



MSA Safety Inc. (MSA)

Updated February 20th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	2.0%	Market Cap:	\$5.2 B
Fair Value Price:	\$102	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/11/20
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.2%	Dividend Payment Date:	03/01/20
Dividend Yield:	1.3%	5 Year Price Target	\$136	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	10.5%

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 \$5 billion market cap company, which has increased its dividend for more than four decades, employs about 4,800 people worldwide.

On February 19th, 2020 MSA released Q4 and full year results for the period ending December 31st, 2019. For the quarter revenue came in at \$375 million, representing a 4% increase on a reported basis and a 5% increase on an organic basis. Adjusted earnings equaled \$51 million or \$1.29 per share compared to \$50 million or \$1.27 per share in the year ago period. For the year MSA generated \$1.4 billion in revenue, representing a 3% increase as reported and a 5% increase on an organic basis. Adjusted earnings totaled \$188 million or \$4.80 per share compared to \$175 million or \$4.50 per share in 2018. MSA continues to innovate, as more than 40% of sales were from products introduced within the last five years.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.05	\$1.87	\$2.42	\$2.28	\$2.52	\$2.52	\$2.77	\$3.65	\$4.50	\$4.80	\$5.10	\$6.82
DPS	\$0.99	\$1.03	\$1.10	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.68	\$2.58
Shares¹	37	37	37	37	38	37	38	38	39	39	39	39

Note that we have used adjusted earnings in the table and forecast above. 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 2009 and 2010 are 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	25.4	17.8	15.8	21.6	21.4	18.5	18.9	20.6	20.7	22.8	26.2	20.0
Avg. Yld.	3.7%	3.1%	2.9%	2.4%	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%	1.3%	2.0%

Over the past 10 years shares of MSA have traded hands with an average P/E ratio of about 20 times adjusted earnings. We have used this multiple as a starting place for a "fair" valuation. With a current P/E ratio near 26 times expected earnings, this implies the possibility of a moderate valuation headwind over the intermediate term.

¹ In millions.

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, and indeed has a spectacular long-term record of being increased every year for half a century, the current 1.3% dividend yield does not add meaningfully to an investment thesis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	94%	33%	55%	45%	49%	50%	47%	38%	33%	34%	33%	38%

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 roughly a third of annual sales from outside the Americas and it can invest in growth initiatives to retain its industry leadership.

