



MSA Safety, Inc. (MSA)

Updated October 25th, 2018 by Bob Ciura

Key Metrics

Current Price:	\$104	5 Year CAGR Estimate:	5.0%	Volatility Percentile:	52.3%
Fair Value Price:	\$74	5 Year Growth Estimate:	10.0 %	Momentum Percentile:	84.0%
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.5%	Growth Percentile:	88.4%
Dividend Yield:	1.5%	5 Year Price Target	\$120	Valuation Percentile:	4.8%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	14.6%

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 10/24/18, MSA Safety reported strong third-quarter earnings. Revenue of \$331 million increased 12% from the same quarter a year ago, while adjusted earnings-per-share increased 27% to \$1.16. Double-digit sales growth continues to be fueled by new product releases, a result of significant investment in research and development and acquisitions over the past several years. Earnings growth was also fueled by share repurchases and tax reform.

Growth on a Per-Share Basis

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
Shares	35.8	36.0	36.5	36.7	37.0	37.2	37.5	37.4	37.7	38.2	39.0	39.0

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's 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.

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 expect 20% earnings growth for 2018 while maintaining a 10% annual growth rate through 2023, as the benefits of tax reform fade next year. 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	30.1	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%	1.6%

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 30.1, 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 to return to the 10-year average of 21.5 by 2023, which would reduce annual returns by 6.5%, MSA Safety shares can still generate positive returns through earnings growth and dividends.

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.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

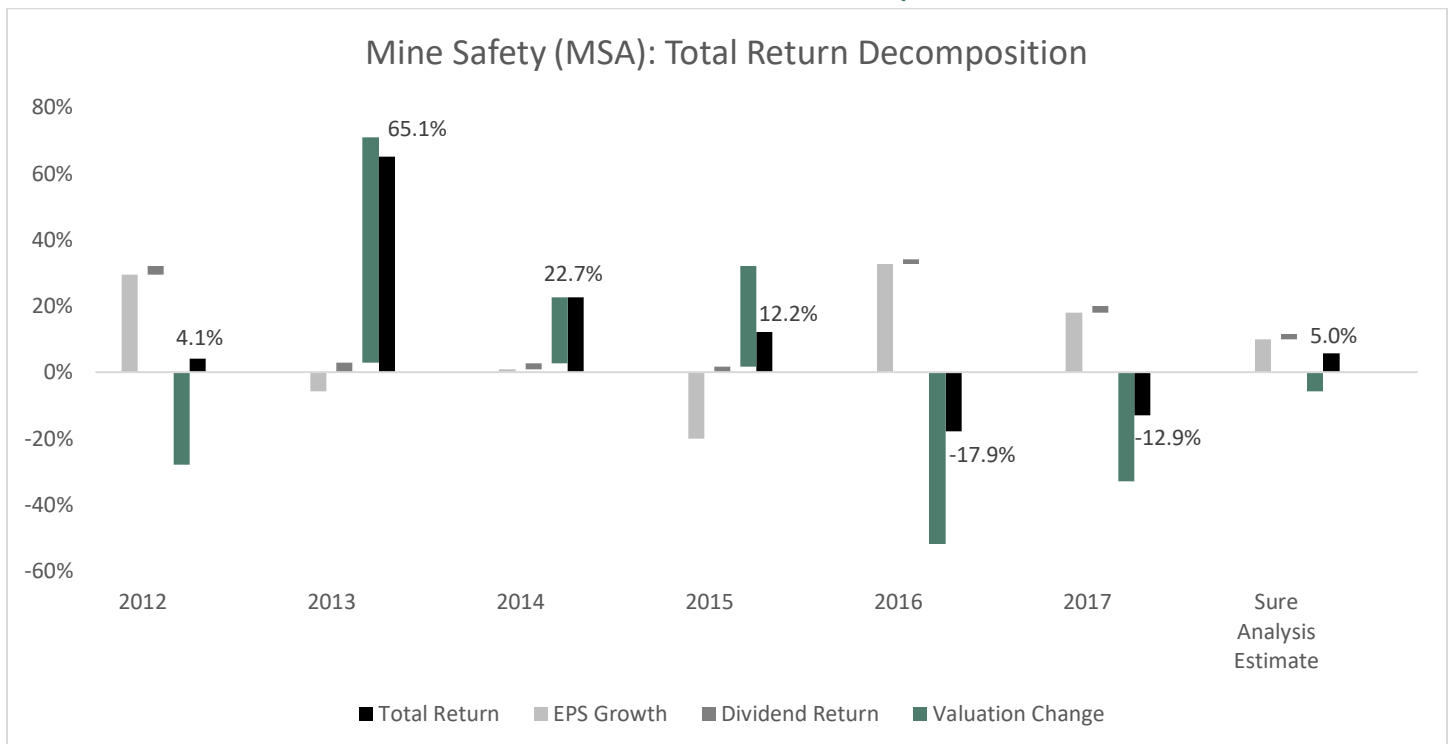
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	50.0%	39.1%	31.4%	41.6%	45.0%	40.2%	40.8%	35.2%	38.7%	32.1%	32%	32%
Debt/A	55.0%	50.1%	62.3%	61.1%	58.3%	54.1%	57.8%	63.7%	58.8%	64.5%	64.5%	64.5%
Int. Cov.	13.6	10.2	7.6	8.2	12.4	12.2	17.0	13.1	12.4	3.8	11.3	11.3
Payout	47.9%	79.3%	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 that competitors cannot match, with approximately 38% of annual sales from outside the Americas. And, since MSA Safety generates significant cash flow, it can invest in growth initiatives 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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1139	916	977	1113	1110	1112	1134	1131	1150	1197
Gross Profit	438	343	370	458	490	497	515	501	524	540
Gross Margin	38.4%	37.4%	37.9%	41.2%	44.1%	44.7%	45.4%	44.3%	45.6%	45.2%
SG&A Exp.	271	231	263	298	313	309	323	315	306	298
D&A Exp.	28	27	29	33	32	31	30	32	35	38
Operating Profit	132	83	73	122	136	142	143	137	171	66
Operating Margin	11.6%	9.1%	7.5%	10.9%	12.3%	12.7%	12.6%	12.1%	14.8%	5.5%
Net Profit	70	43	38	70	91	88	89	71	92	26
Net Margin	6.2%	4.7%	3.9%	6.3%	8.2%	7.9%	7.8%	6.3%	8.0%	2.2%
Free Cash Flow	15	95	7	55	118	74	73	19	109	207
Income Tax	42	22	18	34	41	35	41	44	58	3

