



Tennant Company (TNC)

Updated August 16th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	11.4%	Market Cap:	\$1.4B
Fair Value Price:	\$82	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/30/21
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	09/15/21
Dividend Yield:	1.3%	5 Year Price Target	\$120	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	4.5%

Overview & Current Events

Tennant Company is a machinery company that produces cleaning products and that offers cleaning solutions to its customers. In the US, the company holds the market leadership position in its industry, but the company also sells its products in more than 100 additional countries around the globe. Tennant was founded in 1870.

Tennant Company reported its second quarter earnings results on August 3. The company announced that it generated revenues of \$280 million during the quarter, which was 30% more than the top line number from the previous year's quarter. Revenues recovered from the previous year's weak Q2, which was impacted by the coronavirus crisis, which had slowed down purchasing by customers and which also led to some manufacturing disruptions.

Tennant Company generated earnings-per-share of \$1.18 during the second quarter, which was more than what the analyst community had forecasted, as the consensus estimate was beaten by a rather large \$0.22. Management also reiterated its guidance numbers for the current year, fiscal 2021. Management believes that revenues will total \$1.1 billion this year, which would be a solid improvement versus 2020. On top of that, management is also forecasting that adjusted earnings-per-share will fall into a range of \$4.10 to \$4.50, which would be a strong improvement over the \$2.91 the company earned in 2020. Tennant Company thereby will be able to revert the earnings decline it experienced in 2020, and profits will, it seems, even set a record this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.95	\$2.08	\$2.26	\$2.70	\$2.49	\$2.59	\$1.54	\$2.17	\$3.78	\$2.91	\$4.30	\$6.32
DPS	\$0.68	\$0.69	\$0.72	\$0.78	\$0.80	\$0.81	\$0.84	\$0.85	\$0.88	\$0.92	\$0.92	\$1.17
Shares¹	18.8	18.5	18.5	18.4	17.7	17.7	17.9	18.3	18.6	18.6	18.8	19.0

Tennant Company's earnings-per-share were quite lumpy over the last decade. Overall, the trend pointed upwards, but there were a lot of ups and downs; the company has not been able to grow its earnings consistently. During the last financial crisis Tennant Company's earnings-per-share were roughly cut in half, from \$1.35 in 2008 to \$0.65 in 2009. The company was able to recover quickly from the impact of the last financial crisis.

Between 2010 and 2019, Tennant Company recorded an average annual earnings-per-share growth rate of 7%. Tennant Company's earnings-per-share declined substantially during 2017, though, and 2018's profits remained below the peak that was hit during 2014. 2019 was a new record year for the company, and 2020 would have been an even better year, according to management, without the headwinds that were caused by the coronavirus. Tennant Company will, according to management, have a very strong fiscal 2021, however, which should see the company hit new record profits. Tennant Company has plans to grow its sales inorganically, especially in the Asia/Pacific region, where it benefits from above-average market growth rates. The takeover of Chinese cleaning equipment company Gaomei improves Tennant's sales outlook in the Chinese market, as well as in other Asian markets, over the next couple of years. As the coronavirus impact wanes, synergies from this acquisition and other moves to bolster the overall profitability and the business in Asia will increasingly pay off and should deliver attractive earnings growth for Tennant.

¹ 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	20.1	19.8	23.8	25.1	25.1	22.7	44.9	24.0	22.1	24.1	17.0	19.0
Avg. Yld.	1.7%	1.7%	1.3%	1.1%	1.3%	1.4%	1.2%	1.7%	1.1%	1.3%	1.3%	1.0%

Tennant Company has been valued at high multiples throughout the last decade. This is somewhat surprising, as Tennant Company is not an ultra-high-quality company, and its growth has been solid, but not outstanding. We believe that an earnings multiple of more than 20 is not justified. Based on our earnings-per-share estimate, shares are trading at one of the lowest valuations in years, and shares seem slightly undervalued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	34.9%	33.2%	31.9%	28.9%	32.1%	31.3%	45.5%	39.2%	23.3%	31.6%	21.4%	18.6%

