



Universal Corporation (UWV)

Updated September 5th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	5.1%	Volatility Percentile:	89.9%
Fair Value Price:	\$43	5 Year Growth Estimate:	2.5%	Momentum Percentile:	34.5%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.2%	Growth Percentile:	15.0%
Dividend Yield:	6.0%	5 Year Price Target	\$49	Valuation Percentile:	26.2%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	22.7%

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 \$1.3 billion. With 47 years of dividend increases, Universal Corporation is a Dividend Champion.

Universal Corporation reported its first quarter (fiscal 2020) earnings results on August 7. The company generated revenues of \$297 million during the quarter, which was 21.8% less than the revenues that Universal Corporation generated during the previous year's quarter. Universal Corporation's net earnings. Management explains that revenues were in line with expectations, and that the drop versus the previous year's quarter can be attributed to carryover crop volumes. Adjusted for those, volumes and revenues would have been comparable to the previous year's quarter.

Universal's earnings-per-share totaled \$0.19 during the first quarter, which was roughly one-third of the earnings-per-share that the company generated during the previous year's quarter. Profits were impacted by carryover crop volumes as well; it thus is not a large surprise that profits declined massively year over year. We expect that the remainder of the year will be stronger, but due to the weak Q1 results, we have lowered our estimates for the current year.

Growth on a Per-Share Basis

Year ¹	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$5.68	\$5.30	\$3.25	\$4.66	\$5.25	\$4.06	\$3.92	\$3.97	\$3.96	\$4.45	\$3.95	\$4.47
DPS	\$1.86	\$1.90	\$1.94	\$1.98	\$2.02	\$2.06	\$2.10	\$2.12	\$2.16	\$3.00	\$3.04	\$3.36
Shares²	24.3	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.5	22.5

Universal Corporation's earnings-per-share during fiscal 2019 were lower than the earnings-per-share that Universal generated during fiscal 2010, almost a full decade earlier. There were some movements in Universal's earnings-per-share during the last couple of years, but without a clear direction. Earnings grew in some years and declined in other years, to essentially offset each other in most cases. Overall Universal Corporation's results during the last decade are neither convincing, nor something that investors should find attractive.

As the leader in a declining industry, we do not expect the company to deliver strong business growth for the foreseeable future. The company's earnings-per-share growth could be a different story, though. Universal Corporation's shares trade at a relatively 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 some earnings-per-share growth during the coming years. We believe that an annual earnings-per-share growth rate of 2%-3% is possible for this tobacco corporation, largely due to the possibility of buybacks. Investors will have to stomach the regular ups and downs in Universal's profitability, though.

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

² In Millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	7.4	7.9	13.0	10.6	10.5	12.5	14.3	16.3	16.0	13.0	12.9	11.0
Avg. Yld.	4.4%	4.5%	4.6%	4.0%	3.7%	4.2%	4.0%	3.5%	3.4%	5.2%	6.0%	6.8%

Universal Corporation traded at very low valuations during and following the last financial crisis, but shares became more expensive during the last couple of years. Today, shares trade at close to 13 times fiscal 2020's net profits. This represents a discount versus how Universal Corporation's shares were valued in 2016-2018, but it is still more expensive than our fair value estimate of 11 times annual net profits.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	32.7%	35.8%	59.7%	42.5%	38.5%	50.7%	53.6%	54.8%	49.7%	67.4%	77.0%	75.1%

