



# MSA Safety Inc. (MSA)

Updated August 1<sup>st</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$175	<b>5 Year CAGR Estimate:</b>	3.2%	<b>Market Cap:</b>	\$6.9 B
<b>Fair Value Price:</b>	\$138	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/16/23
<b>% Fair Value:</b>	127%	<b>5 Year Valuation Multiple Estimate:</b>	-4.6%	<b>Dividend Payment Date:</b>	08/10/23
<b>Dividend Yield:</b>	1.1%	<b>5 Year Price Target</b>	\$194	<b>Years Of Dividend Growth:</b>	53
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$6.9 billion market cap company employs about 5,000 people worldwide and has increased its dividend for over 50 years.

On July 31<sup>st</sup>, 2023, MSA released its Q2 results for the period ending June 30<sup>th</sup>, 2023. For the quarter, revenue came in at \$447.3 million, a 20.1% increase compared to Q2-2022. Revenue growth was driven entirely organically.

More specifically, sales in the Americas segment were up 22%, while sales in the International segment grew by 16%. Adjusted earnings equaled \$72.1 million compared to \$50.9 million in Q2 2022. Importantly, the adjusted operating margin jumped to 30.7% compared to 15.7% in the same period a year ago, which makes for a significant expansion despite most industrial companies incurring rising costs lately. Thus, adjusted EPS came in at \$1.83 compared to last year's \$1.29.

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. In any case, following a strong first half year, we maintain our EPS estimate for the year at \$6.00.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.28	\$2.52	\$2.52	\$2.77	\$3.65	\$4.50	\$4.80	\$4.50	\$4.68	\$5.65	<b>\$6.00</b>	<b>\$8.03</b>
<b>DPS</b>	\$1.18	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.71	\$1.75	\$1.82	<b>\$1.88</b>	<b>\$2.29</b>
<b>Shares<sup>1</sup></b>	37	38	37	38	38	39	39	39	39	39	<b>39</b>	<b>39</b>

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.

Most of MSA's products continue to be in high demand in the current environment. Over the intermediate term, we are assuming a 7% annual growth. We also expect the dividend to grow by 6% per annum through 2028.

<sup>1</sup> In millions.

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	21.6	21.4	18.5	18.9	20.6	20.7	22.6	28.0	38.1	23.7	<b>29.2</b>	<b>23.0</b>
<b>Avg. Yld.</b>	2.4%	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%	1.4%	1.1%	1.4%	<b>1.1%</b>	<b>1.3%</b>

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 the same multiple as a starting place for a “fair” valuation, taking into both MSA’s robust growth and the ongoing rise in rates. The stock’s significant rally in recent months has now pushed MSA’s P/E 29.2X, which we find to be a very rich multiple. Hence, we expect significant valuation headwinds ahead. Note that the dividend features a spectacular long-term record of being increased every year for over half a century. However, the current 1.1% 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
<b>Payout</b>	52%	49%	50%	47%	38%	33%	34%	38%	37%	32%	<b>31%</b>	<b>30%</b>

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.

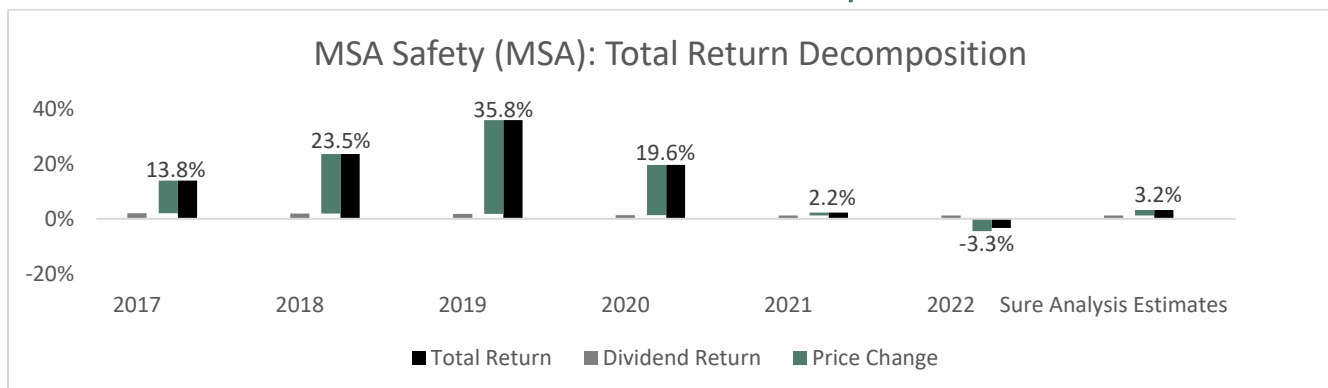
During the Great recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05, and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclical nature inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat 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 \$147 million in cash, \$850 million in current assets and \$2.2 billion in total assets against \$300 million in current liabilities and \$1.4 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$788 million, falling from \$837 million sequentially.

