Newell Brands (NWL)

Updated August 15th, 2018 by Josh Arnold

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	20.9%	**Volatility Percentile:**	84.5%
Fair Value Price:	$35	**5 Year Growth Estimate:**	5.4%	**Momentum Percentile:**	0.5%
% Fair Value:	59%	**5 Year Valuation Multiple Estimate:**	11.0%	**Valuation Percentile:**	99.1%
Dividend Yield:	4.5%	**5 Year Price Target**	$46	**Total Return Percentile:**	97.7%

Overview & Current Events

Newell Brands traces its roots back to 1903 when Edgar Newell purchased a struggling curtain rod manufacturer. Since then, Newell has transformed itself into a consumer brands powerhouse with large acquisitions, such as its relatively recent merger with Jarden as well as its purchase of Sistema. The company's annual revenue is about $9 billion and it has a market capitalization of $10 billion.

Newell reported Q2 earnings on 8/6/18 and results were not very strong. The company's core sales declined 6% during the quarter, driven by a 14% decline in its Learning and Development segment. In addition, softness in its outdoor business – coolers, tents, etc. – was due to the late start to the spring season in North America. Indeed, all of its segments saw revenue declines, gross margins fell slightly, and operating margins declined 190bps to 10.9%. We already had this weakness largely baked into our forecasts, so we've moved our earnings-per-share forecast down slightly, but our margin guidance remains the same.

In addition to this, Newell has divested the Waddington Group as well as Rawlings Sporting Goods, the proceeds of which are expected to be $2.5 billion after tax. Subsequent to the earnings report, Newell announced it had sold Goody Products as well for an undisclosed amount as it continues its transformation. Management plans to use the ample proceeds to reduce leverage and increase its buyback authorization to a total of $3.6 billion. That is good for a whopping 36% of the float at current prices and should be the primary source of earnings-per-share growth moving forward.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.79	$0.97	$0.96	$1.17	$1.36	$1.44	$1.33	$0.96	$1.25	$5.63	***$2.50***	***$3.25***
DPS	$0.84	$0.26	$0.20	$0.29	$0.43	$0.60	$0.66	$0.76	$0.76	$0.88	***$0.92***	***$1.10***

While we see the transformation plan as a net positive for Newell, we are still cautious given the relatively weak operating history the company has experienced, as well as the assured reduction of revenue from divestitures. We see annual earnings-per-share growth averaging 5.4% for the foreseeable future, comprised mainly of margin improvements and share repurchases offsetting lost revenue. Timing will be key in terms of what gets sold and when, but revenue should fall fairly meaningfully in the coming years as part of Newell's plan. Margins should improve as management has committed to 15%+ operating margins in the future after the non-core assets are sold, but that will take some time. In addition, the reduced leverage on the balance sheet as well as the potential for material share repurchases should improve earnings-per-share from a smaller float. We see Newell as a turnaround play and certainly not a growth stock, although the pieces are in place for growth in the future should the plan work out as intended and margins increase.

The dividend should grow rather slowly as it has in recent years, staying within management's guided range of 30% to 35% of earnings. We therefore see modest growth to $1.10 per share in five years from today's 92 cents.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.5	11.7	16.9	13.8	13.8	18.6	24.3	42.8	37.3	8.1	***8.3***	***14.0***
Avg. Yld.	4.5%	2.3%	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	***4.5%***	***2.4%***

Newell's price-to-earnings multiple is well below its historical average and we see it rising back towards the mid-teens, resulting in a sizable 11.0% tailwind to total annual returns going forward as the current trough valuation is unsustainable. A rising multiple should see the yield fall as well as it nears 2% from the current, inflated yield of 4.5%, which is the product of the very low price-to-earnings multiple at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.8%	36.7%	37.3%	35.8%	35.5%	37.3%	38.5%	39.0%	33.2%	34.5%	***34.0%***	***35.0%***
Debt/A	77%	72%	70%	70%	68%	66%	72%	75%	66%	57%	***50%***	***40%***
Int. Cov.	1.1	4.1	3.5	3.4	8.3	9.9	10.9	8.5	2.9	3.0	***3.5***	***4.0***
Payout	107%	25%	19%	25%	32%	41%	49%	80%	62%	16%	***37%***	***34%***
Std. Dev.	38.8%	75.6%	27.1%	40.0%	20.9%	16.0%	14.8%	11.4%	29.2%	37.1%	***33.0%***	***31.0%***

