

5 June 2015

Key Statistics

Code : MACF
Listing : Full List
Sector : Support Services
Market Cap : £53.27m
Share in issue : 31.15 m
Current Price : 42.75p
12 month High/Low: 45p/39.5p

Stock Performance



Source: Fidessa

Company description

Macfarlane Group PLC is a market leading packaging company. It is focused on the distribution of a wide range of packaging consumables, the design and manufacture of bespoke transit packaging and the design and manufacture of self-adhesive and re-sealable labels.

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A nice package

Last month's AGM statement by the company with more than 60 years' experience in the UK manufacturing industry, suggests that Macfarlane's five year unbroken record of profit growth is set to comfortably continue into 2015, with Group sales in the first four months of 2015 up 13% and profitability stronger than in the equivalent period last year.

Macfarlane Packaging is the leading distributor of packaging materials in the UK and operates through 18 strategically located Regional Distribution Centres. It offers its customers a highly personalised service and has over 20,000 products available. Macfarlane is a beneficiary from the boom in online retail with some 20% of distribution sales (the main driver of revenue and profit) being generated by internet retail customers.

The smaller manufacturing division is trading broadly flat vs 2014. There are two dynamics within that space. The specialist bespoke Packaging Design & Manufacture Business continues to win customers, but margin pressure continues in the Labels business.

Macfarlane's growth has been driven organically and by acquisition two of which were completed over 2014 following a pause of several years in its acquisition programme. We would expect more in due course. The target profile is of distribution centres with £3m to £10m turnover that fill geographic gaps and provide infill to increase utilisation levels at other sites hence improving the margin performance of those sites yet to reach their potential.

The acquisition strategy is underpinned by underlying cash flow (£2.8m from operations in 2014), a supportive shareholder base and a good relationship with the banks with Lloyds agreeing a £20m facility during 2014. Year-end 2014 net debt stood at £10.7m. Whilst pursuing an acquisition strategy the strength of the business has also allowed for an increasing dividend and for the pension deficit to be managed.

The proposed dividend increased 3% and the stock now yields nearly 4%. The Board continues to take steps to reduce Macfarlane Group's pension deficit including a one-off contribution of £2.5m in 2014. As the company has grown and bond yields have moved in the right direction the deficit has shrunk over recent years both in quantum and as a proportion of Macfarlane's Enterprise Value.

With an overall operating margin of just over 5% we see scope for progression with even a small percentage point improvement likely to have a significant effect on profit growth. This may be through synergistic acquisitions, operational gearing from a relatively flat cost base and a more targeted pricing strategy.

Shares in Macfarlane Group price have enjoyed a steady performance over the last 5 years and have risen broadly in line with earnings per share. The sub 10x rating remains at a considerable discount to the broader support services sector which trades in the mid to high teens and the dividend yield is above average. We believe the current rating offers excellent value for a dependable well managed company, which continues to consolidate its industry and offers relatively low risk exposure to a fast growing area of the UK economy.

Key Fundamentals

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS	P/E	Div	Yield
31/12/2010	135.45	4.20	2.10	20.36	1.55	3.63%
31/12/2011	144.56	3.87	3.01	14.20	1.55	3.63%
31/12/2012	141.82	5.48	2.87	14.90	1.55	3.63%
31/12/2013	143.87	4.72	3.32	12.88	1.6	3.74%
31/12/2014	153.77	5.61	3.78	11.31	1.65	3.86%

Forecast

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS	P/E	Div	Yield
31/12/2015	161.83	6.73	4.28	9.99	1.7	3.98%
31/12/2016	166.9	7.27	4.67	9.15	1.6	3.74%

Source: Digitallook

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