



Dover Corporation (DOV)

Updated April 22nd, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	6.4%	Volatility Percentile:	62.7%
Fair Value Price:	\$93	5 Year Growth Estimate:	5.0%	Momentum Percentile:	45.6%
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Growth Percentile:	35.9%
Dividend Yield:	2.0%	5 Year Price Target	\$119	Valuation Percentile:	47.7%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	31.7%

Overview & Current Events

Dover Corporation is a diversified global industrial manufacturer with annual revenues of ~\$7 billion and a market capitalization of \$14.2 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 first quarter on 4/18/2019. The company earned \$1.24 per share, topping estimates by \$0.14 and improving 7% from the prior year. Excluding the spinoff of Dover's energy business Apergy, earnings-per-share increased 29%. Revenue declined 10% to \$1.7 billion, though this was \$35 million above expectations. Revenue from continuing operations was higher by 5%. Currency was a 3.8% headwind to revenue results.

Overall, the company had organic revenue growth of 8% during the first quarter. By segments, Fluids led the way with 15.1% organic growth as Dover saw margin improvement in retail fueling and higher volumes in other businesses. Pumps and process solutions were also highlighted as a source of strength. Engineered Systems had nearly 6% organic growth as nearly every business within the segment posted positive increases in revenue. Growth was especially pronounced in the company's Printing & ID business, especially in Europe. Refrigeration & Food Equipment declined 1% from the previous year despite a 0.7% organic growth total in the quarter. Lower volumes and unfavorable business mix have only partially been offset by cost savings. Food Retail had its first positive revenue figure in six quarter. Free cash flow for the first quarter was negative \$13 million, but this is an improvement from the previous year. The first quarter is often Dover's lowest for free cash flow. Dover reaffirmed its earnings-per-share guidance of \$5.65 to \$5.85 per share for 2019. Reaching the midpoint of this guidance would represent nearly 16% growth from 2018.

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	187	184	175	170	163	155	155	155	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.

Given 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 earnings-per-share by at least 5% per year in the next five years, particularly given its strong momentum. If this occurs, the company will grow its earnings-per-share to \$7.34 in 2024. Dover has increased its dividend for 62 consecutive years. This is the second longest dividend growth streak among U.S. companies.

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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	16.7	16.2
Avg. Yld.	3.0%	2.2%	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	2.3%	2.0%	2.1%

Shares of Dover have increased \$10, or 11.6%, since our January 22nd update. Using the company's guidance for 2019, Dover is trading at a current price-to-earnings ratio (P/E) of 16.7 and has traded at an average P/E ratio of 16.2 over the last decade. If the company's P/E ratio reverts to its long-term average over the next 5 years, annualized returns will be reduced by 0.6% 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%	31.0%	26.0%	29.0%	28.0%	34.0%	45.0%	58.0%	42.0%	32.0%	33.0%	33.0%

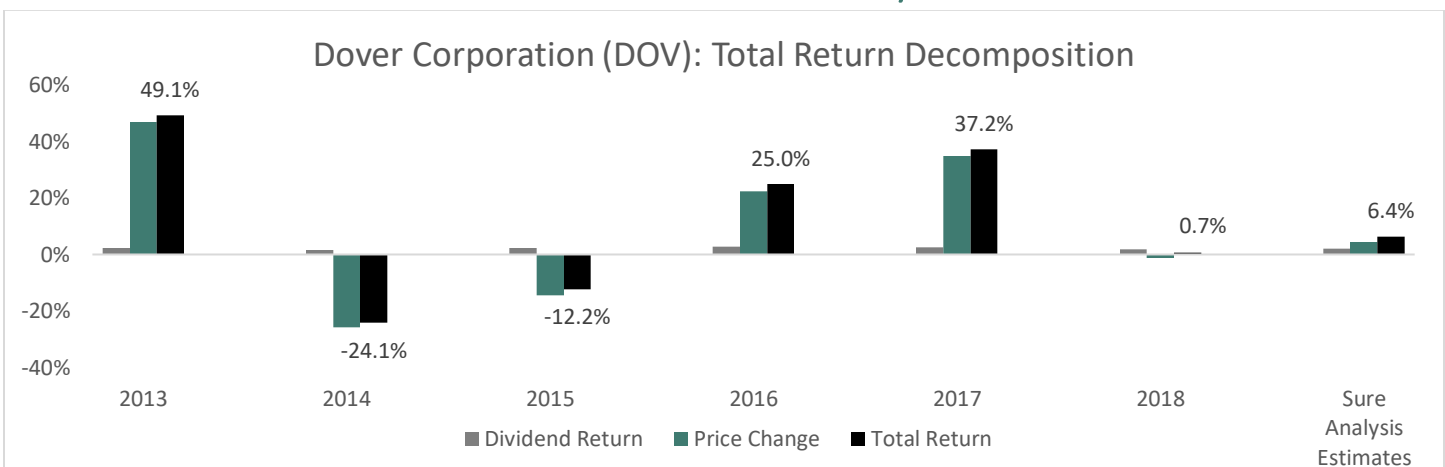
Investors should keep in mind that Dover is vulnerable to recessions due to its cyclical nature. In 2009, its earnings-per-share plunged 45%, from \$3.67 to \$2.00. Accordingly, this stock should not be seen as a defensive portfolio constituent. Quantitatively, the company's exceptionally long dividend history and reasonable payout ratio give it a high likelihood of paying future rising dividends.

Dover's key competitive advantage is its focus on niche industries. The company offers highly engineered products that customers have come to depend on. Switching to a different provider may not yield the same results for their businesses. Dover's spinoff of Apergy will likely reduce the amount of capital expenditures, while at the same time increasing margins.

Final Thoughts & Recommendation

Following first quarter results, Dover Corporation is expected to offer a total annual returns of 6.4% through 2024. We continue to recognize that Dover has an exceptional record after adjusting for its cyclical business model. The company's forward guidance offers a significant growth rate from the previous year. Engineered Systems and Fluids continue to execute at a high level. Although Refrigeration & Food showed a year-over-year decline, it was on a much smaller scale than in previous quarters. Income investors may not be impressed with the low yield, but they should find Dover's 60+ years of dividend growth to be attractive. That being said, Dover earns a hold recommendation at the current time due to relatively low expected total returns.

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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