



# Universal Corporation (UVV)

Updated November 16<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$67	<b>5 Year CAGR Estimate:</b>	4.4%	<b>Volatility Percentile:</b>	84.5%
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	4.0%	<b>Momentum Percentile:</b>	87.4%
<b>% Fair Value:</b>	123%	<b>5 Year Valuation Multiple Estimate:</b>	-4.1%	<b>Growth Percentile:</b>	20.5%
<b>Dividend Yield:</b>	4.5%	<b>5 Year Price Target</b>	\$66	<b>Valuation Percentile:</b>	19.2%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	17.6%

## Overview & Current Events

Universal Corporation is the world's largest leaf tobacco exporter and importer. The company is the wholesale purchaser and processor of tobacco that operates between farms and the companies that manufacture cigarettes, pipe tobacco, and cigars. Universal Corporation was founded in 1886, is headquartered in Richmond, Virginia, and trades with a market capitalization of \$1.7 billion. With 46 years of dividend increases, Universal Corporation is a Dividend Champion. Universal Corporation reported its second quarter (fiscal 2019) earnings results on November 8. The company generated revenues of \$540 million during the quarter, which represented an increase of 10.5% compared to the prior year's quarter. This attractive revenue growth rate was possible primarily thanks to volume increases. Higher carryover sales as well as higher production volumes of African burley were noted as positive growth drivers by management during the Q2 earnings call. The substantial revenue increase, coupled with operating leverage, allowed for an earnings-per-share growth rate of 22% compared to the prior year's quarter. Q2's earnings-per-share totaled \$1.24. Management has stated that fiscal 2019 is shaping up to be a successful year with solid volume growth rates. This bodes well for revenues as well as for profits during the second half of fiscal 2019 (which includes calendar quarters Q4 2018 and Q1 2019).

## Growth on a Per-Share Basis

Year <sup>1</sup>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$4.32	\$5.68	\$5.30	\$3.25	\$4.66	\$5.25	\$4.06	\$3.92	\$3.97	\$3.96	<b>\$4.53</b>	<b>\$5.51</b>
<b>DPS</b>	\$1.82	\$1.86	\$1.90	\$1.94	\$1.98	\$2.02	\$2.06	\$2.10	\$2.12	\$2.16	<b>\$3.00</b>	<b>\$3.65</b>
<b>Shares</b>	25.0	24.3	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.0	<b>24.5</b>	<b>22.5</b>

Universal Corporation's earnings-per-share are essentially unchanged from a decade ago. There were some movements in Universal's earnings-per-share during the last couple of years, but without a unique direction. Earnings grew in some years and declined in other years to essentially offset each other. As the leader in a declining industry, we do not expect the company to deliver strong growth on a *business-wide basis* for the foreseeable future.

The company's earnings-per-share growth is a different story, though. Universal Corporation's shares trade at a low valuation, and that has been true for the majority of the last decade. Universal Corporation also does not need to invest meaningful amounts of money into its business, as the industry is not experiencing any meaningful growth. This gives Universal Corporation the ability to utilize a substantial amount of its free cash flows for share repurchases. Through a declining share count Universal Corporation should be able to deliver a meaningful pace of earnings-per-share growth. We believe that an annual earnings-per-share growth rate of 4% is feasible for this tobacco corporation, largely due to the possibility for the company's to repurchase its own shares.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	10.2	7.4	7.9	13.0	10.6	10.5	12.5	14.3	16.3	16.0	<b>14.8</b>	<b>12.0</b>
<b>Avg. Yld.</b>	4.1%	4.4%	4.5%	4.6%	4.0%	3.7%	4.2%	4.0%	3.5%	3.4%	<b>4.5%</b>	<b>5.3%</b>

<sup>1</sup> Note: Universal Corporation's fiscal year ends on March 31 of the calendar year. Example: fiscal 2018 ended on March 31, 2018.  
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.



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Universal Corporation trades at roughly 15 times this year's profits right now. This is a relatively high valuation compared to how the company's shares were priced throughout the last decade. Factoring in the valuation through the last ten years as well as the fact that Universal Corporation is not active in an industry with meaningful growth rates, we believe that shares would be fairly valued at a price-to-earnings multiple of 12. This means that there is some downside potential in Universal's shares right now, which will be a headwind for the company's total returns. The company's dividend yield of 4.5% is quite attractive, and it is likely that the dividend will continue to grow at a meaningful pace.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	19.7%	24.3%	22.9%	22.8%	20.8%	20.1%	19.1%	18.7%	18.3%	18.6%	19.0%	19.0%
Debt/A	49.0%	51.9%	52.7%	46.8%	47.8%	45.4%	39.3%	37.7%	36.6%	39.4%	40.0%	40.0%
Int. Cov.	9.0	7.0	12.2	13.1	8.6	10.7	13.0	10.6	13.0	12.5	13.0	14.5
Payout	42.1%	32.7%	35.8%	59.7%	42.5%	38.5%	50.7%	53.6%	54.8%	49.7%	66.2%	66.4%
Std. Dev.	44.2%	39.2%	35.3%	29.0%	18.6%	22.3%	24.0%	25.6%	20.8%	30.0%	27.0%	23.0%

