



Big Lots, Inc. (BIG)

Updated May 1st, 2022, by Tiago Dias

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	11.8%	Market Cap:	\$830 M
Fair Value Price:	\$50	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	06/17/2022 ¹
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.3%	Dividend Payment Date:	07/01/2022 ¹
Dividend Yield:	3.8%	5 Year Price Target	\$50	Years Of Dividend Growth:	0
Dividend Risk Score:	X	Retirement Suitability Score:	X	Rating:	Buy

Overview & Current Events

Big Lots, Inc. (BIG) is a home discount retailer with a focus on closeouts and low prices. With \$6 billion in sales and a market cap of around \$830 million, this S&P 600 component can trace its history to 1967, although its regular dividend payments only started in 2014.

The company reported Q4 and full year 2021 results on March 3rd, 2022 and announced a quarterly dividend of \$0.30 per share. With 2021 earnings of \$5.33 per share, and a forward annualized dividend of \$1.20, the dividend is well covered by their existing business, despite the decrease in earnings since 2020 where they reported \$7.35 per share in earnings.

Despite a negative impact of around \$0.30 per share as a result of adverse shrink, and the issues with the supply chain that characterized 2021, the management team is confident that 2022 will see these issues abate. In 2022 the company plans on opening 50 net new stores, more than they have in the past 5 years combined, which should provide an opportunity for additional revenue growth.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.93	\$2.15	\$2.46	\$2.81	\$3.32	\$4.48	\$3.83	\$2.69	\$7.35	\$5.33	\$5.00	\$5.00
DPS	---	---	\$0.51	\$0.76	\$0.84	\$1.00	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20
Shares	57	58	53	49	44	42	40	39	36	28	26	22

While the earnings-per-share numbers may look impressive and steadily increasing over time, the company is in a low margin and competitive business. If we look at Big Lots' revenue from 2012 to the end of 2019, we can see that revenue did not grow at all for 7 years, and any changes in EPS numbers were primarily the result of share repurchases.

While 2020 and 2021 have brought substantial growth to the company's revenue and earnings, it's difficult to say whether this growth is here to stay or if it will slowly return to its no-growth history while maintaining its current revenue. Due to this uncertainty, and despite the increase in stores, we estimate 0% earnings growth through 2027. Despite a low payout ratio, we expect the dividend to remain flat during that time as well due to the lack of consistent earnings growth.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.2	16.2	16.9	16.1	14.5	11.5	11.1	10.4	5.1	10.5	6.4	10.0
Avg. Yld.	---	---	1.2%	1.7%	1.7%	1.9%	2.8%	4.3%	3.2%	2.1%	3.8%	2.4%

Historically speaking low margin retailers trade with lower P/E ratios, though those retailers are generally growing their topline revenue at around the same rate as GDP growth. Big Lots, however, has previously seen over 7 years without any revenue growth at all. The P/E ratio was around 16 in the 2013 – 2015 period, but it has been much lower since that time.

¹ Estimated date.

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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While the stagnation in revenue growth is now in the past, given the enormous revenues that 2020 and 2021 brought to the company, the uncertainty around the consistency of that revenue means that we don't expect the company to be re-rated by investors to its previously lofty valuation. We are forecasting a fair value P/E ratio of 10. Even so, with shares trading at 6.4 times earnings, this implies the potential for a meaningful valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

