



Nordson Corporation (NDSN)

Updated August 21st, 2018 by Josh Arnold

Key Metrics

Current Price: \$124	5 Year CAGR Estimate: 7.1%	Volatility Percentile: 76.2%
Fair Value Price: \$107	5 Year Growth Estimate: 9.0%	Momentum Percentile: 39.7%
% Fair Value: 116%	5 Year Valuation Multiple Estimate: -3.0%	Valuation Percentile: 34.2%
Dividend Yield: 1.1%	5 Year Price Target \$164	Total Return Percentile: 41.7%

Overview & Current Events

Nordson, in its current form, was founded in 1954 but can trace its roots all the way back to 1909. The company's many decades of experience in solving the world's engineering problems has allowed it to grow to a \$7.5 billion market capitalization. It makes a wide assortment of products for industrial applications, boasting a diverse customer base.

Nordson reported Q3 earnings on 8/20/18 and results were weak. Volume in the company's advanced technology segment offset gains in adhesive dispensing, seeing total revenue fall by 1.4%. The company's backlog rose 16%, due nearly entirely to organic gains, but that backlog did not translate into higher revenue. Margins decreased as well as EBITDA fell 9% against last year's Q3, driving earnings-per-share down to \$1.61. The outlook for was also weak as Nordson said it sees Q4 revenue of flat to down 4%, and earnings-per-share of \$1.46.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.77	\$1.20	\$2.24	\$3.27	\$3.45	\$3.42	\$3.84	\$3.58	\$4.68	\$5.37	\$6.05	\$9.30
DPS	\$0.37	\$0.37	\$0.39	\$0.44	\$0.53	\$0.63	\$0.80	\$0.90	\$0.99	\$1.11	\$1.40	\$2.10

Earnings-per-share has been somewhat unpredictable in the past decade, but more recently Nordson has produced prodigious levels of growth. Nordson has been able to produce an average of 4% organic revenue growth annually in this time frame, but its acquisitions have provided the bulk of top line growth. Its operating margins have moved higher as acquisitions are fully integrated. Gross margins have remained basically flat, however, so they are not an earnings driver.

We are forecasting 9% annual earnings-per-share growth as Nordson's fundamentals are well intact, despite the miss in Q3. Organic growth, combined with more acquisitions, should produce mid-single digit sales growth or higher, depending upon sizing and timing of future acquisitions. The balance of Nordson's earnings growth will come from continued operating margin expansion as the company's track record with integrating acquisitions is tremendous.

Finally, Nordson buys back stock from time to time, although there is no steady cadence. Q3's weak report was due to tough comparables from last year and we do not see guidance for Q4 as cause for concern given Nordson's business is somewhat cyclical. Should weakness persist into next fiscal year, we'll reassess but for now, Nordson looks okay.

We are also forecasting continued double-digit growth for the dividend, creating a payout in excess of \$2 per share in five years. The priority is growth via acquisitions, so the yield is not expected to be a significant driver of total returns.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.1	16.1	14.5	14.7	15.0	20.0	19.5	21.0	17.0	22.0	20.5	17.6
Avg. Yld.	1.3%	1.9%	1.2%	0.9%	1.0%	0.9%	1.1%	1.2%	1.2%	0.9%	1.1%	1.3%

Nordson's growth has picked up in recent years and as a result, its valuation has as well. That led to enormous returns for shareholders in 2016 and 2017 but we are forecasting the price-to-earnings ratio falling back to more normalized levels over the next few years. That would create a 3.0% annualized headwind to total returns for shareholders from current levels as the stock looks meaningfully overvalued. The stock sold off after the Q3 report – in a repeat of what happened after the Q2 release – but it is still expensive relative to its historical valuation.

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.

Given that the valuation should drift lower over time while the payout grows, we are forecasting the dividend yield to rise to 1.3% in five years. As we said, Nordson is not a high-yield stock and likely never will be, but the payout does grow at respectable rates, and that should continue moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	56.0%	57.2%	59.7%	60.7%	58.4%	56.1%	55.5%	54.1%	54.9%	55.1%	55.0%	55.5%
Debt/A	51%	58%	49%	56%	63%	57%	60%	72%	65%	66%	62%	59%
Int. Cov.	12.7	---	43.6	71.0	31.6	22.6	25.4	18.2	18.9	12.9	15.0	20.0
Payout	20%	31%	17%	13%	15%	18%	20%	25%	21%	20%	20%	23%
Std. Dev.	66.7%	50.3%	34.8%	68.0%	28.7%	22.7%	20.3%	22.9%	30.6%	24.7%	25.0%	25.0%

