



Cintas Corporation (CTAS)

Updated March 21st, 2021 by Josh Arnold

Key Metrics

Current Price:	\$333	5 Year CAGR Estimate:	1.3%	Market Cap:	\$35 B
Fair Value Price:	\$250	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/11/21 ¹
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	06/15/21 ²
Dividend Yield:	0.9%	5 Year Price Target	\$335	Years Of Dividend Growth:	38
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	6.8%

Overview & Current Events

Cintas Corporation is the U.S. industry leader in uniform design, manufacturing & rental. The company also offers first aid supplies, safety services, and other business-related services. Cintas was founded in 1968 and has grown to a market capitalization of \$35 billion with annual revenues in excess of \$7 billion. Cintas' CEO is Scott Farmer, the son of its founder Richard Farmer. Scott Farmer owns more than 14% of Cintas' stock, which shows that the company's upper management is highly incentivized to act in the best interests of its shareholders. Cintas qualifies to be a member of the Dividend Aristocrats Index with an impressive 38 years of consecutive dividend increases.

Cintas reported third quarter earnings on March 17th, 2021 with results coming in better than expectations on both the top and bottom lines. Revenue for Q3 was \$1.78 billion, down slightly from \$1.81 billion in the year-ago period. Diluted earnings-per-share were \$2.37 in Q3, which was up 9.7% from the same period a year ago.

Organic revenue was flat during Q3, which excludes acquisitions, divestitures, differences in workday counts, and forex translation. The organic revenue growth rate for the Uniform Rental and Facility Services operating segment was flat, while the First Aid and Safety Services segment was up 17.7%.

Gross margin was \$810 million in Q3, down from \$824 million in the same period a year ago. As a percentage of revenue, gross margin improved 10bps to 45.6%.

Operating income was \$327 million, up 3.8% year-over-year. As a percentage of revenue, operating income was up 100bps to 18.4%.

We have raised our estimate for this year to \$10 in earnings-per-share after strong Q3 results.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.68	\$2.27	\$2.52	\$2.79	\$3.44	\$4.09	\$4.17	\$7.03	\$7.60	\$8.11	\$10.00	\$13.38
DPS	\$0.49	\$0.54	\$0.64	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$3.00	\$4.83
Shares³	138	127	122	117	112	104	105	106	108	107	105	100

Cintas has compounded its earnings-per-share at a rate of about 17% since 2011. Over full economic cycles, we believe the company is capable of delivering continued earnings growth in the range of 6% per year. Applying a 6% growth rate to our 2021 estimate of \$10.00 per share gives a 2026 earnings-per-share estimate of \$13.38.

Cintas' two primary growth levers are higher organic revenue and higher margins. While the company is struggling currently with revenue due to customers impacted by COVID-19, it has shown over the long-term it can continue to boost the top line. It is also adept at removing cost redundancies, which drives operating margin higher over time. We believe that Cintas will rebound from the current slowdown and get back on its former track. We see Q3 results as supportive of this thesis.

¹ Estimated date

² Estimated date

³ Share count 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	17.9	16.6	14.9	16.6	19.4	21.4	21.5	27.2	25.9	30.8	33.3	25.0
Avg. Yld.	1.8%	1.8%	1.6%	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%	1.0%	0.9%	1.4%

Cintas' price-to-earnings ratio has varied from ~15 to ~37 over the last decade. However, we see fair value at 25 times earnings. This compares unfavorably to the current price-to-earnings ratio of 33.3, which is close to the highest valuation the stock has traded for in the last decade. If the company's valuation reverts to 25 times earnings over the next five years, this will introduce a significant annual headwind to the company's annualized returns. Cintas is one of the more expensive stocks in our coverage universe, although it has pulled back slightly of late.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	32%	29%	24%	25%	28%	25%	26%	32%	27%	31%	30%	36%

