RPM International Inc. (RPM)

Updated April 16th, 2018 by Nate Parsh

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	5.8%	**Quality Percentile:**	N/A
Fair Value Price:	$50	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	N/A
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.2%	**Total Return Percentile:**	N/A
Dividend Yield:	2.6%	**5 Year Price Target**	$57	**Valuation Percentile:**	N/A

Overview & Current Events

RPM International manufactures, markets and distributes chemical products to industrial, retail and specialty customers. The majority of sales are made to industrial customers. RPM was founded in 1947 and employs almost 13,000 people today. The company has a current market cap of $6.6 billion and had almost $5 billion in sales for the 2017 fiscal year.

RPM reported 3rd quarter fiscal 2018 earnings on 4/5/2018 (RPM's fiscal year ends on 5/31/2018). The company posted earnings per share of $0.21. This was $0.03 above estimates. Revenue grew almost 8% to $1.1 billion. This was in-line with analysts' expectations. Organic sales improved 2.2%. The North American roofing and polymer floor businesses performed very well during the quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.81	$1.05	$1.45	$1.45	$1.65	$1.83	$2.18	$2.38	$2.63	$2.47	***$3.08***	***$3.57***
DPS	$0.75	$0.79	$0.82	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	***$1.28***	***$1.67***

RPM grew earnings per share at a rate of 3% from 2008 – 2017. The last recession had a severe impact on the company's earnings, which saw a decline of 42% from 2008 to 2009. It wasn't until 2013 that RPM's earnings numbers recovered above that of 2008's total. In recent years, growth has been very steady and the company has guided towards a midpoint of $3.08 in earnings per share for fiscal 2018. Using this EPS figure and average rate of growth (3%), shares of RPM could earn $3.57 by fiscal 2023.

While earnings struggled during and after the recession, RPM's dividend continued to grow. Growth slowed during this time, but the company was able to maintain and increase its payments to shareholders even in an adverse economic climate. RPM has increased its dividend for the past 44 years and has an average growth rate of 5.5% per year over the past decade. Applying this growth rate to the company's expected 2018 dividend total ($1.28), shareholders could receive $1.67 per share by 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.1	15.2	12.9	14.5	14	15.9	17.7	19.8	17.3	21.2	***15.9***	***16.1***
Avg. Yld.	3.4%	4.9%	4.4%	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	***2.6%***	***2.9%***

Based off of the current share price and updated guidance, RPM trades with a price to earnings multiple of 15.9. This is below the company's average P/E of 16.1 over the past decade. If the economy continues to improve, RPM could experience a small multiple expansion. If RPM continues to perform as it has since earnings growth returned (2013), then the multiple could reach 18.4. This would offer shareholders even further growth from current levels. In order to reach this elevated P/E, the company would have to have a best case scenario, such as the economy would need to continue to grow and demand for its products would have to remain high. Erroring on the side of caution, we will use the long term average multiple (16.1). Reaching this level would mean that the multiple expanded by 0.2% per year through 2023.

RPM's current yield is slightly above that of S&P 500 and slightly below the 10-year Treasury Bond. During the last recession and the years following, RPM had an elevated dividend yield which allowed shareholders to earn additional income as they waited for earnings growth to resume. Patient, long term investors were rewarded with a higher than usual yield during these years. If RPM is to reach our EPS and dividend targets, then shares would yield almost 3% based off of the 2023 price target.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	39.8%	39.7%	47.8%	39.9%	43.3%	41.3%	42.8%	41.4%	43.8%	42.5%	***42.4%***	***42.2%***
Debt/A	69.8%	66.5%	64.1%	64.1%	66.8%	70.9%	68.4%	72.5%	71.2%	71.8%	***71.6%***	***71.0%***
Int. Cov.	1.6	4.8	5.5	5.5	5.6	3.2	6.8	6.2	6.3	3.5	***3.8***	***4.9***
Payout	41.7%	75.2%	56.6%	57.9%	52.1%	48.6%	43.6%	42.9%	41.4%	47.8%	***41.6%***	***46.8%***
Std. Dev.	50.4%	38.6%	26.5%	34.8%	20.9%	18.1%	18.5%	19%	21.4%	16.9%	***18.8%***	***26.5%***

RPM is not recession proof, as shown by the company's decline in earnings and in the time that it took for EPS growth to return to the company. On the plus side, RPM has managed to remain profitable through recessions, though earnings do decline. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

The ability to increase the dividend during one of the most difficult economic climates in recent memory bodes well for the company's ability to continue to pay shareholders going forward. Surviving this period of time with its dividend not only intact but growing should reassure shareholders that the company will raise the dividend in future years. RPM's dividend payout ratio is currently near its lowest level in 10 years. Investors should be aware that DPS growth as outpaced EPS by almost a 2:1 margin. Dividend growth will eventually slow to match EPS growth.

Final Thoughts & Recommendation

RPM International is expected to return 5.8% per year over the next five years. This return is based off of earnings growth (3%), dividends (2.6%) and multiple revision (0.1%). RPM's earnings decline during and after the last recession prove that the company is not recession proof. However, RPM's earnings have grown in recent years as the economy as struggled. Investors looking for a defensive name should look elsewhere for their investment dollars as RPM likely won't be a safe haven in the next recession. While RPM's dividend history is compelling, the company's poor recession performance and low expected total returns mean investors should look elsewhere for now.

Total Return Breakdown by Year