Service Corporation International (SCI)

Updated August 19th, 2022 by Felix Martinez

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$10.76 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/14/2022
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	09/30/2022
Dividend Yield:	1.4%	**5 Year Price Target**	$94	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Service Corp International is a personal services company that provides funeral and cemetery services and products from its locations throughout the United States and Canada. The company segments its operations into funeral service and cemetery business functions. The company provides all professional services, facilities, vehicles, and merchandise related to funerals and cremations at its funeral service locations. Cemetery locations provide customers with cemetery property, memorial markers, and graveyard services. The company derives much of its revenue from its funeral locations, while the cemetery division also generates a meaningful amount of the company's total income. The company trades under the ticker symbol SCI with a market capitalization of $10.76 billion and total revenue of $4.14 billion in 2021. The company currently has twelve consecutive years of dividend growth.

On August 2nd, 2022, the company reported its second quarter and six-month 2022 financial results. Revenue grew $3 million over the same period last year to $991 million, an increase of 0.4%. This beat estimates by $42.95 million. Operating income was down for the quarter by (10)% compared to the second quarter of 2021 due to higher cost of revenue. The comparable average revenue per funeral service grew 1.8%. Preneed funeral sales production raised $7 million, or 2.5%. Net cash provided by operating activities declined $51.5 million as expected to $140.7 million in the second quarter of 2022 compared to $192.2 million in the second quarter of 2021. The decrease in operating cash flow is primarily due to lower operating income, higher cash interest and tax payments, as well as unfavorable working capital. Earnings for the quarter were $0.84 per share, which beat estimates by $0.05. This is down form the second quarter of 2021, which was $0.92. The decline of $0.08 is primarily due to an expected decline in gross profit related to decreases in COVID-19 related activity and lower trust fund income, increased corporate and general administration expenses, and higher interest and taxes.

The company management team provided a 2022 outlook. They expect earnings to range from $3.30 to $3.70 per share. This increase is due to the strong earnings performance in the second quarter. We will use $3.50 per share in our fair value and total expected return calculation.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.80	$0.92	$1.11	$1.18	$1.29	$1.55	$1.79	$1.90	$2.91	$4.57	***$3.50***	***$4.68***
DPS	$0.28	$0.27	$0.34	$0.44	$0.51	$0.58	$0.68	$0.72	$0.78	$0.88	***$1.00***	***$1.34***
Shares[1]	219	216	214	204	196	192	187	186	179	170	***164.0***	***160.0***

Earnings have been growing significantly over the past ten years. For example, earnings have had a CAGR of 21.4% over the past ten years. Over the past five years, the company's earnings growth has slowed down but is still at a very respectable levels of 17.7% over the past five years. However, earnings will decrease by (23.4)% for 2022 compared to 2021. This is due to the company's fast earnings growth in 2021, which was a 57% increase compared to 2020. Revenue growth has been 9.10% over the past three years. Net margin has also seen a rise in recent years. In 2020, the net

[1] Share count is in millions.

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margin was 14.7%, and now the net margin is 19.4% for 2021. However, because of the fast growth in 2021, we expect the company to grow earnings at a CAGR of 6% for the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.1	19.7	20.3	22.1	22.0	24.1	22.2	24.3	16.9	15.5	***19.5***	***20.0***
Avg. Yld.	2.0%	1.5%	1.5%	1.7%	1.8%	1.6%	1.7%	1.6%	1.6%	1.2%	***1.4%***	***1.4%***

The company looks fairly valued at the current price point. Over the past ten years, the company has averaged a PE of 20.4x. We think that a PE of 20x is fair. At the current price, the company now sports a PE of 19.5. Thus, it is right in line with its ten-year average. The current dividend yield of 1.4% is lower than its ten-year average of 1.6%. Thus, the company looks slightly overvalued based on dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35.0%	29.3%	30.6%	37.3%	39.5%	37.4%	38.0%	37.9%	26.8%	19.3%	***29%***	***29%***

Service Corporation International's competitive advantage is that it is the most prominent funeral home/cemetery operator in North America. This benefits the company because it can operate more efficiently. This also allows the company to take advantage of the funeral home/cemetery market. The top three companies have only 15% of the total market share in the funeral home/cemetery market. Thus, this leaves plenty of room for industry consolidation, which Service Corporation should be able to take advantage of.