## Final Thoughts & Recommendation

MSA Safety is a strong business with competitive advantages. Moreover, the company also has a reasonable growth profile. That said, the stock’s extended valuation could hinder investors’ future total returns prospects. The stock’s total return potential comes out at 3.2% per year, driven by 7% growth and a 1.1% dividend yield, offset by the possibility of a strong valuation headwind. Shares earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1112	1134	1131	1150	1197	1358	1402	1348	1400	1528
<b>Gross Profit</b>	497	515	501	522	539	612	637	590	615	674
<b>Gross Margin</b>	44.7%	45.4%	44.3%	45.4%	45.0%	45.1%	45.4%	43.8%	43.9%	44.1%
<b>SG&amp;A Exp.</b>	309	323	315	308	300	325	331	290	333	339
<b>D&amp;A Exp.</b>	31	30	32	35	38	38	38	40	50	56
<b>Operating Profit</b>	142	144	137	167	62	189	220	242	225	278
<b>Operating Margin</b>	12.7%	12.7%	12.1%	14.5%	5.2%	13.9%	15.7%	20.0%	16.1%	18.2%
<b>Net Profit</b>	88	89	71	92	26	124	136	120	21	180
<b>Net Margin</b>	7.9%	7.8%	6.3%	8.0%	2.2%	9.1%	9.7%	8.9%	1.5%	11.8%
<b>Free Cash Flow</b>	74	73	19	109	207	230	128	158	150	114
<b>Income Tax</b>	35	41	44	58	3	37	46	42	2	59

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1234	1265	1423	1354	1685	1608	1740	1872	2396	2377
<b>Cash &amp; Equivalents</b>	96	106	106	114	134	140	152	161	141	163
<b>Accounts Receivable</b>	200	211	233	210	244	245	255	252	254	297
<b>Inventories</b>	137	123	126	103	154	157	185	198	281	338
<b>Goodwill &amp; Int. Ass.</b>	295	284	430	410	605	583	608	604	944	903
<b>Total Liabilities</b>	662	726	906	793	1082	968	1007	1063	1563	1453
<b>Accounts Payable</b>	67	70	68	63	87	78	89	87	107	113
<b>Long-Term Debt</b>	268	252	465	391	475	361	348	307	598	573
<b>Shareholder's Equity</b>	563	530	513	555	594	630	722	798	831	920
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	7.5%	7.1%	5.3%	6.6%	1.7%	7.5%	8.2%	6.7%	1.0%	7.5%
<b>Return on Equity</b>	17.3%	16.2%	13.6%	17.2%	4.5%	20.3%	20.2%	15.8%	2.6%	20.5%
<b>ROIC</b>	11.1%	10.9%	8.0%	9.5%	2.6%	11.9%	13.1%	10.9%	1.7%	12.3%
<b>Shares Out.</b>	37	38	37	38	38	39	39	39	39.5	39.4
<b>Revenue/Share</b>	29.69	30.05	29.99	30.26	30.93	34.86	35.77	34.32	35.49	38.77
<b>FCF/Share</b>	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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