Miller Industries (MLR)

Updated March 9th, 2023 by Derek English

Key Metrics

Current Price:	$30.50	**5 Year CAGR Estimate:**	0.3%	**Market Cap:**	$317 M
Fair Value Price:	$23.70	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/20/23
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Dividend Payment Date:**	03/27/23
Dividend Yield:	2.4%	**5 Year Price Target**	$27	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Miller Industries was founded in 1990 by developing and acquiring well-known towing and recovery equipment manufacturing brands. The company markets its products under brands such as Century, Holmes, and Chevron and provides carriers with deck capabilities of 40,000 lb and recovery units with boom capacities of 75 tons. Miller Industries serves its customers through independent distributors in all 50 States, Canada, and Mexico, generating 90% of its revenue. The company also acquired Jige International S.A. in France and Boniface Engineering from the U.K. to significantly increase its European distribution capabilities. As a result, the company has stable and loyal distributor networks of over 80 distributors worldwide, with the majority engaged in selling Miller Industries for at least ten years. The depth of the network is demonstrated by the fact that in 2022 no single distributor accounted for more than 10% of sales.

Miller Industries released full-year 2022 results on March 8th, 2023. Sales increased by 18.3% to $848.5 million compared to $717.5 million in 2021. The increase in revenue was helped by the backlog created by the COVID-19 pandemic and passing on the higher cost of materials by increasing prices. However, this is placing extra operational demands on the company. Inflation, delivery delays, and the decreased availability of components and raw materials pushed the cost of operations to $766 million for the year; however, gross profit margin remained flat. EPS Increased to $1.78 from $1.42 however interest expenses has increased by 150% to 3.37 million from 1.35 million last year. The company also increased its long-term debt to $45 million by availing of a $10 million credit facility to help offset the dividend payment of $2.05 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.82	$1.32	$1.41	$1.76	$2.02	$2.96	$3.43	$2.62	$1.42	$1.78	***$1.82***	***$2.11***
DPS	$0.56	$0.60	$0.64	$0.68	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	***$0.72***	***$0.72***
Shares[1]	11	11	11	11	11	11	11	11	11	11	***11***	***11***

Pre-Covid-19, Miller Industries' earnings-per-share grew at nearly 15% CAGR from $0.82 in 2012 to $2.62 in 2020. COVID-19 adversely impacted the company's production and delivery schedules, compounded by the recent supply chain disruptions. However, the company feels that this drop in earnings is temporary as they have a backlog of orders to fulfill. We have estimated that earnings will remain with low single-digit growth in 2023 as the company figures out how to deal with its backlog, but we expect this to increase if the company can reach its 1 billion in sales target. We have also estimated a conservative 3% growth rate through to 2028; again, we want to see how the company will navigate its delivery schedule difficulties, as prolonged delays could mean some orders being canceled.

Miller Industries has paid a consistent dividend since 2010, with the last increase coming in 2016. While we feel the dividend is safe, we don't expect further increases in the next five years, particularly as the company availed of a $45 million credit facility. Additionally, the company currently has a $55 million credit facility available which, if needed, could impact the payment of dividends. However, with over $40 million in cash and equivalents on the balance sheet, the company will unlikely need to utilize the total $55 million.

[1] Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.1	12.0	12.8	11.1	11.6	8.1	9.0	11.6	26.4	14.9	***16.8***	***13.0***
Avg. Yld.	4.2%	3.8%	3.6%	3.5%	3.1%	3.0%	2.3%	2.4%	1.9%	2.7%	***2.4%***	***2.6%***

Miller Industries' P/E ratio of 16.8, based on our 2023 estimate, is above the company's 10-year average of 13.4. The current share price of $30.50 is currently 129% of our fair value estimate of $23.70. Furthermore, we have calculated an annual valuation multiple reversion impact of -5.0% and have a five-year target price of $27. Considering the company's current headwinds, we expect the P/E ratio to return to its average value, which we estimate will give the stock a 2.6% dividend yield by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	68%	45%	45%	39%	36%	24%	21%	27%	51%	40%	***40%***	***34%***

