



MSA Safety Inc. (MSA)

Updated February 17th, 2023 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$141 | 5 Year CAGR Estimate: | 4.5% | Market Cap: | \$5.5 B |
| Fair Value Price: | \$123 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 02/13/23 |
| % Fair Value: | 114% | 5 Year Valuation Multiple Estimate: | -2.6% | Dividend Payment Date: | 03/10/23 |
| Dividend Yield: | 1.3% | 5 Year Price Target | \$165 | Years Of Dividend Growth: | 52 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Rating: | Hold |

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 \$5.5 billion market cap company employs about 5,000 people worldwide and has increased its dividend for over 50 years.

On February 16th, 2023, MSA released its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, revenue came in at \$443.3 million, an 8.0% increase compared to Q4-2021. Revenue growth was driven entirely organically. However, the 11% organic growth the company achieved was offset by a 3% FX headwind.

More specifically, sales in the Americas segment were up 14%, while sales in the International segment grew by 7%. Adjusted earnings equaled \$70.9 million compared to \$66.0 million in Q4 2021. Importantly, the adjusted operating margin came in at 21.6% compared to 19.5% 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 \$1.80 compared to last year's \$1.65. For the year, adjusted EPS hit a new all-time high, reaching \$5.65.

On the one hand, the company expects growing global demand for safety technologies and solutions, which is reflected in its strong order flow and backlog. On the other hand, persistent inflation, supply chain constraints, higher interest rates, and incremental debt on legacy liability divestiture could be a headwind to EPS. Accordingly, we expect adjusted EPS to lag in fiscal 2023.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.28 | \$2.52 | \$2.52 | \$2.77 | \$3.65 | \$4.50 | \$4.80 | \$4.50 | \$4.68 | \$5.65 | \$5.60 | \$7.49 |
| DPS | \$1.18 | \$1.23 | \$1.27 | \$1.31 | \$1.38 | \$1.49 | \$1.64 | \$1.71 | \$1.75 | \$1.82 | \$1.84 | \$2.24 |
| Shares¹ | 37 | 38 | 37 | 38 | 38 | 39 | 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 10.6% per year from 2013 through 2022. Results in 2020 fell moderately, with earnings declining by 7%, which was not unexpected given the market conditions at the time. However, earnings bounced back in 2021 and hit new all-time highs in 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 In millions.

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Most of MSA's products continue to be in high demand in the current environment. Over the intermediate term, we are assuming a 6% annual growth. We also expect the dividend to grow by 4% per annum through 2028.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 21.6 | 21.4 | 18.5 | 18.9 | 20.6 | 20.7 | 22.6 | 28 | 38.1 | 23.7 | 25.1 | 22.0 |
| Avg. Yld. | 2.4% | 2.3% | 2.7% | 2.5% | 1.8% | 1.6% | 1.5% | 1.4% | 1.1% | 1.4% | 1.3% | 1.4% |

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 has featured a spectacular long-term record of being increased every year for over half a century. However, the current 1.3% dividend yield does not add materially to shareholders' total return potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 52% | 49% | 50% | 47% | 38% | 33% | 34% | 38% | 37% | 32% | 33% | 30% |

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.

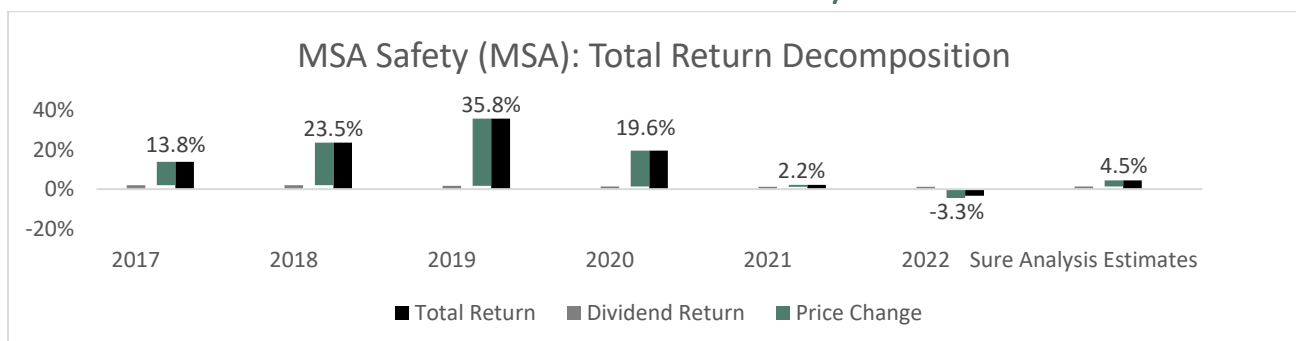
During the Great recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05, and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclical nature inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat 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 Safety held \$163 million in cash, \$880 million in current assets and \$2.40 billion in total assets against \$346 million in current liabilities and \$1.45 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$565 million, falling from \$597 million sequentially.

Final Thoughts & Recommendation

MSA Safety is a strong business with competitive advantages. Moreover, the company also has a reasonable growth profile. The stock's total return potential comes out at 4.5% per year, driven by 6% growth and a 1.3% dividend yield, offset by the possibility of a mild valuation headwind. Shares earn a hold rating.

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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