



Dover Corporation (DOV)

Updated October 19th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$168	5 Year CAGR Estimate:	3.4%	Market Cap:	\$23.8 billion
Fair Value Price:	\$127	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/23/2021
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	12/14/2021 ¹
Dividend Yield:	1.2%	5 Year Price Target	\$187	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	1.0%

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 66 years of consecutive dividend increases. Slightly more than half of revenues come from the U.S., with the remainder coming from international markets.

On 8/5/2021, Dover announced that it had raised its dividend 1% for the 9/15/2021 payment, marking 66 consecutive years of dividend growth. This is the second-longest dividend growth streak among U.S. companies.

Dover reported third quarter earnings results on 10/19/2021. Revenue increased 14.9% to \$2.01 billion, which was \$20 million more than expected. Adjusted earnings-per-share of \$1.98 was a 24% improvement from the prior year and \$0.13 ahead of estimates.

Organic revenue was again strong at 13% while bookings improved 27%. All business segments saw growth compared to the prior year. Engineered Products was up 14% due to strong results in nearly every end market, though shipments in European defense components was weak. Fueling Solutions grew by 3% as ongoing strength in North American retail fueling was again offset by soft performance in China. Imaging & Identification was up 7% due to better performance in marking and coding and software serialization. Textiles continue to see gains as well. Pumps & Process Solutions grew 25%, led by biopharma connectors and pumps and industrial pumps. Refrigeration & Food Equipment was higher by 16%. Gains were seen in cam making and heat exchangers, but input shortages impacted shipment timing in food retail. Dover's backlog grew 79% year-over-year and 7.7% quarter-over-quarter to \$2.8 billion.

Dover offered revised guidance for the year. Adjusted earnings per share are now expected in a range of \$7.45 to \$7.50 up from \$7.30 to \$7.40, and \$6.75 to \$6.85 previously. Organic revenue growth is still projected to improve 15% to 17% up from 10% to 12% for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.49	\$4.53	\$5.28	\$4.54	\$3.64	\$3.25	\$4.38	\$4.97	\$5.84	\$5.67	\$7.48	\$10.99
DPS	\$1.18	\$1.33	\$1.45	\$1.55	\$1.64	\$1.72	\$1.82	\$1.90	\$1.96	\$1.97	\$2.00	\$2.55
Shares²	184	175	170	163	155	155	155	153	147	145	145	140

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.

¹ Estimated dividend payment date

² In millions of shares

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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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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.4	13.2	15.4	18.5	18.5	20.7	19.5	17.6	16.4	18.7	22.5	17.0
Avg. Yld.	2.0%	2.2%	1.8%	1.8%	2.4%	2.6%	2.1%	2.2%	2.0%	1.9%	1.2%	1.4%

Shares of Dover have increased \$6, or 3.7%, since our 7/20/2021 update. Shares trade with a price-to-earnings ratio of 22.5 times expected adjusted earnings-per-share for the year. We have reaffirmed our P/E target of 17 from 16.2 to better reflect the company's average valuation since 2011. 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 5.4% during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

