Morning Wrap

Today's Newsflow

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Upcoming Events

Company Events

15-Oct	Bellway; FY24 Results
	Bytes Technology; Q225 Results
16-Oct	Whitbread; Q225 Results

Economic Events

Ireland

09-Oct	Industrial Production
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United Kingdom

11-Oct	Construction Output
	GDP
	Industrial Production
	Manufacturing Production
	Trade Balance
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Mondi Buying Schumacher's Western European packaging assets delivers on strategy (POSITIVE)

Recommendation: Hold
Closing Price: £14.04

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Mondi has announced the acquisition of the German, Benelux and UK corrugated converting and solid board operations of Schumacher Packaging for a headline price of €634m in cash.

The acquisition will expand Mondi's corrugated footprint in Western Europe and add complementary fibre-based products, focused on eCommerce and FMCG, and comprises seven corrugated converting plants, two solid board mills and four solid board converting plants. These operations complement Mondi's existing network of corrugated plants across Central and Eastern Europe, adding over 1 billion square meters of capacity when fully operational. Among the acquired sites are two state-of-the-art high-speed/efficiency mega-box plants in Germany, located at Ebersdorf and Greven. This complements Mondi's more eastern European footprint.

The €634m investment from existing facilities is expected to be accretive in the first year following completion, which is expected in 1H25, hence accretive in CY2026. The headline price is 7.2x FY23 EV/EBITDA (incl €22 cost synergies) but does not account for added capacity in the Greven box plant. FY24 consensus YE Net Debt prior was €1.3bn and aEBITDA €963m so before adding any EBITDA for the acquisition, leverage at end FY24 would rise from 1.4x to 2.0x (but with closure expected only in 1H25, the impact will be later and smaller).

In our view this is an important and positive strategic acquisition for Mondi as it allows it to pursue the integrated packaging model in Europe and follows the unsuccessful bid for DS Smith.

Mondi is scheduled to report 3Q24 numbers next Thursday 17th – a conference call on the deal is being held this morning at 0830 BST.

In terms of readacross for DS Smith and Smurfit , likely neutral: negative at the margin in creating a stronger competitor in Europe, but consolidation overall a positive.

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Economic view Immigration surge fuels record UK population rise

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Curbing immigration was among the goals of many of those who supported the UK's decision to leave the European Union in the 2016 referendum. Latest data published yesterday confirms that this particular goal has not been achieved, with net migration reaching record levels.

Brexit has managed to slow migrant flows from the EU, but these have been totally replaced by non-EU migrants. According to data published by the ONS, the population of the UK rose by a record 662K people in the year to mid-2023. This represents an annual increase of 1.0%. This growth was made up of 16K decline in the natural population (deaths exceeded births) and an increase of 677K in net migrants. Separate data show the biggest single sources of migrants into the UK are from India and Nigeria. Many of those migrants go to work in the health and service sectors and are joined by dependents. Indeed, the number of dependents is larger than those on long-term work visas.

The numbers highlight the paradox at the heart of some of the motives behind Brexit. With an aging population, the UK needs migrant workers to fill shortages in a number of sectors including healthcare. Yet, the debate around migration continues to be divisive one. The population increase does help explain the ongoing robust demand for housing in the UK, despite a relatively lacklustre economic picture and higher rates over recent years.

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Kerry Group Investor day showcases Kerry's key areas of differentiation and strong long-term growth potential

Recommendation: Buy
Closing Price:€90.85

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Kerry held an investor day yesterday at its global innovation centre in Beloit, Wisconsin. Across four deep-dive breakout sessions and bookended by two presentations, the event provided a thorough overview and insight into the Group's exciting long-term growth potential across the complex but structurally attractive and dynamic global F&B industry. The deep-dive sessions focused on what Kerry considers to be key growth differentiators, namely: i) Foodservice; ii) Taste; iii) Biotechnology; and iv) Emerging markets. Kerry expects continued structural growth in its current €85bn speciality ingredients addressable market driven by favourable macro (population and disposable income growth) and consumer dynamics (health & wellbeing, local taste, and convenience). On top of this, it sees an incremental €15bn+ market penetration opportunity in the areas of nutritional enhancement and cleaner labels (e.g. sugar and sodium reduction with the new market opportunity due to new FDA / WHO guidelines and regulatory developments is conservatively estimated at c.$6bn), sustainability (food waste reduction, proactive health, supply chain optimisation) and cost reduction solutions. Overall, the Group considers the depth and breadth of its portfolio across taste, nutrition and biotechnology for F&B applications to be unparalleled. However, it's their ability to integrate these technologies together that makes its offering so differentiated and underpins the Group's confidence in delivering growth into the mid-term.

