Dillard's (DDS)

Updated August 16th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	10.8%	**Volatility Percentile:**	95.7%
Fair Value Price:	$78	**5 Year Growth Estimate:**	8.7%	**Momentum Percentile:**	84.0%
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Valuation Percentile:**	66.6%
Dividend Yield:	0.6%	**5 Year Price Target**	$118	**Total Return Percentile:**	63.8%

Overview & Current Events

Dillard's is a department store company that sells fashion apparel, cosmetics and home furnishings through 290 stores and clearance centers. Dillard's was founded in 1938 and is headquartered in Little Rock, AR. Dillard's is currently trading with a market capitalization of $2.3 billion.

Dillard's reported its second quarter earnings results on August 16. The company was able to grow its revenues by 2.7% year over year. The top line hit $1.5 billion. The company lost $0.10 per share during Q2, a big improvement over net losses of $0.58 per share during the second quarter of 2017. During the first half of 2018 Dillard's has earned $2.80 per share, 73% more than during the first half of the previous year. Comps sales were up by 1% during the second quarter.

Despite the fact that Dillard's results were better than analyst estimates for revenues as well as for earnings the market punished Dillard's shares on Thursday, sending them lower by 14%.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	-	$0.74	$2.52	$4.29	$6.32	$6.99	$7.79	$6.91	$4.93	$4.89	***$5.54***	***$8.41***
DPS	$0.16	$0.16	$0.16	$0.18	$0.20	$0.22	$0.24	$0.26	$0.28	$0.34	***$0.40***	***$0.75***

Dillard's did recover quickly from the financial crisis. By 2010 earnings-per-share were above pre-crisis levels. For a couple of years Dillard's had produced strong growth rates, but starting in 2015 profits started to decline.

Revenue growth has not been strong over the last decade. Sales in 2017 actually were lower than in 2008. Dillard's profit growth in the early 2010s was driven by margin expansion primarily, as gross and operating margins rose substantially – a trend that has unfortunately reversed, which was the reason for the declining profits over the last couple of years.

Dillard's execution during the first half of 2018 bodes well for the future, as rising comps sales should help stabilize margins going forward. As fixed costs per store do not change materially, higher sales (and gross profits) per store are a tailwind for Dillard's margins. The company's results during H1 were substantially better than those during H1 of 2017.

Dillard's has returned a massive amount of cash to its owners via share repurchases in the past. The company's share count declined by more than 60% over the last decade. This means that each remaining share's portion of the company's earnings has risen by ~160% over those ten years. Dillard's will continue to lower its share count at a compelling pace, together with a low-single digits sales growth rate and stable margins this should lead to a high-single digits earnings per share growth rate.

Dillard's has grown its dividend by 13% annually over the last five years, but from a very low starting point. Even though the dividend will likely continue to grow at a compelling pace the stock is not a strong income investment.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	-	15.1	11.4	10.1	11.3	12.1	13.8	14.7	13.4	11.6	***13.0***	***14.0***
Avg. Yld.	1.4%	1.4%	0.6%	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	***0.6%***	***0.5%***

Dillard's trades at 13 times this year's earnings right now, which is a small discount to what we deem fair value.

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.

Dillard’s will benefit from multiple expansion to some degree over the next couple of years. The dividend yield of 0.6% is a small bonus, but not enough to move the needle meaningfully.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	48.4%	45.5%	46.1%	52.1%	54.8%	61.9%	60.9%	60.1%	62.2%	57.9%	***59.0%***	***61.0%***
Debt/A	49.2%	52.6%	50.0%	52.3%	52.3%	51.3%	50.8%	51.6%	53.5%	55.8%	***56.0%***	***58.0%***
Int. Cov.	-	-	2.1	4.6	6.5	7.8	8.6	9.3	7.7	5.0	***5.5***	***6.0***
Payout	-	21.6%	6.3%	4.2%	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	***7.2%***	***8.9%***
Std. Dev.	90.6%	82.5%	56.6%	43.6%	31.8%	24.1%	25.4%	26.7%	43.8%	43.9%	***32.0%***	***29.0%***

Dillard’s gross profits to assets ratio has been rising for most of the last decade, and with comps sales being on the rise again the ratio will likely improve further over the next couple of years. Dillard’s liabilities to assets ratio has increased as well, partially due to the fact that the company’s share repurchases have lowered the equity on its balance sheet. Interest coverage is not overly high but is at a safe level – paying down some of the debt could be an opportune move, as rising interest rates will make Dillard’s debt more expensive to refinance in the future.