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	876	875	1197	1115	1112	1234	1265	1423	1354	1685
Cash & Equivalents	51	62	60	60	83	96	106	106	114	134
Accounts Receivable	199	173	199	193	191	200	211	233	210	244
Inventories	159	124	151	141	136	137	123	126	103	154
Goodwill & Int. Ass.	83	85	263	259	297	295	284	430	410	605
Total Liabilities	481	436	741	676	641	662	726	906	793	1082
Accounts Payable	50	43	58	50	60	67	70	68	63	87
Long-Term Debt	155	98	377	342	279	268	252	465	391	475
Shareholder's Equity	390	433	448	430	459	563	530	513	555	594
D/E Ratio	0.39	0.23	0.84	0.79	0.60	0.47	0.47	0.90	0.70	0.79

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	7.4%	4.9%	3.7%	6.0%	8.1%	7.5%	7.1%	5.3%	6.6%	1.7%
Return on Equity	16.6%	10.5%	8.7%	15.9%	20.4%	17.3%	16.2%	13.6%	17.2%	4.5%
ROIC	12.0%	8.0%	5.6%	8.7%	11.8%	11.1%	10.9%	8.0%	9.5%	2.6%
Shares Out.	35.8	36.0	36.5	36.7	37.0	37.2	37.5	37.4	37.7	38.2
Revenue/Share	31.70	25.53	26.81	30.21	29.98	29.69	30.05	29.99	30.26	30.93
FCF/Share	0.43	2.65	0.18	1.49	3.19	1.98	1.95	0.50	2.88	5.34

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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