



MSA Safety, Inc. (MSA)

Updated April 25th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	3.4%	Volatility Percentile:	47.5%
Fair Value Price:	\$84	5 Year Growth Estimate:	6.0%	Momentum Percentile:	72.5%
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Growth Percentile:	53.1%
Dividend Yield:	1.5%	5 Year Price Target	\$112	Valuation Percentile:	22.3%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	14.8%

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 4,800 people worldwide.

On April 24th, 2019 MSA released Q1 2019 results for the period ending March 31st, 2019. For the quarter revenue totaled \$326 million, which was consistent with Q1 2018, but up 3% on a constant currency basis, driven by new product introductions. Adjusted earnings increased 13% to \$44 million or \$1.14 per share compared to \$39 million or \$1.01 in the same period a year ago, aided by an improvement in the company's cost structure. MSA also recently announced a definitive agreement to acquire California-based Sierra Monitor, a company focused on fixed gas and flame detection instruments connecting to the Internet of Things, in an all cash transaction valued at \$33 million.

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, forecasting 6% annual growth, 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 new Sierra Monitor acquisition and a strong backlog cement the idea of continued growth.

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	29.3	27.1	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

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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.

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 nearly 40% of annual sales from outside the Americas and it can invest in growth initiatives to retain its industry leadership.

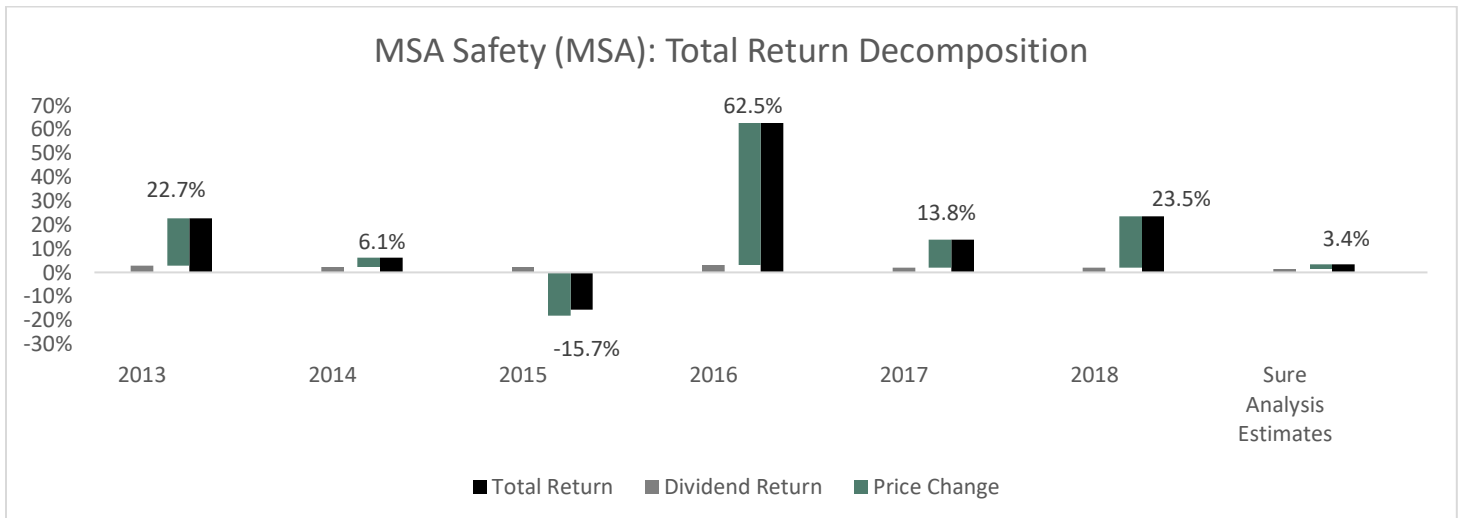
During the last recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05 and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclicity inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat encouraged 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 \$108 million in cash, \$673 million in current assets and \$1.7 billion in total assets against \$266 million in current liabilities and \$1.0 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$357 million against underlying annual earnings power close to \$150 million.

Final Thoughts & Recommendation

Shares are more or less unchanged since our last update, 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, 6.0% over the intermediate-term in our estimation, coupled with a solid, albeit currently low-yielding 1.5% dividend. The main downside, in our view, is the elevated valuation which could add a meaningful 4.1% headwind and the potential for a total return of just 3.4% per annum. This has the prospect of turning 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	916	977	1113	1110	1112	1134	1131	1150	1197	1358
Gross Profit	343	370	458	490	497	515	501	522	539	612
Gross Margin	37.4%	37.9%	41.2%	44.1%	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%
SG&A Exp.	231	263	298	313	309	323	315	308	300	325
D&A Exp.	27	29	33	32	31	30	32	35	38	38
Operating Profit	83	74	121	136	142	144	137	167	62	189
Operating Margin	9.1%	7.6%	10.9%	12.2%	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%
Net Profit	43	38	70	91	88	89	71	92	26	124
Net Margin	4.7%	3.9%	6.3%	8.2%	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%
Free Cash Flow	95	7	55	118	74	73	19	109	207	230
Income Tax	22	18	34	41	35	41	44	58	3	37

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	875	1197	1115	1112	1234	1265	1423	1354	1685	1608
Cash & Equivalents	62	60	60	83	96	106	106	114	134	140
Accounts Receivable	173	199	193	191	200	211	233	210	244	245
Inventories	124	151	141	136	137	123	126	103	154	157
Goodwill & Int. Ass.	85	263	259	297	295	284	430	410	605	583
Total Liabilities	436	741	676	641	662	726	906	793	1082	968
Accounts Payable	43	58	50	60	67	70	68	63	87	78
Long-Term Debt	98	377	342	279	268	252	465	391	475	361
Shareholder's Equity	433	448	430	459	563	530	513	555	594	630
D/E Ratio	0.23	0.84	0.79	0.60	0.47	0.47	0.90	0.70	0.79	0.57

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.9%	3.7%	6.0%	8.1%	7.5%	7.1%	5.3%	6.6%	1.7%	7.5%
Return on Equity	10.5%	8.7%	15.9%	20.4%	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%
ROIC	8.0%	5.6%	8.7%	11.8%	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%
Shares Out.	36	37	37	37	37	38	37	38	38	39
Revenue/Share	25.53	26.81	30.21	29.98	29.69	30.05	29.99	30.26	30.93	34.86
FCF/Share	2.65	0.18	1.49	3.19	1.98	1.95	0.50	2.88	5.34	5.90

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

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