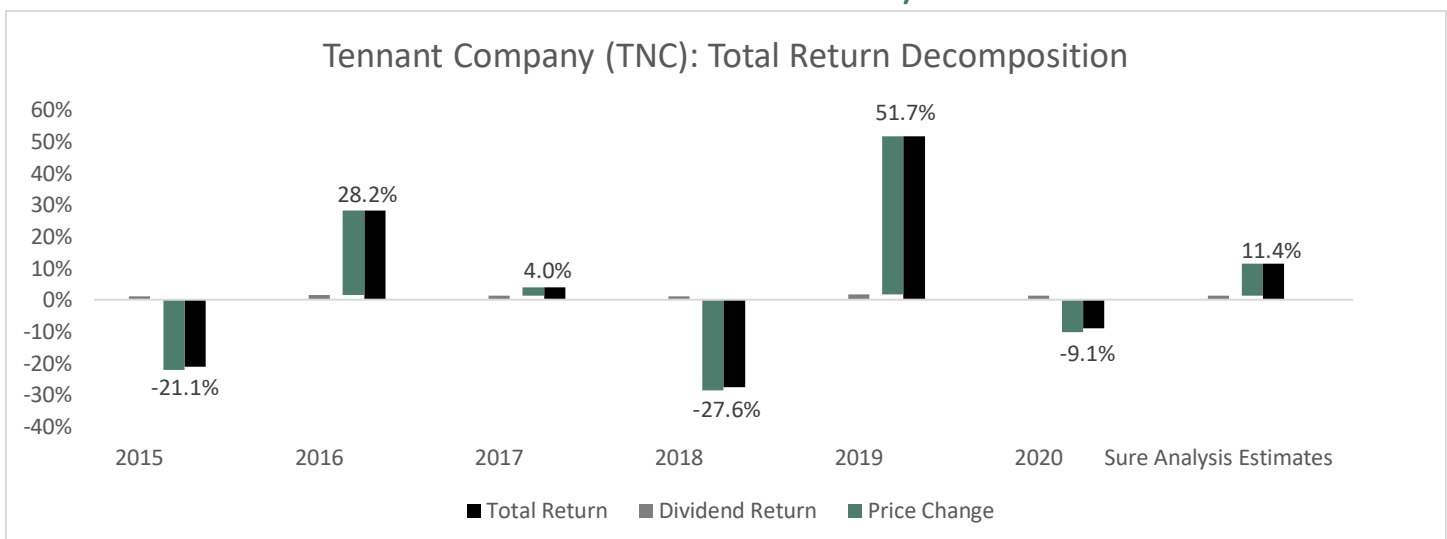
Tennant Company's dividend payout ratio was quite high during the last financial crisis, due to the company's below-average profitability during that time. Since then, the payout ratio has declined to a quite sustainable level. It seems unlikely that Tennant Company could be forced to cut its dividend, but due to its relatively low dividend yield Tennant nevertheless does not look like an attractive income stock; it is more of a capital appreciation play.

Tennant Company is the leader in the US cleaning machines market. This serves as a competitive advantage, as Tennant Company's market leadership allows for better economics of scale and a superior sales network compared to its peers. During the last financial crisis, Tennant remained profitable, but its earnings still suffered considerably. Tennant therefore has exposure to economic downturns, which was also visible in 2020's results, as the coronavirus impact resulted in below-average sales and profits during 2020. We do not believe that this will be a long-lasting issue.

Final Thoughts & Recommendation

Tennant Company is the leader in the niche market that the company serves. Inorganic growth in China could allow for an improved growth outlook compared to the growth that Tennant has achieved in the past, which is why we forecast a high single digit earnings-per-share growth rate over the coming years. Following a weaker 2020, Tennant will see its profits rise at a very attractive pace this year. Tennant shares look slightly undervalued, and we rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	754	739	752	822	812	809	1,003	1,124	1,138	1,001
Gross Profit	319	325	326	352	349	352	400	445	462	408
Gross Margin	42.3%	44.0%	43.3%	42.9%	43.0%	43.5%	39.9%	39.6%	40.6%	40.7%
SG&A Exp.	242	234	233	251	252	249	335	356	357	314
D&A Exp.	21	21	20	20	18	18	43	54	54	53
Operating Profit	50	62	62	72	64	68	33	58	72	64
Operating Margin	6.6%	8.4%	8.3%	8.8%	7.9%	8.4%	3.3%	5.2%	6.3%	6.4%
Net Profit	33	42	40	51	32	47	(6)	33	46	34
Net Margin	4.3%	5.6%	5.3%	6.2%	4.0%	5.8%	-0.6%	3.0%	4.0%	3.4%
Free Cash Flow	43	32	45	40	20	31	31	58	33	104
Income Tax	16	18	20	19	18	20	5	2	8	7

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	424	421	456	487	432	470	994	993	1,063	1,083
Cash & Equivalents	52	54	81	93	51	58	58	86	75	141
Accounts Receivable	124	131	135	147	136	145	203	208	217	195
Inventories	66	58	67	81	77	79	128	135	150	128
Goodwill & Int. Ass.	44	41	38	34	20	28	358	329	333	334
Total Liabilities	203	186	192	206	180	191	696	676	702	677
Accounts Payable	47	47	53	62	50	47	96	98	94	106
Long-Term Debt	36	32	32	28	25	36	377	355	339	308
Shareholder's Equity	221	235	264	281	252	279	297	314	360	405
D/E Ratio	0.17	0.14	0.12	0.10	0.10	0.13	1.27	1.13	0.94	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.9%	9.8%	9.2%	10.7%	7.0%	10.3%	-0.8%	3.4%	4.5%	3.1%
Return on Equity	15.0%	18.2%	16.1%	18.6%	12.0%	17.6%	-2.2%	10.9%	13.6%	8.8%
ROIC	13.0%	15.9%	14.3%	16.8%	11.0%	15.8%	-1.3%	5.0%	6.7%	4.8%
Shares Out.	18.8	18.5	18.5	18.4	17.7	17.7	17.9	18.3	18.6	18.6
Revenue/Share	38.95	38.69	39.93	43.86	43.90	44.98	56.69	61.26	61.65	53.72
FCF/Share	2.22	1.67	2.39	2.12	1.11	1.74	1.77	3.18	1.79	5.57

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

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