Snap-On Inc. (SNA)

Updated February 5th, 2022, by Josh Arnold

Key Metrics

Current Price:	$214	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$11.6 B
Fair Value Price:	$246	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	02/20/22[1]
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date:**	03/10/22
Dividend Yield:	2.7%	**5 Year Price Target**	$300	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	15.4%

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 $11.6 billion after a recent rally, and it should generate around $4.5 billion in revenue this year.

Snap-On reported fourth quarter and full-year earnings on February 3rd, 2022, and results were better than expected on both revenue and earnings. The top line grew 3.7% year-over-year for the quarter to $1.11 billion, which was $20 million ahead of expectations. Earnings-per-share came to $4.10 on an adjusted basis, which was an impressive 41 cents ahead of estimates. Revenue for the fourth quarter was driven by a 2.3% organic sales increase, as well as a small addition from acquisition-related sales. These were partially offset by $3 million in unfavorable forex translation.

Operating earnings excluding financial services were $232 million, or 21% of sales. Both of those were improvements year-over-year from $216 million and 20.1%, respectively. Financial services revenue was $87 million, down from $93 million a year ago, while operating earnings were $67 million, down fractionally from $69 million in the year-ago period.

Consolidated operating earnings were $299 million, up from $285 million year-over-year. Operating earnings as a percentage of total revenue were higher by 70bps, to 25.1% of revenue.

Snap-On boosted its dividend by 15.4%, its 12th consecutive annual dividend increase. The company also announced a $500 million share repurchase program. We forecast $15.40 as an initial estimate for this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.20	$5.93	$7.14	$8.10	$9.20	$10.12	$11.81	$12.41	$11.63	$14.92	***$15.40***	***$18.74***
DPS	$1.36	$1.58	$1.85	$2.20	$2.54	$2.95	$3.41	$3.93	$4.47	$5.11	***$5.68***	***$8.35***
Shares[2]	58	58	58	58	58	57	57	55	54	54	***53***	***50***

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, although growth looks muted for 2022 given the massive increase in earnings in 2021.

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[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 15% for the December 2021 payout, similar to 2019 and 2020.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.7	15.6	16.8	19.1	17.1	16.3	13.7	12.9	12.7	14.6	***13.9***	***16.0***
Avg. Yld.	2.1%	1.7%	1.5%	1.4%	1.6%	1.8%	2.1%	2.5%	3.0%	2.3%	***2.7%***	***2.8%***

Snap-On's price-to-earnings multiple has spent the past several years in the mid-teens. Today, shares trade for just under 14 times 2021 earnings. This is below our fair value estimate, implying a valuation tailwind.

We see the yield rising to the 2.8% area given 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	26%	26%	27%	27%	28%	29%	32%	38%	34%	***37%***	***45%***

