Deere & Company (DE)

Updated August 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$140	**5 Year CAGR Estimate:**	7.0%	**Volatility Percentile:**	63.3%
Fair Value Price:	$133	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	47.3%
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Valuation Percentile:**	55.4%
Dividend Yield:	2.0%	**5 Year Price Target**	$179	**Total Return Percentile:**	45.0%

Overview & Current Events

Deere manufactures equipment used in agriculture, construction, forestry & turf care. On top of that Deere also produces engines and provides financial solutions to its customers. Deere was founded in 1837, is headquartered in Moline, Illinois and is currently valued at $47 billion.

Deere reported its third quarter earnings results on August 17. The company grossed revenues of $9.3 billion during the quarter, an increase of 36% year over year. Deere earned $2.59 per share during Q3, which is 31% more than what Deere earned during last year's third quarter. Growth was strong in equipment sales, especially in the construction & forestry segment. Deere stated that it sees a revenue growth rate of 26% for all of 2018.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$4.70	$2.82	$4.35	$6.36	$7.64	$9.08	$8.63	$5.77	$4.81	$6.68	***$9.53***	***$12.76***
DPS	$1.06	$1.12	$1.16	$1.52	$1.79	$1.99	$2.22	$2.40	$2.40	$2.40	***$2.58***	***$3.75***

Deere's earnings-per-share are relatively cyclical. Depending on conditions in the markets the company addresses (agriculture, construction), demand for Deere's products can wary widely on a year-to-year basis. Overall the EPS growth trend is positive (EPS grew by 6.4% annually in the 2008 to 2018 time frame), but the absolute peak was hit in 2013.

During 2018 and in the coming years there are several factors that should prove positive for the company's profitability. The first one is the takeover of Wirtgen Group that closed during December of 2017. Wirtgen is a German manufacturer of construction machinery, and Deere has stated that this takeover will add 5% to revenue growth during 2018. Expanding its presence in the construction machinery industry is an opportunistic move by Deere, as growth rates in the construction machinery business are higher than in the agriculture business.

With a wider presence in the construction machinery market Deere should be able to benefit from high construction activities in markets such as the US and China. Deere has also forecasted that its financial solutions business (*Worldwide Financial Services*) will be significantly more profitable going forward. Net earnings for the segment are forecasted to rise from $425 million in 2017 to $840 million during 2018.

With rising profits and cash flows Deere will likely start repurchasing shares again in the near future. The company lowered its share count by close to 30% in the 2008 to 2016 time frame, but has stopped repurchases during 2016 as profits were at a cyclical low. Share repurchases in the future would push Deere's profits per share up further.

Deere's dividend grew by 9.5% annually from 2008 to 2017, which is an attractive dividend growth rate. Dividend increases were not very consistent, though. In May Deere has raised its dividend by 15%, to $0.69 per share.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.1	14.0	13.7	12.5	10.4	9.5	10.1	15.2	16.7	17.1	***14.7***	***14.0***
Avg. Yld.	1.4%	2.8%	1.9%	1.8%	2.3%	2.3%	2.5%	2.7%	3.0%	2.1%	***2.0%***	***2.1%***

Deere trades at 14.7 times this year's earnings right now, representing a small premium over the historic median.

Deere's valuation therefore could decline slightly going forward, but the headwind to its share price is not especially high. After the recent dividend increase Deere's shares now offer a 2.0% dividend yield, which is relatively on par with what income investors can get from the broad market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	22.2%	11.7%	14.5%	15.8%	16.0%	16.6%	14.5%	10.7%	9.8%	10.5%	***11.0%***	***13.0%***
Debt/A	83.2%	88.3%	85.5%	85.9%	87.7%	82.9%	85.3%	88.4%	88.8%	85.4%	***83.0%***	***80.0%***
Payout	22.6%	39.7%	26.7%	23.9%	23.4%	21.9%	25.7%	41.6%	49.9%	35.9%	***27.1%***	***29.4%***
Std. Dev.	47.5%	54.0%	25.1%	29.3%	21.1%	15.4%	13.1%	18.8%	21.9%	19.7%	***19.0%***	***22.0%***

