



Universal Corporation (UUV)

Updated April 3rd, 2018 by Nick McCullum

Key Metrics

Current Price: \$49	5 Year CAGR Estimate: 9.7%	Quality Percentile: N/A
Fair Value Price: \$52	5 Year Growth Estimate: 4.0%	Momentum Percentile: N/A
% Fair Value: 87%	5 Year Valuation Multiple Estimate: 1.2%	Total Return Percentile: N/A
Dividend Yield: 4.5%	5 Year Price Target: \$72	Valuation Percentile: N/A

Overview & Current Events

Universal Corporation is the world's largest leaf tobacco exporter and importer. The company is the wholesale purchaser and processor of tobacco that operates between farms and the companies that manufacture cigarettes, pipe tobacco, and cigars. Universal Corporation was founded in 1886, is headquartered in Richmond, Virginia, and trades with a market capitalization of \$1.2 billion. With 46 years of consecutive dividend increases, Universal Corporation is a Dividend Champion.

In February, Universal Corporation reported (2/6/18) financial results for the nine-month period ending December 31, 2017. Quarterly earnings-per-share declined by 7.3% while revenues declined 2.3%. For the nine-month period, earnings-per-share increased by 11.8% while revenues increased by 0.3%. The company's performance was negatively impacted by lower burley crop volumes in Africa and fewer carryover crop sales in North America, partially offset by the return to normal crop volumes in Brazil. In addition, last year's third quarter reflected the largest quarterly sales volume in recent history, creating a tough comparison for this year's figure.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$4.32	\$5.68	\$5.30	\$3.25	\$4.66	\$5.25	\$4.06	\$3.92	\$3.87	\$4.35	\$4.53	\$5.50
DPS	\$1.82	\$1.86	\$1.90	\$1.94	\$1.98	\$2.02	\$2.06	\$2.10	\$2.12	\$2.16	\$2.20	\$2.80

Universal Corporation's earnings-per-share are essentially unchanged from a decade ago. As the leader in a declining industry, we do not expect the company to deliver strong growth on a *business-wide basis* for the foreseeable future.

Per-share value is a different story, however. The company's chronically undervalued stock means that Universal Corporation can still deliver adequate per-share growth by repurchasing its own stock. The ability to repurchase stock and the willingness to repurchase stock are not always aligned, unfortunately. Universal Corporation's share count is essentially identical to its share count ten years ago. Moreover, the company spent only \$13 million on share repurchases in the most recent quarter. Looking ahead, we believe that Universal Corporation is capable of delivering 4% earnings-per-share growth if it engages in a high-conviction share buyback program.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	Now	2023
Avg. P/E	10.2	7.4	7.9	13.0	10.6	10.5	12.5	14.3	16.3	11.3	13.0
Avg. Yld.	4.1%	4.4%	4.5%	4.6%	4.0%	3.7%	4.2%	4.0%	3.5%	4.5%	4.0%

Universal Corporation appears well-positioned to deliver adjusted earnings-per-share of about \$4.35 in fiscal 2017. Using this earnings estimate, the company is trading at a price-to-earnings ratio of 11.3. The company's average price-to-earnings ratio over the last 5 years has been about 13. We believe a 12x earnings multiple is a reasonable estimate of the company's fair value. If Universal Corporation's valuation can expand to 12 times earnings over the next 5 years, this will add 1.2% to the company's annualized returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	19.7%	24.3%	22.9%	22.8%	20.8%	20.1%	19.1%	18.7%	18.3%	18.6%	19.0%	19.0%
Debt/A	49.0%	51.9%	52.7%	46.8%	47.8%	45.4%	39.3%	37.7%	36.6%	39.4%	40.0%	40.0%
Int. Cov.	9.0	7.0	12.2	13.1	8.6	10.7	13.0	10.6	13.0	12.5	13.0	15.0
Payout	42.1%	32.7%	35.8%	59.7%	42.5%	38.5%	50.7%	53.6%	54.8%	49.7%	50.0%	55.0%
Std. Dev.	44.2%	39.2%	35.3%	29.0%	18.6%	22.3%	24.0%	25.6%	20.8%	30.0%	25.0%	20.0%

Universal Corporation's competitive advantage comes from having a leadership position in a slow-changing and unattractive industry. Simply put, people aren't looking to start new tobacco companies these days. This gives the company staying power in a world where many other more glamorous companies have futures that are far less certain.

Although Universal Corporation's gross profits to total assets ratio has declined over time, the company has made meaningful progress on a number of other important quality metrics. Debt to total assets and interest coverage have materially improved, and the company's payout ratio of about 50% leaves a large margin of error in case operational results deteriorate temporarily. For these reasons, Universal Corporation will appeal to the conservative, income-oriented investor.

Final Thoughts & Recommendation

The most noticeable component of Universal Corporation's expected total return profile is the company's dividend yield. A 4.5% yield means that even modest earnings growth and the smallest valuation expansion gives the company double-digit total return capability. Moreover, the company scores well on quality and safety factors. We are recommending Universal Corporation as a buy for investors looking for conservative income-generating securities to hold for the long-term.

Total Return Breakdown by Year