Dillard’s dividend payout ratio is extremely low. Should the company decide that dividend payments are a better use of its cash flows than buybacks, there would be room for massive dividend increases, but that seems unlikely right now.

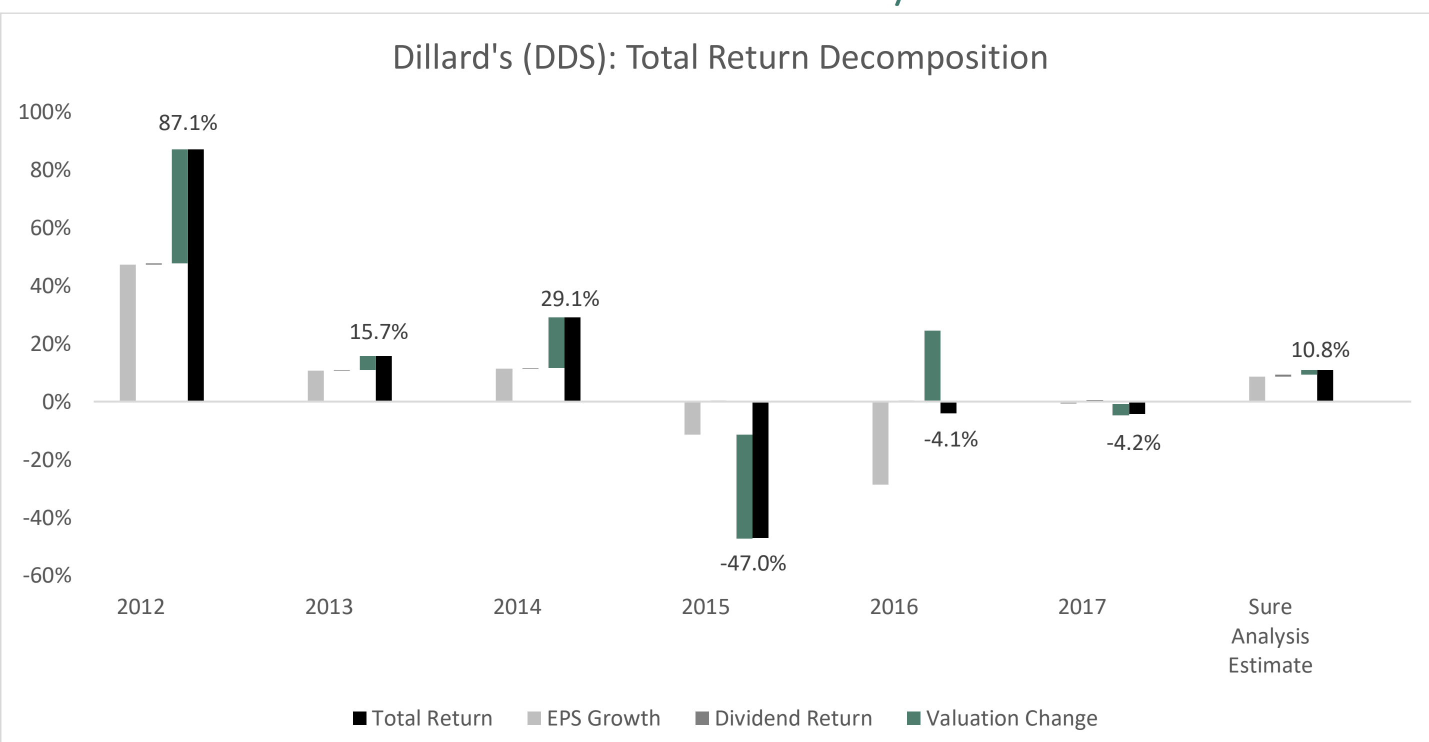
One advantage over some of its competitors is that Dillard’s is not only active in apparel and cosmetics, but also in home furnishings, which provides some diversification and makes it less reliant on the performance of apparel sales – which are more easily done online compared to furniture. Dillard’s has not been resilient versus recessions in the past.

Final Thoughts & Recommendation

Dillard’s is a small retail company that is active in markets that are threatened by Amazon to some extent. The company’s H1 results were significantly better than results from the previous year, and this will likely be true for the remainder of 2018 as well. Shares of Dillard’s will likely produce compelling total returns in the coming years.

We rate Dillard’s a potential buy, but note that it would be hit hard during a recession, and shares are very volatile.

Total Return Breakdown by Year



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