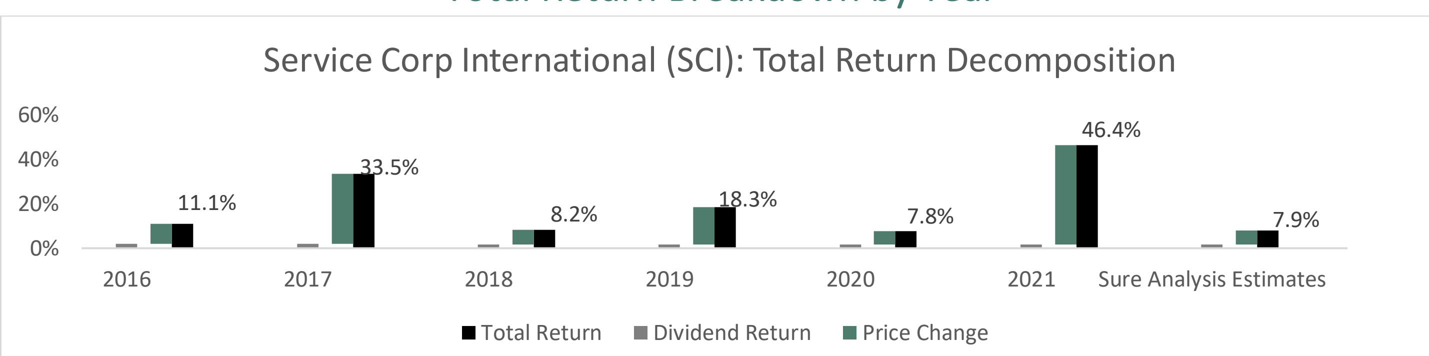
During the Great Recession, the company did well. Earnings were flat in 2008 and only decreased by (2)% in 2009. However, the company stock price did take a significant price decrease of (75.4)% in those years. During the COVID-19 pandemic, the company did very well. Earnings grew 53% in 2020 and 57% in 2021. Thus, the company is very resilient to a recession.

The company balance sheet looks well enough. The company has an S&P credit rating of BB+, which is not an investment grade. Also, the company currently has a debt-to-equity ratio of 2.2x, which is a little on the high side. However, interest coverage is satisfactory at 7.4x.

Final Thoughts & Recommendation

Service Corp International is a company that goes under the radar for most investors. The company is a solid business that should continue to do well over the long term. We expect the company to generate a 7.9% CAGR over the next five years. This will mostly come from earnings growth. Thus, we rate the stock as a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,404	2,550	2,994	2,986	3,031	3,095	3,190	3,231	3,512	4,143
Gross Profit	523	549	676	675	677	723	760	761	977	1,304
Gross Margin	21.7%	21.5%	22.6%	22.6%	22.3%	23.4%	23.8%	23.5%	27.8%	31.5%
SG&A Exp.	122	155	185	131	137	159	146	127	141	138
D&A Exp.	189	192	237	235	245	249	248	247	258	277
Operating Profit	401	394	491	544	540	564	615	634	836	1,166
Operating Margin	16.7%	15.4%	16.4%	18.2%	17.8%	18.2%	19.3%	19.6%	23.8%	28.1%
Net Profit	154	147	172	234	177	547	447	370	516	803
Net Margin	6.4%	5.8%	5.8%	7.8%	5.8%	17.7%	14.0%	11.4%	14.7%	19.4%
Free Cash Flow	254	272	173	321	296	289	366	389	582	617
Income Tax	90	93	226	135	149	(147)	(6)	95	146	242

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,684	12,834	11,924	11,676	12,038	12,865	12,693	13,677	14,515	15,691
Cash & Equivalents	93	142	177	135	195	330	199	186	231	269
Accounts Receivable	85	81	76	66	65	61	55	60	93	106
Inventories	25	33	30	28	26	25	25	25	24	26
Goodwill & Int. Ass.	1,640	2,224	2,205	2,166	2,167	2,180	2,298	2,295	2,321	2,387
Total Liabilities	8,321	11,353	10,546	10,487	10,943	11,455	11,051	11,854	12,763	13,782
Accounts Payable	104	144	137	140	156	174	173	174	186	204
Long-Term Debt	1,970	3,307	3,083	3,146	3,308	3,500	3,618	3,600	3,775	4,005
Shareholder's Equity	1,343	1,470	1,369	1,185	1,093	1,409	1,642	1,823	1,753	1,909
LTD/E Ratio	1.47	2.25	2.25	2.66	3.03	2.48	2.20	1.97	2.15	2.10

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	1.3%	1.4%	2.0%	1.5%	4.4%	3.5%	2.8%	3.7%	5.3%
Return on Equity	11.2%	10.5%	12.2%	18.3%	15.5%	43.7%	29.3%	21.3%	28.9%	43.9%
ROIC	4.6%	3.6%	3.7%	5.3%	4.1%	11.7%	8.8%	6.9%	9.4%	14.0%
Shares Out.	219	216	214	204	196	192	187	186	179	170
Revenue/Share	10.98	11.81	13.98	14.61	15.46	16.10	17.06	17.41	19.62	24.36
FCF/Share	1.16	1.26	0.81	1.57	1.51	1.50	1.96	2.10	3.25	3.63

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