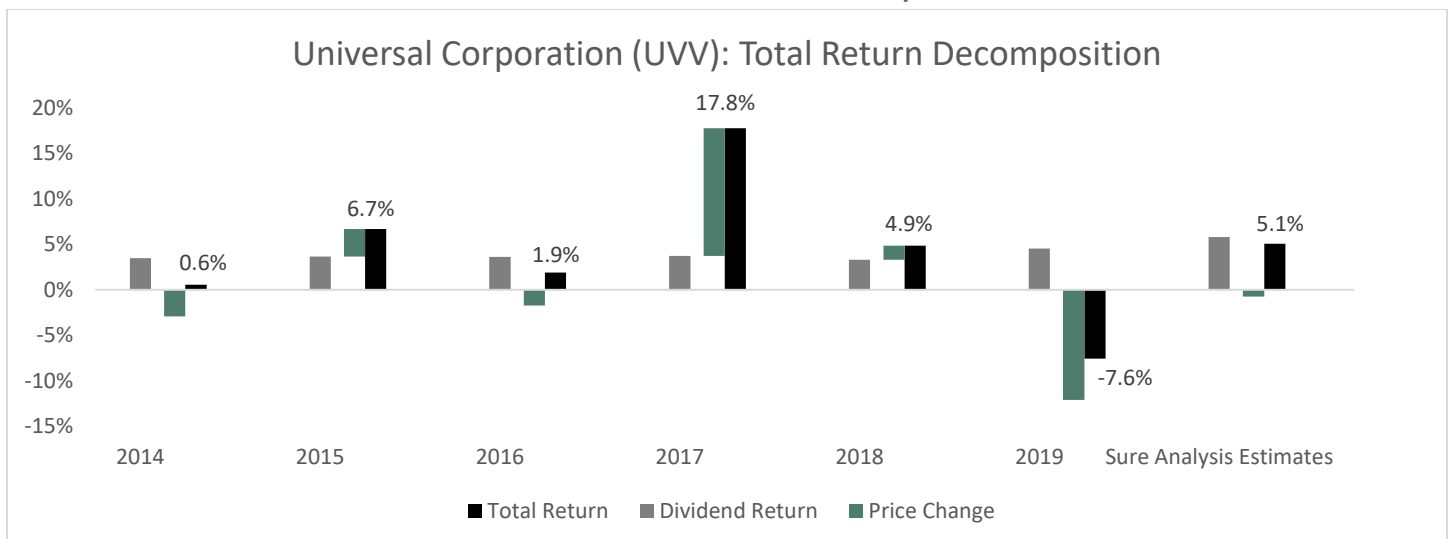
Universal Corporation has paid out roughly 50% of its net profits throughout most of the last decade, although there were significant swings both up and down during that time frame. The dividend increase in 2018, which was the result of management's strategic review and which lifted Universal Corporation's dividend by 36%, has made the dividend payout ratio jump to a significantly higher level. 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 as there was in 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, 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 Universal still earns a sell recommendation at current prices, due to a valuation in excess of our fair value estimate, and due to the fact that the total return outlook is not compelling.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2492	2572	2447	2462	2542	2272	2120	2071	2034	2227
Gross Profit	542	508	472	462	433	410	407	395	372	407
Gross Margin	21.8%	19.8%	19.3%	18.8%	17.0%	18.1%	19.2%	19.1%	18.3%	18.3%
SG&A Exp.	285	259	252	235	262	250	227	212	200	225
D&A Exp.	43	45	44	45	39	35	37	36	35	37
Operating Profit	257	269	241	227	253	173	184	183	171	181
Operating Margin	10.3%	10.4%	9.9%	9.2%	9.9%	7.6%	8.7%	8.8%	8.4%	8.1%
Net Profit	168	157	92	133	149	115	109	106	106	104
Net Margin	6.8%	6.1%	3.8%	5.4%	5.9%	5.0%	5.1%	5.1%	5.2%	4.7%
Free Cash Flow	105	15	162	204	-49	169	139	215	49	126
Income Tax	86	78	61	66	76	38	54	57	51	41

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2371	2228	2267	2306	2271	2188	2231	2123	2169	2133
Cash & Equivalents	246	141	262	368	164	249	319	284	234	298
Accounts Receivable	279	346	391	402	468	434	429	439	377	368
Inventories	865	791	735	681	707	699	698	634	749	699
Goodwill & Int. Ass.	106	100	99	99	99	99	99	99	99	98
Total Liabilities	1243	1028	1061	1018	860	791	778	797	783	753
Accounts Payable	6	4	188	226	212	140	121	154	164	146
Long-Term Debt	607	564	537	498	419	430	435	428	415	423
Shareholder's Equity	910	973	970	1046	1165	1151	1203	1286	1342	1337
D/E Ratio	0.54	0.48	0.45	0.40	0.30	0.32	0.31	0.33	0.31	0.32

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.5%	6.8%	4.1%	5.8%	6.5%	5.1%	4.9%	4.9%	4.9%	4.8%
Return on Equity	19.5%	16.6%	9.5%	13.2%	13.5%	9.9%	9.3%	8.5%	8.0%	7.8%
ROIC	10.3%	8.9%	5.3%	7.5%	8.2%	6.3%	5.9%	5.8%	5.9%	5.8%
Shares Out.	24.3	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1
Revenue/Share	84.00	89.02	86.34	86.44	89.54	80.50	76.20	87.14	79.74	87.92
FCF/Share	3.53	0.52	5.70	7.15	-1.74	5.99	5.01	9.03	1.93	4.96

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

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