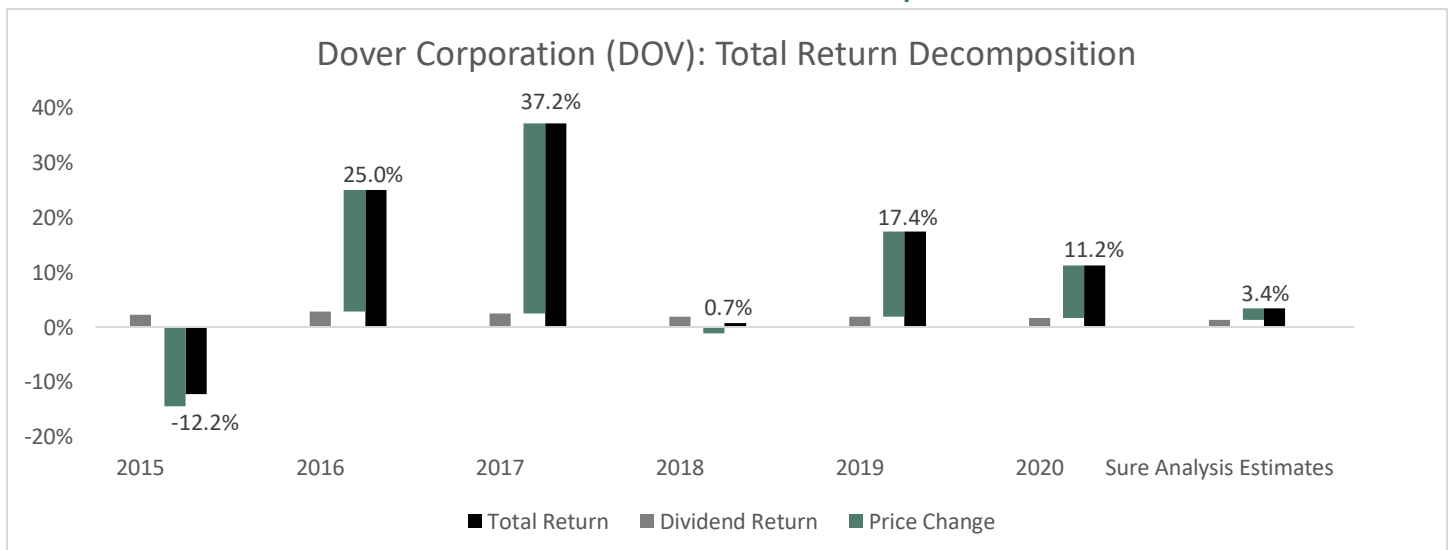
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	29%	28%	34%	45%	58%	42%	32%	34%	35%	27%	23%

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

After third quarter results, Dover Corporation is now projected to offer a total annual return of 3.4% through 2026, down from our prior estimate of 3.8%. Our estimated return is based on 8% earnings growth and a starting yield of 1.2% offset by a mid-single-digit headwind from valuation reversion. Dover continues to put up solid numbers. The company also raised its adjusted earnings-per-share guidance once again. We have raised our 2026 price target \$3 to \$187 to reflect the new guidance for the year, but maintain our sell rating on Dover due to revised estimates.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9,501	10,444	10,855	9,030	8,606	10,116	10,658	8,366	8,669	9,152
Cash & Equivalents	1,207	800	804	682	362	349	754	396	397	513
Accounts Receivable	1,119	1,226	1,077	1,187	1,120	1,265	1,184	1,232	1,217	1,137
Inventories	734	873	715	864	803	870	677	749	806	836
Goodwill & Int. Ass.	4,691	5,740	4,367	4,861	5,151	6,366	4,969	4,812	4,838	5,156
Total Liabilities	4,570	5,525	5,478	5,330	4,962	6,316	6,275	5,597	5,637	5,766
Accounts Payable	516	651	523	615	651	830	882	970	983	
Long-Term Debt	2,187	2,800	2,828	3,031	2,755	3,621	3,568	3,164	3,070	3,109
Shareholder's Equity	4,931	4,919	5,377	3,701	3,645	3,800	4,383	2,769	3,033	3,386
D/E Ratio	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
Return on Assets	9.9%	8.1%	9.4%	7.8%	9.9%	5.4%	7.8%	6.0%	8.0%	7.7%
Return on Equity	18.9%	16.5%	19.5%	17.1%	23.7%	13.7%	19.8%	15.9%	23.4%	21.3%
ROIC	13.3%	10.9%	12.6%	10.4%	13.2%	7.4%	10.6%	8.2%	11.3%	10.9%
Shares Out.	184	175	170	163	155	155	155	153	147	145
Revenue/Share	39.01	36.02	41.23	45.92	43.70	38.58	43.24	45.96	48.55	45.97
FCF/Share	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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