



Dover Corporation (DOV)

Updated January 29th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$86	5 Year CAGR Estimate:	8.8%	Volatility Percentile:	50.4%
Fair Value Price:	\$93	5 Year Growth Estimate:	5.0%	Momentum Percentile:	28.5%
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Growth Percentile:	32.9%
Dividend Yield:	2.2%	5 Year Price Target	\$119	Valuation Percentile:	56.8%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	39.7%

Overview & Current Events

Dover Corporation is a diversified global industrial manufacturer with annual revenues of ~\$8 billion and a market cap of \$12.2 billion. Dover is composed of three segments: Engineered Systems, Fluids and Refrigeration, & Food Equipment. Dover is a Dividend King with 62 years of consecutive dividend increases. Dover spun off its energy business Apergy at the beginning of May 2018.

Dover released financial results for the fourth quarter and full year 2018 on January 29th. Adjusted earnings-per-share (EPS) totaled \$1.43 for the fourth quarter, \$0.14 above estimates and an improvement of 26.5% from the previous year. Revenue grew 3.4% to \$1.8 billion. Revenue results came in \$50 million above expectations. For the year, Dover's EPS from continuing operations were \$4.97, \$0.14 above the company's guidance. Adjusted EPS results represented 13.5% growth from 2017. Revenue declined 6.6% to \$7.3 billion, largely due to the spinoff of Apergy.

The Engineered Systems segment produced 4.3% organic growth. Dover's printing and IT businesses were the drivers of growth in the quarter. Fluids grew 17.2% organically, led by the pumps and process solution businesses. Revenues for the Refrigeration & Food Equipment division dropped more than 10%. Lower sales volumes for the company's can making and retail refrigeration businesses were the primary reasons for the year-over-year decline. Sales for the U.S., the largest geographic region for the company, were higher by 6%. This was mostly due to Engineered Systems and Fluids. Dover expects adjusted EPS for 2019 in the range of \$5.65-\$5.85, with revenue growing 2%-3%. The company expects 2%-4% organic growth, with unfavorable currency translation to be a 2% headwind.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.00	\$3.48	\$4.49	\$4.53	\$5.28	\$4.54	\$3.64	\$3.25	\$4.38	\$4.97	\$5.75	\$7.34
DPS	\$1.02	\$1.07	\$1.18	\$1.33	\$1.45	\$1.55	\$1.64	\$1.72	\$1.82	\$1.90	\$1.92	\$2.45
Shares	186.14	186.90	183.66	174.68	169.91	163.01	155.00	155.43	154.82	145	143	135

Most of Dover's segments are experiencing strong growth right now. The engineered systems segment, which is the company's largest, enjoyed 6% organic revenue growth last year and is expected to grow by 4% to 5% this year. The digital textile printing division in the engineered systems segment is expected to grow at around 30% per year over the next decade, according to management.

If Dover meets our estimates this year, it will have grown its EPS at a 2.8% average annual rate over the last decade. Given the management's long-term target of 3%-5% revenue growth and a 1.5% average annual buyback rate in the last decade, it is reasonable to expect the company to continue to grow its EPS by at least 5% per year in the next five years, particularly given its strong momentum. If this occurs, the company will grow its EPS to \$7.34 in 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.0	14.0	13.4	13.2	15.4	18.5	18.5	20.7	19.5	17.1	15	16.2
Avg. Yld.	3.0%	2.2%	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	2.3%	2.2%	2.1%

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Using the company's guidance for 2019, Dover is trading at a current price-to-earnings ratio (P/E) of 15 and has traded at an average P/E ratio of 16.2 over the last decade. If the company's P/E ratio expands to its long-term average over the next 5 years, this will add 1.6% per year to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	51.0%	30.7%	26.3%	29.4%	27.5%	34.1%	45.1%	58.0%	41.6%	32.0%	33.3%	33.4%

