



MSA Safety Inc. (MSA)

Updated October 30th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$130	5 Year CAGR Estimate:	1.0%	Market Cap:	\$5 B
Fair Value Price:	\$90	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	11/06/20
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.1%	Dividend Payment Date¹:	12/10/20
Dividend Yield:	1.3%	5 Year Price Target	\$126	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	2.4%

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 nearly five decades, employs about 4,700 people worldwide.

On October 28th, 2020 MSA released Q3 2020 results for the period ending September 30th, 2020. For the quarter revenue came in at \$304 million, representing a 13.3% decline compared to Q3 2019. Declines were seen across all of the company's segments, as the COVID-19 pandemic continues to weigh on demand. Adjusted earnings equaled \$37 million or \$0.94 per share compared to \$45 million or \$1.15 per share in Q3 2019. MSA ended the quarter with \$342 million in debt (from \$335 million) and a 1.2x adjusted EBITDA-to-debt ratio (unchanged from last quarter). The company has begun a global restructuring program that is expected to save \$10 million to \$15 million in 2021.

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	\$4.50	\$6.31
DPS	\$0.99	\$1.03	\$1.10	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.72	\$2.42
Shares²	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 were coming off a recession low. Still, over the longer-term MSA has been able to grow in the mid-single digits.

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 the possibility of continued growth.

With that being said, the COVID-19 pandemic will have some impact on the business. An important offsetting factor is the fact that many of MSA's products are in demand in the current environment. However, we are still anticipating a decline in earnings this year. Over the intermediate term we are assuming 7% growth off a lowered base.

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	22.6	28.9	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%	1.9%

¹ Estimated date.

² 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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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 29 times expected earnings, this implies the possibility of a meaningful valuation headwind over the intermediate term.

While the dividend has been increasing nicely, and indeed has a spectacular long-term record of being increased every year for nearly half a century, the current 1.3% dividend yield does not add materially 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%	38%	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.

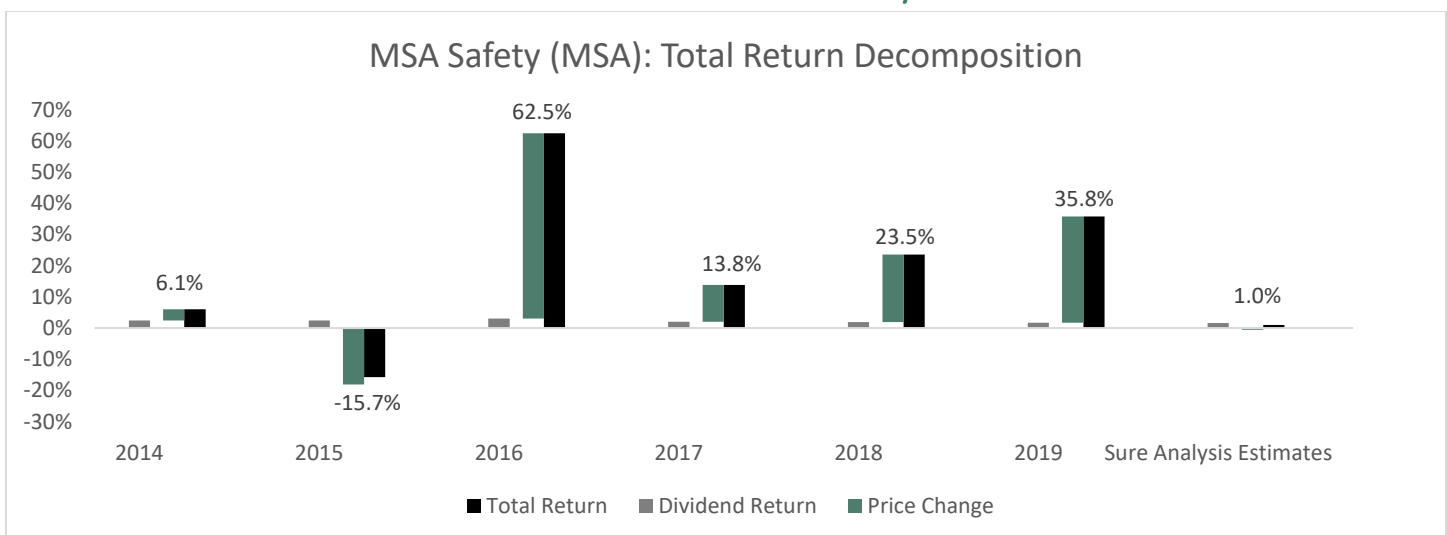
During the last recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05 and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclicity inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat encouraged 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. The current crisis will put MSA’s resilience on display once again.

As of the most recent report MSA held \$133 million in cash, \$744 million in current assets and \$1.8 billion in total assets against \$285 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 \$322 million against underlying earnings power of close to \$180 million.

Final Thoughts & Recommendation

Shares are up 10% since our last report. MSA Safety is a strong business with competitive advantages. Moreover, the company also has a reasonable growth profile, 7.0% over the intermediate-term coming off a lowered base, 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 large headwind and the potential for a total return just 1.0% per annum. This has the prospect of turning solid business performance into poor investment returns. As such, shares earn a sell rating.

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	1402
Gross Profit	370	458	490	497	515	501	522	539	612	637
Gross Margin	37.9%	41.2%	44.1%	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%	45.4%
SG&A Exp.	263	298	313	309	323	315	308	300	325	331
D&A Exp.	29	33	32	31	30	32	35	38	38	38
Operating Profit	74	121	136	142	144	137	167	62	189	220
Operating Margin	7.6%	10.9%	12.2%	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%	15.7%
Net Profit	38	70	91	88	89	71	92	26	124	136
Net Margin	3.9%	6.3%	8.2%	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%	9.7%
Free Cash Flow	7	55	118	74	73	19	109	207	230	128
Income Tax	18	34	41	35	41	44	58	3	37	46

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	1740
Cash & Equivalents	60	60	83	96	106	106	114	134	140	152
Accounts Receivable	199	193	191	200	211	233	210	244	245	255
Inventories	151	141	136	137	123	126	103	154	157	185
Goodwill & Int. Ass.	263	259	297	295	284	430	410	605	583	608
Total Liabilities	741	676	641	662	726	906	793	1082	968	1007
Accounts Payable	58	50	60	67	70	68	63	87	78	89
Long-Term Debt	377	342	279	268	252	465	391	475	361	348
Shareholder's Equity	448	430	459	563	530	513	555	594	630	722
D/E Ratio	0.84	0.79	0.60	0.47	0.47	0.90	0.70	0.79	0.57	0.48

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%	8.2%
Return on Equity	8.7%	15.9%	20.4%	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%	20.2%
ROIC	5.6%	8.7%	11.8%	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%	13.1%
Shares Out.	37	37	37	37	38	37	38	38	39	39
Revenue/Share	26.81	30.21	29.98	29.69	30.05	29.99	30.26	30.93	34.86	35.77
FCF/Share	0.18	1.49	3.19	1.98	1.95	0.50	2.88	5.34	5.90	3.28

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

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