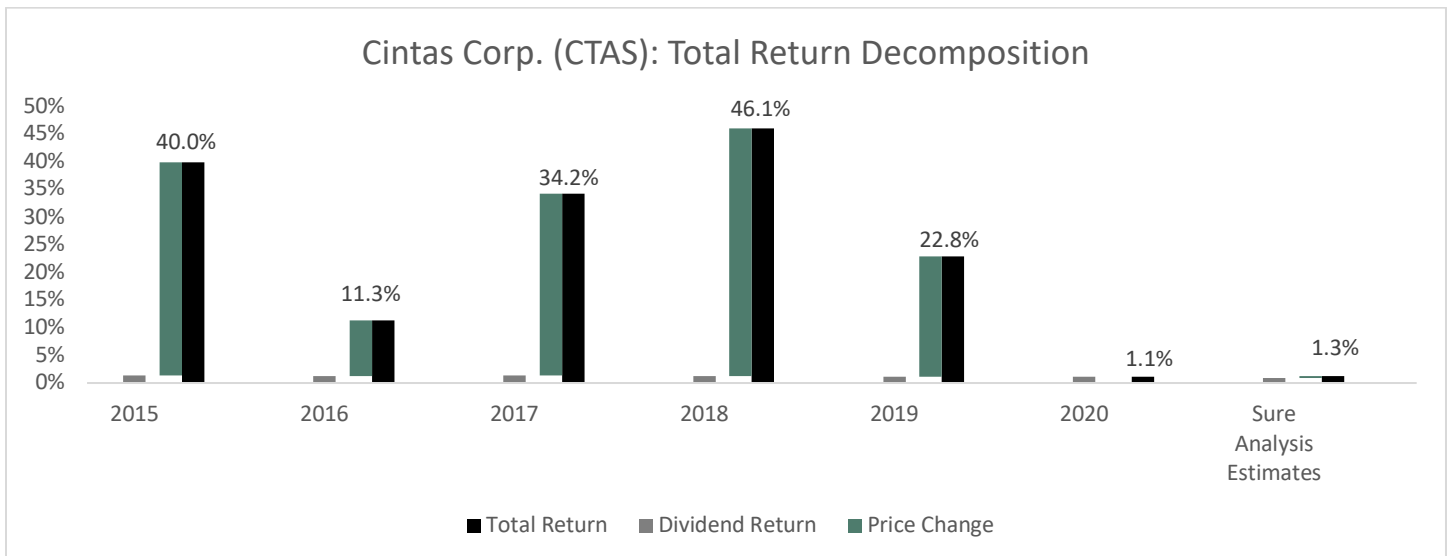
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining near 35% of earnings for the foreseeable future with years of steady increases on the way.

Cintas' competitive advantage is in its massive size and scale, being the largest company of its kind. It has a huge customer book, and these customers have relatively high switching costs, so retention is strong. However, recessions are not kind to Cintas as it serves businesses, and revenue is dependent upon its customers' headcount. When a recession strikes and unemployment rises, Cintas' earnings will suffer. We note that the slowdown from COVID-19 was better than feared, and that Cintas continues to show signs of coming out of it.

Final Thoughts & Recommendation

Our rating on Cintas remains unchanged from last quarter. The fundamentals of the business are still attractive as the company is performing very well. However, the stock remains overvalued in our view, and we expect narrowly positive returns to shareholders in the coming years. The company's solid forecasted earnings growth rate could be offset by a headwind from a lower valuation, and the diminutive yield of just 0.9% is not attractive. As a result, we are reiterating our sell rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,810	4,102	4,246	4,194	4,370	4,796	5,323	6,477	6,892	7,085
Gross Profit	1,609	1,739	1,753	1,750	1,893	2,101	2,380	2,909	3,129	3,234
Gross Margin	42.2%	42.4%	41.3%	41.7%	43.3%	43.8%	44.7%	44.9%	45.4%	45.6%
SG&A Exp.	1,169	1,199	1,187	1,147	1,209	1,332	1,527	1,917	1,981	2,071
D&A Exp.	193	194	189	191	155	165	197	279	360	379
Operating Profit	440	540	566	603	684	769	853	992	1,148	1,163
Operating Margin	11.6%	13.2%	13.3%	14.4%	15.6%	16.0%	16.0%	15.3%	16.7%	16.4%
Net Profit	247	298	315	374	431	694	481	843	885	876
Net Margin	6.5%	7.3%	7.4%	8.9%	9.9%	14.5%	9.0%	13.0%	12.8%	12.4%
Free Cash Flow	158	309	356	460	363	190	491	692	791	1,061
Income Tax	146	173	184	199	238	257	230	57	220	182

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,352	4,166	4,346	4,462	4,192	4,099	6,844	6,958	7,437	7,670
Cash & Equivalents	438	340	352	513	417	139	169	139	97	145
Accounts Receivable	429	451	496	508	496	546	736	805	910	870
Inventories	250	251	240	251	226	249	278	280	335	409
Goodwill & Int. Ass.	1,590	1,562	1,610	1,325	1,239	1,356	3,406	3,433	3,545	3,551
Total Liabilities	2,049	2,027	2,144	2,270	2,260	2,256	4,541	3,942	4,434	4,435
Accounts Payable	110	95	121	150	110	111	177	215	226	231
Long-Term Debt	1,286	1,285	1,309	1,301	1,300	1,294	3,134	2,535	2,850	2,540
Shareholder's Equity	2,303	2,139	2,201	2,193	1,932	1,843	2,303	3,017	3,003	3,235
D/E Ratio	0.56	0.60	0.59	0.59	0.67	0.70	1.36	0.84	0.95	0.79

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.9%	7.0%	7.4%	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%
Return on Equity	10.2%	13.4%	14.5%	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%
ROIC	7.1%	8.5%	9.1%	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%
Shares Out.	138	127	122	117	112	104	105	106	108	107
Revenue/Share	25.99	31.55	34.10	34.48	37.18	43.62	49.39	58.98	62.95	66.21
FCF/Share	1.08	2.38	2.86	3.78	3.08	1.73	4.55	6.31	7.23	9.92

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

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