



# Dover Corporation (DOV)

Updated April 21<sup>st</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$144	<b>5 Year CAGR Estimate:</b>	3.8%	<b>Market Cap:</b>	\$20.7 billion
<b>Fair Value Price:</b>	\$110	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	5/28/2021
<b>% Fair Value:</b>	131%	<b>5 Year Valuation Multiple Estimate:</b>	-5.2%	<b>Dividend Payment Date:</b>	6/16/2021 <sup>1</sup>
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$162	<b>Years Of Dividend Growth:</b>	65
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	2.1%

## Overview & Current Events

Dover Corporation is a diversified global industrial manufacturer with annual revenues of just over \$6 billion. Dover is composed of five reporting segments: Engineered Systems, Fueling Solutions, Pumps & Process Solutions, Imaging & Identification and Refrigeration, & Food Equipment. Dover is a Dividend King with 65 years of consecutive dividend increases. Slightly more than half of revenues come from the U.S., with the remainder coming from international markets.

Dover reported first quarter earnings results on 4/20/2021. Revenue grew 12.7% to \$1.87 billion, beating estimates by \$140 million. Adjusted earnings-per-share of \$1.81 was a \$0.42, or 30%, increase from the prior year and \$0.35 better than expected.

Organic sales grew 9% companywide while bookings were higher by 27%. All business segments contributed positively to growth. Engineered Products was higher by 2%, with vehicle aftermarket, industrial automation and aerospace and defense as highlighted areas of strength. Fueling Solutions improved 3%. North American retail fueling and European system businesses performed well, but were partially offset by pressure in Asia and fuel transport. Imaging & Identification increased 4% due to better demand in marking and coding. Textile printing is turning around, but larger printer sales remain weak. Pumps & Process Solutions followed a difficult 2020 with an 18% increase in the first quarter. Biopharma connectors and pumps, industrial pumps and polymer processing were the main contributors to results. Refrigeration & Food Equipment continues its run of double-digit growth with an 18% improvement. Food retail, heat exchangers and can making all remain in high demand.

Dover offered revised guidance for the year. Adjusted earnings per share are now expected in a range of \$6.75 to \$6.85, up from \$6.25 to \$6.45 previously. Organic revenue growth is projected between 10% to 12% for 2021.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$4.49	\$4.53	\$5.28	\$4.54	\$3.64	\$3.25	\$4.38	\$4.97	\$5.84	\$5.67	<b>\$6.80</b>	<b>\$9.99</b>
<b>DPS</b>	\$1.18	\$1.33	\$1.45	\$1.55	\$1.64	\$1.72	\$1.82	\$1.90	\$1.96	\$1.97	<b>\$1.98</b>	<b>\$2.53</b>
<b>Shares<sup>2</sup></b>	184	175	170	163	155	155	155	153	147	145	<b>145</b>	<b>140</b>

Under normal circumstances, we would expect Dover to grow earnings by 3% to 5% as most of its divisions were experiencing growth with future gains likely. For example, 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.

However, the impact from COVID-19 resulted in shutdowns and closures of some its businesses in 2020. We maintain our expected earnings growth rate of 8% through 2026 as Dover experiences higher demand for products following a recovery from COVID-19.

<sup>1</sup> Estimated dividend payment date

<sup>2</sup> In millions of shares

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Dover raised its dividend 1% for the 9/15/2020 payment, marking 65 consecutive years of dividend growth. This is the second-longest dividend growth streak among U.S. companies.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	13.4	13.2	15.4	18.5	18.5	20.7	19.5	17.6	16.4	18.7	<b>21.2</b>	<b>16.2</b>
<b>Avg. Yld.</b>	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	2.2%	2.0%	1.9%	<b>1.4%</b>	<b>1.6%</b>

Shares of Dover have increased \$26, or 22%, since our 2/1/2021 update. Shares trade with a price-to-earnings ratio of 21.2 times expected adjusted earnings-per-share for the year. We reaffirm our target P/E ratio of 16.2 for 2026. If the company's P/E ratio reverts to its long-term average over the next five years then annualized returns will be reduced by 5.2% during this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

