Dover Corporation (DOV)

Updated April 16th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$94	**5 Year CAGR Estimate:**	7.2%	**Quality Percentile:**	N/A
Fair Value Price:	$95	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	N/A
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Total Return Percentile:**	N/A
Dividend Yield:	2.0%	**5 Year Price Target**	$121	**Valuation Percentile:**	N/A

Overview & Current Events

Dover is a diversified global industrial manufacturer with annual revenues around $8 billion and a market cap of $14.5 billion. Last year, Dover generated 33% of its sales from engineered systems, 29% from fluids, 20% from refrigeration & food equipment and the remaining 18% from its energy segment.

In the last four years, Dover has spent $3.0 billion on several small bolt-on acquisitions, which have enabled the company to build a diversified portfolio of products intended for highly profitable market niches. In addition, Dover offers comprehensive solutions to its customers in order to lock them into long-term relationships.

Dover was severely affected by the downturn in the oil market, which began almost four years ago. As the price of oil began to collapse, most oil producers reduced their activities. Consequently, the contribution of the energy segment to the total earnings of Dover plunged from 34% in 2014 to 6% in 2016. However, the price of oil has rebounded since last summer. As a result, the U.S. oil production grew by 10.2 million barrels/day last year and reached its highest level in history, surpassing the hallmark of 10 million barrels/day. Even better, the EIA expects the domestic output to continue to grow to an average level of 10.7 million and 11.3 million barrels/day in 2018 and 2019, respectively. The energy segment, which enjoyed 23% organic growth in Q4, is poised for growth this and next year.

Due to its traumatic experience from the downturn in the oil market, Dover decided to spin off its energy segment in order to reduce the cyclicality of its earnings. The spin-off is expected to materialize this quarter. The timing is ideal, given the growth momentum of this segment.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.67	$2.00	$3.48	$4.49	$4.53	$5.28	$4.54	$3.64	$3.25	$4.38	***$5.87***	***$7.49***
DPS	$0.90	$1.02	$1.07	$1.18	$1.33	$1.45	$1.55	$1.64	$1.72	$1.82	***$1.88***	***$2.38***

All the segments of Dover are experiencing strong growth right now. The engineered systems segment, which is the company's largest, enjoyed 6% organic revenue growth last year and is expected to grow by 4% to 5% this year. The digital textile printing division in the engineered systems segment is expected to grow at around 30% per year over the next decade, according to management. We expect Dover to substantially grow its earnings-per-share (EPS) this year, from $4.38 to about $5.87.

If Dover meets our estimates this year, it will have grown its EPS at a 4.8% average annual rate over the last decade. Given the management's long-term target of 3%-5% revenue growth and a 1.5% average annual buyback rate in the last decade, it is reasonable to expect the company to continue to grow its EPS by at least 5% per year in the next five years, particularly given its strong momentum. If this occurs, the company will grow its EPS to $7.49 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.5	17.0	14.0	13.4	13.2	15.4	18.5	18.5	20.7	19.5	***16.0***	***16.2***
Avg. Yld.	2.1%	3.0%	2.2%	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	***2.0%***	***2.0%***

Dover is currently trading at a P/E of 16.0, which is very close to its 10-year average P/E of 16.2. As it is reasonable to expect the stock to trade around its average P/E ratio in 2023, the stock is likely to grow just 0.2% per year on average in the next five years thanks to expansion of its P/E.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.7%	26.6%	28.3%	29.9%	24.7%	25.6%	32.9%	29.8%	24.4%	27.1%	***32.0%***	***30.0%***
Debt/A	51.8%	48.2%	47.1%	48.1%	52.9%	50.5%	59.0%	57.7%	62.4%	58.9%	***57.0%***	***55.0%***
Int. Cov.	10.9	5.9	8.7	9.7	8.7	9.7	9.6	7.3	6.4	8.2	***10.0***	***10.0***
Payout	24.5%	51.0%	30.7%	26.3%	29.4%	27.5%	34.1%	45.1%	58.0%	41.6%	***32.0%***	***31.8%***
Std. Dev.	48.8%	41.2%	30.1%	37.1%	22.7%	19.0%	26.8%	25.9%	27.2%	18.1%	***25.0%***	***23.0%***

Dover has raised its dividend for 62 consecutive years making it a Dividend King. As the earnings of cyclical companies tend to collapse during recessions, few cyclical stocks have a dividend history as impressive as Dover's. The company's dividend record is a testament to the strength of its business model. Dover's business creates strong free cash flows. Even in the Great Recession, the company had free cash flows of $676 million, or or $3.62 per share.

Nevertheless, investors should keep in mind that Dover is vulnerable to recessions due to its cyclical nature. In 2009, its EPS plunged 45%, from $3.67 to $2.00. As a recession has not shown up for 9 consecutive years, the stock carries significant short-term downside risk whenever the economy takes a turn for the worse.

Final Thoughts & Recommendation

Dover has an exceptional growth record for a cyclical stock. We expect Dover to reward shareholders with a 7.2% average annual return in the next five years, thanks to 5% annual EPS growth, its 2.0% dividend and a mild 0.2% average annual expansion of its P/E ratio. On the other hand, as the company is vulnerable to recessions and the U.S. has not experienced a recession for 9 years, the stock carries significant downside risk. As the Fed is raising interest rates aggressively, investors should not underestimate this risk. Due to this risk factor and the relatively low dividend yield, retirees should probably stay away from the stock. Investors will probably be able to open a position in Dover at more attractive levels in the future.

Total Return Breakdown by Year