



MSA Safety Inc. (MSA)

Updated May 3rd, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$140	5 Year CAGR Estimate:	6.0%	Market Cap:	\$5.5 B
Fair Value Price:	\$132	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/15/23
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	06/10/23
Dividend Yield:	1.3%	5 Year Price Target	\$177	Years Of Dividend Growth:	53
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 May 1st, 2023, MSA released its Q1 results for the period ending March 31st, 2023. For the quarter, revenue came in at \$398.3 million, a 20.4% increase compared to Q1-2022. Revenue growth was driven entirely organically. However, the 22% organic growth the company achieved was partially offset by a 2% FX headwind.

More specifically, sales in the Americas segment were up 24% while sales in the International segment grew by 18%. Adjusted earnings equaled \$54 million compared to \$44 million in Q1 2022. Importantly, the adjusted operating margin came in at 19.4% compared to 16.3% 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 \$1.36 compared to last year's \$1.10.

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. Overall, however, following a very strong start to 2023, we notable boost our EPS estimate for the year from \$5.60 to \$6.00.

On May 2nd, 2023, MSA raised its dividend by 2.2% to a quarterly rate of \$0.47.

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	\$6.00	\$8.03
DPS	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.71	\$1.75	\$1.82	\$1.88	\$2.29
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	23.3	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%	1.3%

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%	31%	28%

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.

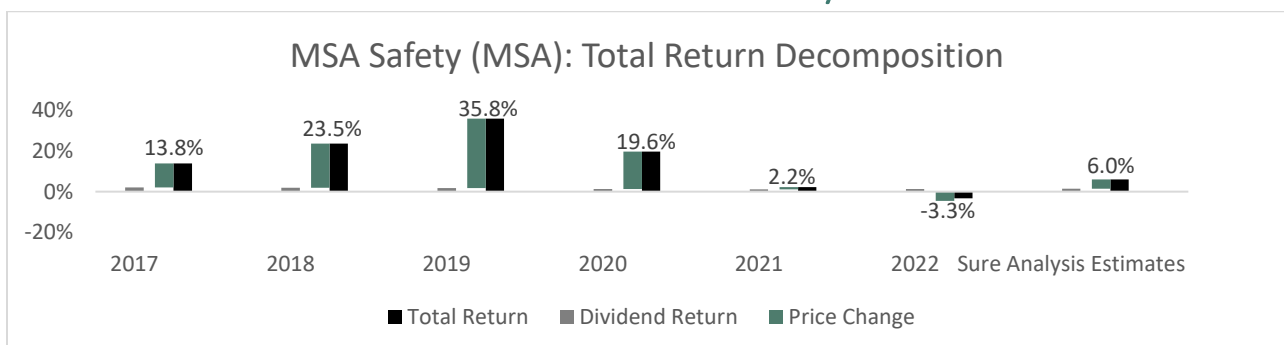
During the Great recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05, and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclical nature inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat 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 \$139 million in cash, \$831 million in current assets and \$2.2 billion in total assets against \$293 million in current liabilities and \$1.43 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$837 million, rising from \$565 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 6.0% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1112	1134	1131	1150	1197	1358	1402	1348	1400	1528
Gross Profit	497	515	501	522	539	612	637	590	615	674
Gross Margin	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%	45.4%	43.8%	43.9%	44.1%
SG&A Exp.	309	323	315	308	300	325	331	290	333	339
D&A Exp.	31	30	32	35	38	38	38	40	50	56
Operating Profit	142	144	137	167	62	189	220	242	225	278
Operating Margin	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%	15.7%	20.0%	16.1%	18.2%
Net Profit	88	89	71	92	26	124	136	120	21	180
Net Margin	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%	9.7%	8.9%	1.5%	11.8%
Free Cash Flow	74	73	19	109	207	230	128	158	150	114
Income Tax	35	41	44	58	3	37	46	42	2	59

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1234	1265	1423	1354	1685	1608	1740	1872	2396	2377
Cash & Equivalents	96	106	106	114	134	140	152	161	141	163
Accounts Receivable	200	211	233	210	244	245	255	252	254	297
Inventories	137	123	126	103	154	157	185	198	281	338
Goodwill & Int. Ass.	295	284	430	410	605	583	608	604	944	903
Total Liabilities	662	726	906	793	1082	968	1007	1063	1563	1453
Accounts Payable	67	70	68	63	87	78	89	87	107	113
Long-Term Debt	268	252	465	391	475	361	348	307	598	573
Shareholder's Equity	563	530	513	555	594	630	722	798	831	920
LTD/E Ratio	0.47	0.47	0.90	0.70	0.79	0.57	0.48	0.38	0.72	0.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.5%	7.1%	5.3%	6.6%	1.7%	7.5%	8.2%	6.7%	1.0%	7.5%
Return on Equity	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%	20.2%	15.8%	2.6%	20.5%
ROIC	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%	13.1%	10.9%	1.7%	12.3%
Shares Out.	37	38	37	38	38	39	39	39	39.5	39.4
Revenue/Share	29.69	30.05	29.99	30.26	30.93	34.86	35.77	34.32	35.49	38.77
FCF/Share	1.98	1.95	0.50	2.88	5.34	5.90	3.28	4.01	3.80	2.88

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

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