Stanley Black & Decker (SWK)

Updated July 20th, 2018 by Nate Parsh

Key Metrics

Current Price:	$144	**5 Year CAGR Estimate:**	8.0%	**Volatility Percentile:**	27,2%
Fair Value Price:	$131	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	25.2%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Valuation Percentile:**	43.7%
Dividend Yield:	1.8%	**5 Year Price Target**	$194	**Total Return Percentile:**	50.8%

Overview & Current Events

Stanley Black & Decker is a world leader in power tools, hand tools, and related items. The company holds the top global position in tools and storage sales. SWK is second in the world in the areas of commercial electronic security and engineered fastening. Stanley Works and Black & Decker merged in 2010 to form the current company. Stanley Works traces its history back to 1843, when Frederick Stanley opened a small shop hardware shop in Connecticut. Black & Decker was founded in Baltimore, MD in 1910 and manufactured the world's first portable power tool. Today, SWK has a market capitalization of more than $22 billion and generated sales of almost $12.8 billion in 2017.

SWK released 2nd quarter earnings on July 20th. The company earned $2.57, coming in ahead of estimates by $0.55 and growing 28% year over year. Revenue increased 10.6% to $3.64 billion, topping estimates by $150 million.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.41	$2.72	$3.96	$5.24	$4.67	$4.98	$5.36	$5.86	$6.51	$7.43	***$8.40***	***$12.34***
DPS	$1.26	$1.30	$1.34	$1.64	$1.80	$1.98	$2.04	$2.14	$2.26	$2.42	***$2.58***	***$3.79***

SWK has seen earnings-per-share grow at a rate of 8% over the past ten years. As many of the company's products are used in home improvement and new home construction, SWK was especially impacted by the last recession. Earnings declined 15% in 2008 and 20% in 2009. In the years since, SWK has generally seen its EPS rise. Earnings per share have risen at an almost double-digit rate in the past few years and that trend is expected to continue in 2018. During the 2nd quarter conference call, SWK reaffirmed its earnings per share midpoint of $8.40 for the year, a 13% annual increase.

Despite increases in material costs, currency exchange issues and tariffs, SWK was able to produce robust earnings improvements as well as 7% organic sales growth. Net sales increased almost 11%, thanks largely to volume growth and acquisitions. Tools & Storage, which accounted for 71% of quarterly sales, had revenue growth of 11.3%. The addition of the Craftsman brand as well as new product innovation helped lead to higher demand worldwide. The Industrial segment had sales growth of 14%, with the Nelson Fasteners acquisitions contributing 11% of this growth. Revenues for the Security division increased 6%, thanks largely to commercial electronic security acquisitions.

SWK has a very impressive dividend growth streak. The company has raised its dividend for 50 consecutive years. While shares likely won't have an above average yield, shareholders can reasonably expect that SWK will continue to pay and raise its dividend each year based on the company's track record. SWK raised its dividend by 4.8% on July 18th.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.9	14.1	14.7	12.9	15.2	16.3	16.2	17.1	17.2	20.5	***17.2***	***15.7***
Avg. Yld.	2.9%	3.4%	2.3%	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	***1.8%***	***2.0%***

SWK saw its multiple compress as the housing crisis unfolded. In the years since, the stock has seen the multiple grow as the economy has improved. This has led to a higher year end closing price every year since 2008. Shares have decreased $8 from our April 15th update. SWK's stock now trades with a multiple 17.2. If shares were to revert to their 10-year average valuation, then SWK's stock would see a negative multiple reversion of 1.8% annually through 2023.

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.

Shareholders who maintained their position in 2008/2009 were paid a high yield until the company returned to earnings growth. Few companies in the market can top SWK's 5 decades of dividend growth. While a cyclical company, SWK has proven that it can be counted on for dividend growth in a tough economic environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

