Deere & Company (DE)

Updated November 25th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$260	**5 Year CAGR Estimate:**	-0.9%	**Market Cap:**	$82 B
Fair Value Price:	$180	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	12/30/20
% Fair Value:	144%	**5 Year Valuation Multiple Estimate:**	-7.1%	**Dividend Payment Date[1]:**	02/10/20
Dividend Yield:	1.2%	**5 Year Price Target**	$230	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	10.1%

Overview & Current Events

Deere & Company is the largest manufacturer of farm equipment in the world. The company also makes equipment used in construction, forestry & turf care, produces engines and provides financial solutions to its customers. Deere was founded in 1837, is headquartered in Moline, Illinois and is currently valued at $82 billion.

On November 25th, 2020 Deere reported Q4 and full year fiscal 2020 results for the period ending November 1st, 2020. For the quarter sales came in at $9.731 billion, representing a -1.7% decline compared to Q4 2019. An 8% increase in Agriculture and Turf was offset by a -16% decline in Construction and Forestry. Net income equaled $757 million or $2.39 per share compared to $722 million or $2.27 per share in the year ago period.

For the year Deere generated sales of $35.54 billion, representing a -9.5% year-over-year decline. The Agriculture and Turf segments posted a -6% decline while the Construction and Forestry segments were down -20%, as results were significantly impacted by the COVID-19 pandemic this year. Reported net income equaled $2.751 billion or $8.69 per share versus $3.253 billion or $10.15 per share in 2019. This was well above prior guidance of “about $2.25 billion.”

Deere also said that it expects to generate between $3.6 billion and $4.0 billion in net income for fiscal year 2021, based on improving conditions in its markets. That works out to the expectation of ~$11.35 to ~$12.60 in EPS.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$6.36	$7.64	$9.08	$8.63	$5.77	$4.81	$6.68	$9.34	$9.92	$8.69	***$12.00***	***$15.32***
DPS	$1.52	$1.79	$1.99	$2.22	$2.40	$2.40	$2.40	$2.58	$3.04	$3.04	***$3.04***	***$4.08***
Shares[2]	406	388	374	346	317	315	322	318	313	317	***316***	***295***

Deere’s earnings-per-share are relatively cyclical. Depending on the conditions in the markets the company addresses (agriculture, forestry, and construction), demand for Deere’s products can wary widely on a year-to-year basis. Overall the earnings-per-share growth trend is positive, but it took Deere five years to grow its EPS above the peak from 2013. In the 2008 through 2019 period, excluding 2020’s down year, Deere has grown its earnings-per-share by 7% per annum.

Over time there are several factors that could prove positive for the company’s profitability. For instance, acquisitions such as the takeover of Wirtgen Group that closed during December of 2017, which expanded its presence in the construction machinery industry. In addition, benefiting from long-term economic growth around the world and ramping up its share repurchase program down the line could add to the growth thesis. The company reduced its share count by -25% in the 2008 to 2016 timeframe, but shares have been stagnant since.

Last fiscal year was difficult, but results came in better than anticipated, down less than -15% amidst the COVID-19 pandemic. Moreover, per management’s recent guidance, it appears that Deere is poised to rebound strongly in fiscal year 2021. We are forecasting 5% growth off of what would be a new high base for 2021 of $12 in EPS. We had been cautious on the company’s prospects in the near term, but we are encouraged by the company’s recent results, guidance and long-standing history in needed industries.

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[1] Estimated date.

[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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.5	10.4	9.5	10.1	15.2	16.7	17.1	16.1	15.9	20.1	***21.7***	***15.0***
Avg. Yld.	1.8%	2.3%	2.3%	2.5%	2.7%	3.0%	2.1%	1.7%	1.9%	1.7%	***1.2%***	***1.8%***

During the past decade shares of Deere have traded hands with an average P/E ratio of about 14 times earnings. We are using 15 times earnings as a fair starting place, considering the company's reasonable growth prospects coupled with its cyclical nature. With a current valuation near 22 times earnings, this could imply a significant valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	24%	23%	22%	26%	42%	50%	36%	27%	31%	35%	***25%***	***27%***