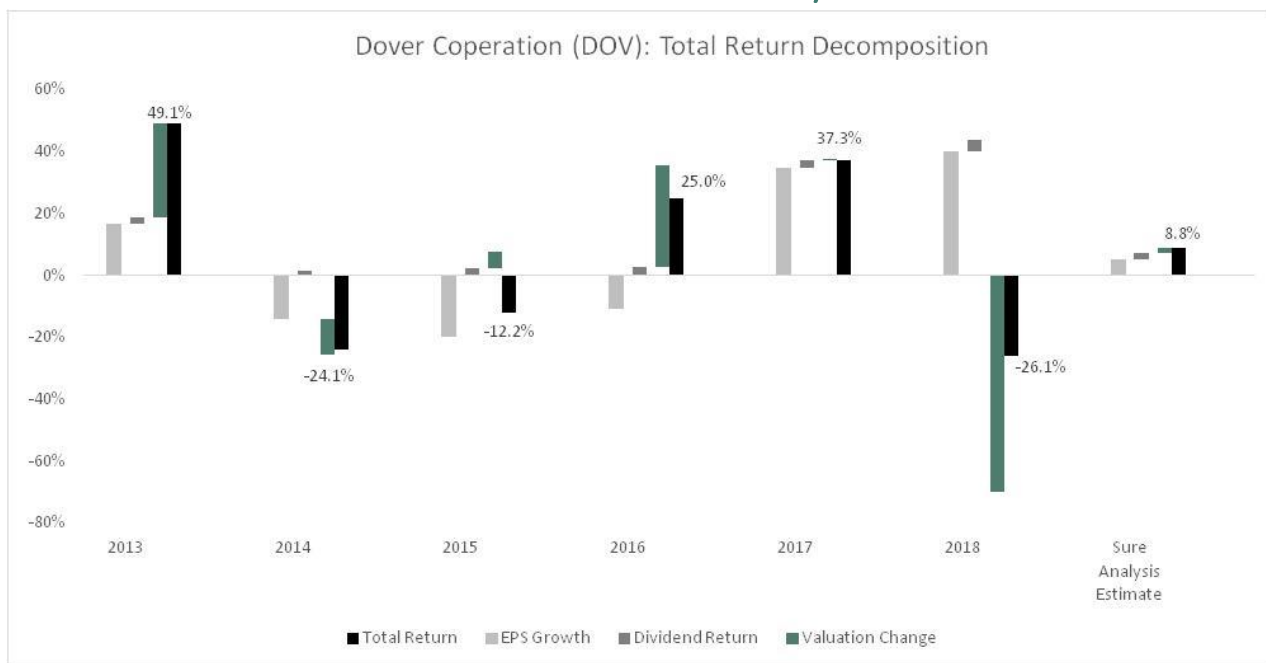
Investors should keep in mind that Dover is vulnerable to recessions due to its cyclical nature. In 2009, its EPS plunged 45%, from \$3.67 to \$2.00. Accordingly, this stock should not be seen as a defensive portfolio constituent. Dover's Engineering Systems and Fluid divisions are showing strong organic growth rates at the moment. This has helped to offset the decline in the Refrigeration & Food Equipment business. Quantitatively, the company's exceptionally long dividend history and reasonable payout ratio give it a high likelihood of paying future rising dividends.

Dover's spinoff of Apergy will likely reduce the amount of capital expenditures, while at the same time increasing margins. The removal of the oil and gas portfolio will allow the company to focus on its niche industries. Dover has had some of the highest SG&A expenses among its peers. The company expects its restructuring program to achieve net savings of \$100 million in 2019.

Final Thoughts & Recommendation

As before, we continue to recognize that Dover has an exceptional record after adjusting for its cyclical business model. The company's forward guidance places the stock's current valuation well below its historical average. While the current yield may not interest income investors, we are impressed with Dover's ability to increase its dividend even during a recession. Income investors looking for exposure to the industrial sector may find the company's dividend track record impressive. We project that Dover can offer shareholders nearly 9% annual returns through 2024. Dover's expected total returns make it a borderline buy or a strong hold 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
Revenue	5776	6110	7369	6627	7155	7753	6956	6794	7830	6992
Gross Profit	2099	2423	2845	2580	2779	2974	2568	2472	2890	2560
Gross Margin	36.3%	39.7%	38.6%	38.9%	38.8%	38.4%	36.9%	36.4%	36.9%	36.6%
SG&A Exp.	1511	1500	1721	1521	1617	1759	1647	1758	1976	1716
D&A Exp.	258	229	290	230	278	307	327	361	394	283
Operating Profit	588	923	1124	1059	1162	1215	921	714	914	843
Operating Margin	10.2%	15.1%	15.3%	16.0%	16.2%	15.7%	13.2%	10.5%	11.7%	12.1%
Net Profit	356	700	895	811	1003	775	870	509	812	570
Net Margin	6.2%	11.5%	12.1%	12.2%	14.0%	10.0%	12.5%	7.5%	10.4%	8.2%
Free Cash Flow	676	774	817	1120	1011	810	681	697	625	618
Income Tax	120	194	237	281	248	316	205	180	162	134

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7882	8563	9501	10444	10855	9030	8606	10116	10658	8366
Cash & Equivalents	714	1187	1207	800	804	682	362	349	754	396
Accounts Receivable	N/A	N/A	1119	1226	1077	1187	1120	1265	1386	1232
Inventories	571	714	734	873	715	864	803	870	879	749
Goodwill & Int. Ass.	4301	4276	4691	5740	4367	4861	5151	6366	6202	4812
Total Liabilities	3799	4036	4570	5525	5478	5330	4962	6316	6274	5597
Accounts Payable	357	469	516	651	523	615	651	830	979	N/A
Long-Term Debt	1861	1808	2187	2800	2828	3031	2755	3621	3568	3164
Shareholder's Equity	4084	4527	4931	4919	5377	3701	3645	3800	4383	2769
D/E Ratio	0.46	0.40	0.44	0.57	0.53	0.82	0.76	0.95	0.81	1.14

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.5%	8.5%	9.9%	8.1%	9.4%	7.8%	9.9%	5.4%	7.8%	6.0%
Return on Equity	9.1%	16.3%	18.9%	16.5%	19.5%	17.1%	23.7%	13.7%	19.8%	15.9%
ROIC	6.0%	11.4%	13.3%	10.9%	12.6%	10.4%	13.2%	7.4%	10.6%	8.2%
Shares Out.	186.14	186.90	183.66	174.68	169.91	163.01	155.00	155.43	154.82	145
Revenue/Share	30.93	32.30	39.01	36.02	41.23	45.92	43.70	43.38	49.64	45.96
FCF/Share	3.62	4.09	4.32	6.09	5.82	4.80	4.28	4.45	3.96	4.06

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

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