



MSA Safety Inc. (MSA)

Updated July 25th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$191	5 Year CAGR Estimate:	5.8%	Market Cap:	\$7.51 B
Fair Value Price:	\$172	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	08/15/24 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	09/10/24
Dividend Yield:	1.1%	5 Year Price Target	\$241	Years Of Dividend Growth:	54
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 \$7.51 billion market cap company employs about 5,000 people worldwide and has increased its dividend for over 50 years.

On May 2nd, 2024, MSA increased its dividend by 8.1% to a quarterly rate of \$0.51.

On July 24th, 2024, MSA released its Q2 results for the period ending June 30th, 2024. For the quarter, revenue came in at \$462.5 million, a 3.4% increase compared to Q2-2023.

More specifically, sales in the Americas segment were up 2%, while sales in the International segment rose by 7%. Adjusted earnings equaled \$63 million compared to \$54 million last year. Importantly, the adjusted operating margin jumped to 21.3% compared to 19.4% 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 \$80 million compared to last year's \$72 million. On a per share basis, adjusted earnings were \$2.01. MSA's management expects the company's strong momentum to last in fiscal 2024. They are forecasting mid-single digit full-year sales growth outlook. Based on this, we expect adjusted EPS for the year to land close to \$7.80.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.52	\$2.52	\$2.77	\$3.65	\$4.50	\$4.80	\$4.50	\$4.68	\$5.65	\$7.03	\$7.80	\$10.94
DPS	\$1.23	\$1.27	\$1.31	\$1.38	\$1.49	\$1.64	\$1.71	\$1.75	\$1.82	\$1.87	\$2.04	\$2.73
Shares²	38	37	38	38	39	39	39	39	39	39	40	42

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 12.1% per year from 2014 through 2023. Results in 2020 fell moderately, with earnings declining by 7%, which was not unexpected given the market conditions (i.e., COVID-19 pandemic) at the time. However, earnings bounced back in 2021 and hit new all-time highs both in 2022 and 2023.

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. MSA has grown its dividend for 54 consecutive years, earning the prestigious title of Dividend King. We believe the company's resilient business model and ample coverage

¹ Estimated dates based on past dividend dates.

² In millions.

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from earnings is going to sustain continuous dividend increases in the future. We also expect the dividend to grow by 6% per annum through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.4	18.5	18.9	20.6	20.7	22.6	28.0	38.1	23.7	20.4	24.4	22.0
Avg. Yld.	2.3%	2.7%	2.5%	1.8%	1.6%	1.5%	1.4%	1.1%	1.4%	1.3%	1.1%	1.1%

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 22 times earnings as a starting place for a “fair” valuation, taking into both MSA’s robust growth and the ongoing rise in rates. MSA’s P/E now stands at 26.3 based on our expected earnings for the year, which we find slightly rich. We believe the modest premium can be attributed investors appreciating the fact that the MSA’s dividend has been 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	50%	47%	38%	33%	34%	38%	37%	32%	27%	26%	25%

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.