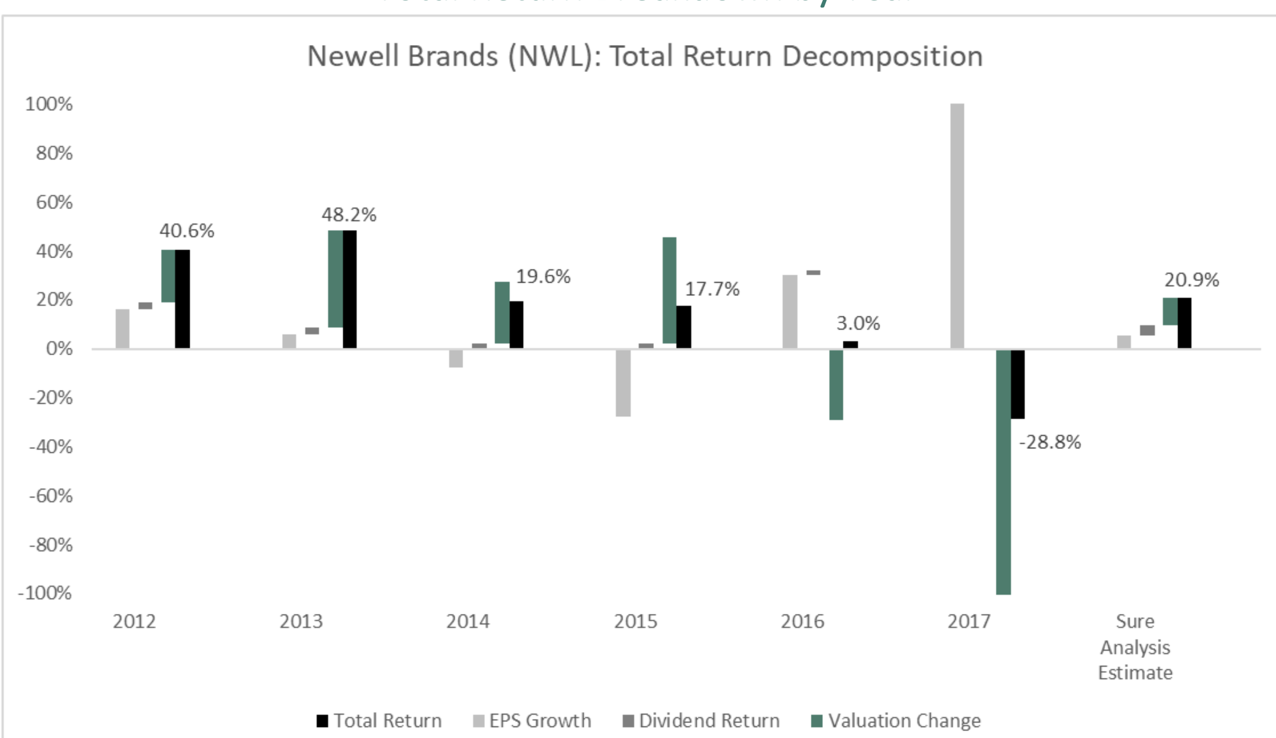
Newell's quality metrics have generally improved in recent years. Gross margins shift with the various acquisitions and divestitures made by the company but we see margins rising over time, following a dip this year due to the restructuring as well as volume challenges. Leverage should come well off its current levels in the coming years pending how much is spent on share buybacks, but we see it falling meaningfully in the coming years. Likewise, despite lower revenue totals, we see interest coverage improving as leverage falls, but improvements will likely be slight. The payout ratio should remain about where it is today as the dividend keeps pace with earnings but stays in management's preferred range.

Newell's competitive advantage is its position in several niche consumer markets that are small but necessary and, therefore, profitable. Its willingness to buy and sell assets should help it prepare for the next recession as well, building upon significant earnings growth that occurred during the Great Recession, illustrating the staying power of the model.

Final Thoughts & Recommendation

Overall, we see Newell as an interesting but potentially drawn out turnaround story. We are forecasting 20.9% total annual returns going forward, consisting of the current 4.5% yield, 5.4% earnings growth and an 11.0% tailwind from the rising valuation. Two years of subpar returns from the stock has made it much cheaper than it has been in the past, but Newell is certainly not without its risks. We see it as a higher risk, high potential reward buy 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.