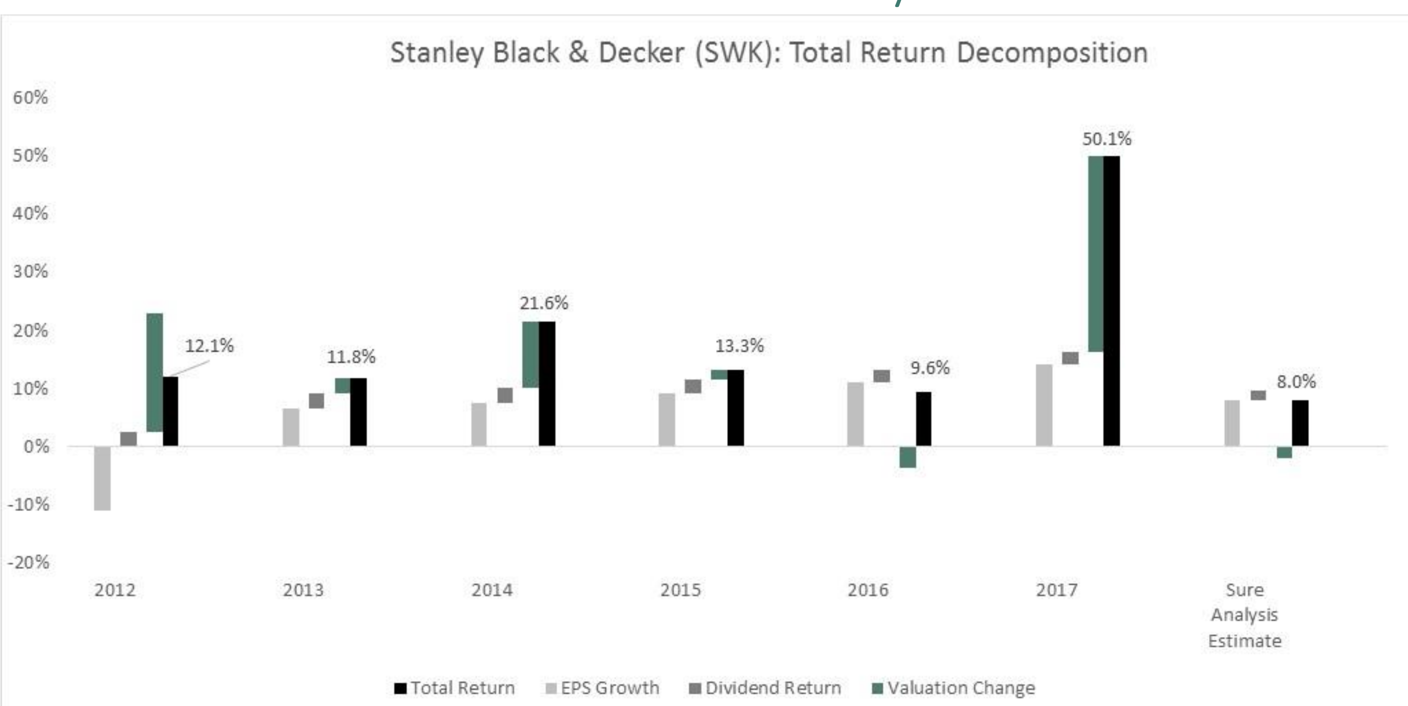
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.3%	31.6%	17.8%	21.6%	23.1%	23.6%	25.9%	26.9%	27.3%	25%	***25.7%***	***25.7%***
Debt/A	64.9%	58.4%	53.7%	56.1%	57.9%	58.9%	59.4%	61.6%	59.3%	56.5%	***54%***	***59.1%***
Int. Cov.	4.6	5.7	2.8	7	5.1	5.1	7.7	8.1	8.3	9.6	***7.8***	***6.4***
Payout	37%	47.8%	33.8%	31.3%	38.5%	39.8%	38.1%	36.5%	34.7%	32.6%	***30.7%***	***30.7%***
Std. Dev.	49.4%	45.4%	30%	39.3%	27.7%	23.6%	17.5%	19.7%	20%	14.4%	***17.3%***	***28.7%***

As seen during the 2008/2009-time period, SWK isn't recession proof. The company needs a growing economy to see earnings rise. On the other hand, investors who were willing to hold shares of the company from the 2008 lows have seen their shares grow almost 450%. SWK is attempting to diversify its business for the future. Last year, tools and storage made up 70% of total sales. The company is aiming for this total to drop to below 60%, with SWK's engineering/industrial business capturing more of the revenue share. While this does not make the company recession proof, it does help SWK to diversify its revenue streams. SWK is an aggressive acquirer. Most recently, SWK purchased Nelson Fastener Systems for $440 million last December. Even with multiple purchases, the company has seen its debt to assets ratio decline in recent years. SWK has a stated goal to payout between 30%-35% of earnings in the form of dividends. Based on 2023 estimates, the company will have a payout ratio below 29%.

Final Thoughts & Recommendation

After the slight decrease in share price, we now forecast annual returns of 8% over the next five years for Stanley Black & Decker, up from 6.9% previously. This total is a combination of earnings growth (8%), dividends (1.8%) and multiple reversion (1.8%). SWK showed solid growth during the second quarter, as all of its divisions grew year over year. New additions, such as Craftsman, and new products have helped to offset higher material costs and tariffs. While not a high yielding stock, SWK does have a lengthy dividend growth history. Investors looking for exposure to the home improvement sector should consider SWK. We maintain our 2023 price target of $194.

Total Return Breakdown by Year



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