Universal Corporation (UVV)

Updated August 27th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$1.1B
Fair Value Price:	$35	**5 Year Growth Estimate:**	1.5%	**Ex-Dividend Date:**	10/09/20
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	11/02/20
Dividend Yield:	6.9%	**5 Year Price Target**	$38	**Years Of Dividend Growth:**	49
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	1.3%

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 and is headquartered in Richmond, Virginia. With 49 years of dividend increases, Universal Corporation is a Dividend Champion.

Universal Corporation reported its first quarter (fiscal 2021) earnings results on August 7. The company generated revenues of $315 million during the quarter, which was 6% more than the revenues that Universal Corporation generated during the previous year's quarter. Management explains that revenues were up despite headwinds from the timing of purchases, caused by the coronavirus impact on some of the company's customers. The fact that Universal was able to grow its revenues despite these headwinds is encouraging for its full-year outlook.

Universal's adjusted earnings-per-share totaled $0.02 during the first quarter, which was down from the previous year's quarter, but due to the seasonality of the business, Q1 results are always the weakest of the year. Most of the profits will be generated in Q2-Q4. Management believes that H2 of the current year will be when most of its profits will be generated, as the seasonal shift in 2021 is forecasted to be even bigger than usual.

Growth on a Per-Share Basis

Year[1]	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.30	$3.25	$4.66	$5.25	$4.06	$3.92	$3.97	$3.96	$4.45	$3.49	***$3.20***	***$3.45***
DPS	$1.90	$1.94	$1.98	$2.02	$2.06	$2.10	$2.12	$2.16	$3.00	$3.04	***$3.08***	***$3.24***
Shares[2]	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.8	***24.5***	***23.0***

Universal Corporation's earnings-per-share during fiscal 2020 were lower than the earnings-per-share that Universal generated during fiscal 2010, 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 more or less offset each other. Overall Universal Corporation's results during the last decade were not convincing, as the company's track record in terms of earnings growth is weak.

As the leader in a declining industry, we do not expect the company to deliver strong business growth in the future. The company's earnings-per-share growth could still rise over the next couple of years, though. Universal Corporation's shares trade at a rather inexpensive valuation based on the earnings and cash flows that the company generates. Universal Corporation also does not need to invest meaningful amounts of money into its business, as the industry is not experiencing any meaningful growth anyways. 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 in the low-single-digits is possible for this tobacco corporation, largely due to the possibility of buybacks, despite the fact that its overall business will continue to trend down in the long run.

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[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

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	7.9	13.0	10.6	10.5	12.5	14.3	16.3	16.0	13.0	12.6	***14.1***	***11.0***
Avg. Yld.	4.5%	4.6%	4.0%	3.7%	4.2%	4.0%	3.5%	3.4%	5.2%	6.9%	***6.9%***	***8.5%***

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 roughly 14 times fiscal 2021's net profits. This represents a discount versus how Universal Corporation's shares were valued in 2016-2018, but shares are still more expensive than our fair value estimate of 11 times its annual net profits, which is why we see downside risk.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	35.8%	59.7%	42.5%	38.5%	50.7%	53.6%	54.8%	49.7%	67.4%	87.1%	***96.3%***	***93.9%***

