Retirement Suitability Score

C

Reasonably Suitable

RPM International Inc (RPM)

Updated October 7t, 2018 by Nate Parsh

Current Price:	$60	**5 Year CAGR Estimate:**	5.0%	**Volatility Percentile:**	61.9%
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	66.7%
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Valuation Percentile:**	72.0%
Dividend Yield:	2.2%	**5 Year Price Target**	$68	**Total Return Percentile:**	26.8%

Overview & Current Events

RPM International manufactures, markets and distributes chemical products to industrial, retail and specialty customers. The majority of sales are made to industrial customers. RPM was founded in 1947 and employs almost 13,000 people today. The company has a current market capitalization of $6.6 billion and generated almost $5 billion in sales for the 2017 fiscal year.

RPM released first quarter fiscal 2019 earnings on October 3rd. The company earned $0.76 per share, missing estimates by $0.12 and declining 11.6% from the prior year's quarter. Revenue increased 8.1% to $1.46 billion, topping estimates by $40 million.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.05	$1.45	$1.45	$1.65	$1.83	$2.18	$2.38	$2.63	$2.47	$2.73	***$3.33***	***$4.25***
DPS	$0.79	$0.82	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	***$1.31***	***$1.71***

The last recession had a severe impact on the RPM's earnings, which saw a decline of 42% from 2008 to 2009. It was not until 2013 that RPM's earnings numbers recovered above 2008's total. In recent years, growth has been much steadier. From 2008-2017, earnings per share grew at a rate of 3% per year. Coming off the lows of the last recession, earnings have grown at a rate of 10%. In order to account for the likely declines in earnings during the next recession, we feel more comfortable forecasting a 5% EPS growth rate going forward. RPM is expected to earn $3.33 per share in FY2019.

RPM demonstrated solid sales growth during the first quarter. Overall, the company had 7.8% organic sales growth. The Industrial segment saw sales grow more than 7%, due to a combination of organic sales and acquisitions. Waterproofing and oil and gas sales in North America were a big contributor to this increase. Consumer sales jumped 13.6% as RPM took market share in the wood stains and automotive finishes markets. Rounding out RPM's divisions, revenues for the Specialty division increased just 2.3%, but the company saw robust growth in its water damage restoration business due to the impact of Hurricane Harvey in the first quarter of FY 2018. This made for a tough year over year comparison. Raw material costs continue to be a headwind for RPM, as are restructuring charges and currency exchange rates. Cost of sales also increased nearly 12% as the company expanded its product advertising.

Growth slowed during the last recession, but RPM was able to maintain and increase its payments to shareholders even in an adverse economic climate. RPM has increased its dividend for the past 44 years. RPM increased its dividend by 9.4% for the October payment, well above the 5.5% average increase the company has given shareholders over the last decade

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.2	12.9	14.5	14	15.9	17.7	19.8	17.3	21.2	*15.9*	***18***	***16.1***
Avg. Yld.	4.9%	4.4%	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	*2.6%*	***2.2%***	***2.5%***

Shares of RPM have decreased $4, or 6.3%, since our July 20th update. As such, the stock's multiple has increased dramatically. Based off of the current share price and guidance for FY2019, RPM trades with a multiple of 19.2. Mean reversion to the company's 10-year average price-to-earnings ratio implies 2.2% annual valuation contraction if it occurred over a 5-year time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	39.7%	47.8%	39.9%	43.3%	41.3%	42.8%	41.4%	43.8%	42.5%	42.4%	***42.4%***	***42.5%***
Debt/A	66.5%	64.1%	64.1%	66.8%	70.9%	68.4%	72.5%	71.2%	71.8%	71.6%	***71%***	***68.8%***
Int. Cov.	4.8	5.5	5.5	5.6	3.2	6.8	6.2	6.3	3.5	3.8	***4.1***	***5.1***
Payout	75.2%	56.6%	57.9%	52.1%	48.6%	43.6%	42.9%	41.4%	47.8%	46.9%	***39.3%***	***40.2%***
Std. Dev.	38.6%	26.5%	34.8%	20.9%	18.1%	18.5%	19%	21.4%	16.9%	18.8%	***18.8%***	***26.5%***

