# Dover Corporation (DOV)

*Updated July 22nd, 2018 by Nick McCullum*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $80 | **5 Year CAGR Estimate:** | 10.7% | **Volatility Percentile:** | 47.4% |
| **Fair Value Price:** | $94 | **5 Year Growth Estimate:** | 5.0% | **Momentum Percentile:** | 28.4% |
| **% Fair Value:** | 85% | **5 Year Valuation Multiple Estimate:** | 3.3% | **Valuation Percentile:** | 83.8% |
| **Dividend Yield:** | 2.4% | **5 Year Price Target** | $121 | **Total Return Percentile:** | 70.1% |

## Overview & Current Events

Dover is a diversified global industrial manufacturer with annual revenues around $8 billion and a market cap of $11.8 billion. Last year, Dover generated 33% of its sales from engineered systems, 29% from fluids, 20% from refrigeration & food equipment and the remaining 18% from its energy segment. Dover is a Dividend King with 62 years of consecutive dividend increases.

In mid-July, Dover Corporation reported (7/19/18) financial results for the second quarter of fiscal 2018. In the quarter, the company generated revenue of $1.8 billion, an increase of 3% over the same period a year ago. GAAP earnings from continuing operations of $166.5 million increased by 17%, while adjusted diluted earnings-per-share (EPS) of $1.30 increased by 21% over the prior year's period. Dover's strong financial performance allowed the company to tighten its guidance for 2018 EPS. The company now expects to generate between $4.75 and $4.85 in EPS for the twelve-month reporting period. Dover's press release also hinted at an aggressive expense reduction program, with Dover's CEO stating: "*Dover expects to undertake targeted cost reduction initiatives between now and the end of the year to reduce overhead and increase asset intensity, while preserving our ability to drive top line growth. We will be announcing the estimated costs, benefits, and timelines associated with these actions later in the third quarter*." Dover's earnings release was well-received by the financial markets and shares rose by nearly 3% following the announcement.

Previously, Dover announced (5/9/18) details on its spinoff of Apergy Corporation. More specifically, effective May 9th Dover shareholders were distributed one share of Apergy Corporation for every two shares of Dover stock held as of 5:00pm EST on April 30th (the record date). Fractional shares of Apergy were not issued; instead, these fractional shares were aggregated and sold on the open market with the cash proceeds being distributed to the prior Dover shareholders. In addition, Dover received a one-time cash payment of $700 million from Apergy in connection with the completion of the spinoff. Apergy shares are now publicly-traded on the New York Stock Exchange under the symbol "APY."

## Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $3.67 | $2.00 | $3.48 | $4.49 | $4.53 | $5.28 | $4.54 | $3.64 | $3.25 | $4.38 | ***$5.80*** | ***$7.40*** |
| **DPS** | $0.90 | $1.02 | $1.07 | $1.18 | $1.33 | $1.45 | $1.55 | $1.64 | $1.72 | $1.82 | ***$1.88*** | ***$2.38*** |

All of Dover's segments are experiencing strong growth right now. The engineered systems segment, which is the company's largest, enjoyed 6% organic revenue growth last year and is expected to grow by 4% to 5% this year. The digital textile printing division in the engineered systems segment is expected to grow at around 30% per year over the next decade, according to management. We are revising our 2018 earnings-per-share estimate to reflect Dover's narrowed earnings guidance band. Our new estimate ($5.80) sits squarely at the midpoint of management's estimate.

If Dover meets our estimates this year, it will have grown its EPS at a 4.7% average annual rate over the last decade. Given the management's long-term target of 3%-5% revenue growth and a 1.5% average annual buyback rate in the last decade, it is reasonable to expect the company to continue to grow its EPS by at least 5% per year in the next five years, particularly given its strong momentum. If this occurs, the company will grow its EPS to $7.40 in 2023.

## Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 11.5 | 17.0 | 14.0 | 13.4 | 13.2 | 15.4 | 18.5 | 18.5 | 20.7 | 19.5 | ***13.8*** | ***16.2*** |
| Avg. Yld. | 2.1% | 3.0% | 2.2% | 2.0% | 2.2% | 1.8% | 1.8% | 2.4% | 2.6% | 2.1% | ***2.4%*** | ***2.0%*** |

Shares of Dover have fallen by approximately 15% since the time of our last quarterly research report, presenting a much better buying opportunity for potential investors. Using 2018's earnings estimate, shares are trading at a price-to-earnings ratio of 13.8. The company's 10-year average price-to-earnings ratio is 16.2. If Dover's valuation reverts to its decade-long average over a period of 5 years, this will add 3.3% to its annualized returns during this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

