



# Universal Corporation (UWV)

Updated May 27<sup>th</sup>, 2022 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$63	<b>5 Year CAGR Estimate:</b>	2.8%	<b>Market Cap:</b>	\$1.5B
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	1.5%	<b>Ex-Dividend Date:</b>	07/08/22
<b>% Fair Value:</b>	121%	<b>5 Year Valuation Multiple Estimate:</b>	-3.8%	<b>Dividend Payment Date:</b>	08/01/22
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$56	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Sell

## 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 51 years of dividend increases, Universal Corporation is a Dividend King.

Universal Corporation reported its fourth quarter (fiscal 2022) earnings results on May 25. The company generated revenues of \$2.1 billion during the year, which was 6% more than the revenues that Universal Corporation generated during the previous year. Management explains that revenues were up due to a stronger product mix primarily.

Universal's gross margin was down slightly compared to the previous year, which is why operating income, adjusted for one-time expenses, did not grow during the period.

Universal's adjusted earnings-per-share totaled \$3.79 during the year, which was about 11% below the earnings-per-share the company generated during the previous fiscal year. The company has not provided guidance for the current fiscal year, but comments indicate that demand is healthy, particularly in the leaf tobacco market, where the industry could be undersupplied this year. The company raised its dividend by 1.3%, to \$0.79 per share, in May.

## Growth on a Per-Share Basis

Year <sup>1</sup>	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.66	\$5.25	\$4.06	\$3.92	\$3.97	\$3.96	\$4.45	\$3.49	\$4.25	\$3.79	<b>\$4.00</b>	<b>\$4.31</b>
<b>DPS</b>	\$1.98	\$2.02	\$2.06	\$2.10	\$2.12	\$2.16	\$3.00	\$3.04	\$3.08	\$3.12	<b>\$3.16</b>	<b>\$3.32</b>
<b>Shares<sup>2</sup></b>	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.8	24.7	24.7	<b>24.5</b>	<b>24.0</b>

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.

<sup>1</sup> Note: Universal Corporation's fiscal year ends on March 31. Example: Fiscal 2022 ended on March 31, 2022.

<sup>2</sup> In Millions

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.6	10.5	12.5	14.3	16.3	16.0	13.0	12.6	13.9	15.3	15.8	13.0
Avg. Yld.	4.0%	3.7%	4.2%	4.0%	3.5%	3.4%	5.2%	6.9%	5.2%	5.4%	5.0%	5.9%

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 close to 16 times fiscal 2023's net profits. This is above our current fair value earnings multiple. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42.5%	38.5%	50.7%	53.6%	54.8%	49.7%	67.4%	87.1%	72.5%	82.3%	79.0%	77.1%

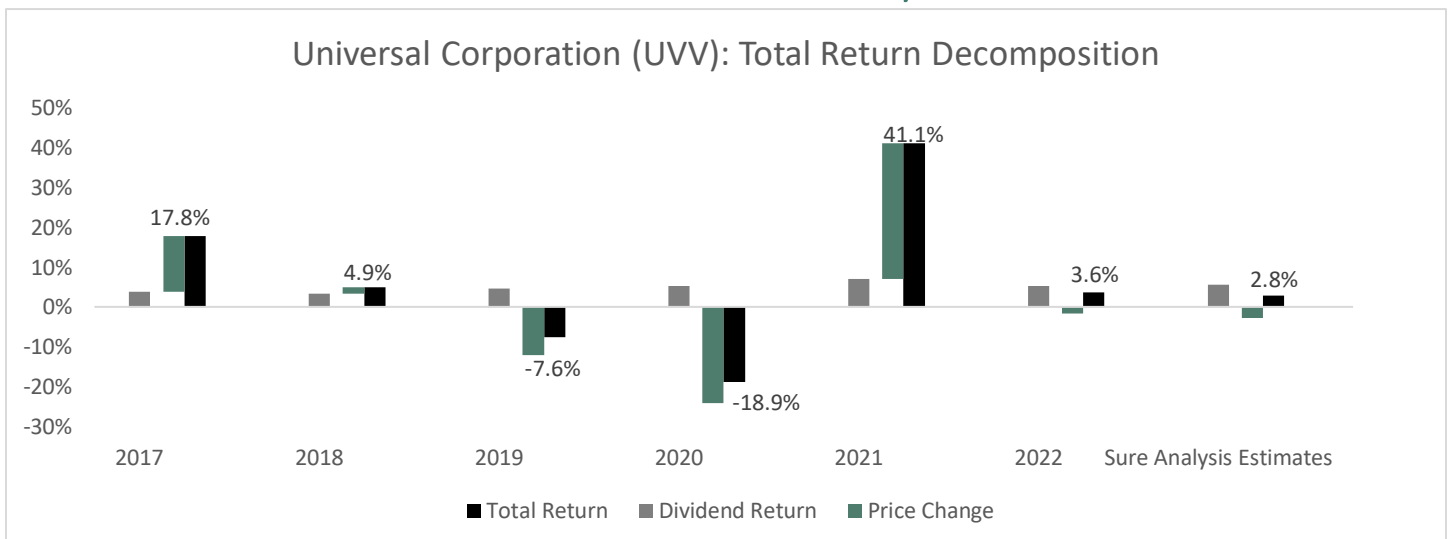
Universal Corporation has paid out roughly 50% of its net profits throughout much of the last decade, although there were significant swings both up and down during that time frame. The dividend increase in fiscal 2019, which was the result of management's strategic review and which lifted Universal 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 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 sell recommendation today, due to the fact that shares trade above fair value and since the forecasted total returns are far from attractive.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,228	2,267	2,306	2,271	2,188	2,231	2,123	2,169	2,133	2,121
<b>Cash &amp; Equivalents</b>	141	262	368	164	249	319	284	234	298	107
<b>Accounts Receivable</b>	346	398	402	475	436	431	442	379	399	352
<b>Inventories</b>	791	735	681	707	699	698	634	749	699	807
<b>Goodwill &amp; Int. Ass.</b>	100	99	99	99	99	99	99	99	98	145
<b>Total Liabilities</b>	1,028	1,061	1,018	860	791	778	797	783	753	832
<b>Accounts Payable</b>	4	188	230	212	143	129	161	180	146	140
<b>Long-Term Debt</b>	564	537	498	419	430	435	428	415	423	447
<b>Shareholder's Equity</b>	973	970	1,046	1,165	1,151	1,203	1,286	1,342	1,337	1,247
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	6.8%	4.1%	5.8%	6.5%	5.1%	4.9%	4.9%	4.9%	4.8%	3.4%
<b>Return on Equity</b>	16.6%	9.5%	13.2%	13.5%	9.9%	9.3%	8.5%	8.0%	7.8%	5.5%
<b>ROIC</b>	8.9%	5.3%	7.5%	8.2%	6.3%	5.9%	5.8%	5.9%	5.8%	4.1%
<b>Shares Out.</b>	23.3	23.3	23.2	22.7	25.3	24.9	25.1	25.1	24.8	24.7
<b>Revenue/Share</b>	89.02	86.34	86.44	89.54	80.50	76.20	87.14	79.74	87.92	76.08
<b>FCF/Share</b>	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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