Dillard's (DDS)

Updated June 30th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	5.2%	**Volatility Percentile:**	97.0%
Fair Value Price:	$78	**5 Year Growth Estimate:**	8.7%	**Momentum Percentile:**	94.9%
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Total Return Percentile:**	25.4%
Dividend Yield:	0.4%	**5 Year Price Target**	$118	**Valuation Percentile:**	23.3%

Overview & Current Events

Dillard's is a department store company that sells fashion apparel, cosmetics and home furnishings through 290 stores and clearance centers. Dillard's was founded in 1938 and is headquartered in Little Rock, AR. Dillard's is currently trading with a market capitalization of $2.8 billion.

Dillard's most recent quarterly results were announced on May 17th. The company reported sales of $1.5 billion (up 3% year over year) and earnings per share of $2.89 (a 36% increase versus the prior year's quarter). Dillard's also managed to record a strong comps sales gain, as same-store-sales were up 2% versus Q1 2017. Dillard's has recently announced a new $500 million share repurchase authorization, which amounts to 18% of the company's value.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	-	$0.74	$2.52	$4.29	$6.32	$6.99	$7.79	$6.91	$4.93	$4.89	***$5.54***	***$8.41***
DPS	$0.16	$0.16	$0.16	$0.18	$0.20	$0.22	$0.24	$0.26	$0.28	$0.34	***$0.40***	***$0.75***

During the last financial crisis Dillard's did not remain profitable. But, the company did recover quickly and by 2010 earnings-per-share were above pre-crisis levels. For a couple of years Dillard's has produced strong growth rates, but starting in 2015 profits started to decline.

Revenue growth has not been strong over the last decade, sales in 2017 actually were lower than in 2008. Dillard's profit growth in the early 2010s was driven by margin expansion primarily, as gross and operating margins rose substantially – a trend that has unfortunately reversed, which was the reason for the declining profits over the last couple of years.

Dillard's execution during the first quarter bodes well for the future, though, as rising comps sales should help stabilize margins going forward: As fixed costs per store do not change materially, higher sales (and gross profits) per store should help stop margins from compressing further.

Dillard's has returned a massive amount of cash to its owners via share repurchases in the past, the company's share count declined by more than 60% over the last decade, which means that each remaining share's portion of the company's earnings has risen by ~160% over those ten years. Dillard's will continue to lower its share count at a compelling pace, together with a low-single digits sales growth rate and stable margins this should lead to a high-single digits earnings per share growth rate.

Dillard's has grown its dividend by 13% annually over the last five years, but from a very low starting point. Even though the dividend will likely continue to grow at a compelling pace the stock is not a strong income investment.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	-	15.1	11.4	10.1	11.3	12.1	13.8	14.7	13.4	11.6	***17.1***	***14.0***
Avg. Yld.	1.4%	1.4%	0.6%	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	***0.4%***	***0.5%***

Dillard's trades at ~17 times this year's earnings, a substantial premium over the long term median earnings multiple. Multiple normalization therefore will be a headwind going forward, as the P/E ratio likely will revert to the low teens.

Due to its dividend yield being just 0.4% Dillard's is not a good choice for income investors. The company's strategy of focusing on share repurchases instead of dividend payments makes it a better choice for those seeking share price gains.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	48.4%	45.5%	46.1%	52.1%	54.8%	61.9%	60.9%	60.1%	62.2%	57.9%	***59.0%***	***61.0%***
Debt/A	49.2%	52.6%	50.0%	52.3%	52.3%	51.3%	50.8%	51.6%	53.5%	55.8%	***56.0%***	***58.0%***
Int. Cov.	-	-	2.1	4.6	6.5	7.8	8.6	9.3	7.7	5.0	***5.5***	***6.0***
Payout	-	21.6%	6.3%	4.2%	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	***7.2%***	***8.9%***
Std. Dev.	90.6%	82.5%	56.6%	43.6%	31.8%	24.1%	25.4%	26.7%	43.8%	43.9%	***32.0%***	***29.0%***

Dillard's gross profits to assets ratio has been rising for most of the last decade, and with comps sales being on the rise again the ratio will likely improve further over the next couple of years. Dillard's liabilities to assets ratio has increased as well, partially due to the fact that the company's share repurchases have lowered the equity on its balance sheet. Interest coverage is not overly high but is at a safe level – paying down some of the debt could be an opportune move, as higher interest rates will make Dillard's debt more expensive in the future.

Dillard's dividend payout ratio is extremely low. Should the company decide that dividend payments are a better use of its cash flows than buybacks, there would be room for massive dividend increases, but that seems unlikely right now. Shares have been volatile, especially over the last two years. One advantage over some of its competitors is that Dillard's is not only active in apparel and cosmetics, but also in home furnishings, which provides some diversification and makes it less reliant on the performance of apparel sales – which are more easily done online compared to home furnishings. Dillard's has not been resilient versus recessions in the past; its sales dropped substantially during the last financial crisis.

Final Thoughts & Recommendation

Dillard's best attribute is its share repurchases. Those, coupled with some revenue growth, will results in solid earnings per share growth. Total returns over the coming years nevertheless will likely come in at a mid-single digits pace only, due to the fact that the company's valuation is substantially higher than it used to be. The dividend yield of 0.4% is not high enough to have a meaningful impact on total returns. Additionally, Dillard's is heavily impacted by recessions.

Total Return Breakdown by Year