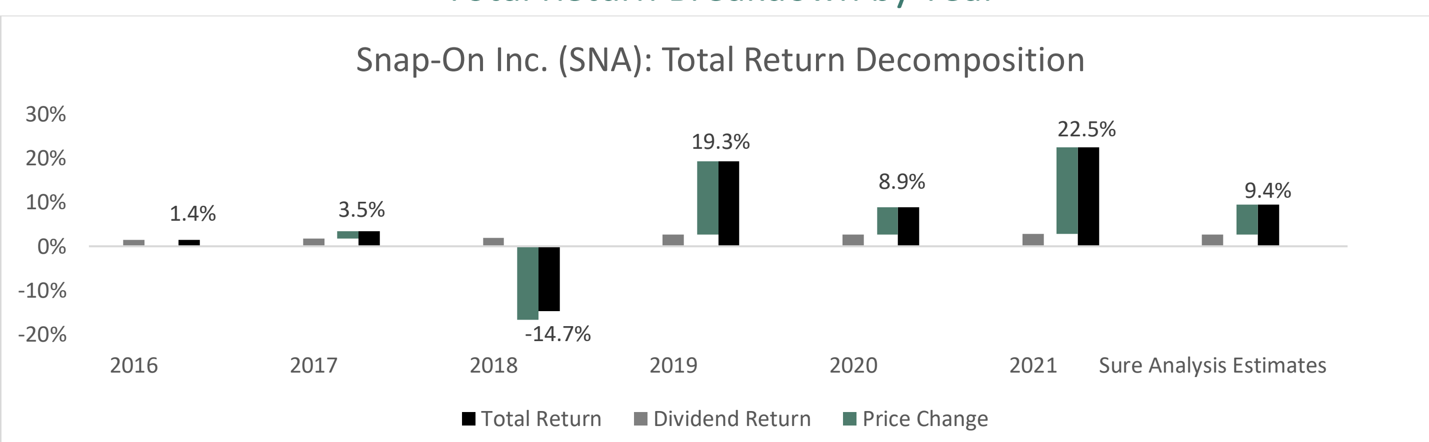
The payout ratio is still relatively low and should remain that way unless management decides to ramp up its dividend growth strategy, which we view as unlikely at this point given already-strong growth rates. We see the recent pace of dividend increases continuing, and therefore driving the payout ratio 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 increase in earnings has the stock undervalued. We now forecast total annual return potential of 9.4% going forward, consisting of the 2.7% current yield, 4% earnings growth, and a small tailwind from the valuation. The rebound from COVID-related weakness is progressing nicely, and shares are now relatively cheap. We continue to like Snap-On's fundamentals, and with the improved total return outlook, we're reiterating the stock at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3099	3238	3493	3593	3712	4000	4070	4068	3,942	4,602
Gross Profit	1497	1599	1733	1819	1908	2042	2100	2090	1,997	2,383
Gross Margin	48.3%	49.4%	49.6%	50.6%	51.4%	51.1%	51.6%	51.4%	50.7%	51.8%
D&A Exp.	77	77	80	83	86	93	94	92	97	105
Operating Profit	516	586	685	765	854	882	956	962	881	1,124
Operating Margin	16.7%	18.1%	19.6%	21.3%	23.0%	22.0%	23.5%	23.7%	22.3%	24.4%
Net Profit	306	350	422	479	546	558	680	694	627	821
Net Margin	9.9%	10.8%	12.1%	13.3%	14.7%	13.9%	16.7%	17.0%	15.9%	17.8%
Free Cash Flow	250	322	323	427	502	527	674	575	943	897
Income Tax	148	167	200	221	244	251	214	212	189	247

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3902	4110	4310	4331	4723	5249	5373	5694	6,557	6,760
Cash & Equivalents	215	218	133	93	78	92	141	185	923	780
Accounts Receivable	821	906	953	1010	1071	1181	1211	1325	1,283	682
Inventories	404	434	476	498	531	639	674	760	747	804
Goodwill & Int. Ass.	995	1029	1014	985	1080	1178	1135	1158	1,243	1,418
Total Liabilities	2083	1980	2085	1900	2088	2277	2255	2263	2,711	2,556
Accounts Payable	143	156	145	148	171	178	201	199	223	278
Long-Term Debt	976	972	919	880	1010	1187	1132	1150	1,451	1,200
Shareholder's Equity	1802	2113	2208	2413	2617	2954	3099	3409	3,825	4,182
LTD/E Ratio	0.54	0.46	0.42	0.36	0.39	0.40	0.37	0.34	0.38	0.29

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.1%	8.7%	10.0%	11.1%	12.1%	11.2%	12.8%	12.5%	10.2%	12.3%
Return on Equity	18.4%	17.9%	19.5%	20.7%	21.7%	20.0%	22.5%	21.3%	17.3%	20.5%
ROIC	11.5%	11.9%	13.5%	14.8%	15.7%	14.3%	16.2%	15.7%	12.7%	15.3%
Shares Out.	58	58	58	58	58	57	57	55	54	54
Revenue/Share	52.62	54.78	59.10	60.80	62.49	68.26	71.04	72.77	71.94	83.67
FCF/Share	4.24	5.45	5.46	7.22	8.45	8.98	11.76	10.29	17.21	16.30

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