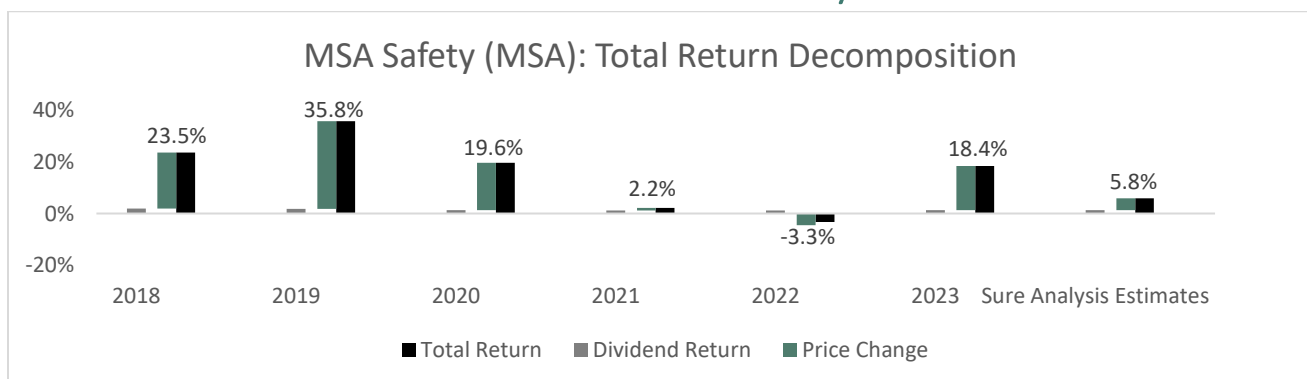
During the Great recession MSA posted earnings-per-share results of \$1.96, \$1.21, \$1.05, and \$1.87 for the 2008 through 2011 stretch. This gives you a fair idea of the cyclical nature inherent in the business – safety is always important, but budgets become squeezed in lesser times. We are somewhat 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, \$861 million in current assets and \$2.2 billion in total assets against \$352 million in current liabilities and \$1.21 billion in total liabilities. Notably, about a fourth of total assets are made up of goodwill. Long-term debt stood at \$562 million, falling from \$570 million sequentially.

Final Thoughts & Recommendation

MSA Safety is a strong business with competitive advantages. Further, MSA has a reasonable growth profile. Following the stock’s latest results, we estimate a total return potential of just 5.8% per year through 2029. This is based on a 7.0% annual growth estimate and the 1.1% dividend yield, as well as a 2.1% annual valuation headwind. We rate MSA a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1134	1131	1150	1197	1358	1402	1348	1400	1528	1788
Gross Profit	515	501	522	539	612	637	590	615	674	852
Gross Margin	45.4%	44.3%	45.4%	45.0%	45.1%	45.4%	43.8%	43.9%	44.1%	47.7%
SG&A Exp.	323	315	308	300	325	331	290	333	339	397
D&A Exp.	30	32	35	38	38	38	40	50	56	61
Operating Profit	144	137	167	62	189	220	242	225	278	388
Operating Margin	12.7%	12.1%	14.5%	5.2%	13.9%	15.7%	20.0%	16.1%	18.2%	21.7%
Net Profit	89	71	92	26	124	136	120	21	180	59
Net Margin	7.8%	6.3%	8.0%	2.2%	9.1%	9.7%	8.9%	1.5%	11.8%	3.3%
Free Cash Flow	73	19	109	207	230	128	158	150	114	50
Income Tax	41	44	58	3	37	46	42	2	59	148

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1265	1423	1354	1685	1608	1740	1872	2396	2377	2170
Cash & Equivalents	106	106	114	134	140	152	161	141	163	146
Accounts Receivable	211	233	210	244	245	255	252	254	297	295
Inventories	123	126	103	154	157	185	198	281	338	293
Goodwill & Int. Ass.	284	430	410	605	583	608	604	944	903	894
Total Liabilities	726	906	793	1082	968	1007	1063	1563	1453	1203
Accounts Payable	70	68	63	87	78	89	87	107	113	112
Long-Term Debt	252	465	391	475	361	348	307	598	573	602
Shareholder's Equity	530	513	555	594	630	722	798	831	920	963
LTD/E Ratio	0.47	0.90	0.70	0.79	0.57	0.48	0.38	0.72	0.62	0.62

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.1%	5.3%	6.6%	1.7%	7.5%	8.2%	6.7%	1.0%	7.5%	2.6%
Return on Equity	16.2%	13.6%	17.2%	4.5%	20.3%	20.2%	15.8%	2.6%	20.5%	6.2%
ROIC	10.9%	8.0%	9.5%	2.6%	11.9%	13.1%	10.9%	1.7%	12.3%	3.8%
Shares Out.	38	37	38	38	39	39	39	39.5	39.4	39.5
Revenue/Share	30.05	29.99	30.26	30.93	34.86	35.77	34.32	35.49	38.77	45.29
FCF/Share	1.95	0.50	2.88	5.34	5.90	3.28	4.01	3.80	2.88	1.27

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

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