



MSA Safety Inc. (MSA)

Updated August 10th, 2018 by Bob Ciura

Key Metrics

Current Price: \$100	5 Year CAGR Estimate: 5.7%	Volatility Percentile: 57.9%
Fair Value Price: \$74	5 Year Growth Estimate: 10.0%	Momentum Percentile: 92.7%
% Fair Value: 135%	5 Year Valuation Multiple Estimate: -5.8%	Valuation Percentile: 11.4%
Dividend Yield: 1.5%	5 Year Price Target: \$120	Total Return Percentile: 34.1%

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 7/25/18, MSA Safety reported strong second-quarter earnings, although the results did not measure up to analyst expectations. Revenue increased 17.5% from the same quarter a year ago, to \$339.3 million. Earnings-per-share of \$1.07 increased 25% year-over-year. Revenue and earnings-per-share both missed analyst expectations, by \$500,000 and \$0.04 per share, respectively. Nevertheless, the company delivered strong growth for the period. Revenue increased 16% excluding positive currency fluctuations. Organic revenue increased 5%, as acquisitions added significantly to growth last quarter.

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	\$1.49	\$1.90

MSA has a positive growth outlook moving forward. The acquisition of Globe Manufacturing in 2017 has boosted the company's revenue growth so far this year. The deal provided MSA Safety with expansion into new product categories such as protective clothing for firefighters, which is a growth category. The company stated in its second-quarter earnings report that its backlog pipeline is trending substantially higher so far in 2018 than this time a year ago, reflecting increased levels of demand across its core product areas. MSA Safety focuses research and development investment on its most profitable line of core products, such as industrial and fire service products.

Even if MSA Safety does not replicate its growth rate in 2017, we still expect a high earnings growth rate. Earnings growth will come from a variety of sources, including organic revenue growth, acquisitions, tax reform, and share repurchases. We believe 10% earnings growth is a reasonable assumption over the next five years, even though that would represent a slowdown from the growth rate achieved in 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	29.0	21.5
Avg. Yld.	2.6%	4.0%	3.7%	3.1%	2.9%	2.4%	2.3%	2.7%	2.5%	1.8%	1.5%	1.5%

In the past 10 years, MSA Safety stock has held an average price-to-earnings ratio of 21.5. This is a reasonable estimate of fair value for the stock. At the current price-to-earnings ratio of 29.0, MSA Safety appears to be overvalued.

Fortunately, the company continues to grow earnings at a high rate. Even though we expect the price-to-earnings ratio

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

to return to the 10-year average of 21.5 by 2023, which would reduce annual returns by 5.8%, MSA Safety shares can still generate positive returns through earnings growth and 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%
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%
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%

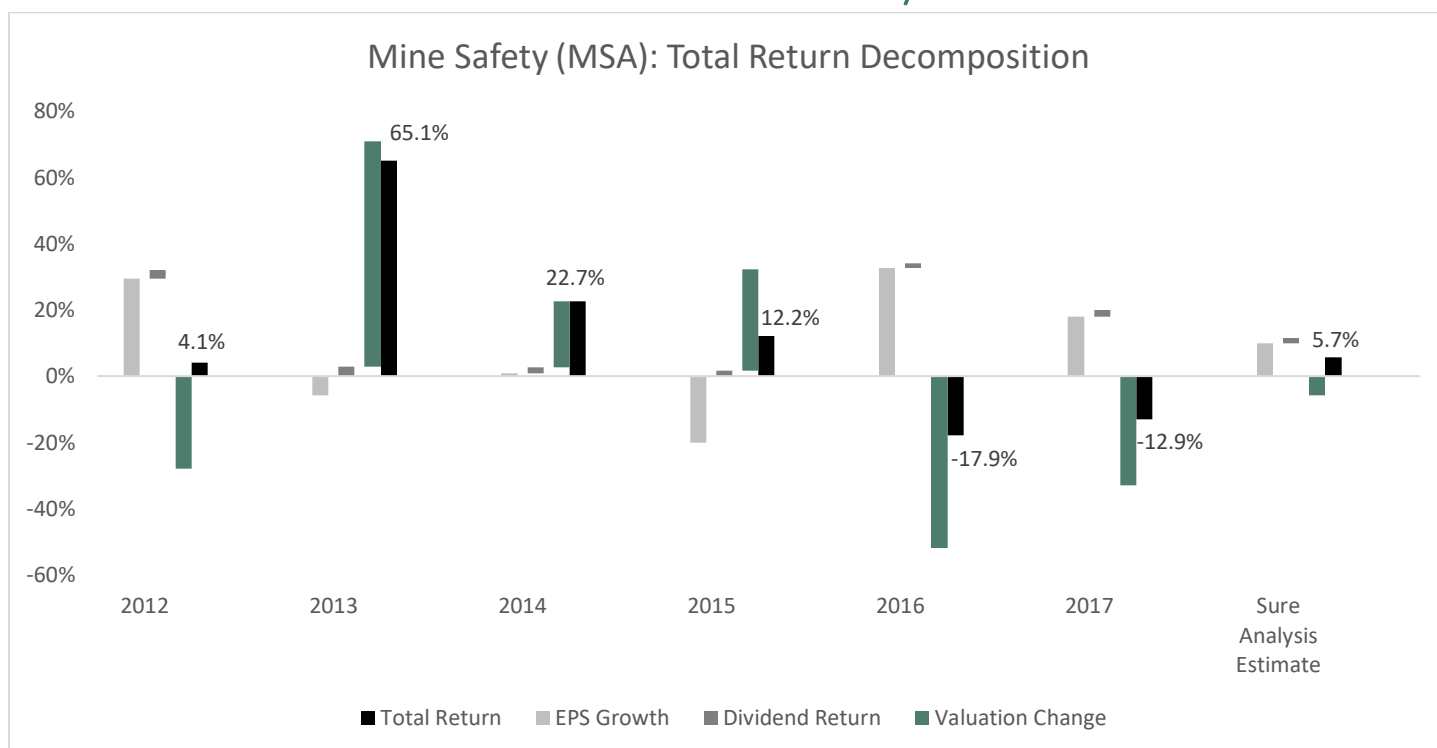
MSA Safety has a secure dividend payout. Its dividend payout ratio has declined in recent years, as its earnings growth has far outpaced its rate of dividend increases. We expect this trend to continue over the next five years. MSA Safety scores well across several safety-related metrics, because the 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 also has an attractive growth profile. The only downside of the stock is that it appears to be significantly overvalued, which will negatively impact shareholder returns. MSA Safety has a 1.5% dividend yield, which is below the average dividend yield in the S&P 500 Index. As a result, we do not view the stock favorably for value or income investors. With expected returns below 6% each year, we recommend investors sell MSA Safety, and reinvest in higher-yielding stocks with more reasonable valuations.

Total Return Breakdown by Year



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