



MSA Safety Inc. (MSA)

Updated July 28th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	4.5%	Market Cap:	\$5.2 B
Fair Value Price:	\$114	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	08/13/22 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	10/09/22
Dividend Yield:	1.4%	5 Year Price Target	\$153	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

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 \$4.8 billion market cap company employs about 4,800 people worldwide and has increased its dividend for over 50 years.

On May 2nd, 2022, MSA increased its quarterly dividend by 4.5% to a quarterly rate of \$0.46. This marked the company's 52nd consecutive annual dividend hike.

On July 27th, 2022, MSA released its Q2 2021 results for the period ending June 30th, 2022. For the quarter, revenue came in at \$372 million, a 9.0% increase compared to Q2 2021. Acquisitions and organic activity drove growth of 4% and 8% in constant currency, respectively. However, the stronger dollar (FX) affected top-line growth unfavorably, by roughly 3%. More specifically, sales in the Americas segment were up 15.9%, while sales in the International segment declined 2.9%.

Adjusted earnings equaled \$66 million compared to \$59 million in Q2 2021. Importantly, the adjusted operating margin came in at 17.6% compared to 17.2% in the same period a year ago, which makes for a welcome expansion despite most industrial companies incurring rising costs lately. Thus, adjusted EPS came in at \$1.29 compared to last year's \$1.06.

Orders were up 15% in the second quarter, as well, resulting in a book-to-bill ratio well above 1.0 and a record backlog. Thus, the company should keep generating robust revenues at least over the next several quarters. For fiscal 2022, we continue to expect adjusted EPS to land close to \$5.20.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.42	\$2.28	\$2.52	\$2.52	\$2.77	\$3.65	\$4.50	\$4.80	\$4.50	\$4.68	\$5.20	\$6.96
DPS	\$1.10	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.71	\$1.75	\$1.84	\$2.24
Shares²	37	37	38	37	38	38	39	39	39	39	39	39

Note that we have used adjusted earnings in the table 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. Results in 2020 fell moderately, which is not unexpected given the operating environment. However, earnings bounced back in 2021 and we anticipate further gains for 2022.

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, Bristol Uniforms acquisition, Bacharach acquisition and a strong backlog cement the idea of the possibility of continued growth.

¹ Estimated dates based on past dividend dates.

² In millions.

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Results were down in 2020, but still resilient, falling less than -7%. Moreover, many of MSA's products continue to be in demand in the current environment. Over the intermediate term we are assuming 6% annual growth.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	15.8	21.6	21.4	18.5	18.9	20.6	20.7	22.6	28.0	38.1	25.3	22.0
Avg. Yld.	2.9%	2.4%	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%	1.4%	1.1%	1.4%	1.5%

Over the past 10 years, shares of MSA Safety have traded hands with an average P/E ratio of about 23 times adjusted earnings. We are using a slightly lower multiple as a starting place for a "fair" valuation, taking into account the ongoing rise in rates. While MSA Safety's valuation multiple has corrected from last year, we expect some further valuation headwinds moving forward. Further the dividend may feature a spectacular long-term record of being increased every year for over half a century. However, the current 1.4% dividend yield does not add materially to shareholders' total return potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45%	52%	49%	50%	47%	38%	33%	34%	38%	37%	35%	32%

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.

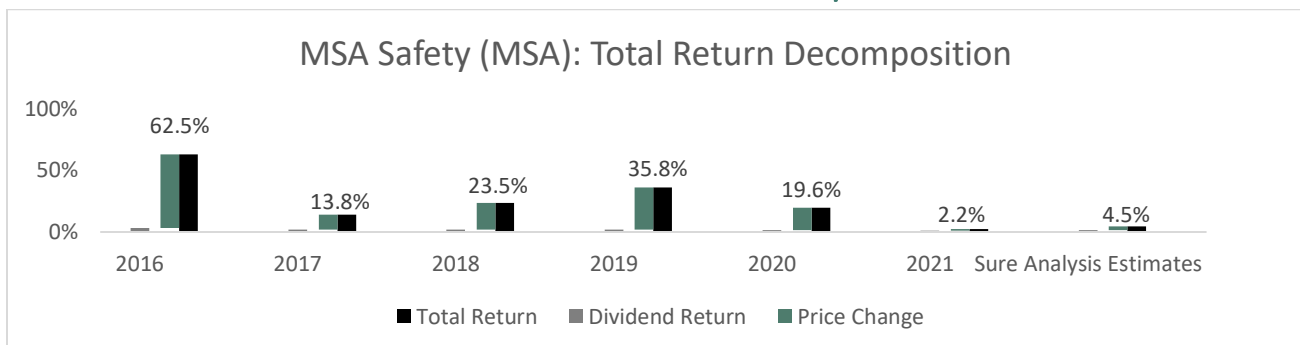
During the Great recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05, and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclicity inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat encouraged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

As of the most recent report, MSA Safety held \$134 million in cash, \$844 million in current assets and \$2.40 billion in total assets against \$336 million in current liabilities and \$1.56 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$616 million, rising from \$591 million sequentially.

Final Thoughts & Recommendation

MSA Safety is a strong business with competitive advantages. Moreover, the company also has a reasonable growth profile. However, the stock's total return potential comes out at just 4.5% per year, driven by 6% growth and a 1.4% dividend yield, offset by the possibility of a noteworthy valuation headwind. Thus, we downgrade the stock to a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1110	1112	1134	1131	1150	1197	1358	1402	1348	1400
Gross Profit	490	497	515	501	522	539	612	637	590	615
Gross Margin	44.1%	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%	45.4%	43.8%	43.9%
SG&A Exp.	313	309	323	315	308	300	325	331	290	333
D&A Exp.	32	31	30	32	35	38	38	38	40	50
Operating Profit	136	142	144	137	167	62	189	220	242	225
Operating Margin	12.2%	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%	15.7%	20.0%	16.1%
Net Profit	91	88	89	71	92	26	124	136	120	21
Net Margin	8.2%	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%	9.7%	8.9%	1.5%
Free Cash Flow	118	74	73	19	109	207	230	128	158	150
Income Tax	41	35	41	44	58	3	37	46	42	2

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1112	1234	1265	1423	1354	1685	1608	1740	1872	2396
Cash & Equivalents	83	96	106	106	114	134	140	152	161	141
Accounts Receivable	191	200	211	233	210	244	245	255	252	254
Inventories	136	137	123	126	103	154	157	185	198	281
Goodwill & Int. Ass.	297	295	284	430	410	605	583	608	604	944
Total Liabilities	641	662	726	906	793	1082	968	1007	1063	1563
Accounts Payable	60	67	70	68	63	87	78	89	87	107
Long-Term Debt	279	268	252	465	391	475	361	348	307	598
Shareholder's Equity	459	563	530	513	555	594	630	722	798	831
LTD/E Ratio	0.60	0.47	0.47	0.90	0.70	0.79	0.57	0.48	0.38	0.72

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.1%	7.5%	7.1%	5.3%	6.6%	1.7%	7.5%	8.2%	6.7%	1.0%
Return on Equity	20.4%	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%	20.2%	15.8%	2.6%
ROIC	11.8%	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%	13.1%	10.9%	1.7%
Shares Out.	37	37	38	37	38	38	39	39	39	39.5
Revenue/Share	29.98	29.69	30.05	29.99	30.26	30.93	34.86	35.77	34.32	35.49
FCF/Share	3.19	1.98	1.95	0.50	2.88	5.34	5.90	3.28	4.01	3.80

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

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