Snap-On Inc. (SNA)

Updated July 25th, 2021, by Josh Arnold

Key Metrics

Current Price:	$225	**5 Year CAGR Estimate:**	6.3%	**Market Cap:**	$12 B
Fair Value Price:	$226	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	08/20/21[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	09/10/21
Dividend Yield:	2.2%	**5 Year Price Target**	$274	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	13.9%

Overview & Current Events

Snap-On Inc. was founded in the early 1920's and since that time, has grown from a fledgling direct sales distributor of sockets to a full-service, global distributor of a wide array of common and specialty tools, diagnostics equipment, repair information and system solutions instruments. Snap-On also operates a financial services business that finances its customers' purchases in-house. The company's market capitalization is $12 billion after a huge rally, and it should generate around $4.2 billion in revenue this year.

Snap-On reported second quarter earnings on July 22nd, 2021, with results coming in well ahead of expectations on both the top and bottom lines. Total revenue soared 49% higher against the year-ago period to $1.08 billion, as conditions continue to normalize from pandemic conditions that are being lapped. The company noted that sales were up 14% from the same period in 2019, and that organic sales rose 9.3% from that period. The sales gain was due to a 43% increase year-over-year in organic sales, with the balance coming from a combination of acquisitions and favorable currency translation. Operating earnings before financial services came to $217 million, or 20.1% of sales, which was more than double the year-ago period, which saw $91 million and 12.6%, respectively.

Financial services revenue was $87 million, up slightly from 2020 levels, while operating earnings were $69 million, up from $58 million as the segment continues to perform extremely well. Net earnings came to $3.76 per share, or $208 million, in Q2. These were up from $1.91 and $105 million, respectively, in adjusted earnings in the year-ago period. We've boosted our earnings estimate for this year to $14.10 following very strong results in the second quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$4.50	$5.20	$5.93	$7.14	$8.10	$9.20	$10.12	$11.81	$12.41	$11.63	***$14.10***	***$17.15***
DPS	$1.28	$1.36	$1.58	$1.85	$2.20	$2.54	$2.95	$3.41	$3.93	$4.47	***$4.92***	***$7.23***
Shares[2]	58	58	58	58	58	58	57	57	55	54	***54***	***52***

Except for 2020, Snap-On has produced materially higher earnings every year in the past decade. The company's constant focus on acquisitions, as well as its own organic revenue growth in concert with a rapidly growing financial services business, has created a growth profile that is tough to rival. The company continues to buy back its stock as well, albeit in small amounts, providing another tailwind for earnings-per-share. Indeed, it has managed to compound earnings at an average rate of 10% annually in the past decade.

However, we are forecasting a 4% annual growth rate going forward as Snap-On grapples with its already-sizable scale, making further revenue and margin growth more difficult. We note that the company returned to growth from the pandemic slowdown more quickly than anticipated, however, and it appears Snap-On may be back on its prior trajectory from before the pandemic, starting in 2021, and this is certainly supported by first half results.

[1] Estimated date

[2] Share count in millions

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The dividend should keep increasing at high rates as the payout ratio is still low. Snap-On produces more cash than it can use to profitably invest in the business, so shareholders should see the benefit. Indeed, the company raised its dividend by 14% for the December 2020 payout, similar to 2019.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.3	12.7	15.6	16.8	19.1	17.1	16.3	13.7	12.9	12.7	***16.0***	***16.0***
Avg. Yld.	2.3%	2.1%	1.7%	1.5%	1.4%	1.6%	1.8%	2.1%	2.5%	3.0%	***2.2%***	***2.6%***

Snap-On's price-to-earnings multiple has spent the past several years in the mid-teens. Today, shares trade for just under 16 times 2021 earnings. This is in-line with our fair value estimate, implying little change from valuation.

We see the yield rising to the 2.6% area as Snap-On's impressive dividend growth. When coupled with its decent current yield, Snap-On is a nice choice for dividend investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	27%	26%	26%	27%	27%	28%	29%	32%	38%	***35%***	***42%***