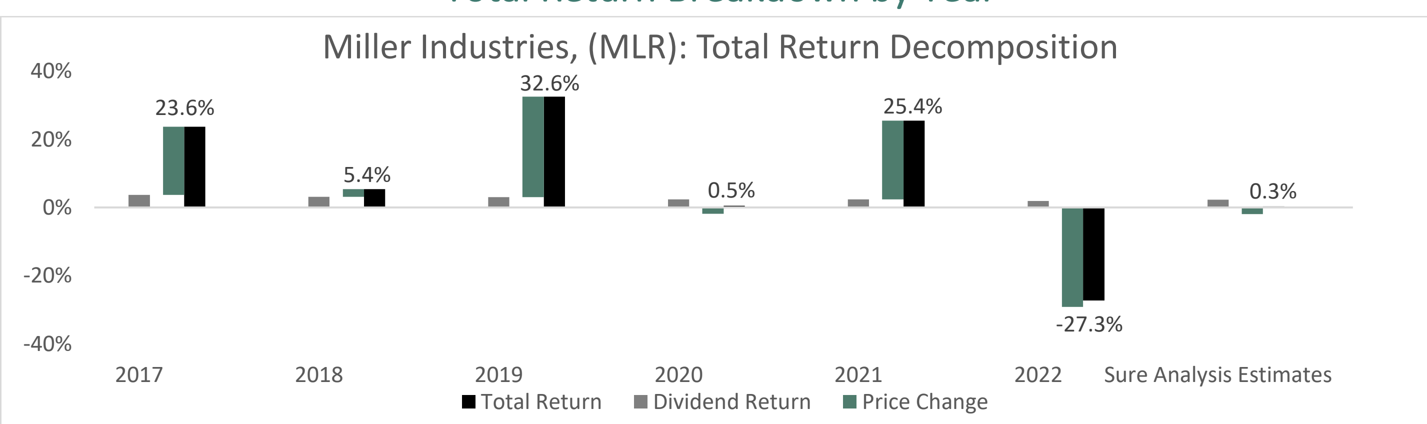
Miller Industries have been steadily growing its earnings since its inception. However, during the last recession in 2008, we saw earnings tumble from $1.41 to $0.31. The company recovered in 2010 and initiated its dividend policy at this point. We are starting to see the same trend in earnings since the pandemic. However, this time, we are moving into a high-inflation environment which can impact the cost of operations for this company. Higher costs of materials and parts and delays in fulfilling orders could lead to canceled orders and a move to one of its competitors.

On the positive side, the company has strong brand recognition and is the market leader in the towing and recovery market. However, its competitive advantage lies in its distributor network. Over 85% of independent distributors are estimated not to sell the competition's products. Since Miller benefits from its distributor network, it employs sales reps to inform buyers about new products to drive sales to distributors.

Final Thoughts & Recommendations

Miller Industries is a market leader in a niche industry that is not overly saturated. Before the pandemic, the company grew earnings at an impressive rate while keeping the dividend steady. However, the pandemic hit this company hard, and supply chain issues and a high inflationary environment impact the business. The good news is that this could be only temporary, and with good management, the company can navigate these challenging times. However, we estimate only a 0.3% annual return over the next five years and rate Miller Industries as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	343	404	493	541	601	615	712	818	651	717
Gross Profit	40	42	53	58	64	67	83	96	78	70
Gross Margin	11.7%	10.5%	10.8%	10.7%	10.7%	10.9%	11.7%	11.8%	12.0%	9.7%
SG&A Exp.	28	28	28	31	32	36	40	43	40	46
D&A Exp.	4	4	4	4	5	6	8	9	10	11
Operating Profit	13	14	24	26	32	32	44	53	39	24
Operating Margin	3.9%	3.5%	4.9%	4.8%	5.3%	5.1%	6.2%	6.5%	5.9%	3.3%
Net Profit	9	9	15	16	20	23	34	39	30	16
Net Margin	2.7%	2.3%	3.0%	3.0%	3.3%	3.7%	4.7%	4.8%	4.6%	2.3%
Free Cash Flow	3	(1)	5	8	(4)	(11)	9	18	43	6
Income Tax	4	5	9	9	11	7	8	11	8	6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	202	227	262	268	297	317	368	392	398	439
Cash & Equivalents	49	43	40	38	31	22	27	26	58	54
Accounts Receivable	59	81	116	109	125	133	149	169	142	154
Inventories	45	54	56	66	64	69	94	88	84	115
Goodwill & Int. Ass.	12	12	12	12	12	12	12	12	12	12
Total Liabilities	45	65	94	94	113	114	141	134	116	150
Accounts Payable	31	47	71	73	85	79	98	96	86	119
Long-Term Debt	-	-	-	-	5	11	16	5	-	-
Shareholder's Equity	157	162	168	174	185	203	228	258	282	289
LTD/E Ratio	-	-	-	-	0.03	0.05	0.07	0.02	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.4%	4.3%	6.1%	6.0%	7.0%	7.5%	9.8%	10.3%	7.5%	3.9%
Return on Equity	5.9%	5.8%	9.0%	9.3%	11.1%	11.9%	15.7%	16.1%	11.0%	5.7%
ROIC	5.9%	5.8%	9.0%	9.3%	11.0%	11.4%	14.8%	15.4%	10.9%	5.7%
Shares Out.	11	11	11	11	11	11	11	11	11	11
Revenue/Share	30.44	35.69	43.40	47.62	52.85	54.03	62.47	71.77	57.11	62.88
FCF/Share	0.29	(0.11)	0.40	0.73	(0.36)	(0.94)	0.75	1.56	3.79	0.54

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