Weyco Group (WEYS)

Updated April 24th, 2018 by Bob Ciura

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	0.4%	**Quality Percentile:**	N/A
Fair Value Price:	$28	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	N/A
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Total Return Percentile:**	N/A
Dividend Yield:	2.4%	**5 Year Price Target**	$33	**Valuation Percentile:**	N/A

Overview & Current Events

Weyco Group designs and manufactures footwear. It was founded in 1906. Today, it has a market capitalization of $374 million. Weyco's brand portfolio consists of Florsheim, Nunn Bush, Stacy Adams, BOGS, Rafters, and Umi. The company sells its products mainly through department stores and specialty retailers. It also operates Florsheim concept stores in the U.S. and Australia, as well as in a variety of international markets.

On 3/6/18, Weyco Group released mixed fourth-quarter and full-year earnings results. Net sales for the fourth quarter of 2017 were $80.3 million, a decrease of 2% from the same quarter the previous year. Diluted earnings-per-share were $0.79 per share in the fourth quarter of 2017, up 1.2% year-over-year. For the full year, net sales were $283.7 million in 2017, a decrease of 4% compared to $296.9 million in 2016. Earnings-per-share rose 2.5% for 2017.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.45	$1.11	$1.19	$1.37	$1.73	$1.62	$1.75	$1.68	$1.56	$1.60	***$1.60***	***$1.85***
DPS	$0.53	$0.59	$0.63	$0.64	$0.84	$0.54	$0.75	$0.79	$0.83	$0.87	***$0.88***	***$1.02***

Weyco Group's sales growth is being negatively impacted by the decline in the North American retail industry. The rise of e-commerce retailers such as Amazon has put great pressure on mall traffic. Weyco relies heavily on department stores and specialty retailers, which explains the company's weak sales results last year. The decline was driven by a 5% drop in North American wholesale. In particular, Nunn Bush sales fell 11%, while BOGS sales fell 9% for the year. Stacy Adams sales fell 2%, as wholesale declines were partly offset by stronger sales at online retailers. The only major brand to post sales growth last year was Florsheim, with 5% growth.

Weyco has struggled to keep up with the boom in e-commerce, and the corresponding erosion of brick-and-mortar retail. Based on continued sales declines, it does not seem likely that the company will grow earnings in 2018. An eventual return to sales growth could unfold over the longer-term, as the company ramps up its e-commerce presence. As a result, we forecast 3% earnings growth each year, through 2023. Dividends are expected to grow at the same rate over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.1	22.0	20.1	17.2	13.7	15.9	15.5	16.7	17.3	17.5	***22.8***	***17.6***
Avg. Yld.	1.8%	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	***2.4%***	***3.2%***

Weyco stock trades for a price-to-earnings ratio of 22.8, based on 2018 earnings forecasts. This is significantly above the 10-year average price-to-earnings ratio, of 17.6, which is a more reasonable estimate of fair value. Weyco stock has appreciated over 20% year-to-date, as of 4/24/18. The significant rise in the share price this year has caused the valuation to expand considerably as well. Today, Weyco appears overvalued, given its challenged fundamentals and slowing earnings growth.

As a result, we expect Weyco's price-to-earnings ratio to trend down over the next five years, back to its 10-year average. A price-to-earnings ratio of 17.6 represents a fair value price of $32.56, which means Weyco stock is overvalued at this time. The company will generate shareholder returns through earnings growth and dividends, but this will be greatly offset by a declining price-to-earnings ratio. For this reason, we expect annual returns of just 0.4% when including earnings growth, dividends, and changes in the valuation multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	42.6%	40.8%	40.4%	39.0%	40.3%	43.8%	44.3%	40.7%	41.8%	42.1%	***42.1%***	***42.1%***
Int. Cov.	395.1	645.4	156.5	38.0	53.1	72.3	172.2	164.5	52.2	1560.8	***1282***	***1282***
Payout	36.5%	53.1%	52.9%	46.7%	48.5%	32.1%	42.8%	47.0%	53.2%	54.4%	**55.0%**	***55.1%***
Std. Dev.	76.3%	59.2%	28.8%	37.4%	29.0%	24.9%	30.9%	26.8%	26.9%	24.4%	***36.5%***	***36.5%***
Debt/A	16.8%	20.7%	22.8%	39.3%	38.9%	28.9%	31.2%	33.6%	24.8%	24.5%	***24.5%***	***24.5%***

Weyco is having difficulty producing growth, but the company scores well across multiple safety metrics. Thanks to a strong balance sheet with very low levels of interest-bearing debt, the dividend payout is highly secure. Its payout ratio is modestly above 50%, which indicates a comfortable dividend policy. In addition, with very high interest coverage, the company’s debt is manageable.

That said, Weyco does not possess many identifiable competitive advantages. Footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the industry is in decline, due to the broader challenges facing brick-and-mortar retail. Unless Weyco can entering the e-commerce channel more aggressively, it will likely continue to struggle in generating earnings growth.

Final Thoughts & Recommendation

Weyco is a profitable company with a healthy balance sheet. But it is quickly losing ground to the competition in the footwear industry. Weyco does not have a strong enough brand portfolio to overcome its continued reliance on physical retail. Meanwhile, the stock appears to be overvalued, and the dividend yield of 2.4% does not compensate investors for the lack of growth. We expect low returns for Weyco stock moving forward. We recommend selling Weyco at current prices and investing the proceeds elsewhere.

Total Return Breakdown by Year