Snap-On (SNA)

Updated May 11th, 2018 by Josh Arnold

Key Metrics

Current Price:	$148	**5 Year CAGR Estimate:**	13.4%	**Quality Percentile:**	N/A
Fair Value Price:	$174	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	N/A
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.2%	**Total Return Percentile:**	N/A
Dividend Yield:	2.2%	**5 Year Price Target**	$255	**Valuation Percentile:**	N/A

Overview & Current Events

Snap-On Tools was founded in the early 1920's and since that time has grown from a fledgling direct sales distributor of sockets to a full-service, global distributor of a wide array of common and specialty tools. The company's market cap is $8.4B and it should produce about $3.8B in revenue this year.

SNA's recently reported Q1 saw EPS rise 18% on a combination of revenue growth and share repurchases. The company's organic product revenue grew just 0.8% but acquisitions added 1.6% and forex translation another 3.1%. In addition, the financial services business saw revenue grow 8.1%. The company's operating margins were mixed as some higher costs were offset by its continuous improvement initiative and the impact of acquisitions. Overall, SNA's Q1 continued to show the high levels of growth investors have become accustomed to in recent years.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$4.07	$2.32	$3.19	$4.50	$5.20	$5.93	$7.14	$8.10	$9.20	$10.12	***$11.50***	***$16.90***
DPS	$1.20	$1.20	$1.22	$1.28	$1.36	$1.58	$1.85	$2.20	$2.54	$2.95	***$3.28***	***$5.65***

With the exception of 2009, SNA has produced materially higher earnings every year in the past decade. The company's constant focus on acquisitions as well as its own organic revenue growth in concert with a fairly rapidly growing financial services business have created a growth picture that is tough to rival. SNA's enormous breadth of its catalog – created largely through acquisitions over the years – makes it a true global leader in its industry. SNA continues to buy back its own shares as well, providing another tailwind for EPS. We see 8% EPS growth annually going forward as SNA continues to acquire brands, produce low single digit organic growth, see a low single digit tailwind from buybacks, and small gains from its cost saving program. SNA should see a bump in EPS this year from a lower tax rate as well. EPS growth of 8% a year would represent a slowdown from SNA's historical rate of EPS growth but based upon slowing rates of revenue growth, we believe this caution is warranted.

We see the dividend continuing to move higher at double digit rates, continuing SNA's exemplary track record of payout growth from the past several years. Management is committed to making SNA a premier dividend growth stock and with the payout ratio still very low and EPS growth rates in the high single digits, there is plenty of room for it to move higher.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.1	14.2	14.4	12.3	12.7	15.6	16.8	19.1	17.1	16.3	***12.9***	***15.1***
Avg. Yld.	2.4%	3.6%	2.7%	2.3%	2.1%	1.7%	1.5%	1.4%	1.6%	1.8%	***2.2%***	***2.2%***

SNA's PE multiple has spent the past several years in the mid-teens but as of now, it is just 12.9. The stock has sold off since hitting its highs early in 2018 but EPS continues to rise. This has created what looks to be a very cheap stock, trading well below fair value. We see the PE multiple moving back towards its historical levels at 15.1, providing a meaningful 3.2% tailwind to total returns annually.

We see the yield remaining right where it is today as the share price and dividend growth should roughly mirror each other. SNA isn't an income stock at just 2.2% but it is a very strong dividend growth issue and will remain so for the foreseeable future; high rates of EPS growth and a low payout ratio make SNA perfect for dividend growth investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	43.8%	43.7%	46.8%	46.9%	47.3%	48.2%	48.3%	49.2%	49.8%	49.5%	***49.6%***	***49.8%***
Debt/A	56%	62%	62%	58%	53%	48%	48%	44%	44%	43%	***42%***	***40%***
Int. Cov.	14.4	5.5	6.2	8.0	9.3	10.5	13.0	14.8	16.5	16.8	***17.0***	***20.0***
Payout	29%	51%	38%	29%	27%	26%	26%	27%	27%	28%	***29%***	***33%***
Std. Dev.	52.7%	54.9%	23.3%	31.7%	18.4%	11.6%	17.1%	14.2%	21.4%	15.6%	***19.0%***	***26.0%***

SNA's quality metrics have improved slightly over the past decade as its margins ticked higher but seem to have plateaued, debt has come down and interest coverage has improved. The company's focus on margin improvement is surely the result of three years at 49% gross margins, and should help a bit with further growth. Lower leverage has improved SNA's very clean balance sheet and its interest coverage is superb in the high-teens. Financing certainly is of no concern for SNA given its pristine balance sheet as well as its high rates of profit growth. The payout ratio is still very low and should remain in the low-30% range unless management decides to ramp up its dividend growth strategy, which we view as unlikely at this point given already-strong growth rates. Overall, SNA is in terrific shape financially.

SNA's main competitive advantage is in its very broad and deep assortment of all kinds of specialty tools. In addition, its global reach and in-house financing is a unique combination not found elsewhere. The financing business could pose a problem during a recession as customers may become past due on their accounts and this would be the principal risk for SNA during the next economic downturn. Indeed, EPS suffered mightily during the Great Recession due in part to this.

Final Thoughts & Recommendation

After two years of below market total returns, SNA looks significantly undervalued here. We see total annual returns of 14.4% going forward, consisting of the 2.2% current yield, 8% EPS growth and a 3.2% tailwind from a higher valuation. SNA has been able to produce strong growth for many years consecutively and its focus on buybacks, acquisitions and margins should continue that streak. SNA looks suitable here for value, growth and dividend growth investors.

Total Return Breakdown by Year