



MSA Safety Inc. (MSA)

Updated April 20th, 2018 by Bob Ciura

Key Metrics

Current Price: \$89	5 Year CAGR Estimate: 8.0%	Quality Percentile: N/A
Fair Value Price: \$74	5 Year Growth Estimate: 10.0%	Momentum Percentile: N/A
% Fair Value: 120%	5 Year Valuation Multiple Estimate: -3.6%	Total Return Percentile: N/A
Dividend Yield: 1.6%	5 Year Price Target: \$119	Valuation Percentile: N/A

Overview & Current Events

MSA Safety Incorporated was established in 1914. Today, it develops and manufactures safety products. Customers come from a variety of industrial markets, including oil & gas, fire service, construction, mining, and the military. MSA Safety's major products include gas and flame detection, air respirators, head protection, fall protection, air purifying respirators, and eye protection gear.

On 2/20/18, MSA Safety released fourth-quarter and full-year financial results. The fourth quarter was an especially strong performance. Revenue of \$346.14 million increased 14% year over year, and beat analyst expectations by \$19.5 million. Earnings-per-share of \$1.31 exceeded analyst estimates by 40%.

For 2017, MSA Safety grew revenue by 3%. GAAP earnings-per-share increased 18%, while adjusted earnings-per-share increased 34% for the year. The high rate of earnings growth was driven by new products, the acquisition of Globe Manufacturing, and cost cuts. These tailwinds are expected to remain in place for 2018 and beyond, which should lead to continued earnings growth for the company.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.96	\$1.21	\$1.05	\$1.87	\$2.42	\$2.28	\$2.30	\$1.84	\$2.44	\$2.88	\$3.45	\$5.56
DPS	\$0.94	\$0.96	\$0.99	\$1.03	\$1.10	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.45	\$1.85

MSA Safety has many growth catalysts in store moving forward. The company ended the fourth quarter with a 10% higher product backlog than the third quarter, due to strong demand for industrial and fire service products. In addition, in 2017 MSA Safety acquired Globe Manufacturing for \$216 million. The deal provided MSA Safety with expansion into protective clothing for firefighters, which is a growth category. Earnings growth will also be boosted by a streamlined cost structure. Several years ago, MSA Safety decided to focus on its most profitable line of core products. This has worked well, as the company expanded adjusted EBITDA margin by 450 basis points in the past five years.

In terms of future growth expectations, even if MSA Safety does not replicate its growth rate in 2017, the company can still grow earnings. Growth from acquisitions, margin expansion, and tax reform are major catalysts. Over the following five years, a 10% earnings growth rate is a reasonable assumption, and would actually represent a slowing growth rate from 2017. Dividends are expected to rise by 5% per year through this period, in-line with the company's recent dividend growth rates.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.6	19.7	25.4	17.8	15.8	21.6	23.5	25.3	21.5	26.1	25.8	21.5
Avg. Yld.	2.6%	4.0%	3.7%	3.1%	2.9%	2.4%	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%

In the past 10 years, MSA Safety stock has held an average price-to-earnings ratio of 21.5. This is a more reasonable estimate of fair value for the stock. At the current price-to-earnings ratio of 25.8, MSA Safety appears to be overvalued by approximately 20%. Fortunately, the company continues to grow earnings at a high rate. Even though we expect the price-to-earnings ratio to return to the 10-year average of 21.5 by 2023, which would reduce annual returns by 3.6%,

MSA Safety shares can still generate positive returns. We estimate a 2023 fair value price of \$119, which represents a five-year total annual return projection of 8.0%, including dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	50.0%	39.1%	31.4%	41.6%	45.0%	40.2%	40.8%	35.2%	38.7%	32.1%	32%	32%
Int. Cov.	13.6	10.2	7.6	8.2	12.4	12.2	17.0	13.1	12.4	3.8	11.3	11.3
Payout	47.9%	79.3%	94.3%	33.2%	55.1%	45.4%	53.5%	69.0%	53.7%	47.8%	42.0%	33.3%
Std. Dev.	57.1%	45.1%	26.3%	51.7%	26.8%	25.7%	27.7%	33.9%	27.6%	26.3%	27.6%	27.6%
Debt/A	55.0%	50.1%	62.3%	61.1%	58.3%	54.1%	57.8%	63.7%	58.8%	64.5%	64.5%	64.5%

MSA Safety has a secure dividend payout. Its dividend payout ratio has declined in recent years, as its earnings growth has far outpaced its rate of dividend increases. We expect this trend to continue over the next five years. MSA Safety scores well across several safety-related metrics, because the company has a strong balance sheet, a highly profitable business, and growth opportunities.

The company has several competitive advantages that fuel its growth. It is the industry leader across the safety and protection products industry. It has a global reach, with approximately 38% of annual sales from outside the Americas, that competitors cannot match. And, since MSA Safety generates significant cash flow, it can invest in growth initiatives, including acquisitions and product innovation, to retain its industry leadership.

Final Thoughts & Recommendation

MSA Safety is a strong business with significant competitive advantages. It operates in multiple areas of growth. The stock does not have an especially high dividend yield, and it does not appear to be undervalued at the present time. That said, it is a high-growth dividend stock. We expect the stock to generate total annual returns of approximately 8% going forward. Plus, MSA Safety has increased its dividend for over 50 consecutive years, which makes it a safe bet for rising dividends over time. Investors should wait for MSA Safety to trade at or below fair value before buying in.

Total Return Breakdown by Year