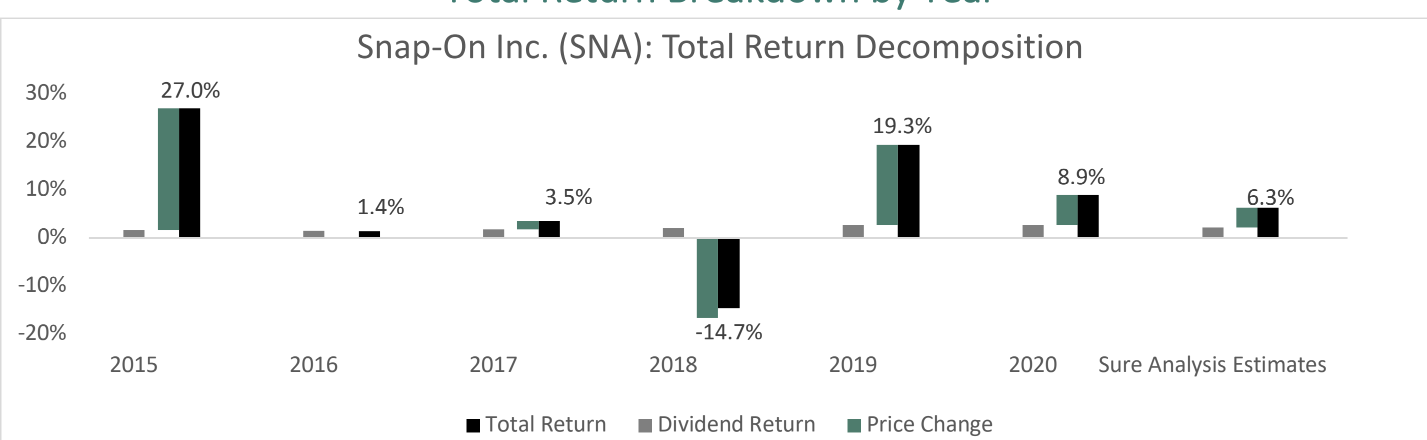
The payout ratio is still relatively low and should remain that way unless management decides to ramp up its dividend growth strategy, which we view as unlikely at this point given already-strong growth rates. We see the recent pace of dividend increases continuing, and therefore driving the payout ratio higher than it is today over time. However, we see no risk of Snap-On being able to afford its dividend at any time, even with high rates of dividend increases.

Snap-On's main competitive advantage is in its very broad and deep assortment of all kinds of specialty tools. In addition, its global reach and in-house financing is a unique combination not found elsewhere. The financing business could pose a problem during a recession as customers may become past due on their accounts, so this would be the principal risk for Snap-On during the next economic downturn. Earnings suffered during the Great Recession.

Final Thoughts & Recommendation

Snap-On's sizable recent pullback has the stock fairly valued. We now see total annual return potential of 6.3% going forward, consisting of the 2.2% current yield, 4% earnings growth, and no impact from the valuation. The rebound from COVID-related weakness is progressing nicely, and shares are now reasonably valued. We continue to like Snap-On's fundamentals, and with the improved total return outlook, we're upgrading it from sell to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2979	3099	3238	3493	3593	3712	4000	4070	4068	3,942
Gross Profit	1411	1497	1599	1733	1819	1908	2042	2100	2090	1,997
Gross Margin	47.4%	48.3%	49.4%	49.6%	50.6%	51.4%	51.1%	51.6%	51.4%	50.7%
D&A Exp.	75	77	77	80	83	86	93	94	92	97
Operating Profit	457	516	586	685	765	854	882	956	962	881
Operating Margin	15.3%	16.7%	18.1%	19.6%	21.3%	23.0%	22.0%	23.5%	23.7%	22.3%
Net Profit	276	306	350	422	479	546	558	680	694	627
Net Margin	9.3%	9.9%	10.8%	12.1%	13.3%	14.7%	13.9%	16.7%	17.0%	15.9%
Free Cash Flow	67	250	322	323	427	502	527	674	575	943
Income Tax	134	148	167	200	221	244	251	214	212	189

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3673	3902	4110	4310	4331	4723	5249	5373	5694	6,557
Cash & Equivalents	186	215	218	133	93	78	92	141	185	923
Accounts Receivable	741	821	906	953	1010	1071	1181	1211	1325	1,283
Inventories	386	404	434	476	498	531	639	674	760	747
Goodwill & Int. Ass.	984	995	1029	1014	985	1080	1178	1135	1158	1,243
Total Liabilities	2126	2083	1980	2085	1900	2088	2277	2255	2263	2,711
Accounts Payable	125	143	156	145	148	171	178	201	199	223
Long-Term Debt	984	976	972	919	880	1010	1187	1132	1150	1,451
Shareholder's Equity	1531	1802	2113	2208	2413	2617	2954	3099	3409	3,825
D/E Ratio	0.64	0.54	0.46	0.42	0.36	0.39	0.40	0.37	0.34	0.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.5%	8.1%	8.7%	10.0%	11.1%	12.1%	11.2%	12.8%	12.5%	10.2%
Return on Equity	18.9%	18.4%	17.9%	19.5%	20.7%	21.7%	20.0%	22.5%	21.3%	17.3%
ROIC	10.8%	11.5%	11.9%	13.5%	14.8%	15.7%	14.3%	16.2%	15.7%	12.7%
Shares Out.	58	58	58	58	58	58	57	57	55	54
Revenue/Share	50.74	52.62	54.78	59.10	60.80	62.49	68.26	71.04	72.77	71.94
FCF/Share	1.15	4.24	5.45	5.46	7.22	8.45	8.98	11.76	10.29	17.21

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