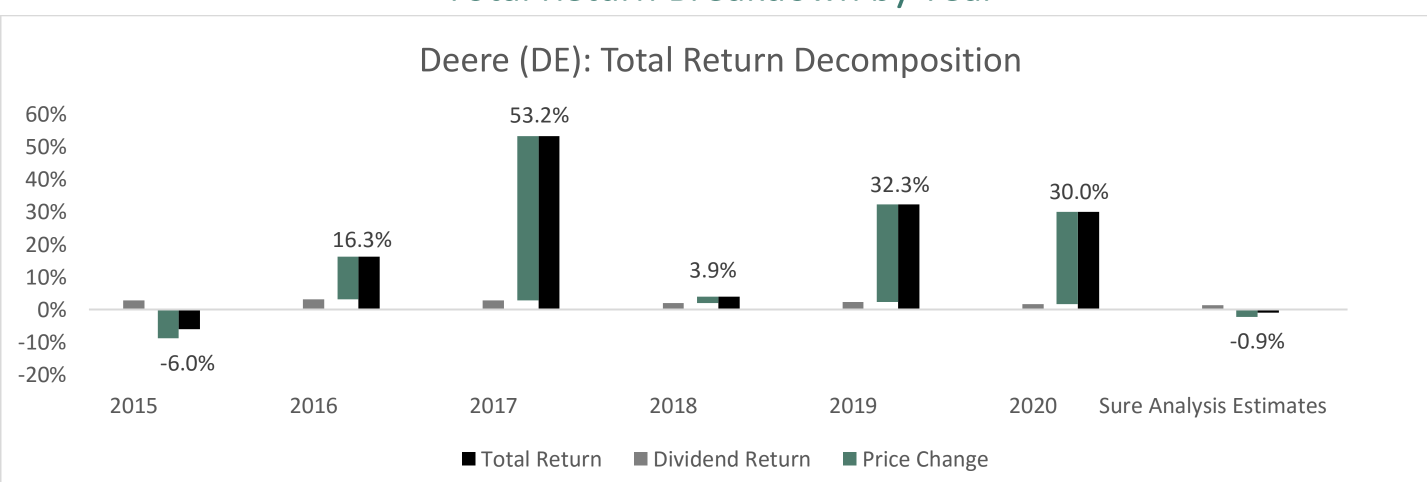
Deere's dividend payout ratio has never been especially high. The company paid out a maximum of ~50% of its net profits during 2016. Since then, the payout ratio has trended downwards as earnings-per-share have risen considerably. We believe that the dividend is quite safe, but dividend growth has not been overly reliable in the past – during 2015 to 2017 the company froze its dividend at $2.40 each year.

Deere is the largest player in the agricultural machinery manufacturing industry. This means that it is hard for new competitors to steal market share from Deere, especially since it is difficult to replicate the company's global sales and dealership network. Deere has also been growing its presence in the higher-growth construction machinery market, both organically as well as via acquisitions. The company is impacted by downturns in the industries it addresses. During the last financial crisis Deere remained profitable, but its earnings-per-share declined by -40%. Results in 2020 were down, but more resilient than anticipated.

Final Thoughts & Recommendation

After being up 41% in our last report, shares are up another 29% in the last three months. Deere is the market leader in the agricultural equipment industry. The company's global presence provides sizeable competitive advantages. Growth has been acceptable during the last decade, albeit in irregular fashion. However, the valuation leaves a lot to be desired. Total return potential comes in at -0.9% per annum, stemming from 5% expected growth off a much higher base and a 1.2% dividend yield offset by the potential for a significant valuation headwind. This could be too conservative if shares continue trading at 20+ times earnings, but we are not ready to make that speculation. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	31842	35963	37621	35816	28609	26364	29116	37021	39258	
Gross Profit	9048	10051	11069	10225	7626	7242	8182	10036	11000	
Gross Margin	28.4%	27.9%	29.4%	28.5%	26.7%	27.5%	28.1%	27.1%	28.0%	
SG&A Exp.	3362	3662	3810	3608	3056	2979	3285	3631	3551	
D&A Exp.	915	1004	1140	1307	1382	1560	1716	1927	2019	
Operating Profit	4212	4720	5468	4781	2755	2134	2762	4056	4088	
Op. Margin	13.2%	13.1%	14.5%	13.3%	9.6%	8.1%	9.5%	11.0%	10.4%	
Net Profit	2800	3065	3537	3162	1940	1524	2159	2368	3253	
Net Margin	8.8%	8.5%	9.4%	8.8%	6.8%	5.8%	7.4%	6.4%	8.3%	
Free Cash Flow	646	-953	879	867	933	815	-393	-1130	-37	
Income Tax	1424	1659	1946	1627	840	700	971	1727	852	

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	48207	56266	59521	61336	57948	57919	65786	70108	73011	
Cash & Equivalents	3647	4652	3504	3787	4162	4336	9335	3904	3857	
Acc. Receivable	26123	29576	33544	35302	32695	31840	33188	36080	38808	
Inventories	4371	5170	4935	4210	3817	3341	3904	6149	5975	
Goodwill & Int.	1127	1026	922	860	790	920	1251	4663	4297	
Total Liabilities	41393	49404	49254	52271	51190	51388	56226	58817	61594	
Accounts Payable	2675	2986	2739	2325	1872	2096	2551	2894		
Long-Term Debt	26589	32421	34476	36958	36850	35612	40045	42257	45334	
Total Equity	6800	6842	10266	9063	6743	6520	9557	11288	11413	
D/E Ratio	3.91	4.74	3.36	4.08	5.46	5.46	4.19	3.74	3.97	

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.1%	5.9%	6.1%	5.2%	3.3%	2.6%	3.5%	3.5%	4.5%	
Return on Equity	42.8%	44.9%	41.4%	32.7%	24.5%	23.0%	26.9%	22.7%	28.7%	
ROIC	8.7%	8.4%	8.4%	7.0%	4.3%	3.6%	4.7%	4.6%	5.9%	
Shares Out.	406	388	374	346	317	315	322	318	313	
Revenue/Share	75.38	89.57	96.66	97.83	85.15	83.27	90.06	113.11	122.45	
FCF/Share	1.53	-2.37	2.26	2.37	2.78	2.57	-1.21	-3.45	-0.12	

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