



Cintas Corporation (CTAS)

Updated December 23rd, 2021, by Josh Arnold

Key Metrics

Current Price:	\$429	5 Year CAGR Estimate:	1.3%	Market Cap:	\$45 B
Fair Value Price:	\$308	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/12/22 ¹
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Dividend Payment Date:	03/15/22
Dividend Yield:	0.9%	5 Year Price Target	\$432	Years Of Dividend Growth:	39
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	26.7%

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 \$45 billion with annual revenues of about \$7.7 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 39 years of consecutive dividend increases.

Cintas reported second quarter earnings on December 22nd, 2021, and results were slightly better than expected on both the top and bottom lines. Total revenue was \$1.92 billion during the quarter, up from \$1.76 billion a year ago. The 9.4% gain was driven by a 9.3% increase in organic revenue, a measure which excludes non-operating items such as acquisitions, divestitures, and forex translation.

Gross margin came to \$885 million, up from \$820 million a year ago. As a percentage of revenue, gross margin was down slightly, ceding 70bps to 46.0%. Labor expenses increased due to investments on the company's behalf for current and expected revenue growth. Energy costs rose as well.

Operating income was \$381 million, up from \$352 million in the year-ago period. Operating income as a percentage of revenue was 19.8%, down from 20.1% in last year's Q2. However, last year's Q2 contained a gain on sale and excluding this, operating income improved year-over-year by 70bps.

Earnings were 16.5% higher year-over-year on an adjusted basis to \$2.76. We've boosted our estimate for this year slightly, and we now forecast \$11.00 in earnings-per-share in fiscal 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.27	\$2.52	\$2.79	\$3.44	\$4.09	\$4.17	\$7.03	\$7.60	\$8.11	\$10.23	\$11.00	\$15.43
DPS	\$0.54	\$0.64	\$0.77	\$0.85	\$1.05	\$1.33	\$1.62	\$2.05	\$2.55	\$2.81	\$3.80	\$6.12
Shares²	127	122	117	112	104	105	106	108	107	104	102	97

Cintas has compounded its earnings-per-share at a rate of about 16% annually since 2012. Over full economic cycles, we believe the company can deliver continued earnings growth in the range of 7% per year. Applying a 7% growth rate to our 2021 estimate of \$11.00 per share gives a 2027 earnings-per-share estimate of \$15.43.

Cintas' two primary growth levers are higher organic revenue and higher margins. Cintas has proven it can grow revenue consistently over the years, and the declines from COVID-19 are well past it at this point. 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 fiscal 2022 results as supportive of this thesis with outstanding organic revenue growth, and very high operating margins. Management continues to raise guidance as well.

¹ Estimated date

² 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.6	14.9	16.6	19.4	21.4	21.5	27.2	25.9	30.8	32.2	39.0	28.0
Avg. Yld.	1.8%	1.6%	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%	1.0%	0.9%	0.9%	1.4%

Cintas' price-to-earnings ratio has varied from ~15 to ~39 over the last decade. However, we see fair value at 28 times earnings. This compares unfavorably to the current price-to-earnings ratio of 39, which is close to the highest valuation the stock has traded for in the last decade. If the company's valuation reverts to 28 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 at 139% of our estimate of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	24%	25%	28%	25%	26%	32%	27%	31%	27%	35%	45%

