



Universal Corporation (UVV)

Updated February 14th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	6.6%	Volatility Percentile:	85.7%
Fair Value Price:	\$50	5 Year Growth Estimate:	4.0%	Momentum Percentile:	80.5%
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Growth Percentile:	22.3%
Dividend Yield:	5.3%	5 Year Price Target	\$61	Valuation Percentile:	27.1%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	28.7%

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 \$1.4 billion. With 46 years of dividend increases, Universal Corporation is a Dividend Champion.

Universal Corporation reported its third quarter earnings results on February 7. The company generated revenues of \$636 million during the quarter, which was 2.7% less than the revenues that Universal Corporation has been able to generate during the previous year's quarter.

Universal Corporation's operating earnings were down significantly compared to the prior year's quarter, but that metric was impacted by one-time restructuring expenses. Earnings-per-share were down by roughly one-third on a GAAP basis, but non-GAAP/adjusted earnings-per-share, where restructuring and other one-time items are backed out, rose compared to the prior year's quarter. Universal Corporation's adjusted earnings-per-share totaled \$1.73, which was 26% more than the earnings-per-share that Universal Corporation generated during the previous year's quarter. This is not overly reflective of Universal Corporation's underlying growth, though, as tax law changes - which lowered Universal Corporation's tax rate considerably versus the prior year - had a sizeable positive impact on Universal Corporation's earnings-per-share growth during the most recent quarter.

Growth on a Per-Share Basis

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

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. Overall Universal Corporation's results during the last decade are not really convincing or something that investors should be happy about.

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 during the coming years. 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 to repurchase its own shares.

¹ 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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.2	7.4	7.9	13.0	10.6	10.5	12.5	14.3	16.3	16.0	12.6	11.0
Avg. Yld.	4.1%	4.4%	4.5%	4.6%	4.0%	3.7%	4.2%	4.0%	3.5%	3.4%	5.3%	6.0%

Universal Corporation has traded at very low valuations during and following the last financial crisis, but shares became more expensive during the last couple of years. Right now shares trade at twelve and a half times net profits, which represents a discount versus how Universal Corporation's shares were valued in 2016-2018, but which is still more expensive than our fair value estimate of 11 times annual net profits.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
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%

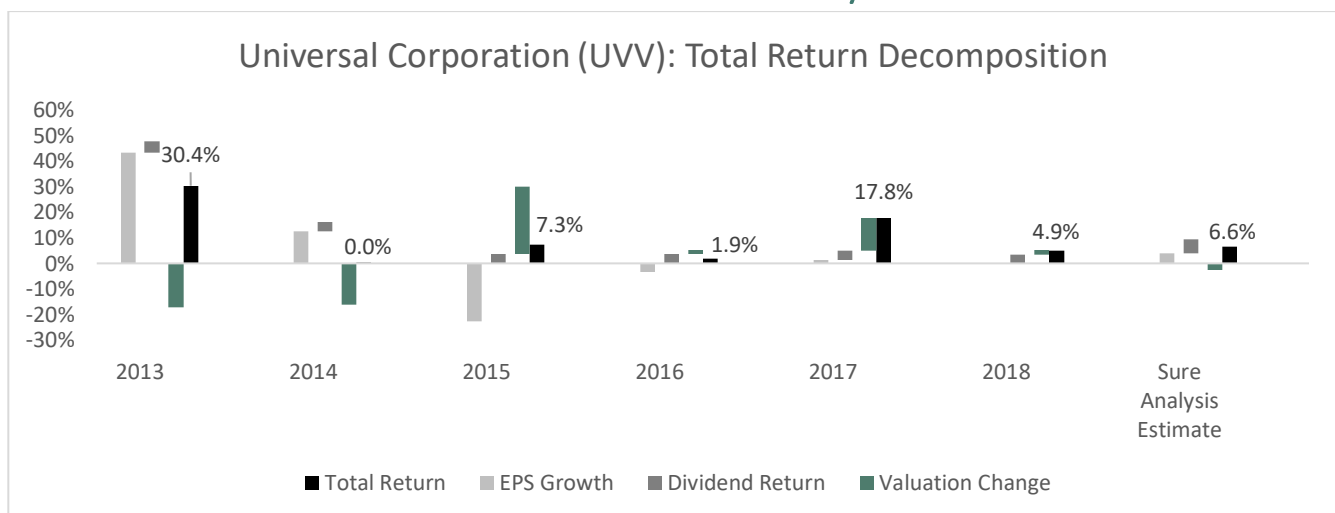
Universal Corporation has paid out roughly 50% of its net profits throughout most of the last decade, although there were significant swings both up and down during that time frame. The most recent dividend increase, which was the result of management's strategic review and which has lifted Universal Corporation's dividend by 36%, has made the dividend payout ratio jump above 60%. Earnings can be quite cyclical, which is why it is possible that Universal Corporation's dividend payout ratio rises above 100% during one of its weaker years. For now the dividend still looks well-covered, but there is not as much wiggle room compared to the past.

Universal Corporation is active in an industry that has seen its peak. This means that its growth outlook on a company-wide basis is not positive, but on the other hand this means that there is no need for large investments, which results in relatively high free cash generation. On top of that the company does not have to worry about new market entrants.

Final Thoughts & Recommendation

Universal Corporation does not have a convincing growth track record at all, but thanks to share repurchases the company could still generate some earnings-per-share growth going forward. Shareholders get an above-average dividend yield, but the company continues to earn a sell recommendation from Sure Dividend at current prices due to a valuation in excess of our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2138	2371	2228	2267	2306	2271	2188	2231	2123	2169
Cash & Equivalents	213	246	141	262	368	164	249	319	284	234
Accounts Receivable	284	279	346	391	402	468	434	429	439	377
Inventories	586	865	791	735	681	707	699	698	634	749
Goodwill & Int. Ass.	106	106	100	99	99	99	99	99	99	99
Total Liabilities	1105	1243	1028	1061	1018	860	791	778	797	783
Accounts Payable	19	6	4	188	226	212	140	121	154	164
Long-Term Debt	500	607	564	537	498	419	430	435	428	415
Shareholder's Equity	816	910	973	970	1046	1165	1151	1203	1286	1342
D/E Ratio	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
Return on Assets	6.1%	7.5%	6.8%	4.1%	5.8%	6.5%	5.1%	4.9%	4.9%	4.9%
Return on Equity	15.3%	19.5%	16.6%	9.5%	13.2%	13.5%	9.9%	9.3%	8.5%	8.0%
ROIC	8.3%	10.3%	8.9%	5.3%	7.5%	8.2%	6.3%	5.9%	5.8%	5.9%
Shares Out.	25.0	24.3	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.0
Revenue/Share	83.85	84.00	89.02	86.34	86.44	89.54	80.50	76.20	87.14	79.74
FCF/Share	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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