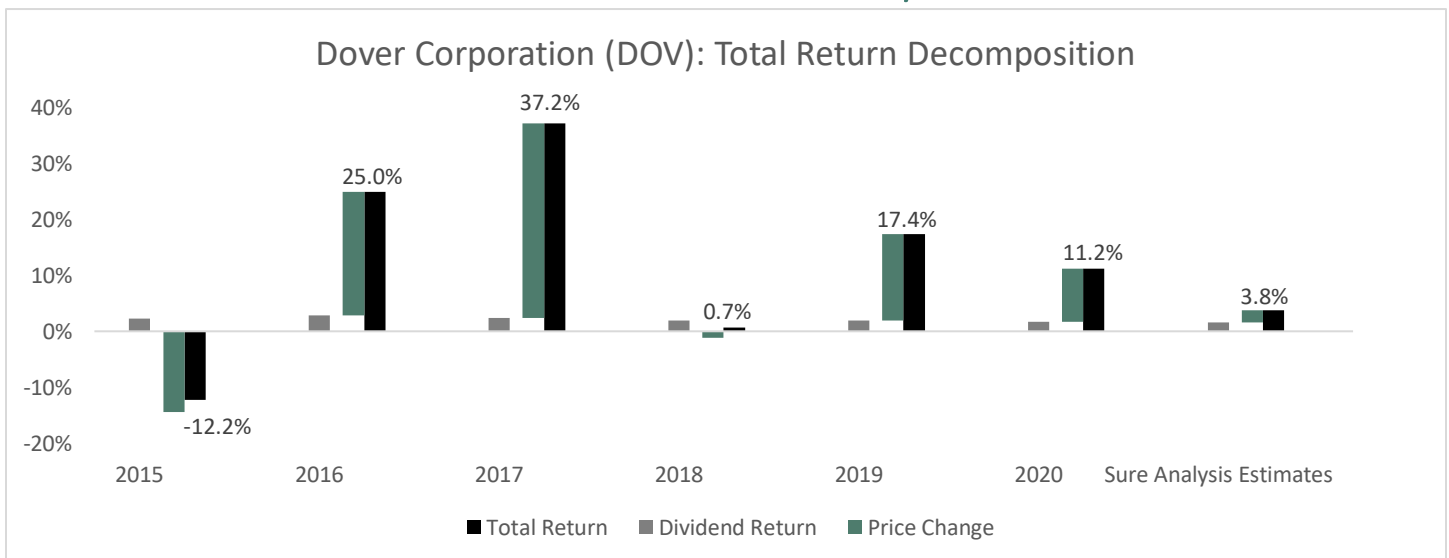
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>Payout</b>	26%	29%	28%	34%	45%	58%	42%	32%	34%	35%	<b>29%</b>	<b>25%</b>

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. Dover's key competitive advantage is its focus on niche industries. The company offers highly engineered products that customers have come to depend on, as switching to a different provider may not yield the same results for their businesses.

## Final Thoughts & Recommendation

Following first quarter results, Dover Corporation is now projected to offer a total annual return of 3.8% through 2026, down from our prior estimate of 6.6%. Our estimated return is based on 8% earnings growth and a starting yield of 1.4% offset by a mid-single-digit headwind from valuation reversion. COVID-19 greatly impacted Dover's results last year, but the company started off the first quarter of 2021 with a very strong quarter. The market has bid up shares since the time of our last update. We have raised our 2026 price target \$11 to \$162, but maintain our hold rating on Dover due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	7,369	6,627	7,155	7,753	6,956	6,043	6,821	6,992	7,136	6,684
<b>Gross Profit</b>	2,845	2,580	2,779	2,974	2,568	2,228	2,529	2,560	2,621	2,474
<b>Gross Margin</b>	38.6%	38.9%	38.8%	38.4%	36.9%	36.9%	37.1%	36.6%	36.7%	37.0%
<b>SG&amp;A Exp.</b>	1,721	1,521	1,617	1,759	1,647	1,519	1,722	1,716	1,599	1,541
<b>D&amp;A Exp.</b>	290	230	278	307	327	250	283	283	272	279
<b>Operating Profit</b>	1,124	1,059	1,162	1,215	921	709	807	843	1,022	933
<b>Operating Margin</b>	15.3%	16.0%	16.2%	15.7%	13.2%	11.7%	11.8%	12.1%	14.3%	14.0%
<b>Net Profit</b>	895	811	1,003	775	870	509	812	570	678	683
<b>Net Margin</b>	12.1%	12.2%	14.0%	10.0%	12.5%	8.4%	11.9%	8.2%	9.5%	10.2%
<b>Free Cash Flow</b>	817	1,120	1,011	810	681	723	666	628	759	939
<b>Income Tax</b>	237	281	248	316	205	183	129	134	165	158

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	9,501	10,444	10,855	9,030	8,606	10,116	10,658	8,366	8,669	9,152
<b>Cash &amp; Equivalents</b>	1,207	800	804	682	362	349	754	396	397	513
<b>Accounts Receivable</b>	1,119	1,226	1,077	1,187	1,120	1,265	1,184	1,232	1,217	1,137
<b>Inventories</b>	734	873	715	864	803	870	677	749	806	836
<b>Goodwill &amp; Int. Ass.</b>	4,691	5,740	4,367	4,861	5,151	6,366	4,969	4,812	4,838	5,156
<b>Total Liabilities</b>	4,570	5,525	5,478	5,330	4,962	6,316	6,275	5,597	5,637	5,766
<b>Accounts Payable</b>	516	651	523	615	651	830	882	970	983	
<b>Long-Term Debt</b>	2,187	2,800	2,828	3,031	2,755	3,621	3,568	3,164	3,070	3,109
<b>Shareholder's Equity</b>	4,931	4,919	5,377	3,701	3,645	3,800	4,383	2,769	3,033	3,386
<b>D/E Ratio</b>	0.44	0.57	0.53	0.82	0.76	0.95	0.81	1.14	1.01	0.92

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	9.9%	8.1%	9.4%	7.8%	9.9%	5.4%	7.8%	6.0%	8.0%	7.7%
<b>Return on Equity</b>	18.9%	16.5%	19.5%	17.1%	23.7%	13.7%	19.8%	15.9%	23.4%	21.3%
<b>ROIC</b>	13.3%	10.9%	12.6%	10.4%	13.2%	7.4%	10.6%	8.2%	11.3%	10.9%
<b>Shares Out.</b>	184	175	170	163	155	155	155	153	147	145
<b>Revenue/Share</b>	39.01	36.02	41.23	45.92	43.70	38.58	43.24	45.96	48.55	45.97
<b>FCF/Share</b>	4.32	6.09	5.82	4.80	4.28	4.62	4.22	4.13	5.16	6.46

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

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