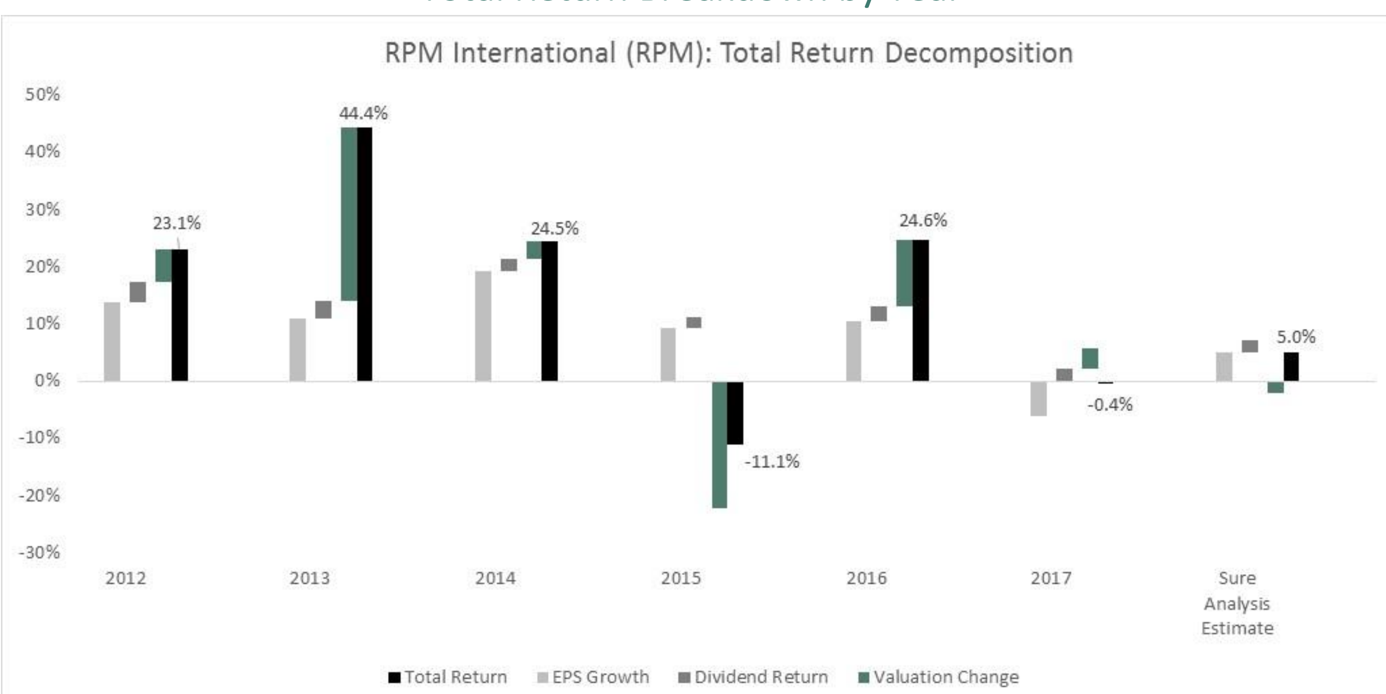
RPM is not recession proof, as shown by the company's decline in earnings and in the time that it took for EPS growth to return to the company. On the plus side, RPM has managed to remain profitable through recessions, though earnings do decline. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

The ability to increase the dividend during one of the most difficult economic climates in recent memory bodes well for the company's ability to continue to pay shareholders going forward. Surviving this period of time with its dividend not only intact but growing should reassure shareholders that the company will raise the dividend in future years. RPM's dividend payout ratio is currently near its lowest level in 10 years. Investors should be aware that DPS growth has outpaced EPS by almost a 2:1 margin. Dividend growth will eventually slow to match EPS growth.

Final Thoughts & Recommendation

With the share price falling more than 6% since our last update, we now estimate that shares of RPM International can offer investors a total return of 5% annually through 2024, up from our previous estimate of 3.5%. This estimate is based off of earnings growth (5%), dividends (2.2%) and multiple contraction (2.2%). RPM's sales and organic growth were very strong and the dividend increase was much higher than anticipated, but the company is facing some headwinds, namely higher raw costs, increased advertising expense and adverse currency exchange rates. We maintain our 2024 price target of $68 and reiterate our holding rating on RPM. We recommend investors wait until RPM is trading closer to fair value before purchasing the stock. RPM International earns a C rating for retirement suitability due to a combination of an uncompelling dividend yield and an above-average maximum drawdown.

Total Return Breakdown by Year



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Disclosure: This analyst has a long position in the security discussed in this research report