As expected, the Group's core 5-year growth targets out to 2026 were unchanged (T&N vols +4-6% p.a., T&N margins 19-20%, FCF conversion of 80%+ and ROACE of 10-12%). Interestingly, looking beyond 2026, the Group sees the potential to move above the 19-20% margin level underpinned by further portfolio mix improvement, particularly in biotechnology (enzymes, preservation, proactive health), and operating leverage as it delivers volume growth from the significant investments made in its foodservice offering and emerging market infrastructure. In addition, the Group's confidence in the foodservice opportunity (30% of T&N revenue) was clear with its outperformance vs. the channel now expected to sustain at the 4%+ level going forward vs. the c.+3% outperformance historically (e.g. Kerry delivered 5% growth vs. the channel at +2% historically, and now expects a 5-6%+ growth rate vs the end-market at +1-2%).

Overall, the day reinforced our positive stance on the stock and underpinned our view that its current valuation discount to the sector (FY25 P/E of 17.5x vs peer average of c.28x) is unwarranted. We consider Kerry to be well positioned to outperform over the mid-term underpinned by 3 key differentiators which were all on show yesterday, namely: i) the depth and breadth of Kerry's F&B technologies with a particularly strong global position in Savoury Taste (meat, snacks, protein); ii) its broad Emerging market footprint and strong local partnerships / presence; and iii) its direct food service relationships and expertise in holistic solutions.
We expect LFL volumes will accelerate back into the 4-6% range in the near-term driven by a continued strong innovation pipeline in foodservice and a ramp up in innovation and promo activity in retail across brands and private label. Coupled with continued execution on margin growth targets, this will underpin continued strong earnings momentum and should, over time, see the stock re-rate back to historic relative levels (c.5% discount vs. c.30-40% today).

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Marston's Solid end to FY24 with strong deleverage momentum

Recommendation: Buy
Closing Price: £0.43

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Marston's has issued a pre-close FY24 trading statement confirming LFL sales +3.8% in the 13 weeks ending 28 September (FY +4.8% LFL, +5.8% total). With a focus on cost efficiencies, Pub profit is expected to come in-line with market expectations (£40.5m underlying PBT, excluding JV contribution – GBYe £40.8m). Food outperformed during Q4 which management see as a positive indicator for the festive season, though we don't expect any changes to forecasts just yet (FY25 GBYe PBT £67m). With the proceeds from the Carlsberg Marston's Brewing Company JV sale and strong underlying de-leverage, net debt (pre-leases) is expected to come in at c.£885m (GBYe £935m), c.5x EBITDA and down c.£300m yoy. Further detail on the long-term strategy will be outlined at the CMD on 16 October with FY24 results on 3 December.

This is another reassuring update from the UK Hospitality sector following recent fears on demand due to unfavourable weather and potentially softening consumer confidence ahead of the upcoming Budget. The key highlight today from the MARS perspective was the accelerated organic deleverage with the underlying balance sheet now in the best position for over a decade. On our forecasts, MARS trades on 5.1x cal.25 P/E and 7.2x EV/EBITDA, a notable P/E discount to the sector on 13.4x/7.1x respectively. As deleverage continues to come through, we would expect to see the P/E discount to the sector to close.

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Devolver Digital Awards granted under the group LTIP scheme

Recommendation: Buy
Closing Price: £0.29

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Devolver has released news in relation to awards under its 2022 LTIP scheme. The scheme consists of Performance Stock Units (PSU) and Restricted Stock Units (RSU) which are both subject to a 3-year cliff for senior management. Group CFO, Daniel Widdicombe has been awarded a total of 460,000 shares including 153.3k RSU and 306.6k PSUs. There is c 8.108m in total share awards split by 6.16m shares for other management and 1.946m shares for employees. In total it represents 1.8% of share capital outstanding and together with all outstanding share options that represents 12.6% of issued share cap. The PSU awards are aligned 50/50 on EBITDA and Revenue targets and to gain full vesting, the group needs to achieve more than 110% of target. For the RSUs, the CFO requires at least 60% of EBITDA targets for any of the LTIP shares to vest and below this level, all awards for senior management lapse. For the co-founders Nigel Lowrie, Harry Miller and Graeme Struthers, who have not received awards under the LTIP since launch; the Board has awarded them cash-linked bonus on the same targets and timing as the 2024 LTIP awards.

These awards are in line with expectations as outlined in the 2022 LTIP Plan.

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