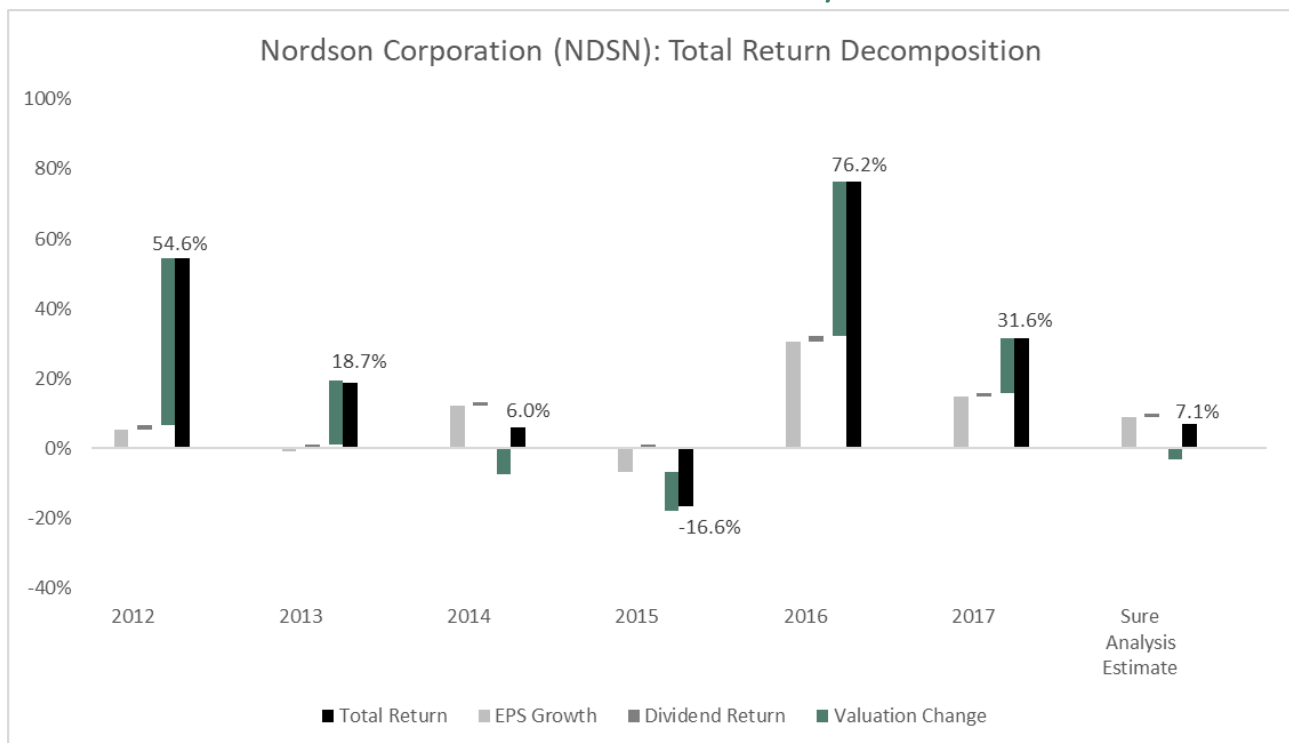
Nordson's quality metrics have been fairly stable over the past decade, although debt has drifted higher. Nordson's financing strategy is still reasonably conservative, but it often assumes debt for acquisitions. The company's current leverage is near its historical highs but as it digests its FY2017 acquisitions, debt should drift lower over time and with it, interest coverage should improve. The payout ratio should remain about the same as well, around 20% of earnings.

Nordson's main competitive advantage is in its enormous installed base of customers around the world. The company provides niche, but critical, pieces involved in myriad manufacturing processes. Thus, it is difficult for competitors to supplant its position. That does not mean Nordson is immune to recessions, however, as it struggled mightily during the Great Recession. Nordson is beholden to the world economy and investors should not overlook that fact.

Final Thoughts & Recommendation

Overall, Nordson still looks overvalued but the company's growth prospects are hard to ignore. We think shareholders will see total annual returns of 7.1%, comprised of the current 1.1% yield, a 3.0% headwind from the price-to-earnings falling and a 9% annual earnings growth rate. Nordson will never be a high-yield stock so it is not suitable for income investors. At its current premium over fair value, it is not particularly enticing for growth or value investors either. Those wanting to own Nordson should wait for the valuation to come down and enter at a better price. While Nordson's valuation has improved slightly since our last report, it still earns a hold recommendation at current prices.

Total Return Breakdown by Year



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