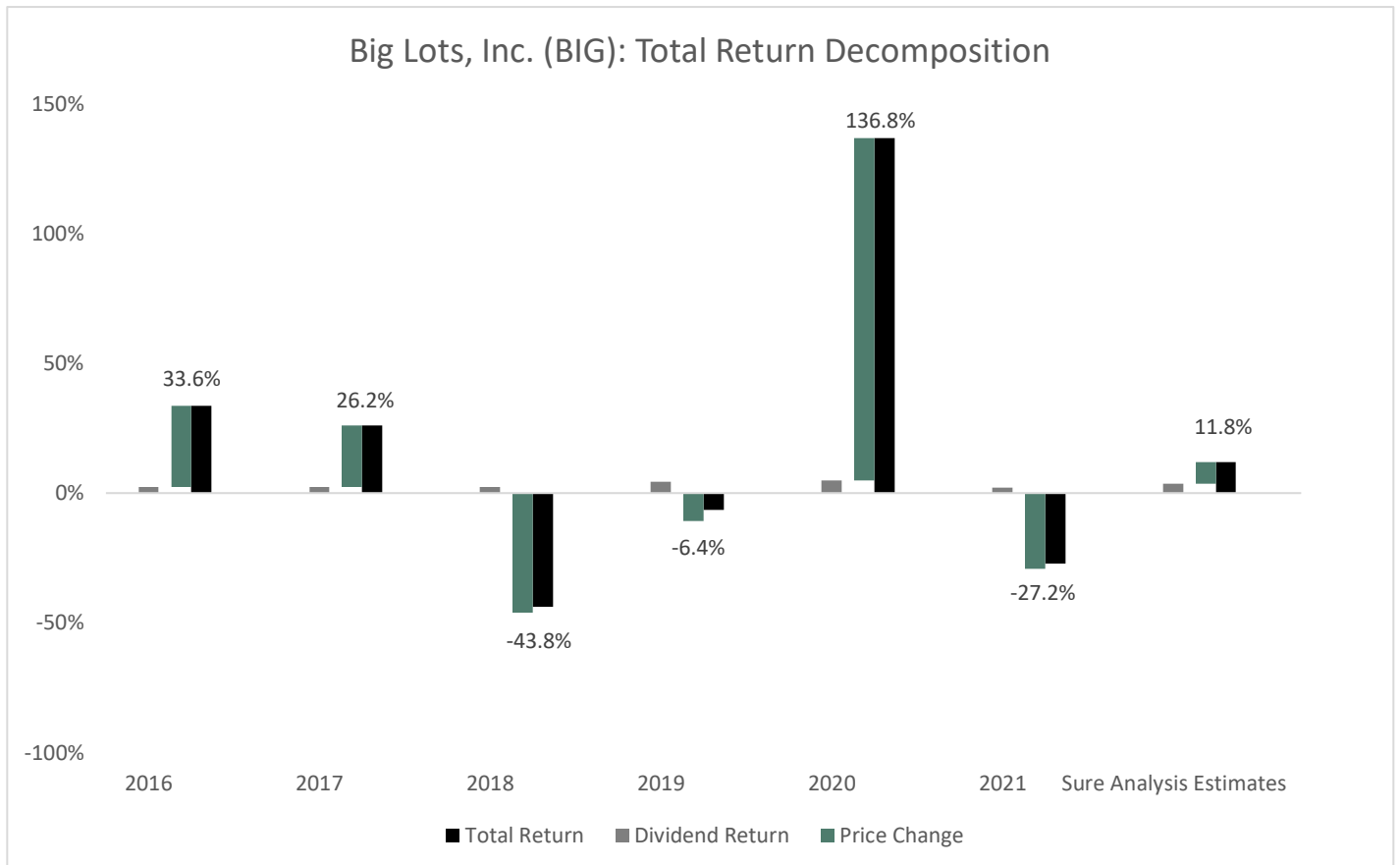
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	21%	27%	25%	22%	31%	45%	16%	23%	24%	24%

As a business revolving around closeouts, and low-price points, the company has an interesting countercyclical theme where it does better than usual during times of economic uncertainty. In such times its inventory acquisition becomes easier and cheaper, and its value proposition for clients becomes more attractive, resulting in noticeably better sales and margins, as seen in 2020 and 2021. As such it may prove to be an interesting part of a defensive and diversified portfolio for investors looking for a countercyclical company.

Final Thoughts & Recommendation

Total annual return potential comes in at 11.8% per annum, driven by the 3.8% dividend yield and the potential for a sizable valuation tailwind. While the counterbalance against a downturn in the economy is a positive, the uncertainty of revenue growth is a concern. Shares earn a buy 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	5,212	5,125	5,177	5,191	5,194	5,264	5,238	5,323	6,199	6,151
Gross Profit	2,055	2,007	2,044	2,067	2,099	2,142	2,122	2,115	2,497	2,397
Gross Margin	39.4%	39.2%	39.5%	39.8%	40.4%	40.7%	40.5%	39.7%	40.3%	39.0%
SG&A Exp.	1,640	1,664	1,700	1,708	1,731	1,724	1,778	1,823	1,966	2,015
D&A Exp.	96	102	106	108	108	106	114	136	139	144
Operating Profit	312	230	224	236	248	301	219	156	393	240
Op. Margin	6.0%	4.5%	4.3%	4.5%	4.8%	5.7%	4.2%	2.9%	6.3%	3.9%
Net Profit	177	125	114	143	153	190	157	242	629	178
Net Margin	3.4%	2.4%	2.2%	2.8%	2.9%	3.6%	3.0%	4.6%	10.1%	2.9%
Free Cash Flow	150	94	225	216	222	92	(143)	74	264	33
Income Tax	117	86	85	84	91	106	51	75	215	54

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,754	1,740	1,636	1,640	1,608	1,652	2,023	3,189	4,037	3,927
Cash & Equivalents	61	69	52	54	51	51	46	53	560	54
Inventories	918	915	852	850	859	873	970	921	940	1,238
Total Liabilities	995	838	846	920	957	982	1,330	2,344	2,760	2,920
Accounts Payable	394	366	359	382	400	351	397	378	398	587
Long-Term Debt	171	77	62	62	106	200	374	293	50	4
Total Equity	758	901	790	720	651	670	693	845	1,278	1,007
LTD/E Ratio	0.23	0.09	0.08	0.09	0.16	0.30	0.54	0.35	0.04	0.00

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.4%	7.2%	6.8%	8.7%	9.4%	11.6%	8.5%	9.3%	17.4%	4.5%
Return on Equity	22.4%	15.1%	13.5%	18.9%	22.3%	28.8%	23.0%	31.5%	59.3%	15.6%
ROIC	19.5%	13.1%	12.5%	17.5%	19.9%	23.3%	16.2%	22.0%	51.0%	15.2%
Shares Out.	57	58	53	49	44	42	40	39	36	28
Revenue/Share	86.19	88.42	93.19	101.85	112.98	121.58	127.88	135.27	158.68	184.40
FCF/Share	2.48	1.61	4.05	4.25	4.83	2.13	(3.49)	1.87	6.76	0.99

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

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