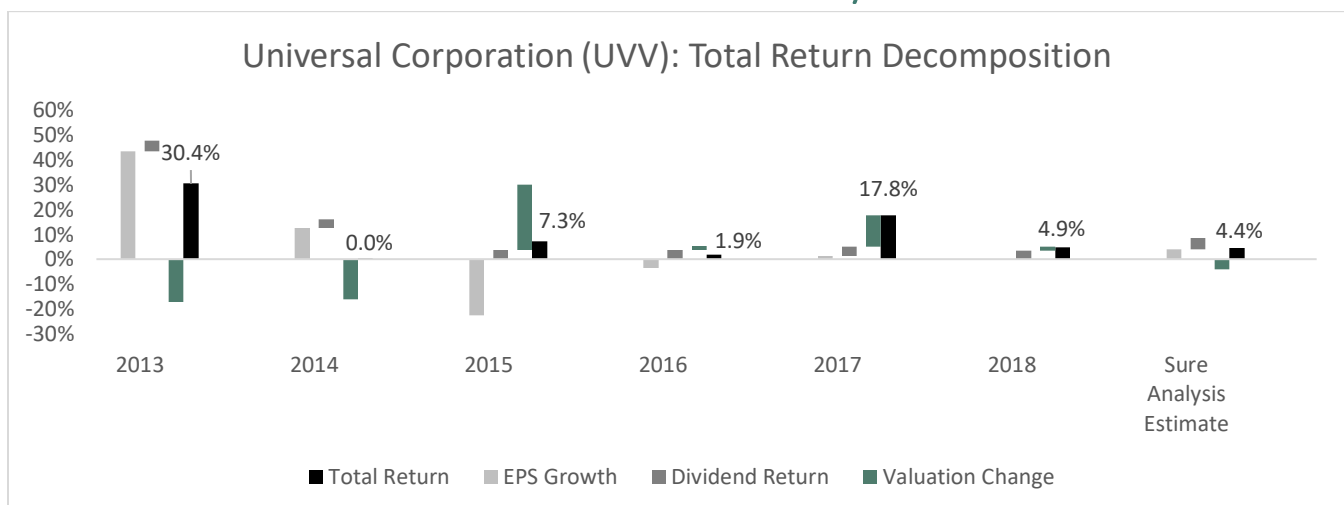
When we look at Universal Corporation's quality metrics, there are several trends we can notice. First, gross profits to assets have been in a downwards trend. At the same time the company has lowered its debt to assets ratio considerably over the last decade, despite the fact that the ratio never was especially high in the first place. A low leverage ratio will be a tailwind in times of rising interest rates, such as over the coming years. Due to the deleveraging it is not surprising that Universal Corporation has been able to increase its interest coverage ratio over the last couple of years.

The company's strategic evaluation has led to an outsized dividend increase in fiscal 2019. The dividend hike has made Universal's dividend payout ratio rise well above the historic level of ~50%, but it seems like Universal plans to keep it there. The dividend still looks well covered, but there is a smaller margin of error compared to the past.

## Final Thoughts & Recommendation

Universal Corporation is not active in a high-growth company, thus the outlook for growth from Universal's business is not compelling. Companies like this can nevertheless produce compelling returns in some cases, as long as the valuation is right and the company uses cash flows in an optimal manner. Unfortunately Universal Corporation trades above fair value right now, which is why the company earns a sell recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	2555	2492	2572	2447	2462	2542	2272	2120	2071	2034
<b>Gross Profit</b>	519	542	508	472	462	433	410	407	395	372
<b>Gross Margin</b>	20.3%	21.8%	19.8%	19.3%	18.8%	17.0%	18.1%	19.2%	19.1%	18.3%
<b>SG&amp;A Exp.</b>	309	285	259	252	235	262	250	227	212	200
<b>D&amp;A Exp.</b>	42	43	45	44	45	39	35	37	36	35
<b>Operating Profit</b>	210	257	269	241	227	253	173	184	183	171
<b>Operating Margin</b>	8.2%	10.3%	10.4%	9.9%	9.2%	9.9%	7.6%	8.7%	8.8%	8.4%
<b>Net Profit</b>	132	168	157	92	133	149	115	109	106	106
<b>Net Margin</b>	5.2%	6.8%	6.1%	3.8%	5.4%	5.9%	5.0%	5.1%	5.1%	5.2%
<b>Free Cash Flow</b>	63	105	15	162	204	-49	169	139	215	49
<b>Income Tax</b>	65	86	78	61	66	76	38	54	57	51

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	2138	2371	2228	2267	2306	2271	2188	2231	2123	2169
<b>Cash &amp; Equivalents</b>	213	246	141	262	368	164	249	319	284	234
<b>Accounts Receivable</b>	284	279	346	391	402	468	434	429	439	377
<b>Inventories</b>	586	865	791	735	681	707	699	698	634	749
<b>Goodwill &amp; Int. Ass.</b>	106	106	100	99	99	99	99	99	99	99
<b>Total Liabilities</b>	1105	1243	1028	1061	1018	860	791	778	797	783
<b>Accounts Payable</b>	19	6	4	188	226	212	140	121	154	164
<b>Long-Term Debt</b>	500	607	564	537	498	419	430	435	428	415
<b>Shareholder's Equity</b>	816	910	973	970	1046	1165	1151	1203	1286	1342
<b>D/E Ratio</b>	0.49	0.54	0.48	0.45	0.40	0.30	0.32	0.31	0.33	0.31

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	6.1%	7.5%	6.8%	4.1%	5.8%	6.5%	5.1%	4.9%	4.9%	4.9%
<b>Return on Equity</b>	15.3%	19.5%	16.6%	9.5%	13.2%	13.5%	9.9%	9.3%	8.5%	8.0%
<b>ROIC</b>	8.3%	10.3%	8.9%	5.3%	7.5%	8.2%	6.3%	5.9%	5.8%	5.9%
<b>Shares Out.</b>	25.0	24.3	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.0
<b>Revenue/Share</b>	83.85	84.00	89.02	86.34	86.44	89.54	80.50	76.20	87.14	79.74
<b>FCF/Share</b>	2.08	3.53	0.52	5.70	7.15	-1.74	5.99	5.01	9.03	1.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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