



Universal Corporation (UW)

Updated March 26th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	6.0%	Market Cap:	\$1.4B
Fair Value Price:	\$57	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	04/08/22
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	05/02/22
Dividend Yield:	5.4%	5 Year Price Target	\$62	Years Of Dividend Growth:	50
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	1.3%

Overview & Current Events

Universal Corporation is the world's largest leaf tobacco exporter and importer. The company is the wholesale purchaser and processor of tobacco that operates between farms and the companies that manufacture cigarettes, pipe tobacco, and cigars. Universal Corporation was founded in 1886 and is headquartered in Richmond, Virginia. With 50 years of dividend increases, Universal Corporation is a Dividend King.

Universal Corporation reported its third quarter (fiscal 2022) earnings results on February 2. The company generated revenues of \$650 million during the quarter, which was 3% less than the revenues that Universal Corporation generated during the previous year's quarter. Management explains that revenues were up by 7% during the first nine months of the current fiscal year, reaching \$1.46 billion on the back of a stronger product mix. The fact that results are up year-to-date despite a small year-over-year decline in Q3 bodes well for FY2022's overall results.

Universal's adjusted earnings-per-share totaled \$1.80 during the third quarter, which has lifted Universal's year-to-date earnings-per-share to \$2.76. Universal's earnings-per-share generation is seasonal, which is why Q3 and Q4 are usually way stronger than Q1 and Q2. Management believes that the current year will be a solid year for the company, as Universal seeks to grow its earnings-per-share again, as it did during fiscal 2021.

Growth on a Per-Share Basis

Year ¹	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.25	\$4.66	\$5.25	\$4.06	\$3.92	\$3.97	\$3.96	\$4.45	\$3.49	\$4.25	\$4.40	\$4.74
DPS	\$1.94	\$1.98	\$2.02	\$2.06	\$2.10	\$2.12	\$2.16	\$3.00	\$3.04	\$3.08	\$3.12	\$3.28
Shares²	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.8	24.7	24.5	23.0

Universal Corporation's earnings-per-share during fiscal 2020 were lower than the earnings-per-share that Universal generated during fiscal 2010, a full decade earlier. There were some movements in Universal's earnings-per-share during the last couple of years, but without a clear direction. Earnings grew in some years and declined in other years, to essentially offset each other. Overall Universal Corporation's results during the last decade were not convincing, as the company's track record in terms of earnings growth is weak.

As the leader in a declining industry, we do not expect the company to deliver strong business growth in the future. The company's earnings-per-share could still rise over the next couple of years, however. Universal Corporation's shares trade at a moderate valuation based on the earnings and cash flows that the company generates. Universal Corporation also does not need to invest large amounts of money into its business, as the industry is not experiencing any meaningful growth anyways. This gives Universal Corporation the ability to utilize a substantial amount of its free cash flows for share repurchases. Through a declining share count, Universal Corporation could be able to deliver some earnings-per-share growth during the coming years. We believe that an annual earnings-per-share growth rate in the low-single-digits is possible for this tobacco corporation, largely due to the possibility of buybacks, even though its overall business will continue to trend down in the long run.

¹ Note: Universal Corporation's fiscal year ends on March 31 of the calendar year. Example: fiscal 2018 ended on March 31, 2018.

² 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	13.0	10.6	10.5	12.5	14.3	16.3	16.0	13.0	12.6	13.9	13.2	13.0
Avg. Yld.	4.6%	4.0%	3.7%	4.2%	4.0%	3.5%	3.4%	5.2%	6.9%	5.2%	5.4%	5.3%

Universal Corporation traded at very low valuations during and following the last financial crisis, but shares became more expensive during the last couple of years. Today, shares trade at marginally above 13 times fiscal 2022's net profits. This is lower than the valuation seen in 2016-2018. But due to the company's relatively weak track record we do not believe that a mid-teens earnings multiple is very appropriate for Universal.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	59.7%	42.5%	38.5%	50.7%	53.6%	54.8%	49.7%	67.4%	87.1%	72.5%	70.9%	69.2%

