Newell Brands (NWL)

Updated May 24th, 2018 by Josh Arnold

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	18.0%	**Quality Percentile:**	N/A
Fair Value Price:	$37	**5 Year Growth Estimate:**	5.4%	**Momentum Percentile:**	N/A
% Fair Value:	71%	**5 Year Valuation Multiple Estimate:**	9.0%	**Total Return Percentile:**	N/A
Dividend Yield:	3.6%	**5 Year Price Target**	$48	**Valuation Percentile:**	N/A

Overview & Current Events

Newell Brands traces its roots back to 1903 when Edgar Newell purchased a struggling curtain rod manufacturer. Since then, Newell has transformed itself into a consumer brands powerhouse with large acquisitions, such as its relatively recent merger with Jarden as well as its purchase of Sistema. The company's annual revenue is in excess of $14B and it has a market cap of $12.6B.

Newell is undergoing a significant amount of change. Its recently reported Q1 results weren't particularly inspiring as normalized earnings were flat while sales fell almost 8% YoY. Newell's restructuring plan, however, is of far more interest as it said the plan is to sell nearly $10B of assets in order to right-size the business after the Jarden acquisition. It is still realizing cost synergies from the merger but Newell wants to focus on core brands and will do so with the divestitures. The significant amount of proceeds will then be used to buy back stock as well as reduce leverage on the balance sheet. On the whole, Newell's results are more about its upcoming transformation than the quarter itself.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.79	$0.97	$0.96	$1.17	$1.36	$1.44	$1.33	$0.96	$1.25	$5.63	***$2.65***	***$3.45***
DPS	$0.84	$0.26	$0.20	$0.29	$0.43	$0.60	$0.66	$0.76	$0.76	$0.88	***$0.92***	***$1.10***

Earnings have been stagnant for several years at Newell with the exception of last year, when it saw significant after-tax gains from divestitures. On a normalized basis, Newell has struggled for years with growth despite the many acquisitions it has made. Looking forward, there is significant volatility risk in Newell's estimates because of the transformation plan and the various forms it could end up taking before all is said and done.

While we see the plan as a net positive for Newell, we are still cautious given the relatively weak operating history the company has experienced as well as the assured reduction of revenue from planned divestitures. We see annual EPS growth averaging 5.4% for the foreseeable future, comprised mainly of margin improvements and share repurchases offsetting lost revenue. Timing will be key in terms of what gets sold and when, but revenue should fall fairly meaningfully in the coming years as part of Newell's plan. Margins should improve as management has committed to 15%+ operating margins in the future after the non-core assets are sold, but that will take some time. In addition, the reduced leverage on the balance sheet as well as the potential for material share repurchases should improve EPS. We see Newell as a turnaround play and certainly not a growth stock, although the pieces are in place for growth in the future should the plan work out as intended and margins increase.

The dividend should grow rather slowly as it has in recent years, staying within management's guided range of 30% to 35% of earnings. We therefore see modest growth to $1.10 per share in five years from today's 92 cents.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.5	11.7	16.9	13.8	13.8	18.6	24.3	42.8	37.3	8.1	***9.9***	***14.0***
Avg. Yld.	4.5%	2.3%	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	***3.6%***	***2.3%***

Newell's P/E multiple is well below its historical average and we see it rising back towards the mid-teens, resulting in a sizable 9.0% tailwind to total annual returns going forward as the current trough valuation is unsustainable. A rising multiple should see the yield fall as well as it nears 2% from the current, inflated yield of 3.6%, which is the product of the very low P/E multiple at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.8%	36.7%	37.3%	35.8%	35.5%	37.3%	38.5%	39.0%	33.2%	34.5%	***34.0%***	***35.0%***
Debt/A	77%	72%	70%	70%	68%	66%	72%	75%	66%	57%	***50%***	***40%***
Int. Cov.	1.1	4.1	3.5	3.4	8.3	9.9	10.9	8.5	2.9	3.0	***3.5***	***4.0***
Payout	107%	25%	19%	25%	32%	41%	49%	80%	62%	16%	***35%***	***32%***
Std. Dev.	38.8%	75.6%	27.1%	40.0%	20.9%	16.0%	14.8%	11.4%	29.2%	37.1%	***33.0%***	***31.0%***

Newell's quality metrics have generally improved in recent years. Gross margins shift with the various acquisitions and divestitures it makes but we see margins rising over time, following a dip this year due to the restructuring as well as near term volume challenges. Leverage should come well off its current levels in the coming years pending how much is spent on share buybacks, but we see it falling meaningfully in the coming years. Likewise, despite lower revenue totals, we see interest coverage improving as leverage falls but improvements will likely be slight. The payout ratio should remain about where it is today as the dividend keeps pace with earnings but stays in management's preferred range.

Newell's competitive advantage is its position in several niche consumer markets that are small but necessary and therefore, profitable. Its willingness to buy and sell assets should help it prepare for the next recession as well, building upon significant earnings growth that occurred during the Great Recession, illustrating the staying power of the model.

Final Thoughts & Recommendation

Overall, we see Newell as an interesting but potentially drawn out turnaround story. We are forecasting 18.0% total annual returns going forward, consisting of the current 3.6% yield, 5.4% EPS growth and a 9.0% tailwind from the rising valuation. Two years of subpar returns from the stock has made it much cheaper than it has been in the past but Newell is certainly not without its risks. We see it as a higher risk, high potential reward buy at current prices.

Total Return Breakdown by Year