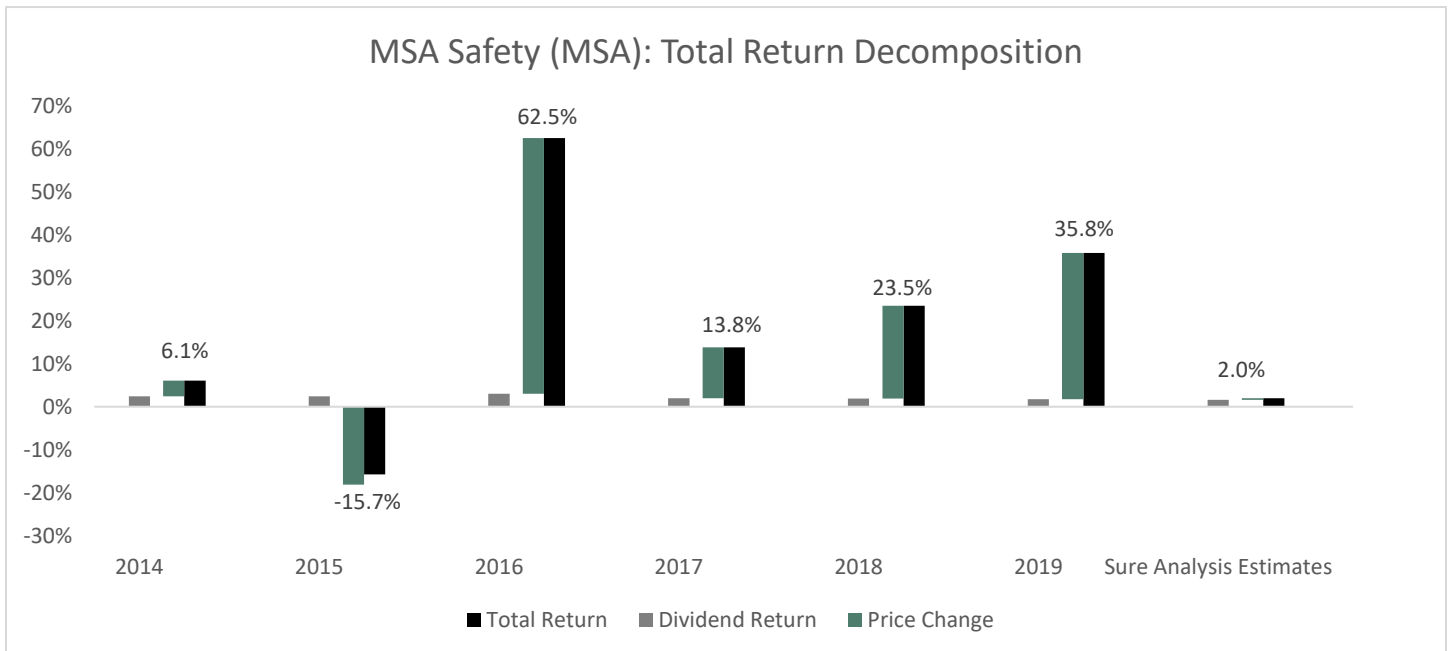
During the last recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05 and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclicity inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat encouraged 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 \$152 million in cash, \$693 million in current assets and \$1.7 billion in total assets against \$278 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 \$328 million against underlying annual earnings power of close to \$200 million.

Final Thoughts & Recommendation

Shares are up 21% since our last report. 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 1.3% dividend. The main downside, in our view, is the elevated valuation which could lead to a moderate headwind and the potential for a total return of just 2.0% per annum. This has the prospect of turning solid business performance into mediocre investment returns. As such, we rate MSA as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	977	1113	1110	1112	1134	1131	1150	1197	1358	
Gross Profit	370	458	490	497	515	501	522	539	612	
Gross Margin	37.9%	41.2%	44.1%	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%	
SG&A Exp.	263	298	313	309	323	315	308	300	325	
D&A Exp.	29	33	32	31	30	32	35	38	38	
Operating Profit	74	121	136	142	144	137	167	62	189	
Operating Margin	7.6%	10.9%	12.2%	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%	
Net Profit	38	70	91	88	89	71	92	26	124	
Net Margin	3.9%	6.3%	8.2%	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%	
Free Cash Flow	7	55	118	74	73	19	109	207	230	
Income Tax	18	34	41	35	41	44	58	3	37	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1197	1115	1112	1234	1265	1423	1354	1685	1608	
Cash & Equivalents	60	60	83	96	106	106	114	134	140	
Accounts Receivable	199	193	191	200	211	233	210	244	245	
Inventories	151	141	136	137	123	126	103	154	157	
Goodwill & Int. Ass.	263	259	297	295	284	430	410	605	583	
Total Liabilities	741	676	641	662	726	906	793	1082	968	
Accounts Payable	58	50	60	67	70	68	63	87	78	
Long-Term Debt	377	342	279	268	252	465	391	475	361	
Shareholder's Equity	448	430	459	563	530	513	555	594	630	
D/E Ratio	0.84	0.79	0.60	0.47	0.47	0.90	0.70	0.79	0.57	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.7%	6.0%	8.1%	7.5%	7.1%	5.3%	6.6%	1.7%	7.5%	
Return on Equity	8.7%	15.9%	20.4%	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%	
ROIC	5.6%	8.7%	11.8%	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%	
Shares Out.	37	37	37	37	38	37	38	38	39	
Revenue/Share	26.81	30.21	29.98	29.69	30.05	29.99	30.26	30.93	34.86	
FCF/Share	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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