



MSA Safety, Inc. (MSA)

Updated February 21st, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$104	5 Year CAGR Estimate:	3.2%	Volatility Percentile:	49.3%
Fair Value Price:	\$84	5 Year Growth Estimate:	6.0%	Momentum Percentile:	92.1%
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.3%	Growth Percentile:	52.0%
Dividend Yield:	1.5%	5 Year Price Target	\$112	Valuation Percentile:	24.4%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	16.6%

Overview & Current Events

MSA Safety Incorporated, formerly Mine Safety Appliances, 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. The \$4 billion market cap company employs about 4,700 people worldwide.

On February 20th, 2019 MSA released Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter revenue totaled \$362 million, a 4.5% increase from Q4 2017, while adjusted earnings-per-share totaled \$1.27 against \$1.31 in the same period a year ago. For the year, revenue equaled \$1.36 billion, a 13.5% increase from 2017, which was fueled by new product releases, a result of significant investment in research and development and acquisitions over the past several years. Reported earnings came in at \$3.18 per share against \$2.88 in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.21	\$1.05	\$1.87	\$2.42	\$2.28	\$2.30	\$1.84	\$2.44	\$2.88	\$3.18	\$3.80	\$5.08
DPS	\$0.96	\$0.99	\$1.03	\$1.10	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.60	\$2.35
Shares	36	37	37	37	37	38	37	38	38	39	39	39

MSA has put together a solid growth record in the past decade, although perhaps not quite as impressive as the above table demonstrates given that 2010 is coming off a recession low. Still, over the longer-term MSA has been able to grow in the mid-single digits. We believe this trend will continue stemming from a variety of sources.

MSA's acquisition of Globe Manufacturing in 2017 has boosted the company's revenue growth profile and provides the company with an expansion into new product categories such as protective clothing for firefighters. Furthermore, innovations such as the thermal imaging camera in the self-contained breathing apparatus and the company's V-Series line of fall protection have been gaining traction. In addition, the company's backlog pipeline "remains elevated" at the end of 2018, reflecting increased levels of demand across its core product areas.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.7	25.4	17.8	15.8	21.6	23.5	25.3	21.5	26.1	29.6	27.4	22.0
Avg. Yld.	4.0%	3.7%	3.1%	2.9%	2.4%	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%	2.1%

Over the past 10 years shares of MSA have traded hands with an average P/E ratio of about 22 times earnings. This may seem elevated, however it is important to note that this reflects reported earnings, which can at times trail the underlying earnings power of the business. As an example, in the last two years MSA has reported \$2.88 and \$3.18 in earnings-per-share, but adjusted earnings-per-share have come in much higher at \$3.65 and \$4.50 respectively. We will continue to base our "fair" valuation on a typical multiple of reported earnings. Even so, today's mark still appears somewhat elevated, leading to the possibility of a valuation headwind for future returns.

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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While the dividend has been increasing nicely, at the current 1.5% mark it does not add meaningfully to an investment thesis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	79%	94%	33%	55%	45%	54%	69%	54%	48%	47%	42%	46%

MSA Safety has several competitive advantages that fuel its growth as the 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 it can invest in growth initiatives to retain its industry leadership.

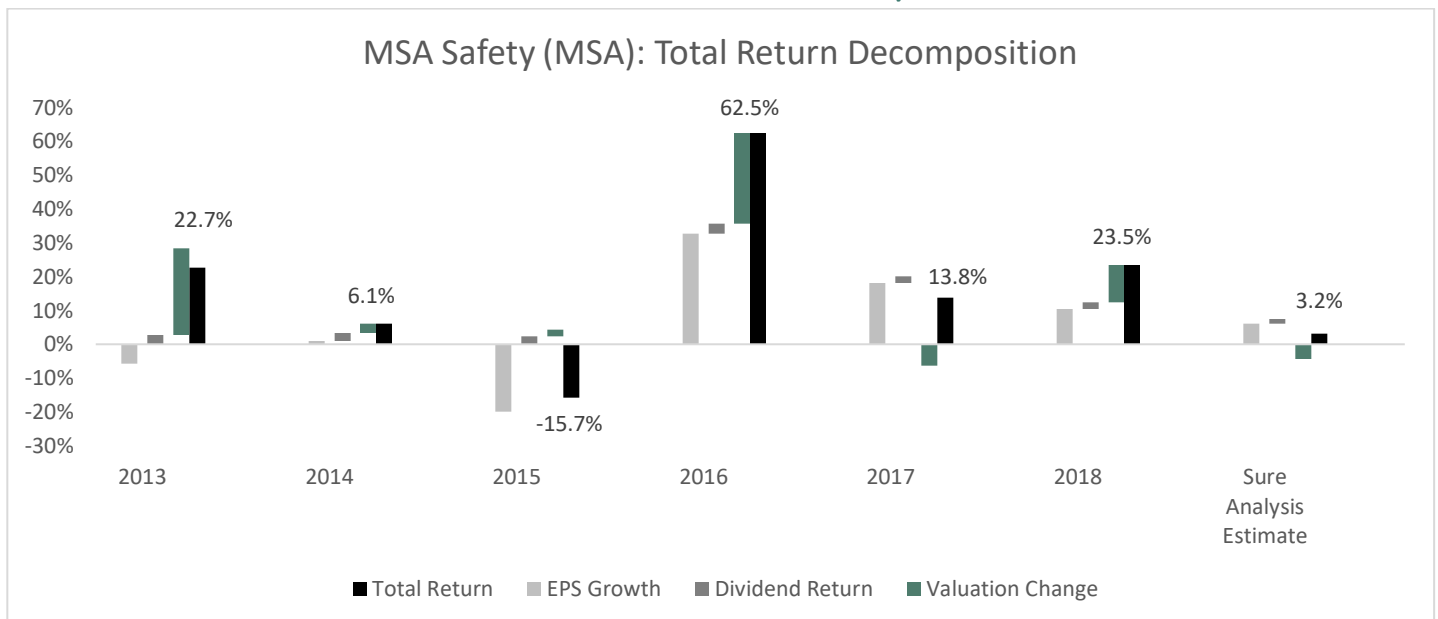
During the last recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05 and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclical nature inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat encouraged by the idea that the dividend kept increasing during this time. That was good news for the current income investor, but the payout ratio did become quite elevated for a few years.

As of the most recent report MSA held \$140 million in cash, \$657 million in current assets and \$1.6 billion in total assets against \$282 million in current liabilities and \$969 million in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$341 million against underlying annual earnings power close to \$150 million.

Final Thoughts & Recommendation

Shares are more or less unchanged since our last report, but up over 30% since the end of 2017. MSA Safety is a strong business with significant competitive advantages. Moreover, the company also has a reasonable growth profile coupled with a solid, albeit currently low-yielding, dividend. The main downside, in our view, is the elevated valuation. This has the potential to turn solid business performance into mediocre or worse investment returns. We rate MSA a sell as a result of its valuation.

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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