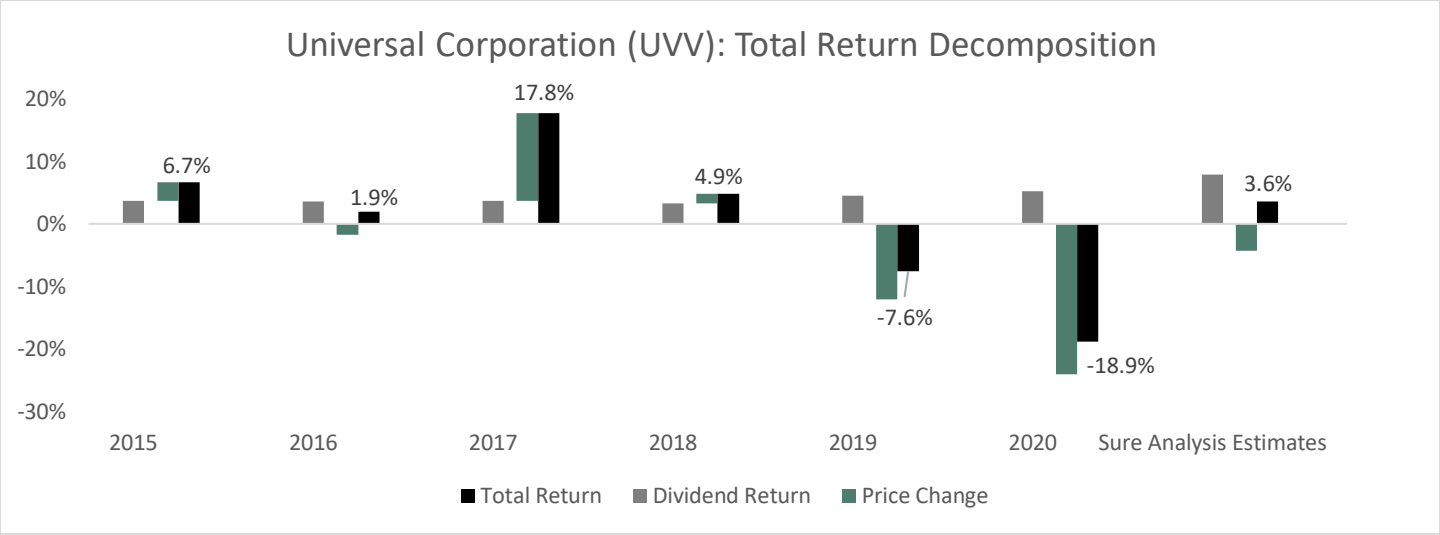
Universal Corporation has paid out roughly 50% of its net profits throughout most of the last decade, although there were significant swings both up and down during that time frame. The dividend increase in fiscal 2019, which was the result of management's strategic review and which lifted Universal Corporation's dividend by 36%, has made the dividend payout ratio jump to a significantly higher level. Coupled with earnings declines in 2020 and another forecasted, smaller decline in 2021, this has lifted Universal's dividend payout ratio to a rather high level. Management seemingly wants to continue to pay its dividend, as it has raised the payout by 1.3% just a couple of months ago.

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. On the other hand, this means that there is no need for large investments, which results in relatively high free cash generation. The company does not have to worry about competition from 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 at least 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 very convincing.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,572	2,447	2,462	2,542	2,272	2,120	2,071	2,034	2,227	1,910
Gross Profit	508	472	462	433	410	407	395	372	407	357
Gross Margin	19.8%	19.3%	18.8%	17.0%	18.1%	19.2%	19.1%	18.3%	18.3%	18.7%
SG&A Exp.	259	252	235	262	250	227	212	201	225	223
D&A Exp.	45	44	45	39	35	37	36	35	37	38
Operating Profit	269	241	227	253	173	184	183	171	181	134
Operating Margin	10.4%	9.9%	9.2%	9.9%	7.6%	8.7%	8.8%	8.4%	8.1%	7.0%
Net Profit	157	92	133	149	115	109	106	106	104	72
Net Margin	6.1%	3.8%	5.4%	5.9%	5.0%	5.1%	5.1%	5.2%	4.7%	3.8%
Free Cash Flow	15	162	204	(49)	169	139	215	47	126	(24)
Income Tax	78	61	66	76	38	54	57	51	41	35

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,228	2,267	2,306	2,271	2,188	2,231	2,123	2,169	2,133	2,121
Cash & Equivalents	141	262	368	164	249	319	284	234	298	107
Accounts Receivable	346	398	402	475	436	431	442	379	399	352
Inventories	791	735	681	707	699	698	634	749	699	807
Goodwill & Int. Ass.	100	99	99	99	99	99	99	99	98	145
Total Liabilities	1,028	1,061	1,018	860	791	778	797	783	753	832
Accounts Payable	4	188	230	212	143	129	161	180	146	140
Long-Term Debt	564	537	498	419	430	435	428	415	423	447
Shareholder's Equity	973	970	1,046	1,165	1,151	1,203	1,286	1,342	1,337	1,247
D/E Ratio	0.48	0.45	0.40	0.30	0.32	0.31	0.33	0.31	0.32	0.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.8%	4.1%	5.8%	6.5%	5.1%	4.9%	4.9%	4.9%	4.8%	3.4%
Return on Equity	16.6%	9.5%	13.2%	13.5%	9.9%	9.3%	8.5%	8.0%	7.8%	5.5%
ROIC	8.9%	5.3%	7.5%	8.2%	6.3%	5.9%	5.8%	5.9%	5.8%	4.1%
Shares Out.	23.2	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.8
Revenue/Share	89.02	86.34	86.44	89.54	80.50	76.20	87.14	79.74	87.92	76.08
FCF/Share	0.52	5.70	7.15	(1.74)	5.99	5.01	9.03	1.85	4.96	(0.97)

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

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