	37.9	(1.9)	13.2	23.7	29.4
EPS Adj. Basic (p)	39.7	13.3	26.2	38.4	44.1
EPS Adj. Dil. (p)	39.4	13.1	26.2	38.4	44.0

Source: Company data, Equity Development estimates.

Cashflow FY21 – FY25E					
Cashflow Year to 31 December (£m)	FY21	FY22	FY23	FY24E	FY25E
Operating profit	8.3	0.0	3.9	7.7	9.4
One-off items	0.5	3.9	3.9	3.0	3.0
Amortisation	0.6	0.9	0.8	0.7	0.6
Depreciation	1.8	2.0	2.1	2.1	2.1
Other non-cash	0.4	0.3	0.0	0.0	0.0
Pension	(2.6)	(2.1)	(2.3)	(3.0)	(3.0)
Operating Cash Flow	9.0	5.0	8.4	10.5	12.1
Working capital					
(Increase)/Decrease inventories	(2.2)	(3.7)	(1.7)	(3.7)	(3.1)
(Increase)/Decrease in contract assets	(4.4)	(6.4)	1.7	0.1	0.1
(Increase)/Decrease in receivables	1.0	(5.3)	(0.3)	(4.2)	(4.5)
Increase/(Decrease) in payables	(1.1)	2.8	1.8	5.5	4.3
(Increase)/Decrease in contract liabilities	(0.7)	(5.7)	(0.1)	(0.1)	(0.1)
Increase / Decrease in provisions	(0.8)	0.5	3.3	0.0	0.0
Movement in working capital	(8.2)	(17.8)	4.7	(2.3)	(3.2)
Cash generated by operations	0.8	(12.8)	13.1	8.1	8.9
Acquisition costs	(0.3)	(0.8)	(0.8)	0.0	0.0
Tax (paid)/received	(0.1)	(0.4)	(1.1)	(2.6)	(3.2)
Net cash from operations	0.4	(14.0)	11.2	5.5	5.7
Investing activities					
Interest received	0.0	0.0	0.0	0.0	0.0
Sale of PPE	2.0	0.0	0.0	0.0	0.0
Capitalised R&D	(0.2)	(1.4)	(1.5)	(1.5)	(1.5)
PPE	(1.5)	(1.0)	(1.1)	(1.2)	(1.2)
Acquired cashflow/deferred payment	(0.6)	(0.8)	0.0	0.0	0.0
Net cash used in investing	(0.3)	(3.2)	(2.6)	(2.7)	(2.7)
Net OpFCF	0.1	(17.2)	8.6	2.9	3.0
Financing activities					
Borrowings	0.0	8.0	0.0	0.0	0.0
Interest paid	(0.3)	(0.3)	(0.7)	(0.2)	(0.2)
Purchase own shares	(0.2)	0.0	0.0	(0.2)	(0.2)
Lease payments	(0.9)	(1.1)	(1.1)	(0.5)	(0.5)
Net cash from financing	(1.4)	6.6	(1.8)	(0.9)	(0.9)
Net increase in cash / equivalents	(1.3)	(10.6)	6.8	2.0	2.1
Cash at beginning of year	15.5	14.5	4.2	11.0	13.0
Forex	0.3	0.3	0.0	0.0	0.0
Cash at year end	14.5	4.2	11.0	13.0	15.0
Net debt / (Cash)	(13.6)	4.7	(2.1)	(4.1)	(6.1)

Source: Company data, Equity Development estimates.

Balance sheet: FY21 – FY25E						
Balance Sheet Year to 31 December (£m)	FY21	FY22	FY23	FY24E	FY25E	
Fixed Assets						
Intangible assets	25.3	25.4	24.0	23.3	22.7	
PPE net	4.0	4.0	4.1	3.2	2.3	
Property	0.8	0.8	0.8	0.8	0.8	
Right of use	5.8	5.0	5.9	5.9	5.9	
Employee benefits	35.7	31.5	32.2	32.2	32.2	
Deferred tax, other	1.4	1.3	0.9	0.9	0.9	
Sum Fixed Assets	73.0	68.0	67.9	66.3	64.8	
Current Assets						
Inventories	5.5	9.6	11.1	14.8	17.9	
Trade receivables	34.5	46.7	46.8	51.0	55.4	
Tax assets	0.6	0.6	1.1	1.1	1.1	
Cash, Equivalents	14.5	4.2	11.0	13.0	15.0	
Contract assets	0.0	0.0	0.0	0.0	0.0	
Sum Current Assets	55.1	61.1	70.0	79.8	89.4	
Total Assets	128.1	129.1	137.9	146.1	154.2	
Current Liabilities						
Trade payables	(39.5)	(38.4)	(43.8)	(49.3)	(53.6)	
Leases	(1.8)	(1.4)	(1.3)	(1.3)	(1.3)	
Provisions	(0.6)	(1.0)	(0.9)	(0.9)	(0.9)	
Tax, Other	(0.7)	(0.1)	(0.9)	(0.9)	(0.9)	
Sum Current Liabilities	(42.6)	(48.9)	(54.9)	(60.4)	(64.7)	
Total Assets less Current Liabilities	85.5	80.2	83.0	85.6	89.4	
Long-term Liabilities						
Borrowings	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	
Employee benefits	(2.5)	(2.1)	(1.8)	(3.0)	(3.0)	
Tax	(12.5)	(11.1)	(11.4)	(6.8)	(6.8)	
Leases	(4.2)	(3.9)	(4.9)	(3.4)	(3.4)	
Deferred consideration	0.0	0.0	0.0	0.0	0.0	
Sum Long-term liabilities	(20.1)	(18.0)	(19.0)	(14.1)	(14.1)	
Total liabilities	(62.7)	(66.9)	(73.9)	(74.5)	(78.8)	
Net Assets	65.4	62.2	64.0	71.5	75.3	
Capital & Reserves						
Share Capital	5.0	5.1	5.1	5.1	5.1	
Share Premium	26.0	26.0	26.0	27.3	25.1	
Capital Reserve	3.7	2.1	3.8	5.2	5.2	
Retained earnings	30.7	29.0	29.1	34.0	40.0	
Equity	65.4	62.2	64.0	71.5	75.3	
Net debt / (Cash)	(13.6)	4.7	(2.1)	(4.1)	(6.1)	

Source: Company data, Equity Development estimates.



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