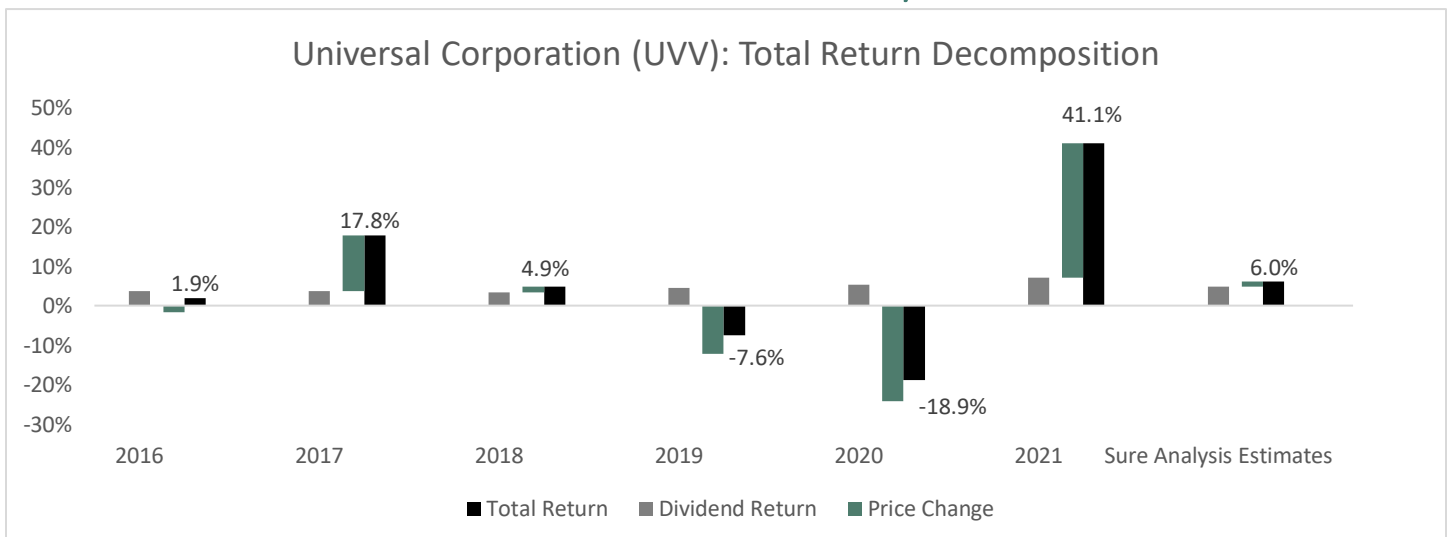
Universal Corporation has paid out roughly 50% of its net profits throughout much of the last decade, although there were significant swings both up and down during that time frame. The dividend increase in fiscal 2019, which was the result of management's strategic review and which lifted Universal Corporation's dividend by 36%, has made the dividend payout ratio jump to a significantly higher level. Coupled with an earnings decline in 2020, this has lifted Universal's dividend payout ratio to a rather high level. Management seemingly wants to continue to pay its dividend despite the high payout ratio, as the company has raised the payout by 1.3% during the pandemic.

Universal Corporation is active in an industry that has seen its peak. This means that its growth outlook on a company-wide basis is not positive. On the other hand, this means that there is no need for large investments, which results in relatively high free cash generation. The company does not have to worry about competition from new market entrants.

Final Thoughts & Recommendation

Universal Corporation does not have a convincing long-term growth track record, but thanks to share repurchases, the company could still generate at least some earnings-per-share growth in the long run. Shareholders get an above-average dividend yield at current prices. Universal earns a hold recommendation today, due to the fact that shares seem relatively fairly valued, while the total return outlook is neither especially strong nor bad.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,572	2,447	2,462	2,542	2,272	2,120	2,071	2,034	2,227	1,910
Gross Profit	508	472	462	433	410	407	395	372	407	357
Gross Margin	19.8%	19.3%	18.8%	17.0%	18.1%	19.2%	19.1%	18.3%	18.3%	18.7%
SG&A Exp.	259	252	235	262	250	227	212	201	225	223
D&A Exp.	45	44	45	39	35	37	36	35	37	38
Operating Profit	249	220	227	171	160	181	183	171	181	134
Operating Margin	9.7%	9.0%	9.2%	6.7%	7.0%	8.5%	8.8%	8.4%	8.1%	7.0%
Net Profit	157	92	133	149	115	109	106	106	104	72
Net Margin	6.1%	3.8%	5.4%	5.9%	5.0%	5.1%	5.1%	5.2%	4.7%	3.8%
Free Cash Flow	15	162	204	(49)	169	139	215	47	126	(24)
Income Tax	78	61	66	76	38	54	57	51	41	35

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,228	2,267	2,306	2,271	2,188	2,231	2,123	2,169	2,133	2,121
Cash & Equivalents	141	262	368	164	249	319	284	234	298	107
Accounts Receivable	346	398	402	475	436	431	442	379	399	352
Inventories	791	735	681	707	699	698	634	749	699	807
Goodwill & Int. Ass.	100	99	99	99	99	99	99	99	98	145
Total Liabilities	1,028	1,061	1,018	860	791	778	797	783	753	832
Accounts Payable	4	188	230	212	143	129	161	180	146	140
Long-Term Debt	564	537	498	419	430	435	428	415	423	447
Shareholder's Equity	973	970	1,046	1,165	1,151	1,203	1,286	1,342	1,337	1,247
LTD/E Ratio	0.48	0.45	0.40	0.30	0.32	0.31	0.33	0.31	0.32	0.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.8%	4.1%	5.8%	6.5%	5.1%	4.9%	4.9%	4.9%	4.8%	3.4%
Return on Equity	16.6%	9.5%	13.2%	13.5%	9.9%	9.3%	8.5%	8.0%	7.8%	5.5%
ROIC	8.9%	5.3%	7.5%	8.2%	6.3%	5.9%	5.8%	5.9%	5.8%	4.1%
Shares Out.	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.8	24.7
Revenue/Share	89.02	86.34	86.44	89.54	80.50	76.20	87.14	79.74	87.92	76.08
FCF/Share	0.52	5.70	7.15	(1.74)	5.99	5.01	9.03	1.85	4.96	(0.97)

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

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