



MSA Safety Inc. (MSA)

Updated February 19th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$169	5 Year CAGR Estimate:	-3.1%	Market Cap:	\$7 B
Fair Value Price:	\$100	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	02/18/21
% Fair Value:	169%	5 Year Valuation Multiple Estimate:	-10.0%	Dividend Payment Date¹:	03/10/21
Dividend Yield:	1.0%	5 Year Price Target	\$133	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 \$7 billion market cap company, which has increased its dividend for nearly five decades, employs about 5,000 people worldwide.

On January 25th, 2021 MSA acquired U.K. Firefighter turnout gear manufacturer Bristol Uniforms for \$60 million.

On February 18th, 2021 MSA released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter revenue came in at \$388.2 million, representing a 3.5% increase compared to Q4 2019. This result was driven by a 20% gain in the Breathing Apparatus segment, offset by declines across the rest of the company's segments. Adjusted earnings equaled \$50 million or \$1.27 per share compared to \$51 million or \$1.29 per share in Q4 2019.

For the year MSA reported sales of \$1.35 billion, a -3.8% decline compared to 2019. Adjusted earnings equaled \$177 million or \$4.50 per share compared to \$188 million or \$4.80 per share in 2019.

During the year MSA invested \$49 million in capital expenditures, paid down \$44 million in debt, funded \$67 million in dividends to shareholders and deployed \$20 million for share repurchases.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.87	\$2.42	\$2.28	\$2.52	\$2.52	\$2.77	\$3.65	\$4.50	\$4.80	\$4.50	\$4.75	\$6.36
DPS	\$1.03	\$1.10	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.71	\$1.72	\$2.42
Shares²	37	37	37	38	37	38	38	39	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, growing by an average rate of 8.5% per year during the 2008 through 2019 period. Last year proved to be a down year, which is not unexpected given the operating environment. We anticipate earnings bouncing back to pre-pandemic levels this year.

MSA's acquisition of Globe Manufacturing in 2017 boosted the company's revenue growth profile and provided the company with an expansion into new product categories such as protective clothing for firefighters. Innovations such as the thermal imaging camera in the self-contained breathing apparatus and the company's V-Series line of fall protection have helped as well. In addition, the Sierra Monitor acquisition, the new Bristol Uniforms acquisition and a strong backlog cement the idea of the possibility of continued growth.

The COVID-19 pandemic is having an impact on the business, as seen in 2020. However, results were resilient falling less than -7%. Further, an important offsetting factor is the fact that many of MSA's products continue to be in demand in the current environment. Over the intermediate term we are assuming 6% annual growth.

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.8	15.8	21.6	21.4	18.5	18.9	20.6	20.7	22.6	29.2	35.5	21.0
Avg. Yld.	3.1%	2.9%	2.4%	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%	1.4%	1.0%	1.8%

Over the past 10 years shares of MSA have traded hands with an average P/E ratio of about 21 times adjusted earnings. We are using this multiple as a starting place for a “fair” valuation. However, with a current P/E ratio near 36 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 1.0% dividend yield does not add materially to an investment thesis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	55%	45%	52%	49%	50%	47%	38%	33%	34%	38%	36%	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.

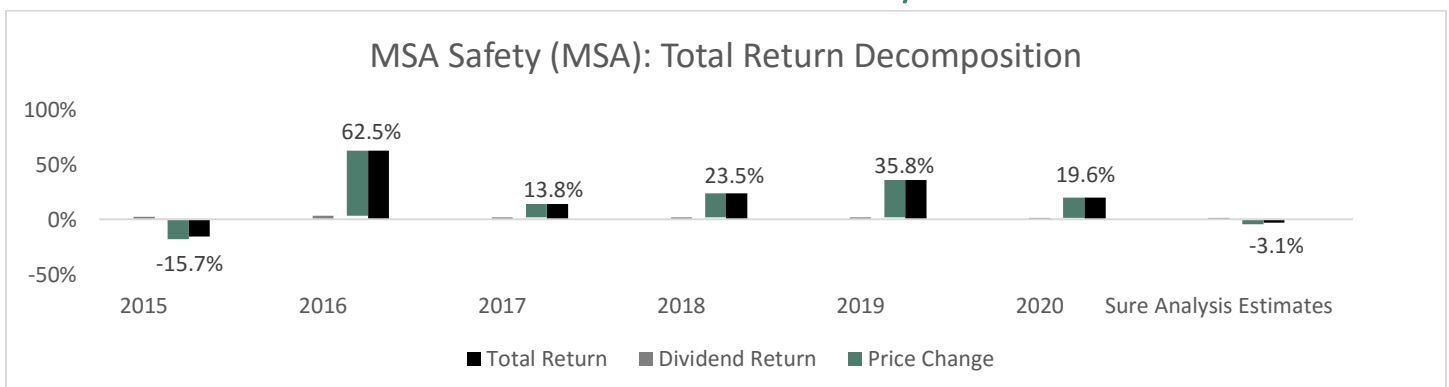
During the last recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05 and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclical nature inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat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

As of the most recent report MSA held \$161 million in cash, \$756 million in current assets and \$1.9 billion in total assets against \$310 million in current liabilities and \$1.1 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$287 million against underlying earnings power of ~\$180 million.

Final Thoughts & Recommendation

After being up 10% in our last report, shares are up another 30% in the last three months. MSA Safety is a strong business with competitive advantages. Moreover, the company also has a reasonable growth profile - 6% over the intermediate-term, coupled with a solid, albeit currently low-yielding 1.0% dividend. The main downside, in our view, is the elevated valuation which could lead to a large headwind and the potential for a -3.1% total annual return. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1113	1110	1112	1134	1131	1150	1197	1358	1402
Gross Profit	458	490	497	515	501	522	539	612	637
Gross Margin	41.2%	44.1%	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%	45.4%
SG&A Exp.	298	313	309	323	315	308	300	325	331
D&A Exp.	33	32	31	30	32	35	38	38	38
Operating Profit	121	136	142	144	137	167	62	189	220
Operating Margin	10.9%	12.2%	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%	15.7%
Net Profit	70	91	88	89	71	92	26	124	136
Net Margin	6.3%	8.2%	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%	9.7%
Free Cash Flow	55	118	74	73	19	109	207	230	128
Income Tax	34	41	35	41	44	58	3	37	46

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1115	1112	1234	1265	1423	1354	1685	1608	1740
Cash & Equivalents	60	83	96	106	106	114	134	140	152
Accounts Receivable	193	191	200	211	233	210	244	245	255
Inventories	141	136	137	123	126	103	154	157	185
Goodwill & Int. Ass.	259	297	295	284	430	410	605	583	608
Total Liabilities	676	641	662	726	906	793	1082	968	1007
Accounts Payable	50	60	67	70	68	63	87	78	89
Long-Term Debt	342	279	268	252	465	391	475	361	348
Shareholder's Equity	430	459	563	530	513	555	594	630	722
D/E Ratio	0.79	0.60	0.47	0.47	0.90	0.70	0.79	0.57	0.48

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.0%	8.1%	7.5%	7.1%	5.3%	6.6%	1.7%	7.5%	8.2%
Return on Equity	15.9%	20.4%	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%	20.2%
ROIC	8.7%	11.8%	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%	13.1%
Shares Out.	37	37	37	38	37	38	38	39	39
Revenue/Share	30.21	29.98	29.69	30.05	29.99	30.26	30.93	34.86	35.77
FCF/Share	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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