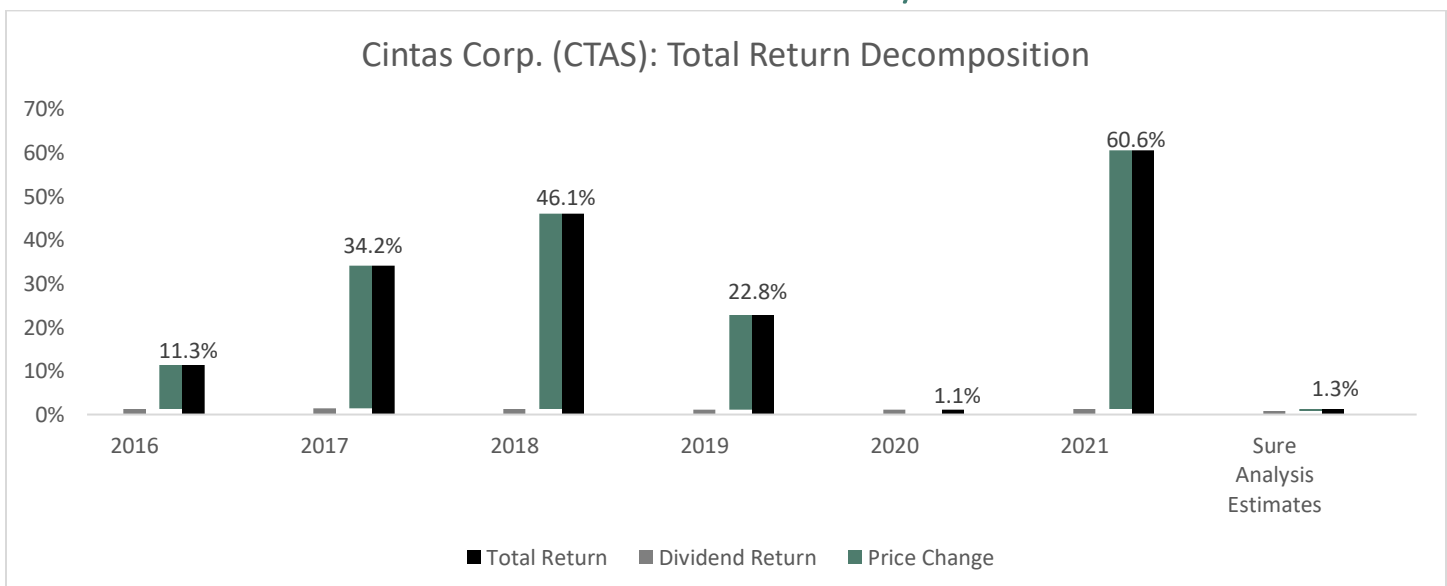
Cintas' payout ratio has always been quite low, and that is no different today. We see the dividend remaining under 45% of earnings for the foreseeable future with years of steady increases on the way.

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 being out of it.

Final Thoughts & Recommendation

The fundamentals of Cintas are still attractive as the company is performing very well. However, the stock remains quite overvalued in our view, and we expect only very slightly positive total 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,102	4,246	4,194	4,370	4,796	5,323	6,477	6,892	7,085	7,116
Gross Profit	1,739	1,753	1,750	1,893	2,101	2,380	2,909	3,129	3,234	3,315
Gross Margin	42.4%	41.3%	41.7%	43.3%	43.8%	44.7%	44.9%	45.4%	45.6%	46.6%
SG&A Exp.	1,199	1,187	1,147	1,209	1,332	1,527	1,917	1,981	2,071	1,929
D&A Exp.	194	189	191	155	165	197	279	360	379	388
Operating Profit	540	566	603	684	769	853	992	1,148	1,163	1,385
Operating Margin	13.2%	13.3%	14.4%	15.6%	16.0%	16.0%	15.3%	16.7%	16.4%	19.5%
Net Profit	298	315	374	431	694	481	843	885	876	1,111
Net Margin	7.3%	7.4%	8.9%	9.9%	14.5%	9.0%	13.0%	12.8%	12.4%	15.6%
Free Cash Flow	309	356	460	363	190	491	692	791	1,061	1,217
Income Tax	173	184	199	238	257	230	57	220	182	177

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,166	4,346	4,462	4,192	4,099	6,844	6,958	7,437	7,670	8,237
Cash & Equivalents	340	352	513	417	139	169	139	97	145	494
Accounts Receivable	451	496	508	496	546	736	805	910	870	902
Inventories	251	240	251	226	249	278	280	335	409	1,292
Goodwill & Int. Ass.	1,562	1,610	1,325	1,239	1,356	3,406	3,433	3,545	3,551	3,322
Total Liabilities	2,027	2,144	2,270	2,260	2,256	4,541	3,942	4,434	4,435	4,549
Accounts Payable	95	121	150	110	111	177	215	226	231	231
Long-Term Debt	1,285	1,309	1,301	1,300	1,294	3,134	2,535	2,850	2,540	2,542
Shareholder's Equity	2,139	2,201	2,193	1,932	1,843	2,303	3,017	3,003	3,235	3,688
D/E Ratio	0.60	0.59	0.59	0.67	0.70	1.36	0.84	0.95	0.79	0.69

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.0%	7.4%	8.5%	10.0%	16.7%	8.8%	12.2%	12.3%	11.6%	14.0%
Return on Equity	13.4%	14.5%	17.0%	20.9%	36.7%	23.2%	31.7%	29.4%	28.1%	32.1%
ROIC	8.5%	9.1%	10.7%	12.8%	21.8%	11.2%	15.3%	15.5%	15.1%	18.5%
Shares Out.	127	122	117	112	104	105	106	108	107	104
Revenue/Share	31.55	34.10	34.48	37.18	43.62	49.39	58.98	62.95	66.21	66.07
FCF/Share	2.38	2.86	3.78	3.08	1.73	4.55	6.31	7.23	9.92	11.30

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

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