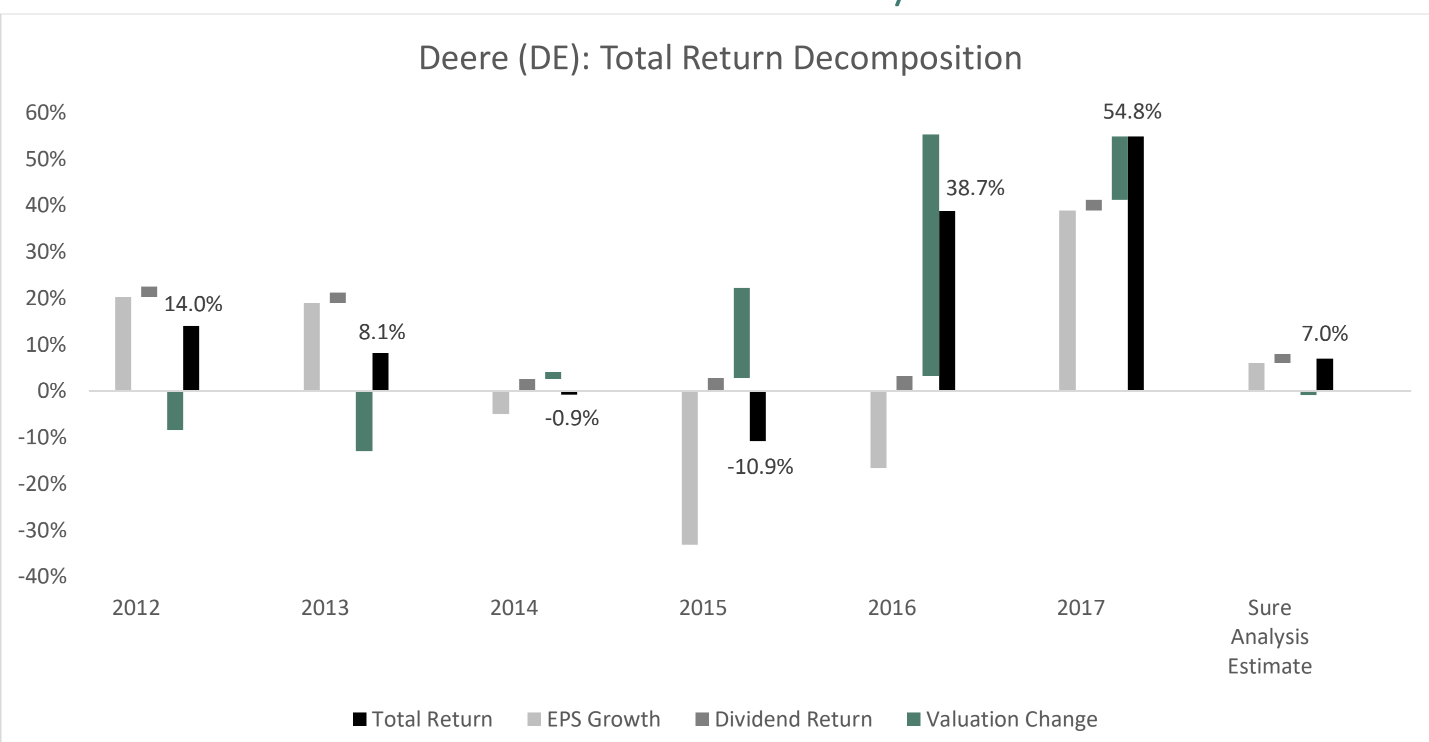
In the above table the gross profits to assets ratio as well as the debt to assets ratio do not look good at first sight. This is due to the Worldwide Financial Services business segment. Deere's financial solutions business, which includes financing for products that Deere sells to its customers, leads to a huge amount of assets in the form of financing receivables ($24 billion on a net basis). Total liabilities are high as well, but, once again, this is in a huge part due to the debt that belongs to Deere's banking business. Deere is (somewhat resembling a real bank) able to generate net interest profits with its financing business, which is why the company does not pay any net interest expenses at all. Despite the seemingly high leverage Deere looks strong financially speaking.

Deere is the largest player in the agricultural machinery manufacturing industry. This means that it is hard for new competitors to steal market share from Deere, especially since it is difficult to replicate Deere's global sales / dealership network. Deere is nevertheless impacted by downturns in the industries it addresses. During the last financial crisis Deere remained profitable, but its EPS declined by 40%. During downturns in the agricultural markets, which are not necessarily coupled with a broad recession, Deere's sales have declined as well, and will likely do so again in the future.

Final Thoughts & Recommendation

Deere is a market leader in its industry, and the company should be able to benefit from favorable industry trends in the coming years. The stock's outlook is not bad at all, but total returns will be limited to high-single-digits, and the dividend yield is not overly high, either. Shares earn a hold recommendation from Sure Dividend at current prices.

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.