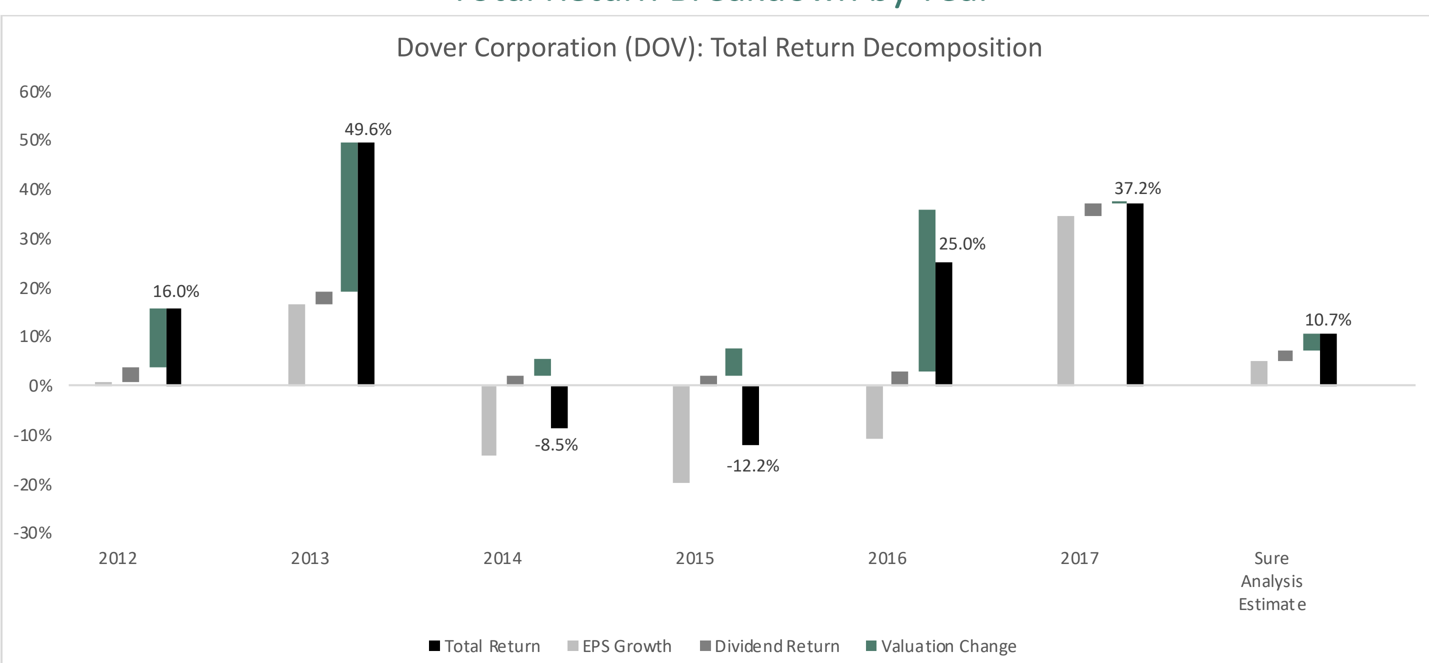
| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GP/A | 34.7% | 26.6% | 28.3% | 29.9% | 24.7% | 25.6% | 32.9% | 29.8% | 24.4% | 27.1% | ***32.0%*** | ***30.0%*** |
| Debt/A | 51.8% | 48.2% | 47.1% | 48.1% | 52.9% | 50.5% | 59.0% | 57.7% | 62.4% | 58.9% | ***57.0%*** | ***55.0%*** |
| Int. Cov. | 10.9 | 5.9 | 8.7 | 9.7 | 8.7 | 9.7 | 9.6 | 7.3 | 6.4 | 8.2 | ***10.0*** | ***10.0*** |
| Payout | 24.5% | 51.0% | 30.7% | 26.3% | 29.4% | 27.5% | 34.1% | 45.1% | 58.0% | 41.6% | ***32.0%*** | ***31.8%*** |
| Std. Dev. | 48.8% | 41.2% | 30.1% | 37.1% | 22.7% | 19.0% | 26.8% | 25.9% | 27.2% | 18.1% | ***25.0%*** | ***23.0%*** |

Dover's quality metrics are strong for a cyclical industrial manufacturing firm. Nevertheless, investors should keep in mind that Dover is vulnerable to recessions due to its cyclical nature. In 2009, its EPS plunged 45%, from $3.67 to $2.00. Accordingly, this stock should not be seen as a defensive portfolio constituent.

## Final Thoughts & Recommendation

Dover has an exceptional growth record for a cyclical stock. Moreover, the company is priced to deliver double-digit total returns for today's investors. We are recommending Dover Corporation as a cautious buy right now, with the caveat that better buying opportunities may occur during a prolonged economic contraction. A prudent approach may be to begin a partial position now and leave some dry powder available for additional purchases in the future.

## Total Return Breakdown by Year




*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*